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FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2023077078301

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

RE: TradingBlock (Respondent)
Member Firm
CRD No. 128605

Pursuant to FINRA Rule 9216, Respondent TradingBlock submits 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 Respondent alleging violations based on the same factual findings described in this AWC.

I.

ACCEPTANCE AND CONSENT

A. Respondent accepts and consents to the following findings by FINRA without admitting or denying them:

BACKGROUND

TradingBlock has been a FINRA member since 2004. Headquartered in Chicago, Illinois, the firm has five branch offices and approximately 20 registered representatives. The firm's primary business line is providing online brokerage services for self-directed options trading to its retail and professional customers.[1]

OVERVIEW

From December 2018 to the present, TradingBlock failed to establish and implement an anti-money laundering (AML) compliance program reasonably designed to detect and cause the reporting of suspicious transactions. The firm also failed to include in its AML program appropriate risk-based procedures for conducting ongoing customer due diligence and monitoring. As a result, the firm violated FINRA Rules 3310(a), 3310(f), and 2010. For these violations, TradingBlock consented to a censure, a $210,000 fine, and an undertaking to certify that it has remediated its AML policies and procedures.

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

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FACTS AND VIOLATIVE CONDUCT

This matter originated from a cycle examination of TradingBlock.

FINRA Rule 3310 requires each FINRA 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 Bank Secrecy Act (BSA) and implementing regulations promulgated by the Department of the Treasury.

FINRA Rule 3310(a) requires each firm 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 its implementing regulations. The implementing regulation, 31 C.F.R. § 1023.320, requires broker-dealers, in specified circumstances, to file with the Financial Crime Enforcement Network "a report of any suspicious transaction relevant to a possible violation of law or regulation." In addition, FINRA Rule 3310(f) requires a FINRA member's AML compliance program to "include appropriate risk-based procedures for conducting ongoing customer due diligence," including:

> (i) [u]nderstanding the nature and purpose of customer relationships for the purpose of developing a customer risk profile; and (ii) [c]onducting ongoing monitoring to identify and report suspicious transactions and, on a risk basis, to maintain and update customer information.

NASD's Notice to Members 02-21 advised firms that they should have an AML program that is tailored to the particular risks of their business model, as well as their customer base; monitor red flags of suspicious activity; and where suspicious activity is detected, perform additional due diligence to determine whether or not to file a suspicious activity report (SAR).

In Regulatory Notice 19-18, FINRA reminded firms of their suspicious activity reporting obligations and provided an updated, non-exhaustive list of red flags, including circumstances when: "[w]ire transfer activity, when viewed over a period of time, reveals suspicious or unusual patterns," "[t]he customer makes high-value transactions not commensurate with the customer's known income or financial resources," "[t]he customer's [trading] activity represents a significant proportion of the daily trading volume in a thinly traded or low-priced security," "[a] customer engages in pre-arranged or other non-competitive securities trading, including wash or cross trades, with no apparent business purpose," a customer engages in "activity indicative of 'spoofing,'" or "[t]he firm receives regulatory inquiries or grand jury or other subpoenas concerning the firm's customers' trading." Regulatory Notice 19-18 further explained that "[u]pon detection of red flags through monitoring, firms should consider whether additional investigation, customer due diligence measures or a SAR filing may be warranted."

A violation of FINRA Rule 3310 also is a violation of FINRA Rule 2010, which requires FINRA members, in the conduct of their business, to "observe high standards of commercial honor and just and equitable principles of trade."

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From December 2018 through the present, TradingBlock failed to establish and implement policies and procedures that could reasonably be expected to detect and cause the reporting of suspicious transactions and failed to include in its AML program appropriate risk-based procedures for conducting ongoing customer due diligence.

TradingBlock’s AML program was not reasonably designed to detect suspicious transactions.

First, TradingBlock’s surveillance for manipulative trading was not tailored to the particular risks of its business. The firm’s customers traded primarily in options, including certain customers who traded in thinly traded options with relatively minimal market interest. Such securities present increased risk of market manipulation due to their infrequent trading and large spreads between the National Best Bid and the National Best Offer (NBBO). The firm relied on an automated trade surveillance platform to monitor for potentially manipulative trading, including spoofing.[2] The platform was configured such that the spoofing alert would trigger only if a non-bona fide order was canceled within seconds of the execution of a bona-fide order in the security. This time parameter, however, was not reasonably designed to detect spoofing in thinly traded options because, unlike actively traded securities, orders for illiquid securities can remain unfilled for extended periods, sometimes minutes, allowing spoofing to occur even if a non-bona fide order is not canceled within seconds. The firm had no other alerts or procedures designed to detect potential spoofing in illiquid securities.

As a result, from September 2020 through February 2022, the firm failed to detect spoofing in thinly traded options by a customer account. For example, on at least 21 separate days in January and February 2022, the customer engaged in repeated spoofing in thinly traded options, resulting in profits of over $1 million. The firm’s trade surveillance system failed to detect the activity because the customer canceled the non-bona fide orders minutes (rather than seconds) after the bona fide orders were filled.

Second, TradingBlock did not reasonably review and investigate its trade surveillance alerts. The firm’s policies and procedures required that, for each alert generated by the firm’s trade surveillance system, the alert reviewer enter a comment explaining the disposition of the alert and escalate any potentially manipulative trading to the firm’s COO and CCO for review. However, the alerts were routinely closed using a generic, pre-populated comment. Further, the firm did not reasonably investigate certain spoofing and layering alerts, and the firm’s AML program did not include any procedures for the AMLCO or other personnel with delegated compliance or supervisory authority to monitor the quality or accuracy of alert dispositions.

Third, TradingBlock did not reasonably review potential “wash” trading. The firm built and implemented a proprietary, automated process to surveil for and cancel potential

[2] “Spoofing” is a manipulative trading tactic designed to induce other market participants into executing trades, whereby a “customer engages in a frequent pattern of placing orders on one side of the market, usually inside the existing NBBO, followed by the customer entering orders on the other side of the market that execute against other market participants that joined the market at the improved NBBO.” FINRA Regulatory Notice 19-18 (May 2019).

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"wash" trades.[3] The firm, however, did not have policies or procedures for investigating these trades for patterns of potential market manipulation. For example, the firm had no procedures for identifying patterns in its canceled trades or wash trade alerts to identify customers whose trading may warrant heightened monitoring or a SAR filing.

Fourth, TradingBlock's surveillance for suspicious patterns in customer money movements was not reasonably designed. TradingBlock monitored for patterns of unusual or suspicious transactions in customer money movements by manually reviewing a report reflecting the previous 12 months of money movement activity in each customer account that cleared through TradingBlock's primary clearing firm. The report included, on average, approximately 5,100 money movements relating to approximately 1,400 accounts.

The firm's manual review was not reasonably designed to detect patterns of suspicious transactions. In addition to the large number of money movements and accounts it contained, the report also lacked key information for identifying suspicious patterns, such as customer income or asset information, or comparisons of any money movements against a customer's contemporaneous trade activity. Additionally, TradingBlock maintained some customer accounts with a different clearing firm, and the firm had no procedures for monitoring the money movements in those accounts for unusual or suspicious transactions until late 2024.

TradingBlock's AML Program did not include appropriate risk-based procedures for conducting ongoing customer due diligence.

The firm's AML policies and procedures stated that the firm would update customer information on a risk basis and use the customer's risk profile to assess customer activity for suspicious transaction reporting. The firm, however, lacked written procedures regarding what account activity or risk profile warranted ongoing customer due diligence. In practice, TradingBlock did not perform ongoing customer due diligence and instead relied on its clearing firms to notify it of any adverse information or news about a customer that might impact the customer's risk profile. Further, although the firm received regulatory inquiries in 2022 and 2023 regarding two customer accounts, the firm did not investigate the accounts' trading or re-evaluate the customers' risk profiles.

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

B. Respondent also consents to the imposition of the following sanctions:

- a censure

- a $210,000 fine; and

[3] 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.

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- an undertaking that, within 90 days of the date of the notice of acceptance of this AWC, a member of Respondent's senior management who is a registered principal of the firm shall certify in writing that, as of the date of the certification, the firm has remediated the issues identified in this AWC and developed and implemented a written AML program that complies with FINRA Rule 3310(a) and 3310(f) and is reasonably designed to achieve compliance with applicable sections of the BSA and its implementing regulations noted above regarding the issues identified in this AWC. The certification shall include a narrative description and supporting exhibits sufficient to demonstrate Respondent's remediation and implementation. FINRA staff may request further evidence of Respondent's remediation and implementation, and Respondent agrees to provide such evidence. Respondent shall submit the certification to Kimberly Koziara, Senior Counsel, at Kimberly.Koziara@finra.org, with a copy to EnforcementNotice@finra.org. Upon written request showing good cause, FINRA staff may extend this deadline.

Respondent agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. Respondent has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

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

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

II.

WAIVER OF PROCEDURAL RIGHTS

Respondent specifically and voluntarily waives the following rights granted under FINRA's Code of Procedure:

A. To have a complaint issued specifying the allegations against it;

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.

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Further, Respondent specifically and voluntarily waives 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.

Respondent further specifically and voluntarily waives 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

Respondent understands 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 Respondent; and

C. If accepted:

1. this AWC will become part of Respondent's permanent disciplinary record and may be considered in any future action brought by FINRA or any other regulator against Respondent;

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. Respondent 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. Respondent 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 Respondent's right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a

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party. Nothing in this provision affects Respondent's testimonial obligations in any litigation or other legal proceedings.

D. Respondent may attach a corrective action statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondent understands 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 Respondent, 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.

June 2, 2026
Date

JERE WICKERT
TradingBlock
Respondent

Print Name: Jere Wickert

Title: Pres/ CEO

Reviewed by:

Michael J. Lohnes
Michael J. Lohnes
Counsel for Respondent
Katten Muchin Rosenman LLP
525 W. Monroe Street
Chicago, IL 60661-3693

[redacted]

Accepted by FINRA:

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

June 5, 2026

Date

Kimberly Koziara

Kimberly Koziara
Senior Counsel
FINRA
Department of Enforcement
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