



## Notice, Pursuant to Exchange By-Law 18-2, of Disciplinary Action Against G-2 Trading, LLC, Member Organization

---

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

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

**DATE:** December 29, 2011

---

### **FINRA Matter No. 20100215753 Enforcement No. 2011-08**

On December 21, 2011, the Business Conduct Committee (the "Committee") issued a disciplinary decision against G-2 Trading, LLC ("G-2" or the "Firm"), a member organization of the Exchange. In response to a Statement of Charges issued in this action, G-2 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, G-2 consented to findings that during the period between January 1, 2009 and October 31, 2009 (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), and 17a-5 promulgated under the Exchange Act, and Exchange Rules 604, 703, 748, 760, and 761 by, among other things: (i) failing to keep accurate books and records; (ii) filing an inaccurate Financial and Operational Combined Uniform Single Report with the Exchange; (iii) failing to maintain a written, rather than verbal, agreement pertaining to its compensation arrangement with an associated person of the Firm, and executed copies of its written compensation agreements with nine associated persons of the Firm; (iv) failing to amend the Uniform Application for Securities Industry Registration or Transfer ("Form U-4") filing of one Firm employee to reflect his status as a partner of an unaffiliated hedge fund, as well as the Form U-4 filing another Firm employee to reflect his affiliation with, and/or his investment interests in, various unaffiliated entities; and (v) failing to detect errors and discrepancies regarding the existence, disclosure, number, location and/or review of the brokerage accounts and account statements recorded on, or omitted from, the Insider Trading and Securities Fraud Enforcement Act of 1988 ("ITSFEA") Accounts Lists of 42 employees and associated persons, or the Master Review List of the Firm.

The Firm also consented, without admitting or denying the charges, to findings by the Committee that G-2 had failed to: (i) establish, maintain and enforce written supervisory procedures ("WSPs"), and a system for applying such procedures, that resulted in supervisory deficiencies regarding: (a) the Firm's Joint Back Office arrangement with its clearing firm and the minimum equity and other requirements to which the Firm was required to adhere; (b) the category of associated persons required to register, and the circumstances under which they were required to register, as Non-Registered Fingerprint persons; and (c) the supervision or heightened supervision of a statutorily disqualified person; and (ii) comply, or enforce compliance with, the requirements of its WSPs that G-2 traders and/or employees complete Pre-Hire Consent, Trading Criteria, and Outside Business and Affiliation Forms. For example, G-2 could not provide evidence that: (a) one

employee had completed the Pre-Hire Consent Form; (b) one employee had completed the Trading Criteria Form; and (c) two employees had completed the Outside Business and Affiliation Form.

G-2's Offer was accepted by the Committee and was the basis of its Decision. The Committee found that G-2 had violated Section 17 of the Exchange Act, Rules 17a-3, 17a-3(a)(19)(ii), and 17a-5 promulgated under the Exchange Act, and Exchange Rules 604, 703, 748, 760, and 761, concurred in the sanctions consented to by it, and ordered the imposition of the following sanctions: (i) a censure; and (ii) a \$12,500 fine.

---

For more information, contact:

- John C. Pickford, Enforcement Counsel, NASDAQ OMX PHLX, at +1 215 496 5273

© Copyright 2009 The NASDAQ OMX Group, Inc. All Rights Reserved.