



Notice, Pursuant to Exchange By-law 18-2, of Disciplinary Action Against Madison Proprietary Trading Group, LLC, 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. 10-23 Enforcement No. 2010-22

On December 21, 2010, the Business Conduct Committee (the "Committee") issued a disciplinary decision against Madison Proprietary Trading Group, LLC ("Madison" or the "Firm"), a member organization of the Exchange. In response to a Statement of Charges issued in this action, Madison 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, Madison consented to findings that during the period January 1, 2009 and December 31, 2009 (the "Relevant Period"), it had violated Sections 15 and 17 of the Securities Exchange Act of 1934, as amended ("Exchange Act"), Rules 15b3-1, 15c3-1(a), 17a-3, 17a-3(a)(19)(ii), 17a-4(b)(4), 17a-4(b)(5), 17a-5, and 17a-11(b) promulgated under the Exchange Act, and Exchange Rules 604, 703, 748(a), 748(e)(1), 748(g), 757, 760, and 761, by, among other things: (i) conducting a securities business while failing to maintain the minimum required amount of net capital on the following four trading days: November 30, 2009, December 1, 2009, December 2, 2009, and December 14, 2009; (ii) failing to provide same-day notification to the Securities and Exchange Commission and the Exchange of its net capital deficiency on the four trading days set forth above; (iii) failing to keep accurate books and records; (iv) filing an inaccurate Financial and Operational Combined Uniform Single Report with the Exchange; (v) failing to secure compensation agreements from four of its associated persons and failing to maintain a written record, properly dated and/or executed, reflecting its relationship and compensation arrangement with six other of its associated persons; (vi) failing to preserve, or to provide evidence that it had preserved: (a) certain electronic mails received by or sent from a Yahoo electronic mail address that was held away from the Firm and utilized by its Chief Compliance Officer; and (b) forms, signature pages, and acknowledgements of numerous associated persons of the Firm regarding, among other things, their receipt of anti-money laundering ("AML") compliance training, AML disclosures, subscription agreements, outside business activities, and/or receipt of the Firm's written supervisory procedures ("WSPs"); (vii) failing to preserve, or to provide evidence that it had preserved, a record of its historical moment-to-moment net capital computations; (viii) failing to amend its Uniform Application for Broker-Dealer Registration filing to: (a) disclose the identity of an individual with a 5% to 10% interest in Respondent; and (b) accurately reflect that an affiliated entity had an ownership interest in Madison of between 25% and 50%, rather than the inaccurately disclosed ownership interest of 75% or more; (ix) failing to amend the Uniform Application for Securities

Industry Registration or Transfer filings of two of its registered representatives to reflect their outside business affiliations; (x) failing to exercise effective supervision and control of the electronic communications generated by its branch office located in Ramsey, New Jersey. Specifically, Madison had failed to ensure that the electronic communications generated in the branch office were properly segregated from the electronic communications generated by an affiliated firm; and (xi) failing to ensure that ten employees and/or associated persons who were required to attend its annual compliance meeting had in fact attended the meeting, or failing to provide evidence that such persons had attended the meeting.

The Firm also consented, without admitting or denying the charges, to findings by the Committee that Madison had failed to establish, maintain and enforce WSPs, and a system for applying such procedures, that resulted in numerous supervisory deficiencies, including, but not limited to, the failure to address: (i) the responsibilities of its Financial and Operations Principal; (ii) the existence and requirements of its Joint Back Office arrangement with its clearing firm; (iii) the criteria for registering individuals as Non-Registered Fingerprint persons; (iv) the minimum required net capital to which the Firm was subject under Rule 15c3-1 promulgated under the Exchange Act; and (v) the archiving and preservation of historical moment-to-moment net capital computations. The Firm had also failed to: (i) document, or otherwise ensure, that all but three of its traders, employees, or officers had attended its 2009 annual AML training program; and (ii) provide any evidence of the training materials utilized in its 2009 AML training program from which the Exchange could have determined whether any training had been actually conducted and the adequacy of any such training.

Finally, Madison consented, without admitting or denying the charges, to findings that it had failed to: (i) ensure that three of its employees had completed and submitted, or could not provide evidence that the employees had completed and submitted, Insider Trading and Securities Fraud Enforcement Act Account Lists pertaining to them or their household members; (ii) detect that eight of its employees had failed to disclose brokerage accounts held away from the Firm; (iii) detect discrepancies between the number of brokerage accounts disclosed by ten of its employees and the number of brokerage account statements it had received and/or reviewed for such employees; and (iv) maintain an accurate record, or conduct a monthly review, of the brokerage account statements of fourteen of its employees.

Madison's Offer was accepted by the Committee and was the basis of its Decision. The Committee found that Madison had violated Sections 15 and 17 of the Exchange Act, Rules 15b3-1, 15c3-1(a), 17a-3, 17a-3(a)(19)(ii), 17a-4(b)(4), 17a-4(b)(5), 17a-5, and 17a-11(b) promulgated under the Exchange Act, and Exchange Rules 604, 703, 748(a), 748(e)(1), 748(g), 757, 760, and 761, concurred in the sanctions consented to by it, and ordered the imposition of the following sanctions: (i) a censure; (ii) a \$42,500 fine; and (iii) an undertaking, within 60 days of the issuance of a Decision by the Committee, to:

- (a) revise its WSPs to address the deficiencies identified by the Exchange; and
- (b) submit to William Bunting, FINRA Market Regulation, 1900 Market Street, Second Floor, Philadelphia, PA 19103, a signed, dated letter, providing the following information:
 - (1) a reference to this matter;
 - (2) a representation that Madison 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 Madison has taken to prevent future violations of the net capital, record preservation and ITSFEA-related rules.

For more information, contact:

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