

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2018056458301**

TO: Department of Enforcement
Financial Industry Regulatory Authority (FINRA)

RE: Alternative Execution Group (Respondent)
Member Firm
CRD No. 167830

Richard Alter (Respondent)
General Securities Principal
CRD No. 2697740

Pursuant to FINRA Rule 9216, Respondents Alternative Execution Group and Richard Alter submit this Letter of Acceptance, Waiver, and Consent (AWC) for the purpose of proposing a settlement of the alleged rule violations described below. This AWC is submitted on the condition that, if accepted, FINRA will not bring any future actions against Respondents alleging violations based on the same factual findings described in this AWC.

I.

ACCEPTANCE AND CONSENT

- A. Respondents hereby accept and consent, without admitting or denying the findings and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of FINRA, or to which FINRA is a party, prior to a hearing and without an adjudication of any issue of law or fact, to the entry of the following findings by FINRA:

BACKGROUND

Alternative Execution Group has been a FINRA member since 2013. The firm currently has ten registered representatives and has one office located in Mamaroneck, New York.

Richard Alter first became registered with FINRA as a General Securities Representative (GS) through his association with a FINRA member firm in 1996. Since then he has been associated with a number of member firms. In 2013, Alter founded Alternative Execution Group and has been the firm's Chief Executive Officer and partial owner since that time. While at Alternative Execution Group, Alter has been registered as a GS, a General Securities Principal, and in several other capacities.

Respondents do not have any relevant disciplinary history.

OVERVIEW

From February 2017 through December 2018, Alternative Execution Group and Alter failed to establish and implement an anti-money laundering (AML) compliance program reasonably designed to detect and cause the reporting of potentially suspicious transactions. Principal A, the Firm's AMLCO, was responsible for the firm's AML program. Alter knew Principal A lacked AML oversight experience relevant to his duties and did not take corrective action after becoming aware that Principal A had not performed his AML duties in a reasonable manner. By reason of the foregoing, Alternative Execution Group and Alter violated FINRA Rules 3310(a) and 2010.

During the same period, Alternative Execution Group and Alter failed to establish and maintain a supervisory system reasonably designed to achieve compliance with Section 5 of the Securities Act of 1933. Although Principal A was responsible for maintaining a supervisory system reasonably designed to achieve compliance with Section 5, Alter was aware that Principal A was not carrying out those duties in a reasonable manner. By reason of the foregoing, Alternative Execution Group and Alter violated FINRA Rules 3110(a) and 2010.

FACTS AND VIOLATIVE CONDUCT

This matter originated from FINRA's 2018 cycle exam of Alternative Execution Group.

Alternative Execution Group conducted an introducing business.

Prior to February 2017, Alternative Execution Group generated most of its revenue from a market-making business for over-the-counter securities. In February 2017, the firm began acting as an introducing broker-dealer, handling customer accounts. By 2018, the introducing business made up nearly a quarter of the firm's revenues. Between February 2017 and December 2018, Alternative Execution Group's customers liquidated approximately 90 million shares of microcap stock and generated over \$21 million in proceeds from those sales.

Alternative Execution Group and Alter failed to establish and implement an AML program reasonably designed to detect and cause the reporting of suspicious transactions.

FINRA Rule 3310(a) requires members to establish and implement "policies and procedures that can be reasonably expected to detect and cause the reporting of transactions required under 31 U.S.C. § 5318(g) and the implementing regulations thereunder." The regulations implementing 31 U.S.C. § 5318(g) require every broker-dealer to file with the Financial Crimes Enforcement Network "a report of any suspicious transactions relevant to a possible violation of law or regulation."¹

¹ 31 C.F.R. § 1023.320(a).

FINRA Notice to Members (NTM) 02-21 provided guidance on AML compliance programs. In NTM 02-21, FINRA advised members to consider, among other factors, in developing an appropriate AML program, “the types of transactions in which its customers engage.” NTM 02-21 further reminded members of their duty to look for red flags, and set forth a non-exhaustive list of examples of red flags suggestive of money laundering or other violative activity. NTM 02-21 advised that if firms detect red flags, then they should perform additional due diligence before proceeding with a transaction.

From February 2017 to December 2018, Principal A was responsible for monitoring the firm’s compliance with AML obligations, reviewing for red flags, and overseeing AML-related communication and training for employees. Although the firm’s introducing business had grown to represent nearly a quarter of the firm’s revenue by 2018, Principal A did not take reasonable steps to establish and implement an AML program tailored to the firm’s new business line, and particularly to the deposits and liquidations of microcap stocks.

The firm’s AML procedures did not provide meaningful guidance regarding how Principal A was to identify or review red flags specific to the customer account business. Alternative Execution Group did not use any exception reports or automated tools to monitor customer account activity for suspicious transactions, including customer transactions in microcap securities. The firm’s review for potentially suspicious transactions was limited to Principal A’s manual review of transactions. This manual review was unreasonable given that Principal A had no experience with customer account business and no training in reviewing for AML red flags in customer accounts. Alter, having worked with Principal A for several years at numerous different firms, was aware of Principal A’s lack of experience and training in this area.

The firm’s failure to implement an AML program reasonably tailored to its new business line resulted in the firm’s failing to identify or investigate potentially suspicious transactions. Throughout the relevant period, multiple customers with limited or no assets in their accounts received shares of microcap securities, liquidated some or all of the securities, and withdrew funds shortly after liquidation. The firm did not identify or investigate these red flags. For example, one customer deposited over 14 million shares of a microcap stock on January 9, 2018 and January 18, 2018, and immediately began liquidating the stock. On January 18, 2018, Alternative Execution Group’s clearing firm contacted Alter by email, copying Principal A, flagging the customer’s liquidation of the microcap stock, and then followed up again on February 13, 2018, asking if Alter or Principal A had any insight into the account’s activity in the microcap stock. Despite the clearing firm’s email, Alter did not take any action to ensure that the firm more closely monitored these accounts.

During the relevant period, Alternative Execution Group’s clearing firm contacted the firm about suspicious transactions that had not been flagged by the firm, thereby making Alter aware that Principal A had failed to reasonably discharge his responsibility to implement a surveillance system to monitor for suspicious activity. Nonetheless, following the clearing firm’s outreach, Alter did not cause the firm to tailor its AML

procedures to the firm's new business line or promptly act to strengthen the firm's AML program and procedures.

Therefore, Alternative Execution Group and Alter violated FINRA Rules 3310(a) and 2010.

Alternative Execution Group and Alter failed to establish and maintain a supervisory system reasonably designed to achieve compliance with Section 5 of the Securities Act of 1933

FINRA Rule 3110(a) requires members to "establish and maintain a system to supervise the activities of each associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA Rules."

Section 5 of the Securities Act prohibits the offer or sale of any security unless there is a registration statement in effect as to that security or there is an exemption or safe harbor available for that securities transaction. In January 2009, FINRA issued Regulatory Notice (RN) 09-05, which reiterated members' obligations to comply with securities laws as they relate to unregistered distributions. RN 09-05 states that "[a]ll firms must have procedures reasonably designed to avoid becoming participants in the potential unregistered distribution of securities....firms may not rely solely on others, such as clearing firms, transfer agents, or issuers' counsel, to fulfill these obligations."

Alternative Execution Group and Alter failed to establish and maintain a supervisory system reasonably designed to avoid becoming a participant in the unregistered sale of securities. Pursuant to the firm's written supervisory procedures, Alter delegated the responsibility for reviewing and approving microcap stock deposits and associated documentation to ensure compliance with applicable securities laws to Principal A. Principal A failed to ensure that reasonable inquiries were conducted to determine whether securities deposited into customer accounts for resale were registered or exempt from registration. He repeatedly permitted deposits and resales of microcap securities despite missing documentation, such as proof of payment, appropriate legal opinions, and other documents critical to determining whether microcap securities deposited were freely tradeable.

Alter was aware of Principal A's lack of experience and training to review securities deposits for compliance with Section 5. In a February 2018 internal memo, Alter detailed Principal A's failings, describing how he had not obtained complete information detailing the history of the acquisitions of several microcap securities. Nonetheless, Alter did not take any action to improve the firm's unreasonable supervisory system for determining whether microcap securities deposited were freely tradeable.

Therefore, Alternative Execution Group and Alter violated FINRA Rules 3110(a) and 2010.²

² Principal A left the firm in 2019. Over the course of 2019, the firm hired a new full-time AMLCO and made enhancements to the firm's AML and Section 5 procedures.

B. Respondents also consent to the imposition of the following sanctions:

- Alternative Execution Group
 1. a censure and
 2. a \$100,000 fine.
- Richard Alter
 1. a two-month suspension from associating with any FINRA member in all principal capacities;
 2. a \$15,000 fine; and
 3. an undertaking that within 90 days of notice that this AWC has been accepted, Alter will attend and satisfactorily complete 16 hours of AML-related continuing education by a provider not unacceptable to FINRA. Alter or his counsel will notify Reema Abdelhamid, Senior Counsel, of the name and contact information of the provider of the continuing education at least 10 days prior to attending the continuing education. Within 30 days following the completion of the continuing education, Alter or his counsel will submit written proof that the continuing education program was satisfactorily completed to Reema Abdelhamid at Reema.Abdelhamid@finra.org. All correspondence must identify the respondent and matter number 2018056458301. Upon written request showing good cause, FINRA staff may extend any of the deadlines related to the continuing education component of the sanction.

Respondents agree to pay the monetary sanctions upon notice that this AWC has been accepted and that such payment is due and payable. Respondents have submitted an Election of Payment form showing the method by which they propose to pay the fine imposed.

Respondents specifically and voluntarily waive any right to claim an inability to pay, now or at any time after the execution of this AWC, the monetary sanctions imposed in this matter.

Respondent Alter understands that if he is barred or suspended from associating with any FINRA member in a principal capacity, he becomes subject to a statutory disqualification as that term is defined in Article III, Section 4 of FINRA's By-Laws, incorporating Section 3(a)(39) of the Securities Exchange Act of 1934. Accordingly, Alter may not be associated with any FINRA member in a principal capacity during the period of the bar or suspension. *See* FINRA Rules 8310 and 8311. Furthermore, because Alter is subject to a statutory disqualification during the suspension, if he remains associated with a member

firm in a non-suspended capacity, an application to continue that association may be required.

The sanctions imposed in this AWC shall be effective on a date set by FINRA.

II.

WAIVER OF PROCEDURAL RIGHTS

Respondents specifically and voluntarily waive the following rights granted under FINRA's Code of Procedure:

- A. To have a complaint issued specifying the allegations against them;
- B. To be notified of the complaint and have the opportunity to answer the allegations in writing;
- C. To defend against the allegations in a disciplinary hearing before a hearing panel, to have a written record of the hearing made, and to have a written decision issued; and
- D. To appeal any such decision to the National Adjudicatory Council (NAC) and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, Respondents specifically and voluntarily waive any right to claim bias or prejudgment of the Chief Legal Officer, the NAC, or any member of the NAC, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

Respondents further specifically and voluntarily waive any right to claim that a person violated the ex parte prohibitions of FINRA Rule 9143 or the separation of functions prohibitions of FINRA Rule 9144, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

III.

OTHER MATTERS

Respondents understand that:

- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs (ODA), pursuant to FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against Respondents; and
- C. If accepted:
 - 1. this AWC will become part of Respondents' permanent disciplinary record and may be considered in any future action brought by FINRA or any other regulator against Respondents;
 - 2. this AWC will be made available through FINRA's public disclosure program in accordance with FINRA Rule 8313;
 - 3. FINRA may make a public announcement concerning this agreement and its subject matter in accordance with FINRA Rule 8313; and
 - 4. Respondents may not take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or indirectly, any finding in this AWC or create the impression that the AWC is without factual basis. Respondents may not take any position in any proceeding brought by or on behalf of FINRA, or to which FINRA is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects Respondents' testimonial obligations or right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.
- D. Respondents may attach a corrective action statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondents understand that it may not deny the charges or make any statement that is inconsistent with the AWC in this statement. This statement does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA.

The undersigned, on behalf of Alternative Execution Group, certifies that a person duly authorized to act on its behalf has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that it has agreed to the AWC's provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than

the terms set forth in this AWC and the prospect of avoiding the issuance of a complaint, has been made to induce it to submit this AWC.

March 25, 2021

Date

Alternative Execution Group
Respondent

By: Richard Alter

Print Name: Richard Alter

Title: CEO

Respondent Alter certifies that he has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; Alter has agreed to the AWC's provisions voluntarily; and no offer, threat, inducement, or promise of any kind, other than the terms set forth in this AWC and the prospect of avoiding the issuance of a complaint, has been made to induce him to submit this AWC.

March 25, 2021

Date

Richard Alter

Richard Alter
Respondent

Reviewed by:

Jeff Kern

Jeff Kern
Counsel for Respondents
Sheppard, Mullin, Richter & Hampton LLP
30 Rockefeller Plaza
New York, NY 10112



Accepted by FINRA:

April 9, 2021

Date

Signed on behalf of the
Director of ODA, by delegated authority

Reema Abdelhamid

Reema Abdelhamid
Senior Counsel
FINRA
Department of Enforcement
Brookfield Place, 200 Liberty Street
New York, NY 10281