



Notice, Pursuant to Exchange By-law 18-2, of Disciplinary Action Against Keystone Trading Partners, Member Organization

To: Members, Member Organizations, Participants and Participant Organizations

From: John C. Pickford, Enforcement Counsel, NASDAQ OMX PHLXSM

DATE: December 29, 2010

NASDAQ OMX PHLX No. 10-21 Enforcement No. 2010-20

On December 21, 2010, the Business Conduct Committee (the "Committee") issued a disciplinary decision against Keystone Trading Partners ("Keystone" or the "Firm"), a member organization of the Exchange. In response to a Statement of Charges issued in this action, Keystone 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, Keystone consented to findings that during the periods November 1, 2008 and September 30, 2009, and January 1, 2008 and October 31, 2008 (collectively, the "Relevant Period"), it had violated Section 17 of the Securities Exchange Act of 1934, as amended ("Exchange Act"), Rules 17a-3, 17a-3(a)(19)(ii), 17a-4(b)(3), 17a-5, 17f-2 and Rule 200(g) of Regulation SHO promulgated under the Exchange Act, and Exchange Rules 604(a), 604(b), 620(b), 623, 703, 748(e)(1), 748(g), 757, and 760, by, among other things: (i) failing to keep accurate books and records; (ii) filing inaccurate Financial and Operational Combined Uniform Single and Financial Condition Reports with the Exchange; (iii) failing to maintain written compensation agreements pertaining to its compensation arrangement with four of its associated persons; (iv) failing to preserve, or to provide evidence that it had preserved, several paid or unpaid invoices relating to its business; (v) failing to secure, and therefore could not provide to FINRA for processing and identification, the fingerprint records of five of its associated persons; (vi) fingerprinting five of its associated persons but failing to submit their fingerprint records to FINRA for processing and identification; (vii) improperly marking 16 options orders as "sell short" rather than as "sell long," and 33 options orders as "sell long" rather than as "sell short;" (viii) failing to utilize the Web Central Registration Depository (the "Web CRD") database to: (a) submit a Uniform Application for Securities Industry Registration or Transfer ("Form U-4") filing on behalf of one of its associated persons to reflect that he was a registered representative rather than a Non-Registered Person ("NRF"); and (b) maintain a Form U-4 that accurately reflected that one of its associated persons was a registered representative; (ix) failing to timely utilize the Web CRD database to file a Uniform Termination Notice for Securities Industry Registration filing on behalf of a former employee to reflect the termination of his registration with Respondent; (x) failing to timely utilize the Web CRD database to: (a) register an associated person as an NRF; and (b) amend the NRF form of two associated persons to reflect the date each had been terminated as an NRF; (xi) failing to provide any evidence of the training materials it had utilized in its 2008 anti-money laundering ("AML") annual compliance meeting and

training session from which the Exchange could have determined whether any training had been actually conducted and the adequacy of any such training; and (xii) failing to ensure, or provide evidence that it had ensured, that an associated person had attended Respondent's annual compliance meeting

The Firm also consented, without admitting or denying the charges, to findings by the Committee that Keystone had failed to establish, maintain and enforce written supervisory procedures ("WSPs"), and a system for applying such procedures, that resulted in supervisory deficiencies regarding: (i) the duties and responsibilities of its Financial and Operations Principal; (ii) the requirement to utilize the WebFOCUS financial reporting application to file, and to request extensions to file, periodic reports with the Exchange; and (iii) the Firm's policy regarding the acceptance and holding of securities for AML compliance purposes.

Finally, Keystone also consented, without admitting or denying the charges, to findings that it had failed to comply, and enforce compliance, with its own WSPs that mandated that it: (i) conduct a monthly review of its electronic communications and retain a log of the number of such communications it had reviewed; (ii) secure from each principal and associated person and retain an annual attestation of AML training; and (iii) supervise and monitor its net capital on a moment-to-moment basis. Specifically, Keystone had failed to: (a) retain a log of the electronic communications it had reviewed, or could not otherwise provide any evidence of what electronic communications, if any, it had reviewed; (b) secure, or could not provide any evidence that it had secured, an annual attestation of AML training from an associated person; (c) supervise and monitor, or could not demonstrate how it had supervised and monitored, on a moment-to-moment basis, compliance with the net capital requirements of Rule 15c3-1 promulgated under the Exchange Act.

Keystone's Offer was accepted by the Committee and was the basis of its Decision. The Committee found that Keystone had violated Section 17 of the Exchange Act, Rules 17a-3, 17a-3(a)(19)(ii), 17a-4(b)(3), 17a-5, 17f-2 and Rule 200(g) of Regulation SHO promulgated under the Exchange Act, and Exchange Rules 604(a), 604(b), 620(b), 623, 703, 748(e)(1), 748(g), 757, and 760, concurred in the sanctions consented to by it, and ordered the imposition of the following sanctions: (i) a censure; (ii) a \$30,000 fine; and (iii) an undertaking, within 60 days of the issuance of a Decision by the Committee, to:

- (a) revise its WSPs to adopt, implement and maintain procedures and controls to detect and prevent violations of the fingerprinting, record preservation, reporting and registration provisions of applicable Exchange rules and the federal securities laws, and to govern the acceptance and holding of securities for AML compliance purposes;
- (b) fingerprint all required firm personnel and associated persons and timely record all relevant fingerprint-related information in the CRD database;
- (c) timely submit to, and/or amend in, the CRD database its Application for Broker-Dealer Registration, or Form BD, or the applicable NRF status, Form U-4, and/or Form U-4 of any associated person of the Firm, as warranted by changed circumstances, federal securities laws and Exchange rules; and
- (d) submit to William Bunting, FINRA Market Regulation, 1900 Market Street, Second Floor, Philadelphia, PA 19103, a signed, dated letter providing the following:

- (1) a reference to this matter;
- (2) a representation that Keystone has revised its WSPs to address the deficiencies identified by the Exchange;
- (3) the date the revised WSPs were implemented; and
- (4) a Corrective Action Statement detailing what specific actions it has taken to demonstrate Keystone's ability to monitor compliance with the net capital requirements on a moment-to-moment basis.

For more information, contact:

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