

FINRA Joins Exchanges and the SEC in Fining Hold Brothers More Than \$5.9 Million for Manipulative Trading, Anti-Money Laundering, and Other Violations - FINRA

finra.org



NEWS RELEASE

FINRA – Hold Brothers On-Line Investment Services, LLC Action
NYSE Arca, Inc. – Hold Brothers On-Line Investment Services, LLC Action
NASDAQ Stock Market LLC – Hold Brothers On-Line Investment Services, LLC Action
NASDAQ OMX BX, Inc. – Hold Brothers On-Line Investment Services, LLC Action
BATS Exchange, Inc. – Hold Brothers On-Line Investment Services, LLC Action

WASHINGTON — The Financial Industry Regulatory Authority (FINRA), along with NYSE Arca, Inc., The NASDAQ Stock Market LLC, NASDAQ OMX BX, Inc., and BATS Exchange, Inc. today announced that they have censured and fined Hold Brothers On-Line Investment Services, LLC \$3.4 million for manipulative trading activities, anti-money laundering (AML), and other violations. In a related case, the Securities and Exchange Commission (SEC) today announced a settlement with Hold Brothers, fining the firm more than \$2.5 million.

Thomas Gira, FINRA Executive Vice President and Head of Market Regulation, said, "This is another example of a U.S.-based broker-dealer allowing a significant volume of overseas day trading to pass through its systems on a regular basis without devoting the appropriate level of resources and personnel to ensure this business was properly supervised. Hold Brothers was actively involved in running the operations of these foreign entities, yet turned a blind eye to their manipulative trading activities and compliance with anti-money laundering requirements. This case also serves to underscore FINRA's and the exchanges' collective efforts to root out and pursue cross-market manipulative trading activities."

Hold Brothers, headquartered in New York, is a self-clearing broker-dealer that primarily operates as a day-trading firm by facilitating direct market access to customers and to its proprietary traders. Between Jan. 1, 2009 through Dec. 31, 2011, Hold Brothers' largest account, Demostrate LLC and an affiliate, Trade Alpha, were day-trading firms wholly owned and funded by Hold Brothers' principals. Demostrate and Trade Alpha engaged traders and trading groups in various foreign countries, primarily China, to trade its capital. FINRA found that Demostrate and Trade Alpha were controlled by, or under common control with, Hold Brothers.

Demostrate and Trade Alpha used sponsored access relationships with Hold Brothers to connect to U.S. securities exchanges to manipulate the prices of multiple securities. FINRA uncovered hundreds of instances where the foreign day traders used spoofing and layering activities to induce the trading algorithms of unwitting market participants to provide the traders with favorable execution pricing that would not otherwise have been available to them in the absence of the day traders' illicit spoofing and layering activities.

Generally, spoofing is a form of market manipulation which involves placing certain non-bona fide order(s), usually inside the existing National Best Bid or Offer (NBBO), with the intention of triggering another market participant(s) to join or improve the NBBO, followed by canceling the non-bona fide order, and entering an order on the opposite side of the market. Layering involves the placement of multiple, non-bona fide, limit orders on one side of the market at various price levels at or away from the NBBO to create the appearance of a change in the levels of supply and demand, thereby artificially moving the price of the security. An order is then executed on the opposite side of the market at the artificially created price, and the non-bona fide orders are immediately canceled. FINRA also found thousands of instances where Demostrate or Trade Alpha traders engaged in pre-arranged trades and wash sales.

Hold Brothers also failed to establish and maintain a supervisory system and written procedures that were reasonably designed to supervise the firm's trading activities. FINRA found that numerous "red flags" indicative of suspicious trading were not detected or investigated. This included broad categories of significant suspicious trading, involving patterns of spoofing, layering, pre-arranged trading, and wash trading.

In addition, FINRA found that Hold Brothers' AML policies, procedures, and internal controls were inadequate and failed to detect suspicious transactions and did not trigger the reporting of the suspicious transactions as required by the Bank Secrecy Act. Hold Brothers also failed to tailor its AML program to its business, as required. Between 2009 and 2011, the firm averaged approximately 400,000 trades per day, approximately 90 percent of which were placed through the Demostrate account. Despite this high volume of trading, Hold Brothers' AML procedures only provided for manual monitoring to detect suspicious trading activity in the accounts.

There were also numerous instances when Hold Brothers' compliance department determined that Trade Alpha or Demostrate traders had engaged in suspicious or manipulative trading. These instances of suspicious activity were not escalated to the firm's AML compliance officer and the firm never considered filing a suspicious activity report relating to the activity.

As part of the disciplinary action, FINRA and the exchanges also ordered Hold Brothers to retain an independent consultant to conduct a comprehensive review of the adequacy of the firm's policies, systems and procedures, and training related to AML, trading, day trading, compliance with SEC Rule 15c3-5, and the use of foreign traders.

In resolving these matters against Hold Brothers, FINRA and the exchanges took into consideration that the SEC's action included bars for three individual senior managers associated with Hold Brothers.

In concluding this settlement, Hold Brothers neither admitted nor denied the charges, but consented to the entry of FINRA's findings.

Investors can obtain more information about, and the disciplinary record of, any FINRA-registered broker or brokerage firm by using FINRA's BrokerCheck. FINRA makes BrokerCheck available at no charge. In 2011, members of the public used this service to conduct 14.2 million reviews of broker or firm records. Investors can access BrokerCheck at www.finra.org/brokercheck or by calling (800) 289-9999. Investors may find copies of this disciplinary action as well as other disciplinary documents in FINRA's Disciplinary Actions Online database.

FINRA, the Financial Industry Regulatory Authority, is the largest independent regulator for all securities firms doing business in the United States. FINRA is dedicated to investor protection and market integrity through effective and efficient regulation and complementary compliance and technology-based services. FINRA touches virtually every aspect of the securities business – from registering and educating all industry participants to examining securities firms, writing rules, enforcing those rules and the federal securities laws, informing and educating the investing public, providing trade reporting and other industry utilities, and administering the largest dispute resolution forum for investors and firms. For more information, please visit www.finra.org.