

NYSE AMERICAN LLC
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2022-05-18-00034

TO: NYSE AMERICAN LLC

RE: TradeZero America, Inc., Respondent
CRD No. 282940

During the period between March 2022 and the present (the “Relevant Period”), TradeZero America, Inc. violated (i) Securities Exchange Act of 1934 Rule 15c3-5(b), Rule 15c3-5(c)(1)(i), Rule 15c3-5(c)(1)(ii), and Rule 15c3-5(e)(1) and (2) (“Rule 15c3-5” or the “Market Access Rule”) by failing to establish, document, and maintain a system of risk management controls and supervisory procedures reasonably designed to manage the financial and regulatory risks of its business activities, including related to credit limits, erroneous order controls, and annual reviews, and (ii) NYSE American Rule 320(e) (Supervision) by failing to establish and maintain a supervisory system and written supervisory procedures reasonably designed to ensure compliance with Rule 15c3-5. Consent to a censure and a fine of \$35,000 (resolved simultaneously with a NYSE Arca, Inc. matter for a total fine of \$70,000).

* * *

Pursuant to Rule 9216 of the NYSE American LLC (“NYSE American” or the “Exchange”) Code of Procedure, TradeZero America, Inc. (“TradeZero” or the “Firm”) submits this Letter of Acceptance, Waiver, and Consent (“AWC”) for the purpose of proposing a settlement of the alleged rule violations described below. This AWC is submitted on the condition that, if accepted, NYSE American will not bring any future actions against the Firm alleging violations based on the same factual findings described herein.

I. ACCEPTANCE AND CONSENT

- A. TradeZero hereby accepts and consents, without admitting or denying the findings, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of NYSE American, or to which NYSE American is a party, prior to a hearing and without an adjudication of any issue of law or fact, to the entry of the following findings by NYSE American:

BACKGROUND AND JURISDICTION

1. TradeZero is an online broker-dealer that provides self-directed retail traders and investors access to US equities and options trading. The Firm does not trade on behalf of its clients, solicit orders, sell securities, or provide investment or trading advice. It operates on an agency basis only. The Firm’s institutional options desk conducts execution services of equity and index derivatives and maintains a presence on the NYSE American options floor.

2. TradeZero became a NYSE American member on July 19, 2019. The Firm has no relevant disciplinary history.

VIOLATIONS

Applicable Rules

3. Rule 15c3-5(b) requires broker-dealers with market access, or that provide a customer with market access to an exchange or ATS through use of its market participant identifier, to “establish, document, and maintain a system of risk management controls and supervisory procedures reasonably designed to manage the financial, regulatory, and other risks of this business activity.”
4. Rule 15c3-5(c)(1)(i) requires that a broker-dealer’s risk management controls and supervisory procedures be “reasonably designed to systematically limit the financial exposure of the broker or dealer that could arise as a result of market access,” including being reasonably designed to “prevent the entry of orders that exceed appropriate pre-set credit or capital thresholds in the aggregate for each customer and the broker or dealer . . . by rejecting orders if such orders would exceed the applicable credit or capital thresholds.” The Market Access Rule’s Adopting Release states that these thresholds shall be determined “based on appropriate due diligence as to the customer’s business, financial condition, trading patterns, and other matters” and that a broker-dealer must “document that decision.” The Adopting Release also states that the broker-dealer shall “monitor on an ongoing basis whether the credit thresholds remain appropriate, and promptly make adjustments to them, and its controls and procedures, as warranted.” Risk Management Controls for Brokers or Dealers with Market Access, Exchange Act Release No. 34-63241, 75 Fed. Reg. 69791, at 39 (Nov. 3, 2010).
5. Rule 15c3-5(c)(1)(ii) further requires that a broker-dealer’s risk management controls and supervisory procedures be reasonably designed to “prevent the entry of erroneous orders, by rejecting orders that exceed appropriate price or size parameters, on an order-by-order basis or over a short period of time, or that indicate duplicative orders.”
6. Rule 15c3-5(e) requires broker-dealers with or providing market access to “establish, document, and maintain a system for regularly reviewing the effectiveness of the risk management controls and supervisory procedures” required by Rule 15c3-5(b) and (c). Rule 15c3-5(e)(1) requires that broker-dealers review, “no less frequently than annually, the business activity of the broker or dealer in connection with market access to assure the overall effectiveness of such risk management controls and supervisory procedures,” and that “[s]uch review shall be conducted in accordance with written procedures and shall be documented.” Rule 15c3-5(e)(2) further requires that the Chief Executive Officer of the broker-dealer shall, “on an annual basis, certify that such risk management controls and supervisory procedures comply” with Rule 15c3-5(b) and (c), and that the broker-dealer conducted such review.

7. NYSE American Rule 320(e) requires member firms to establish, maintain, and enforce a system of compliance and supervisory controls, including WSPs, reasonably designed to achieve compliance with applicable securities laws and Exchange rules, that are appropriate to their business size, structure, customer accounts, transactions, and business activities.

Credit Limits

8. During the Relevant Period, the Firm failed to establish, document, and maintain a system of risk management controls and supervisory procedures, including written supervisory procedures (“WSPs”), that were reasonably designed to ensure compliance with Market Access Rule requirements concerning credit limits.
9. *First*, the Firm failed to document or describe with reasonable specificity its process for determining, setting, and adjusting customer credit limits.
10. *Second*, the Firm failed to determine and document limits and controls that were reasonable based on relevant criteria, as required by the Market Access Rule. The Firm failed to provide any documentation showing the factors considered by the Firm when setting credit limits for institutional options customers, such as its customers’ business, financial condition, or trading activity, and was unable to sufficiently describe its process. This resulted in credit limits for certain institutional options customers that appear facially unreasonable.
11. Accordingly, the Firm violated Rule 15c3-5(b), Rule 15c3-5(c)(1)(i), and NYSE American Rule 320(e).

Pre-Trade Erroneous Order Controls

12. During the Relevant Period, certain of the Firm’s pre-trade controls were not reasonably designed to prevent the entry of erroneous orders by the Firm’s institutional options customers.
13. In connection with its operations on the NYSE American floor, the Firm relied on erroneous order controls that resided in various order management systems used by the Firm. The Firm was unable to explain how it determined these controls or their parameters, and failed to provide documentation or a rationale for its methodology with respect to these controls.
14. With respect to its institutional options trading desk, the Firm was similarly unable to explain how it determined its erroneous order controls or their parameters, and could not provide any documentation or rationale for its methodology.
15. The Firm also failed to establish and maintain a supervisory system and WSPs that were reasonably designed to ensure compliance with Market Access Rule requirements related to pre-trade erroneous order controls. For example, Firm WSPs did not reasonably describe how it determined, reviewed, or modified its pre-trade

erroneous order controls, or the basis or rationale for such controls. And, at times, certain of the Firm's erroneous order controls deviated from what was documented.

16. Accordingly, the Firm violated Rule 15c3-5(b), Rule 15c3-5(c)(1)(ii), and NYSE American Rule 320(e).

Annual Review and Certification

17. During the Relevant Period, the Firm failed to conduct the required Rule 15c3-5(e) annual review of the effectiveness of its risk management controls and supervisory procedures for its market access business activity. The Firm's certifications include no reference to Rule 15c3-5 and the Firm failed to provide documentation showing that it conducted a Market Access Rule review.
18. In addition, neither the Firm's WSPs nor any other documentation described how the Firm's Rule 15c3-5(e) reviews should be conducted, who should conduct the reviews, or how such reviews should be documented.
19. Accordingly, the Firm violated Rule 15c3-5(e)(1) and (2), and NYSE American Rule 320(e).

Post-Trade Supervision of Customer Trading Activity

20. The Firm failed to implement a reasonable supervisory system, including reasonable WSPs, for the detection and review of potentially manipulative trading activity by its customers.
21. For example, the Firm's WSPs did not require a review of any orders rejected or blocked by the Firm's Market Access Rule controls. There is no evidence that the Firm performed such a review.
22. In addition, The Firm's institutional options traders were unreasonably expected to supervise their own trading, and to report any unusual trading to compliance.
23. Accordingly, the Firm violated NYSE American Rule 320(e).

SANCTIONS

- B. The Firm also consents to the imposition of the following sanctions:

1. **Censure and fine in the amount of \$35,000 (resolved simultaneously with a NYSE Arca, Inc. matter for a total fine of \$70,000).**

The Firm agrees to pay the monetary sanction(s) upon notice that this AWC has been accepted and that such payment(s) are due and payable. The Firm has submitted a Method of Payment Confirmation form showing the method by which it will pay the fine imposed.

The Firm specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, the monetary sanction(s) imposed in this matter.

The sanctions herein are imposed pursuant to NYSE American Rule 8310 and shall be effective on a date set by NYSE Regulation staff.

II. WAIVER OF PROCEDURAL RIGHTS

The Firm specifically and voluntarily waives the following rights granted under the NYSE American Code of Procedure:

- A. To have a Formal Complaint issued specifying the allegations against the Firm;
- B. To be notified of the Formal Complaint and have the opportunity to answer the allegations in writing;
- C. To defend against the allegations in a disciplinary hearing before a hearing panel, to have a written record of the hearing made and to have a written decision issued; and
- D. To appeal any such decision to the Exchange's Board of Directors and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, the Firm specifically and voluntarily waives any right to claim bias or prejudgment of the Chief Regulatory Officer of NYSE American; the Exchange's Board of Directors, Disciplinary Action Committee ("DAC"), and Committee for Review ("CFR"); any Director, DAC member, or CFR member; Counsel to the Exchange Board of Directors or CFR; any other NYSE American employee; or any Regulatory Staff as defined in Rule 9120 in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including acceptance or rejection of this AWC.

The Firm further specifically and voluntarily waives any right to claim that a person violated the ex parte communication prohibitions of Rule 9143 or the separation of functions prohibitions of Rule 9144, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

III. OTHER MATTERS

The Firm understands that:

- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed by NYSE Regulation, and accepted by the Chief Regulatory Officer of NYSE American pursuant to NYSE American Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against the Firm; and

- C. If accepted:
1. The AWC shall be sent to each Director and each member of the Committee for Review via courier, express delivery or electronic means, and shall be deemed final and shall constitute the complaint, answer, and decision in the matter, 10 days after it is sent to each Director and each member of the Committee for Review, unless review by the Exchange Board of Directors is requested pursuant to NYSE American Rule 9310(a)(1)(B);
 2. This AWC will become part of the Firm's permanent disciplinary record and may be considered in any future actions brought by the Exchange or any other regulator against the Firm;
 3. NYSE American shall publish a copy of the AWC on its website in accordance with NYSE American Rule 8313;
 4. NYSE American may make a public announcement concerning this agreement and the subject matter thereof in accordance with NYSE American Rule 8313; and
 5. The Firm may not take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or indirectly, any finding in this AWC or create the impression that the AWC is without factual basis. The Firm may not take any position in any proceeding brought by or on behalf of the Exchange, or to which the Exchange is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects the Firm's (i) testimonial obligations; or (ii) right to take legal or factual positions in litigation or other legal proceedings in which the Exchange is not a party.
- D. A signed copy of this AWC and the accompanying Method of Payment Confirmation form delivered by email, facsimile or other means of electronic transmission shall be deemed to have the same legal effect as delivery of an original signed copy.
- E. The Firm may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. The Firm understands that it may not deny the charges or make any statement that is inconsistent with the AWC in this statement. A Corrective Action Statement does not constitute factual or legal findings by the Exchange, nor does it reflect the views of NYSE Regulation or its staff.

The Firm certifies that, in connection with each of the Exchange's requests for information in connection with this matter, the Firm made a diligent inquiry of all persons and systems that reasonably had possession of responsive documents and that all responsive documents have been produced. In agreeing to the AWC, the Exchange has relied upon, among other things, the completeness of the document productions.

The undersigned, on behalf of the Firm, certifies that a person duly authorized to act on the Firm's behalf has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that the Firm has agreed to the AWC's provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein and the prospect of avoiding the issuance of a Complaint, has been made to induce the Firm to submit this AWC.

05/14/2024
Date

TradeZero America, Inc.,
Respondent

By: *Michael Haupt*
Michael Haupt
Chief Executive Officer

Accepted by NYSE Regulation

May 14, 2024
Date

Danielle Kantor
Danielle Kantor
Director, Enforcement

Daniel Northrop
Director, Enforcement
NYSE Regulation

Signed on behalf of NYSE American LLC,
by delegated authority from its Chief
Regulatory Officer