NEW YORK STOCK EXCHANGE LLC
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2018-04-00047

TO: New York Stock Exchange LLC

RE: Meridian Equity Partners, Inc., Respondent
CRD No. 133849

During the period of January 1, 2017 through April 20, 2018 (the "Relevant Period"), Meridian Equity Partners, Inc. ("Meridian" or the "Firm") violated: (1) Rule 15c3-5 of the Securities Exchange Act of 1934 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 activity, including in connection with setting and adjusting credit limits and monitoring trading for potentially manipulative or otherwise violative activity; and (2) NYSE Rule 3110 by failing to establish and maintain written supervisory procedures and a supervisory system reasonably designed to achieve compliance with applicable laws, rules, and regulations. Consent to a censure, a $17,500 fine, and an undertaking.

* * *

Pursuant to Rule 9216 of the New York Stock Exchange LLC (the "NYSE" or the "Exchange") Code of Procedure, Meridian 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, the NYSE will not bring any future actions against the Firm alleging violations based on the same factual findings described herein.

I. ACCEPTANCE AND CONSENT

A. Meridian 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 the NYSE, or to which the NYSE 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 the NYSE:

BACKGROUND AND JURISDICTION

1. Meridian is a corporation formed in 2004 in the state of New York, with its main offices in New York, New York. The Firm conducts several lines of business, one of which involves equities trading on the floor of the Exchange. Meridian has been a member of the NYSE since May 6, 2005.

PROCEDURAL HISTORY

2. This matter arises from, *inter alia*, a referral to NYSE Regulation by the Market Regulation Department of the Financial Industry Regulatory Authority, Inc.

("FINRA"). FINRA's investigation began as a result of FINRA's Trading and Financial Compliance Examination 2017 cycle examination of the Firm. FINRA's examination reviewed, among other things, the Firm's compliance with Rule 15c3-5 of the Securities Exchange Act of 1934 (the "Market Access Rule") and the NYSE's supervision rules.

VIOLATIONS

Violations of the Market Access Rule

3. The Market Access Rule requires that a broker or dealer with market access, or that provides a customer with market access, "shall 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." The Market Access Rule, in conjunction with the Rule's Adopting Release, specifies certain financial and regulatory risks and corresponding requirements, including the requirement to design reasonable controls and supervisory procedures to prevent the entry of orders that exceed pre-set aggregate credit thresholds for customers, and to monitor trading for potentially violative activity. In addition, the Rule requires broker-dealers to establish, document, and maintain a system for regularly reviewing the effectiveness of the above-mentioned controls.

4. Meridian violated the Market Access Rule's requirements in connection with its: 1) setting and adjusting of customer credit limits; and 2) use of post-trade controls to review for potentially violative activity.

Customer Credit Limits

5. Exchange Act Rule 15c3-5(c)(1) requires that broker-dealers' risk management controls and supervisory procedures be reasonably designed to "prevent the entry of orders that exceed appropriate pre-set credit or capital thresholds in the aggregate for each customer."

6. The SEC's Adopting Release for Rule 15c3-5 explains that these thresholds should 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." Risk Management Controls for Brokers or Dealers with Market Access, Exchange Act Release No. 34-63241, 75 Fed. Reg. 69791 (Nov. 3, 2010) (hereinafter "Adopting Release"), at 39.

7. The SEC reiterated these criteria and documentation obligations in its Response to Frequently Asked Questions Concerning Risk Management Controls for Brokers or Dealers with Market Access (April 15, 2014) (hereinafter "FAQs"), noting that "the broker-dealer should be prepared to show why it selected a particular threshold . . . [and] how that threshold meaningfully limits the financial exposure potentially generated by the customer or its own trading activity." FAQ No. 8.

8. Meridian failed to comply with these requirements in several ways, including with

respect to the Firm's methodology for determining customer credit limits and decrementing limits across handhelds:

a. First, Meridian's methodology for setting credit limits throughout the Relevant Period did not take into account its customers' business and financial condition, and was based solely on its customers' trading patterns;

b. Second, until early 2018, the Firm's methodology for setting credit limits incorporated the use of multipliers, which often resulted in credit limits for its customers that Meridian could not demonstrate were reasonable. This problem was particularly acute for the Firm's customers that traded through third-party algorithms, several of which only executed trades totaling a small fraction of their assigned credit limits on a daily basis;

c. Third, Meridian failed to establish policies or procedures addressing breaches of, or intra-day changes to, its customers' credit limits, and, as such, failed to document breaches and intra-day changes; and

d. Fourth, Meridian failed to properly allocate its customers' credit limits across the handheld devices used by the Firm's brokers. As a result, a portion of the Firm's customers were effectively assigned credit limits significantly higher than those calculated by the Firm. While the Firm's procedures called for a quarterly review of credit limits in its handheld devices, the Firm was unable to produce documentation evidencing that any such review had been conducted.

9. Based on the foregoing, the Firm violated Exchange Act Rule 15c3-5(c)(1).

Post-Trade Controls

10. Rule 15c3-5(c)(2) provides that a firm's controls and supervisory procedures "shall be reasonably designed to ensure compliance with all regulatory requirements, including being reasonably designed to . . . [a]ssure that appropriate surveillance personnel receive immediate post-trade execution reports that result from market access."

11. The SEC explained in the Adopting Release that the "regulatory requirements" to which it referred in subsection (c)(2) include "post-trade obligations to monitor for manipulation and other illegal activity," Adopting Release at 22-23, and that it "believes that immediate reports of executions will provide surveillance personnel with important information about potential regulatory violations, and better enable them to investigate, report, or halt suspicious or manipulative trading." Adopting Release at 48. Accordingly, FINRA made clear to broker-dealers as early as January 2012 that members must have post-trade surveillance procedures that are "reasonably designed to identify various potential trading violations such as wash sales, marking, spoofing, layering, quote stuffing, and other potential violations of" SEC and SRO rules. *See* FINRA 2012 Regulatory and Examination Priorities Letter (January 31, 2012) at 11-12.

12. Here, Meridian's post-trade reviews during the Relevant Period consisted of a daily review of trading data reports generated by a vendor. The Firm acknowledged that these reports were not intended to, and could not, be used to identify potential manipulative activity.

13. By failing to review for potentially violative trading activity, the Firm violated Rule 15c3-5(c)(2).

Violations Concerning the Failure to Supervise

14. Exchange Act Rule 15c3-5(b) requires broker-dealers with market access to "establish, document, and maintain a system of risk management controls and supervisory procedures reasonably designed to manage the financial, regulatory, and other risks," and to "preserve a copy of its supervisory procedures and a written description of its risk management controls as part of its books and records."

15. NYSE Rule 3110(b) provides that "[e]ach member organization must establish, maintain, and enforce written procedures to supervise the types of business in which it engages and the activities of its associated persons that are reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable Exchange rules."

16. With respect to the Market Access Rule, and as described in more detail above, Meridian's supervisory deficiencies include: 1) a credit limit methodology that did not take customers' financial condition into account, and resulted in unreasonable limits; 2) the failure to conduct a review of credit limits across the Firm's handheld devices; 3) the failure to develop or implement supervisory procedures concerning intra-day changes to and breaches of credit limits; 4) and the failure to implement a reasonable system of post-trade reviews to identify potential manipulative activity.

17. Based on the foregoing, the Firm violated Exchange Act Rule 15c3-5(b) and NYSE Rule 3110(b).

RELEVANT PRIOR DISCIPLINARY HISTORY

18. Meridian previously received two cautionary action letters concerning the Market Access Rule. FINRA issued the first cautionary action letter to the Firm for Market Access Rule violations discovered during its 2013 examination, including: 1) inaccurate credit limits across the Firm's handheld devices; 2) inadequate documentation concerning the Firm's reviews for potentially manipulative trading; 3) inadequate documentation concerning the setting of customer credit limits; 4) the use of a single aggregate credit limit for certain Firm customers; and 5) the Firm allowing its high frequency trading customers to determine their own credit limits. The Firm also received a cautionary action letter following its 2015 FINRA examination relating to inaccurate credit limits across the Firm's handheld devices.

OTHER FACTORS CONSIDERED

19. In determining to resolve the matter on the basis set forth herein, NYSE Regulation Enforcement took into consideration the size of the Firm, as well as the fact that, following the FINRA examination that gave rise to this matter, the Firm began taking steps to improve certain of the deficiencies discussed above.

SANCTIONS

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

1. **Censure and fine in the amount of $17,500**

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 Firm agrees that it shall not seek or accept, directly or indirectly, reimbursement or indemnification from any source, including but not limited to payment made pursuant to any insurance policy, with regard to any fine amounts that the Firm pays pursuant to this AWC, regardless of the use of the fine amounts. The Firm further agrees that it shall not claim, assert, or apply for a tax deduction or tax credit with regard to any federal, state, or local tax for any fine amounts that the Firm pays pursuant to this AWC, regardless of the use of the fine amounts.

2. **Undertaking**

Within 60 days of the execution of this AWC, the Firm agrees to provide (1) a certification that the Firm has revised its written supervisory procedures and supervisory systems to address the deficiencies described in the paragraphs above; and (2) the date the revised procedures were implemented.

The sanctions imposed herein 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 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 the NYSE; 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 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 the NYSE pursuant to NYSE 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, 25 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 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. The NYSE shall publish a copy of the AWC on its website in accordance with NYSE Rule 8313;

4. The NYSE may make a public announcement concerning this agreement and the subject matter thereof in accordance with NYSE 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. Any such 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 documents in connection with this matter, the Firm made a diligent inquiry of all persons who reasonably had possession of responsive documents, and that those documents have been produced or identified in a privilege log. The Firm acknowledges that, in agreeing to the AWC, the Exchange has relied upon, among other things, the completeness of such document production.

The undersigned, on behalf of the Firm, certifies that a person duly authorized to act on its 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 it 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 it.

11-7-18
Date

Meridian Equity Partners, Inc.,
Respondent

By: Jonathan D Corpina
Jonathan D. Corpina
Senior Managing Partner

Accepted by NYSE Regulation

11/7/18

Date

William R. Vanderveer
Regulatory Attorney
NYSE Regulation

Signed on behalf of New York Stock Exchange LLC, by delegated authority from its Chief Regulatory Officer