

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2022074778801**

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

RE: Celadon Financial Group LLC (Respondent)
Member Firm
CRD No. 36538

Paul M. Waldman (Respondent)
General Securities Principal
CRD No. 1885767

Pursuant to FINRA Rule 9216, Respondents Celadon Financial Group LLC (Celadon) and Paul M. Waldman 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 accept and consent to the following findings by FINRA without admitting or denying them:

BACKGROUND

Celadon, a FINRA member firm since October 1994, is headquartered in Morristown, New Jersey and employs more than 30 registered representatives in more than 20 branch offices. The firm engages in market making and proprietary trading, and offers self-directed trading in equities, options, and fixed income securities to its retail and institutional clients.¹

In July 2020, Celadon, pursuant to an Offer of Settlement with the Securities and Exchange Commission (SEC), was censured and fined \$125,000. Celadon consented to findings, among others, that from July 2016 through December 2017, it failed to implement its anti-money laundering (AML) policies and procedures to reasonably address the risks associated with facilitating liquidations of low-priced securities and failed to file Suspicious Activity Reports (SARs) for suspicious transactions, in violation of Section 17(a) of the Securities Exchange Act of 1934 and Rule 17a-8.

¹ For more information about the firm, including prior regulatory events, visit BrokerCheck® at www.finra.org/brokercheck.

Waldman is the firm's Chief Compliance Officer. He first became registered with FINRA as a General Securities Representative (GSR) in 1993 through an association with a former FINRA member. In October 2011, Waldman became registered with FINRA as a GSR and General Securities Principal through an association with Celadon, where he currently remains associated.² Since becoming associated with Celadon in 2011, Waldman became registered as a Securities Trader Representative and Principal in 2016, Compliance Officer in 2018, and Options Principal in 2019.

OVERVIEW

From January 2021 to October 2021, Celadon violated Rule 606(a) of Regulation NMS and FINRA Rule 2010 when it published four quarterly reports that provided inaccurate information about its handling of customers' orders in National Market System (NMS) securities. In addition, from January 2021 to December 2022, Celadon and Waldman failed to establish and maintain a supervisory system, including written supervisory procedures (WSPs), reasonably designed to achieve compliance with the requirements of Rule 606(a) of Regulation NMS. As a result, the firm and Waldman violated FINRA Rules 3110 and 2010.

From April 2019 through December 2020, Celadon failed to develop and implement a written AML compliance program reasonably designed to achieve compliance with the requirements of the Bank Secrecy Act (BSA) and its implementing regulations. Specifically, the firm failed to establish and implement policies and procedures that could be reasonably expected to detect and cause the reporting of suspicious transactions in low-priced securities, and failed to establish and implement an AML compliance program that included risk-based procedures for conducting ongoing monitoring to identify and report suspicious transactions. As a result, the firm violated FINRA Rules 3310(a), 3310(f), and 2010.

FACTS AND VIOLATIVE CONDUCT

The matters covered by this AWC arose from examinations conducted by FINRA's Department of Member Supervision.

A. Celadon published quarterly Rule 606 reports that provided inaccurate information about its handling of customers' orders.

Rule 606 of Regulation NMS, promulgated under the Exchange Act, is designed to foster greater transparency in connection with a broker-dealer's best execution responsibilities. Rule 606 requires every broker-dealer to make publicly available each calendar quarter a report containing information on its routing of non-directed orders in NMS securities.³ These disclosures are designed to help customers better understand how their firm routes and handles their orders, assess the quality of order handling services provided by their

² For more information about Waldman, visit BrokerCheck® at www.finra.org/brokercheck.

³ A non-directed order means any customer order other than a directed order, *i.e.*, an order that the customer specifically instructed the broker-dealer to route to a particular venue for execution. *See* Regulation NMS Rule 600(b).

firm, and ascertain whether the firm is effectively managing potential conflicts of interest that may impact their firm's routing decisions.

Specifically, Exchange Act Rule 606(a)(1) requires broker-dealers to publish quarterly reports containing statistical information regarding the routing of held, non-directed customer orders in NMS stocks, and both held and not held, non-directed customer orders in NMS securities that are option contracts.⁴

The reports must state, among other things: (i) the percentage of total orders that were non-directed, and whether those orders that were market orders, marketable limit orders, non-marketable limit orders, or other orders; (ii) the 10 venues to which the largest number of non-directed orders were routed for execution and any venue to which five percent or more of non-directed orders were routed for execution; (iii) the net aggregate amount of any payment for order flow, profit-sharing, transaction fees and rebates received by the firm for specified types of non-directed orders; and (iv) the material aspects of the firm's relationship with each venue identified, including a description of any arrangement for payment for order flow, any profit-sharing relationship, and the terms of any such arrangements.

A violation of Exchange Act Rule 606 also constitutes a violation of FINRA Rule 2010, which requires member firms to observe high standards of commercial honor and just and equitable principles of trade in the conduct of their business.

From January 2021 to October 2021, Celadon published four inaccurate Rule 606 reports. When the third-party vendor the firm retained to prepare its quarterly Rule 606 reports could not accurately process the firm's trade data, Celadon provided the vendor with historical trade data for the fourth quarter of 2020 and the first and second quarters of 2021. As a result, these Rule 606 reports published by Celadon provided customers inaccurate information regarding its routing of non-directed orders in NMS securities. Celadon published the Rule 606 report for the third quarter of 2021 without correcting the errors the vendor experienced processing the firm's trade data. As a result, this Rule 606 report also provided customers inaccurate information regarding its routing of non-directed orders in NMS securities.

Collectively, the four Rule 606 reports inaccurately stated the: (i) percentages of the firm's non-directed equity orders submitted on a held basis; (ii) percentages of the firm's non-directed options orders; (iii) venues to which the largest number of total non-directed orders were routed for execution in equities and options; (iv) the net aggregate amount of any payment for order flow, profit-sharing, transaction fees and rebates received by the firm for specified types of non-directed orders; and (v) the material aspects of the firm's relationships with each execution venue.⁵

Therefore, Celadon violated Exchange Act Rule 606(a) and FINRA Rule 2010.

⁴ A broker-dealer must attempt to execute a "held" order immediately, whereas "not-held" orders provide the broker-dealer with time and price discretion in handling the order.

⁵ The firm's vendor resolved the data accuracy issues in October 2021.

B. Celadon and Waldman failed to establish and maintain a supervisory system, including WSPs, reasonably designed to achieve compliance with Rule 606.

FINRA Rule 3110(a) requires member firms 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. FINRA Rule 3110(b) requires member firms to establish, maintain, and enforce written procedures to supervise the types of business in which it engages and the activities of its associated persons that are reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA rules. A violation of Rule 3110 is also a violation of Rule 2010.

From January 2021 through December 2022, Celadon and Waldman failed to establish and maintain a supervisory system, including WSPs, reasonably designed to achieve compliance with Exchange Act Rule 606(a). The firm delegated Waldman with supervisory responsibility as it relates to both the firm's WSPs and Rule 606 reports.

The WSPs required the firm to publish quarterly reports under Exchange Act Rule 606. The WSPs required Waldman to review the reports for accuracy before they were published by the vendor, but did not provide guidance on how the review should be conducted, what the review should include (e.g., reported execution venues, payment for order flow, or material aspects disclosures), how to identify inaccuracies in the reports, or what to do if the report was not accurate.

When conducting his supervisory review of Rule 606 reports, Waldman randomly selected five trades for comparing the terms of the trades to the execution venue, payment for order flow and material aspects disclosures in the quarterly report. Waldman's random review of five trades per quarter was not reasonably designed to supervise the accuracy and completeness of the firm's disclosures, given that the firm effected approximately 10,000 transactions in NMS stocks each month. From January to October 2021, Waldman also approved the firm's quarterly reports for publication even though he knew the reports were prepared using historical trade data.⁶

Therefore, Respondents violated FINRA Rules 3110 and 2010.

C. Celadon failed to develop and implement a reasonably designed AML program.

FINRA Rule 3310 requires each member firm to develop and implement a written AML program reasonably designed to achieve and monitor the firm's compliance with the requirements of the BSA and implementing regulations promulgated by the Department of the Treasury. FINRA Rule 3310(a) requires each firm to "[e]stablish 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 [its] implementing regulations." The implementing regulation issued by the U.S. Department of the Treasury, 31 C.F.R. § 1023.320, requires broker-dealers, under specified circumstances, to file with the

⁶ In December 2022, the firm revised its supervisory systems and WSPs.

Financial Crimes Enforcement Network “a report of any suspicious transaction relevant to a possible violation of law or regulation.” FINRA Rule 3310(f) requires a firm’s AML compliance program to include appropriate risk-based procedures for conducting ongoing customer due diligence, to include, but not be limited to: (i) understanding the nature and purpose of customer relationships for the purpose of developing a customer risk profile; and (ii) conducting ongoing monitoring to identify and report suspicious transactions and, on a risk basis, to maintain and update customer information. A violation of FINRA Rules 3310(a) and 3310(f) constitutes a violation of FINRA Rule 2010.

In April 2002, NASD issued Notice to Members 02-21, which provided guidance to member firms regarding their AML compliance obligations. NTM 02-21 advised that each firm’s AML program should be tailored to the particular risks of its business model and customer base, and explained that firms have an obligation to monitor for and report suspicious transactions, including those that raise “red flags” suggestive of money laundering or other violative activity. The Notice provided a non-exhaustive list of red flags, including “[t]he customer (or a person publicly associated with the customer) has a questionable background or is the subject of news reports indicating possible criminal, civil, or regulatory violations,” “[t]he customer wishes to engage in transactions that lack business sense or apparent investment strategy, or are inconsistent with the customer’s stated business strategy,” and “[t]he customer, for no apparent reason or in conjunction with other ‘red flags,’ engages in transactions involving certain types of securities, such as penny stocks. . . .” The Notice also provided additional guidance to firms regarding their AML obligations and the requirement to file SARs for certain suspicious transactions.

In May 2019, FINRA issued Regulatory Notice 19-18, which reminded firms of their suspicious activity reporting obligations and provided an updated non-exhaustive list of red flags, including when “[a] customer opens a new account and deposits physical certificates, or delivers in shares electronically, representing a large block of thinly traded or low-priced securities,” when “[s]eemingly unrelated clients open accounts on or at about the same time, deposit the same low-priced security and subsequently liquidate the security in a manner that suggests coordination,” when “[a] customer engages in pre-arranged or other non-competitive securities trading, including wash or cross trades, with no apparent business purpose,” and when “[t]wo or more unrelated customer accounts at the firm trade an illiquid or low-priced security suddenly and simultaneously.”

From April 2019 through December 2020, Celadon expanded its business to facilitate the liquidation of low-priced securities. During this time, Celadon became aware of numerous red flags related to a group of approximately ten customers who wished to deposit and sell low-priced securities (the Customers) and often transacted in the same low-priced securities. More specifically, in April 2019, when Celadon onboarded the Customers, Celadon became aware that several of the Customers were the subject of news reports indicating possible criminal, civil, and regulatory violations. For example, Celadon identified that Customer 1, a foreign corporation, was beneficially owned by an individual who was the subject of multiple news reports alleging public corruption, money laundering, and securities fraud. Celadon also identified that the SEC had recently

settled an enforcement action with Customer 1, alleging the sale of unregistered securities in violation of Section 5 of the Securities Act of 1933. Celadon was also aware that many of the Customers, including Customer 1, were connected through business partnerships and through their participation in the same securities offerings. Nevertheless, Celadon opened accounts for the Customers, through which they deposited and liquidated large volumes of low-priced securities.

From April 2019 through December 2020, Celadon executed over 3,600 transactions in low-priced securities for the Customers for a total principal amount of approximately \$299 million, constituting over 74 percent of the total dollar amount transacted in low-priced securities at Celadon. Celadon generated approximately \$7.9 million in commissions from this activity.

Despite this, the firm failed to establish and implement an AML program tailored to its low-priced securities business and its customer base. For example, the firm's WSPs failed to explain how the firm should monitor for common types of manipulative trading, such as prearranged trading and wash trading.⁷ Additionally, the firm failed to review customer orders to identify suspicious orders until January 2020, which was nine months after the Customers began trading at Celadon. Even after January 2020, the firm performed only a manual review of orders, which failed to take into consideration the timing of executed or placed orders and therefore could not reasonably be expected to identify suspicious activity.

Furthermore, Celadon failed to include in its WSPs appropriate risk-based procedures for conducting ongoing customer due diligence. The firm's WSPs failed to describe how to develop customer risk profiles, contained no details about how the firm would conduct ongoing monitoring to identify and report suspicious transactions, and contained no guidance on how to maintain and update customer information. Additionally, as discussed above, the firm's ongoing monitoring of the Customers was not reasonably designed to identify suspicious transactions.

The firm's failure to implement an AML program reasonably tailored to its business resulted in the firm failing to identify, investigate, and report suspicious trading by the Customers. For example, from April 2019 through December 2020, the firm failed to identify and investigate at least 54 instances of the Customers transacting in the same securities on the same days. The firm also failed to identify wash trading and other suspicious trading by the Customers. For example, from July 17, 2019, through July 19, 2019, Customer 2, a corporate entity, which had two separate accounts it beneficially owned at Celadon, sold a low-priced security through one account and purchased the same security through the other account on several occasions. The firm failed to detect Customer 2's wash trading, even though the purchases and sales were in nearly the same

⁷ A wash trade is a purchase and sale of securities with no change in beneficial ownership for the purpose of creating a false or misleading appearance of active trading in any publicly traded security or creating a false or misleading appearance with respect to the market for any such security.

quantities, were executed at the same time or within seconds of each other, and had no discernible business purpose.⁸

Therefore, Celadon violated FINRA Rules 3310(a), 3310(f), and 2010.

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

For Celadon:

- a censure and
- a \$195,000 fine.

For Waldman:

- a 45 calendar-day suspension from associating with any FINRA member in all principal capacities and
- a \$5,000 fine.

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 Election of Payment forms showing the method by which they propose to pay the fines 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 Waldman 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 Exchange Act. Accordingly, Respondent Waldman 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 Respondent Waldman 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;

⁸ After the relevant period, the Firm implemented a report designed to detect and prevent wash trading.

- 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

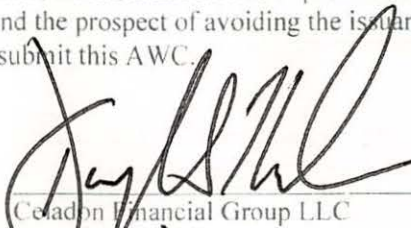
position in any proceeding brought by or on behalf of FINRA, or to which FINRA is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects Respondents' right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party. Nothing in this provision affects Respondents' testimonial obligations in any litigation or other legal proceedings.

- 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 they 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 Respondent Celadon, certifies that a person duly authorized to act on Respondent's 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 Respondent 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 Respondent to submit this AWC.

Respondent Waldman 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; Respondent 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.

10/17/2024
Date

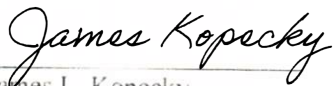

Celadon Financial Group LLC
Respondent

Print Name: DARYL S. HERSCH
Title: M.M.

10/7/24
Date


Paul Waldman
Respondent

Reviewed by:



James L. Kopecky
Counsel for Respondents
Kopecky Schumacher Rosenberg LLC
120 N. LaSalle St., Suite 2000
Chicago, IL 60602

Accepted by FINRA:

10/31/2024

Date

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



Alex Marinello
Counsel
FINRA
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