



## Notice of Disciplinary Action Against PTR, Inc., a Member Organization.

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**To:** Members, Member Organizations, Participants and Participant Organizations

**From:** John C. Pickford, Enforcement Counsel, NASDAQ OMX PHLX<sup>SM</sup>

**DATE:** April 1, 2013

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### **FINRA Matter Nos. 20100212132 et al Enforcement No. 2013-01**

On March 25, 2013, the Business Conduct Committee (the "Committee") issued a disciplinary decision against PTR, Inc. ("PTR" or the "Firm"), a member organization of the NASDAQ OMX PHLX LLC ("PHLX" or the "Exchange"). In response to a Statement of Charges issued in this action, PTR submitted an Offer of Settlement, Stipulation of Facts and Consent to Sanctions ("Offer"). Solely to settle this proceeding, and without admitting or denying the charges, PTR consented to findings that at various times between June 2009 and June 2012 (the "Review Period"), it had committed violations of Sections 11(a), 15(a)(1), 15(b)(6)(B)(ii), and 17 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), Rules 11a-1, 17a-3, 17a-3(a)(2), 17a-3(a)(19)(ii), 17a-5, and 17f-2 promulgated thereunder, and Exchange Rules 119, 120, 600(b), 604, 610, 623, 703, 703(c)(vi), 705, 707, 708, 748(e)(1), 748(g), 757, 760, 761, 1014, 1024(b), 1025, 1051(a), 1067, and 1084.

Specifically, PTR consented to findings that during the Review Period, it had, among other things: (i) executed 116 options transactions that traded through the Exchange's Best Bid and Offer and/or the National Best Bid and Offer markets or traded ahead of customer orders on the Exchange's Limit Order Book (the "Book") and/or ahead of Streaming Quote Trader and/or Remote Stream Quote Trader quotations with established priority; (ii) effected two proprietary options transactions to satisfy customer orders residing on the Book, which enabled the Firm to cross large options orders from clients, and thereafter placed them in its error account; (iii) failed to report 10% or more of its executed options transactions to the consolidated tape within 90 seconds of execution; (iv) engaged the bookkeeping services of an independent contractor whose principal had, unbeknownst to PTR, been permanently barred by the U.S. Securities and Exchange Commission ("Commission") from association with any broker, dealer, municipal securities dealer, investment adviser, or investment company; and (v) authorized and paid transaction-based compensation to three non-broker-dealer entities that had been owned and controlled by individuals who were registered and association with the Firm, and had thereby caused the entities to operate as unregistered broker-dealers.

Additionally, PTR consented to findings that during the Review Period, it had committed a number of reporting, books and records, anti-money laundering compliance-related ("AML"), supervisory and other violations. Among the violations were the Firm's failure to: (i) file

accurate Financial and Operational Combined Uniform Single reports with the Exchange; (ii) secure written senior management approval of its AML Program; (iii) properly account for its prepaid expenses, aged floor brokerage receivables, and paid-in capital; (iv) maintain adequate written employment agreements with a number of its associated persons; (v) maintain accurate records relating to the Insider Trading Securities Fraud Enforcement Act of 1988, and/or conduct a timely review of the brokerage account statements of numerous associated persons of the Firm; (vi) timely submit to FINRA for processing and identification the fingerprint records of four of its employees; (vii) update an employee's Uniform Application for Securities Industry Registration or Transfer filing; and (viii) carry fidelity bond coverage to cover potential losses resulting from fraudulent trading as mandated by applicable Exchange Rule.

Finally, PTR consented to findings that it had failed to: (i) document, or otherwise ensure, that an employee attended its annual AML Compliance training program; (ii) provide one of its customers, or could not provide evidence that it had provided that customer, with a copy of the Special Statement for Uncovered Options Writers; and (iii) establish, maintain and enforce written supervisory procedures, and a system for applying such procedures, that reasonably addressed, among other things: (a) the requirement to notify the Commission of any capital withdrawals and books and records deficiencies; (b) compliance with moment-to-moment net capital requirements; (c) the Firm's risk management system, data storage, maintenance and recovery and business continuity and emergency management plan; (d) the requirements for heightened supervision of associated persons, including statutorily disqualified persons; (e) the designation of Offices of Supervisory Jurisdiction; (f) updates to the Firm's AML procedures as necessary and notification to the Exchange of changes to the Firm's business model; (g) compliance with the Exchange's order priority rules; (h) the appointment of one or more individuals meeting the Exchange's qualifications for supervisors to assume supervision of PTR when qualified supervisors are physically absent; and (i) compliance with the Firm and Regulatory Elements of its Continuing Education program.

The Offer submitted by PTR was accepted by the Committee and was the basis of its Decision. The Committee found that had violated Sections 11(a), 15(a)(1), 15(b)(6)(B)(ii), and 17 of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and Exchange Rules 11a-1, 17a-3, 17a-3(a)(2), 17a-3(a)(19)(ii), 17a-5, and 17f-2 promulgated thereunder, and Exchange Rules 119, 120, 600(b), 604, 610, 623, 703, 703(c)(vi), 705, 707, 708, 748(e)(1), 748(g), 757, 760, 761, 1014, 1024(b), 1025, 1051(a), 1067, and 1084 and ordered the imposition of the following sanctions against them: (i) a censure; and (ii) a fine in the amount of \$60,000.

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For more information, contact:

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