

**NASDAQ OMX BX, INC.**  
**NOTICE OF ACCEPTANCE OF AWC**

**Certified, Return Receipt Requested**

**TO: Stock USA Execution Services, Inc**  
**Mr. Craig Manderson**  
**President and Chief Executive Officer**  
**1717 Route 6**  
**Suite 102**  
**Carmel, NY 10512**

**FROM: The NASDAQ OMX BX, Inc. (the "Exchange")**  
**c/o Financial Industry Regulatory Authority ("FINRA")**  
**Department of Market Regulation**  
**9509 Key West Avenue**  
**Rockville, MD 20850**

**DATE: April 10, 2015**

**RE: Notice of Acceptance of Letter of Acceptance, Waiver and Consent No. 20120310864-02**

**Please be advised** that your above-referenced Letter of Acceptance, Waiver and Consent ("AWC") has been accepted on **April 10, 2015** by the Exchange Review Council's Review Subcommittee, or by the Office of Disciplinary Affairs on behalf of the Exchange Review Council, pursuant to Nasdaq OMX BX Rule 9216. A copy of the AWC is enclosed herewith.

You are again reminded of your obligation, if currently registered, immediately to update your Uniform Application for Broker-Dealer Registration ("Form BD") to reflect the conclusion of this disciplinary action. Additionally, you must also notify FINRA (or the Exchange if you are not a member of FINRA) in writing of any change of address or other changes required to be made to your Form BD.

You are reminded that Section I of the attached Letter of Acceptance, Waiver, and Consent includes an undertaking. A registered principal of the firm is required to notify the Compliance Assistant, Legal Section, Market Regulation Department, 9509 Key West Avenue, Rockville, MD 20850, of completion of the undertaking.

You will be notified by the Registration and Disclosure Department regarding sanctions if a suspension has been imposed and by the Nasdaq's Finance Department regarding the payment of any fine if a fine has been imposed.

Stock USA Execution Services, Inc.  
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If you have any questions concerning this matter, please contact Dawn E. Faris, Senior Counsel,  
at (240) 386-6219.

David E. Rosenstein *DR*  
David E. Rosenstein  
Senior Vice President, Legal Section  
Department of Market Regulation

Signed on behalf of Nasdaq OMX BX, Inc.

Enclosure

FINRA District 9 – New Jersey  
Michael Solomon  
Senior Vice President and Regional Director  
(Via email)

Dana S. Gloor  
Counsel for Respondent  
Miles & Stockbridge P.C.  
100 Light Street  
Baltimore, MD 21202

**NASDAQ OMX BX, INC.**  
**LETTER OF ACCEPTANCE, WAIVER AND CONSENT**  
**NO. 20120310864-02**

TO: NASDAQ OMX BX, Inc.  
c/o Department of Market Regulation  
Financial Industry Regulatory Authority ("FINRA")

RE: Stock USA Execution Services, Inc, Respondent  
Broker-Dealer  
CRD No. 107403

Pursuant to Rule 9216 of the NASDAQ OMX BX, Inc. ("BX") Code of Procedure, Stock USA Execution Services, Inc (the "firm") 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, BX will not bring any future actions against the firm alleging violations based on the same factual findings described herein.

**I.**

**ACCEPTANCE AND CONSENT**

- A. The firm hereby accepts and consents, without admitting or denying the findings, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of BX, or to which BX 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 BX:

**BACKGROUND**

The firm became a member of FINRA on April 23, 2001, and a member of BX on September 24, 2009, and its registrations remain in effect.

During all relevant periods, the firm provided customers/clients self-directed online brokerage services by offering them an electronic platform to access U.S. markets on a direct market access basis. At all relevant times, the firm's customers/clients consisted of domestic and foreign individuals and entities, including foreign financial institutions, that utilized their accounts as a means to extend direct market access to third parties (which the firm permitted by allowing such third parties to "piggyback" on the direct market access the firm granted to the foreign financial institution, without requiring such third parties to themselves establish an account at the firm or disclose their identities).

## **RELEVANT PRIOR DISCIPLINARY HISTORY**

The firm has no relevant disciplinary history.

## **SUMMARY**

In Review No. 20120310864, the staff of FINRA's Department of Market Regulation conducted a review, on behalf of seven securities exchanges, of the firm's risk management controls and supervisory systems and procedures, including its written supervisory procedures, for detecting, preventing and investigating potentially manipulative, suspicious and/or otherwise violative trading under the federal securities laws and the related rules of the above exchanges of which the firm was a member by associated persons and customers/clients of the firm accessing the markets directly through firm systems (or by clients of such clients doing so through the firm's clients' market access) during the period of April 1, 2011 through September 30, 2013 (the "market access review period"). This review ultimately subsumed more than a dozen Market Regulation inquiries in that regard spanning the above market access review period that arose from thousands of trading alerts of potentially suspicious and/or violative trading by firm customers/clients (or clients of such clients) on multiple market centers, including BX, from a combination of exchange referrals and Market Regulation cross-market surveillance sweeps. Such suspicious trading continued during the market access review period with no and/or inadequate monitoring enhancements or other corrective measures taken by the firm, despite receiving numerous regulatory inquiries about the trading in that time period.

## **FACTS AND VIOLATIVE CONDUCT**

In connection with Review No. 20120310864,

1. During the review period, the firm had no reviews focused specifically on detecting potentially manipulative trading such as pre-arranged or coordinated trading, layering/spoofing,<sup>1</sup> or marking the close/opening<sup>2</sup> during the review period. The scant written supervisory procedures that existed instead focused on manual daily account monitoring through the firm's trading systems for other topics such as drops in account equity below a specified threshold. The procedures included a cursory reference to manual monitoring for potentially manipulative trading, but the section lacked any specificity as to what any such monitoring for manipulative activity entailed, the frequency of any such reviews, or how each such review was memorialized.

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<sup>1</sup> Generally, "spoofing" is a form of market manipulation that involves the market manipulator placing certain non-bona fide orders with the intention of cancelling those orders once they have triggered some type of market movement and/or response from other market participants, from which the market manipulator might benefit by trading certain other bona fide orders. "Layering" is a form of "spoofing" in which multiple non-bona fide orders are placed on one side of the market in an effort to receive a favorable price on the opposite side of the market, followed by the cancellation of the non-bona fide orders once the intended price movement has occurred.

<sup>2</sup> Marking the opening/close respectively involves placing orders shortly before the opening or close of trading on any given day to artificially affect the opening/closing price of a security.

2. Moreover, although the firm's market access procedures referred in a cursory fashion to post-trade reports being made available to surveillance personnel for monitoring (including for "improper trading"), they contained no specific schedule for the performance of any such supervisory reviews (and lacked any specificity about what any such reviews entailed). Further, the firm lacked any automated computer surveillance of account activity to detect potentially manipulative or violative trading, notwithstanding the high-risk nature of the firm's business model of providing direct market access to outside parties. The firm indicated it utilized certain exception reports not specified in its written supervisory procedures that the Chief Compliance Officer reviewed on a weekly basis to monitor trades above certain thresholds, as measured by dollar amount or share volume. But there was no indication how, if at all, any such reports were used to identify potentially manipulative trading, and the reports' parameters limited the scope of trading subject to such reviews.
3. Further, the firm failed to take adequate steps to improve its supervisory system during the review period, despite receiving repeated regulatory inquiries from FINRA about suspicious trading by several firm customers/clients (or clients of such clients) in connection with the previously referenced Market Regulation inquiries.
4. The firm failed during the review period to establish, maintain and enforce risk management controls and supervisory systems and procedures, including written supervisory procedures, reasonably designed to detect, investigate and prevent potentially manipulative, suspicious and/or otherwise violative trading, including but not limited to, wash sales transactions, pre-arranged trading, spoofing, and marking the close, numerous instances of which occurred on various exchanges, including BX.
5. The conduct described in paragraphs 1 through 4 above constitutes violations of BX Equity Rules 2110 and 3010 throughout the review period and violations of Rule 15c3-5 under the Securities Exchange Act of 1934 (for conduct on or after July 14, 2011).

B. The firm also consents to the imposition of the following sanctions:

1. **A censure;**
2. **A total fine of \$595,000, to be paid jointly to BX, The Nasdaq Stock Market LLC, NYSE Arca, Inc., BATS Exchange, Inc., BATS Y-Exchange, Inc., EDGX Exchange, Inc., EDGA Exchange, Inc., and FINRA, of which \$50,000 shall be paid to BX; and**

3. **an undertaking to provide three reports, written and oral, to FINRA on dates that are no more than six months, 12 months, and 18 months after the date of the Notice of Acceptance of this AWC, concerning the firm's implementation and effectiveness of the firm's policies, systems and procedures (written and otherwise) and training (collectively, "the Controls") relating to the specific areas described above and/or listed below to ensure:**
  - a. **That the firm is in compliance with the Sponsored Access and Direct Market Access Rules of all Exchanges and Alternative Trading Systems to which the firm grants clients market access with respect to its equities business (i.e., stock, equity options and exchange-traded funds);**
  - b. **That the firm is in compliance with Rule 15c3-5 of the Securities Exchange Act of 1934; and**
  - c. **That the firm adequately supervises trading on both options and equities exchanges by its direct market access and sponsored access clients and associated persons.**

**The written reports shall be certified by an officer of the firm and shall address, at a minimum, the implementation and performance of the firm's Controls; the steps taken by supervisory personnel to ensure compliance in the abovementioned areas and the results of such supervisory reviews; training; and modifications or recommendations for improvements to the Controls and dates of the effectiveness of such modifications or planned implementation of such recommendations. Upon written request showing good cause, FINRA staff may extend any of the procedural dates set forth herein.**

The firm agrees to pay the monetary sanction(s) in accordance with its executed Election of Payment Form.

The firm specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, the monetary sanction(s) imposed in this matter.

The sanctions imposed herein shall be effective on a date set by FINRA staff.

## **II.**

### **WAIVER OF PROCEDURAL RIGHTS**

The firm specifically and voluntarily waives the following rights granted under BX's Code of Procedure:

- A. To have a Formal Complaint issued specifying the allegations against the firm;

- B. To be notified of the Formal 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 Exchange Review Council and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, the firm specifically and voluntarily waives any right to claim bias or prejudgment of the Chief Regulatory Officer, the Exchange Review Council, or any member of the Exchange Review Council, 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 acceptance or rejection of this AWC.

The firm further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of Rule 9143 or the separation of functions prohibitions of 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**

The firm 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 FINRA's Department of Market Regulation and the Exchange Review Council, the Review Subcommittee, or the Office of Disciplinary Affairs ("ODA"), pursuant to BX Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against the firm; and
- C. If accepted:
  - 1. this AWC will become part of the firm's permanent disciplinary record and may be considered in any future actions brought by BX or any other regulator against the firm;

2. BX may release this AWC or make a public announcement concerning this agreement and the subject matter thereof in accordance with BX Rule 8310 and IM-8310-3; and
  3. The firm 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. The firm may not take any position in any proceeding brought by or on behalf of BX, or to which BX is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects the firm's right to take legal or factual positions in litigation or other legal proceedings in which BX is not a party.
- D. The firm may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. The firm 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 BX, nor does it reflect the views of the Exchange or its staff.



The undersigned, on behalf of the firm, 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 herein and the prospect of avoiding the issuance of a Complaint, has been made to induce the firm to submit it.

Feb 17, 2015  
Date

Stock USA Execution Services, Inc  
Respondent

By: [Signature]  
Name: Curtis [Signature]  
Title: CEO

Reviewed by:

[Signature]  
Dana S. Gloor  
Counsel for Respondent  
Miles & Stockbridge P.C.  
100 Light Street  
Baltimore, MD 21202  
(410) 727-6464

Accepted by BX:

<sup>DSG</sup>  
~~2/20/15~~ April 10, 2015  
Date

David E. Rosenstein  
David E. Rosenstein  
Senior Vice President and Counsel  
Department of Market Regulation <sup>57</sup> [Signature]

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

ELECTION OF PAYMENT FORM

The firm intends to pay the fine proposed in the attached Letter of Acceptance, Waiver and Consent by the following method (check one):

A firm check or bank check for the full amount;

Wire transfer;

The installment payment plan.<sup>3</sup>  
 Monthly  
 Quarterly

Respectfully submitted,

Respondent  
Stock USA Execution Services, Inc

2/17/15  
Date

By: [Signature]  
Name: Trinity Loney  
Title: CFO

<sup>3</sup> The installment payment plan is only available for a fine of \$50,000 or more. Certain requirements apply.

CORRECTIVE ACTION STATEMENT

Respondent Stock USA Execution Services, Inc., ("SUSA" or the "Firm") respectfully submits this Corrective Action Statement to accompany its Letters of Acceptance, Waiver and Consent ("AWC") with regard to the matters referenced above.

**This corrective action statement is submitted by Stock USA Execution Services, Inc. It does not constitute factual or legal findings by FINRA or any Exchange, nor does it reflect the view of FINRA, any Exchange or their staffs.**

The Firm is committed to compliance with all applicable laws and regulations, and accordingly, it has invested substantial time and resources necessary to replace personnel in key positions, change its business, and improve its procedures. Specifically, the Firm has taken the corrective measures set forth below relating to the conduct described in the AWC documents.

I. Changes in Firm management and business model.

In the summer of 2012, the Firm recognized that it needed to make changes to its business in order to comply more effectively with regulatory requirements. In May 2012, the Firm terminated the employment and registration of its then-President. It promoted the then-Chief Compliance Officer to the role of President, with the intent that he apply his compliance background to develop more robust, appropriate compliance procedures. When that appointment did not work as hoped, the Firm promptly hired a new President. The Firm began to change its business, closing accounts that it identified as being used for high-frequency trading. The Firm no longer permits foreign financial institutions to maintain omnibus accounts through the Firm. The Firm requires that all accounts be opened directly with the Firm by the owner of the account/ assets.

The Firm continued to make significant organizational changes in an effort to bring its business into better compliance with these rules. In July 2013, the Firm replaced the CCO. In August 2013, the Firm terminated the employment and registration of its then-Chief Operating Officer, who had been responsible for designing the system of supervision of trading, and for implementing that system. In March 2014, the Firm reorganized its top management once more. The Firm believes it has optimized the placement of people in key roles.

Further, in December 2013 - January 2014, the Firm eliminated two branches, and terminated the registrations of 5 registered representatives, so as to streamline and further define the Firm's business and reduce its supervisory burden. The Firm also reduced the number of trading platforms offered to its clients from four to one, which consolidates the source of trading information that the firm must review, and thereby increases the effectiveness of the firm's reviews.

## II. Changes in Firm procedures.

The Firm has enhanced its systems and procedures for reviewing and supervising client trading, so that it is better able to detect, prevent and investigate potentially manipulative, suspicious or otherwise violative trading. The Firm implemented pre-trade systems and controls to prevent the entry of orders that met risk criteria defined by the Firm, or that failed to comply in other respects with regulatory requirements or Firm policies. The Firm has also developed and implemented a series of post-trade review procedures designed to detect possible violations. The Firm takes action to prevent potential improprieties, including by restricting and/or closing accounts that engage in trading that gives rise to concerns.

The Firm has designated specific personnel to conduct the reviews on a specific schedule, and has developed procedures for memorializing the reviews and any follow-up conducted.