NEW YORK STOCK EXCHANGE LLC
OFFICE OF HEARING OFFICERS

NYSE Regulation, on behalf of New York Stock Exchange LLC, Complainant, v. Quattro M Securities Inc. (CRD No. 39289), Respondent.	Disciplinary Proceeding No. 2016-07-01288 **STATEMENT OF CHARGES**

NYSE Regulation, on behalf of the New York Stock Exchange LLC ("NYSE"), alleges:

Summary

1. This matter concerns the systemic failure by Quattro M Securities Inc. ("Quattro" or the "Firm") to oversee and supervise the trading activities of its direct market access clients in disregard of its obligation to implement required risk management and supervisory controls to protect the integrity of the marketplace.

2. NYSE rules and the federal securities laws require Quattro to implement risk management controls and supervisory systems to address both the regulatory and financial risks of providing market access. Quattro, as an NYSE member and market access provider, is required to monitor for manipulative trading, supervise the activities of its employees, guard against erroneous orders, and prevent the entry of orders that exceed appropriate credit limits. Quattro disregarded its fundamental obligations.

3. Quattro's failure to establish reasonable supervisory systems and controls enabled at least one of its clients ("Client A") to engage in improper and disruptive trading on the NYSE for years.

4. Client A's scheme, enabled by Quattro, sought to deceive the marketplace by creating artificial appearances of order interest in stocks, hiding large offsetting orders at or near the NYSE close of trading (the "Close") (when the market cannot adequately react), and effecting large wash trades (trades resulting in no change of beneficial ownership) on the Close that made up significant percentages of the NYSE Closing Auction ("Closing Auction").

5. Quattro was critical to Client A's improper trading schemes – executing more than 100 wash trades for Client A and hiding Client A's large trading interest. In fact, the President of the Firm himself executed wash trades and improperly held back Client A's orders. In this way, Quattro enabled Client A to distort the market and reap ill-gotten gains from its public deception.

6. Quattro's failings were symptomatic of a Firm culture that prioritized profits over meeting the Firm's regulatory obligations and protecting the integrity of the markets.

7. Thus, as will be discussed in detail below, from June 2012 until at least February 2017 (the "Relevant Period"), Quattro violated both NYSE rules and federal law, including Rule 15c3-5 of the Securities Exchange Act ("Rule 15c3-5" or the "Market Access Rule") by improperly providing its direct access customers nearly unfettered access to the market and enabling Client A's improper trading schemes.

Respondent and Jurisdiction

8. QUATTRO M SECURITIES INC. is headquartered in New York, New York and has been a registered member with the NYSE since 1999. At all times during the Relevant

Period, Quattro was registered as a member of the NYSE. Quattro also has been registered with NYSE American LLC since 2008 and with the Financial Industry Regulatory Authority ("FINRA") since 2007.

9. This matter arose from at least three separate reviews of conduct with respect to Quattro and its associated persons. These reviews were conducted by the New York Equities Section of FINRA's Department of Market Regulation ("FINRA Market Regulation"), FINRA's examination team, and NYSE Regulation Surveillance & Investigations.

10. The investigations of Quattro related to: (i) monitoring of trading activity under the Firm's direct market access business, including the prevention and detection of manipulative trading patterns such as wash trading; (ii) establishing pre-trade risk controls for its direct market access clients, including pre-set credit thresholds and erroneous order checks; and (iii) related supervisory issues.

Other Relevant Persons and Entities

11. EUGENE MAURO ("Mauro") joined Quattro in June 1995 and has served as its President since December 1999.

12. KATHERINE WOODWORTH (a/k/a Catherine Woodworth) ("Woodworth") joined Quattro in October 2001 and has served as its Chief Compliance Officer ("CCO") since June 2006.

13. KEVIN LODEWICK JR. ("Lodewick") joined Quattro in 2007 and worked as a broker until he left the Firm in April 2018. Lodewick is currently employed at Peter Mancuso & Co. L.P.

14. CLIENT A is an unregistered entity incorporated offshore that was a client of the Firm from approximately June 2012 through December 2014.

Statement of Facts

I. Quattro Failed to Establish, Maintain, and Enforce a Supervisory System, Including Written Supervisory Procedures, Reasonably Designed to Achieve Compliance with Applicable Securities Laws, Regulations, and Rules

A. *Quattro, as a Market Access Provider, Has Critical Obligations Under NYSE Rules and Federal Law to Protect the NYSE Markets from Manipulative and Disruptive Trading*

15. During the Relevant Period, NYSE rules, including former NYSE Rule 342 and current NYSE Rule 3110,[1] required an NYSE member to establish and maintain a supervisory system, including written procedures specifically tailored to the types of business in which it engaged (such as providing direct market access), reasonably designed to achieve compliance with applicable laws, regulations, and rules. Under NYSE Rules, "[f]inal responsibility for proper supervision shall rest with the member organization."[2]

16. Similarly, Rule 15c3-5[3] required broker-dealers to establish, maintain, and enforce risk management controls reasonably designed to address both regulatory and financial risks of market access "so as not to jeopardize their own financial condition, that of other market participants, the integrity of trading on the securities markets, and the stability of the financial system."[4]

17. A broker-dealer "must maintain supervisory systems and underlying internal control procedures that are specifically tailored to its business model . . . and the types of clients or counterparties with which it does business." [5]

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[1] *See* former NYSE Rule 342 (a)-(b); NYSE Rule 3110(a)-(b). NYSE Rule 3110 superseded former NYSE Rule 342 on November 6, 2014. For purposes of this pleading, reference to NYSE Rule 342 also encompasses obligations under NYSE Rule 3110.
[2] NYSE Rule 3110.
[3] 17 C.F.R. § 240.15c3-5.
[4] *Risk Management Controls for Brokers or Dealers with Market Access*, 75 Fed. Reg.69792, 69792 (Nov. 15, 2010) ("Adopting Release").
[5] FINRA 2012 Regulatory and Examination Priorities Letter at 6 (Jan. 31, 2012) ("FINRA 2012 Priorities Letter"), *available at* https://www.finra.org/file/2012-regulatory-and-examination-priorities-letter.

18. Quattro touts itself as one of the largest direct market access member broker-dealer firms in operation on the floor of the NYSE (the "Floor"). During the Relevant Period, the Firm provided direct market access to the NYSE to a range of clients, including unregistered, off-shore proprietary trading firms. While Quattro processed some of its order flow manually, the majority its order flow was processed electronically. Quattro failed to maintain a supervisory system tailored to this business, despite its market access and supervisory obligations.

B. *Quattro Failed to Establish, Maintain, and Enforce an Adequate Supervisory System and Written Supervisory Procedures to Detect and Prevent Manipulative Trading*

19. Quattro failed to establish and/or maintain a reasonably designed system to detect and prevent potential manipulation, fraud, and disruptive trading.

20. Under the Market Access Rule, Quattro was responsible for maintaining controls that were reasonably designed to ensure compliance with all regulatory requirements,[6] including "post-trade obligations to monitor for manipulation and other illegal activity."[7] This includes 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" securities laws and NYSE rules.[8]

21. Quattro did not have systems and controls reasonably designed to detect and prevent manipulative and improper trading.

22. Despite processing, on average, tens of thousands of electronic orders every day, Quattro implemented no electronic monitoring systems or surveillances, and lacked *any*

[6] Rule 15c3-5(b)-(c).
[7] Adopting Release at 69798; *see also*, Responses to Frequently Asked Questions Concerning Risk Management Controls for Brokers or Dealers with Market Access (Apr. 15, 2014) (the "SEC FAQs"), *available at* https://www.sec.gov/divisions/marketreg/faq-15c-5-risk-management-controls-bd.htm.
[8] FINRA 2012 Priorities Letter at 12.

automated system, such as basic wash trade reports or other exception reports, to detect potentially manipulative, fraudulent, or violative trading.

23. Instead, the Firm's purported post-trade monitoring, if conducted at all, entailed the CCO manually reviewing raw trading data daily, much of which was based on badge log compilations, through a supposed "visual check." When viewed as a pdf, a badge log data set for a single day could exceed 9,000 pages.

24. Such a visual, manual surveillance for manipulative patterns over thousands of pages of trading data (or even a meaningful sample thereof) could not plausibly constitute a reasonable review of Firm customers' trading and was not reasonably designed to meet the Firm's market access and supervisory obligations.

25. This purported visual check for improper trading was rendered even less reasonable because, on an even more basic level, Firm personnel lacked the knowledge and/or training to identify potentially manipulative trading at all.

26. For example, although Woodworth, the Firm's CCO, was responsible for post-trade reviews, Mauro, the Firm's President, testified that he doubted that Woodworth would even know what manipulative trading terms such as wash trades, spoofing, and layering meant (terms specifically cited in regulatory guidance concerning the Market Access Rule).

27. And, although Mauro was a Floor Supervisor, he performed no specific review for any type of potentially manipulative activity on the NYSE Open ("Open") or Close other than "watching the orders as they [came] in." Moreover, Mauro admitted that he too was unfamiliar with terms such as wash trades, spoofing, and layering.

28. Another Firm broker who executed wash trades and other improper trades for Client A, Lodewick, never received any training concerning wash trades, had no understanding of the term and had never even heard the term "wash trade" before 2015.

29. Indeed, Quattro appears to have *never* followed up with a customer regarding suspicious activity during the more than four years under review:

- Woodworth admitted that from her purported compliance reviews she had never been concerned enough about a customer's trading activity to have a *single conversation* with a customer during her entire time at the Firm, which dates back more than a decade to 2006.
- Mauro could not recall *a single instance* of Woodworth raising concerns about customer trading to him.
- Mauro testified that he himself had never identified what he deemed suspicious activity.

30. This was despite the fact that during the Relevant Period, Quattro traders regularly executed orders that violated NYSE rules and guidance on behalf of at least one client – Client A.

31. Moreover, Quattro's written supervisory procedures ("WSPs"), which included only a single sentence under its "Post-Trade Review" description for "Market Access Regulation," did not reasonably describe the Firm's post-trade monitoring system.

C. *Quattro's Market Access and Supervisory Failures Enabled its Client's Improper Trading Schemes*

32. Quattro's longstanding failures to establish and maintain a reasonably designed supervisory system to oversee its clients allowed the Firm's clients nearly unfettered access to

the NYSE during the Relevant Period without the necessary checks to prevent them from engaging in prohibited and potentially manipulative trading.

33. These failures were compounded by Quattro's failure to implement an adequate system to supervise its associated persons. This included failures to implement systems and controls reasonably designed to ensure that Quattro's employees understood the essential facts of its customers and their order flow, as well as ensuring that all orders entered onto the NYSE complied with all applicable laws, rules, and regulations.

34. As a result of these systemic supervisory failures, Quattro enabled Client A to engage in improper trading schemes through Quattro in at least *1,600* instances during the Relevant Period.

35. As discussed below, Quattro enabled its client's improper trading, including by: (i) executing both sides of wash trades on Client A's behalf, and (ii) hiding Client A's large orders until just before the Close, allowing the marketplace to trade on a false perception of supply or demand.

i. ***Quattro Executed Both Sides of Over One Hundred Wash Trades For Client A***

36. In more than 100 instances, Quattro executed both the buy and sell side of wash trades for Client A.

37. Wash trades (trades resulting in no change of beneficial ownership) have long been known to be a mechanism used to mislead the market about the genuine supply and demand for a stock.

38. At all times during the Relevant Period, wash trades were prohibited under NYSE rules.

39. Quattro executed hundreds of orders resulting in wash trades during the Relevant Period for Client A, beginning the very first month of its relationship with the client. In one ten-month period, from January 2013 through October 2013, Quattro executed more than 100 wash trades on behalf of Client A.

40. While a trader may try to conceal a wash trade by routing a buy order to one broker-dealer and the corresponding sell order to a different broker-dealer, Client A routed *both sides* of these wash trades to Quattro, which executed them despite being in possession of both the buy and sell orders. In fact, for a number of these wash trades, the same Quattro broker – including Mauro and Lodewick – executed both the buy and sell orders of the wash trades.

41. For example, on July 2, 2012, within weeks of Client A becoming a client, the same Quattro broker – Lodewick – verbally announced a buy order and a sell order in the same stock in the crowd before the Close to be executed at the same time, even though the buy order and sell order were on behalf of the same client.

42. Notwithstanding the fact that Quattro received and executed both sides of these wash trades, Quattro failed to address and prevent Client A's wash trading, which continued throughout the Relevant Period.

ii. ***Quattro Repeatedly Executed Trades for Client A, in Contravention of NYSE Rules and Guidance, by Hiding Large Orders from the Marketplace***

43. In addition to the wash trading described above, Client A engaged in improper trading schemes through Quattro in at least *1,600* instances. These schemes depended upon Quattro's willingness to ignore NYSE rules and guidance concerning entering orders at the Close.

44. Before any order with instructions to participate in the Closing Auction is transmitted to the NYSE, members must exercise due diligence to learn the essential facts relative to the order, including the purpose and propriety of the order.[9]

45. Moreover, longstanding NYSE guidance has directed members not to hold back large interest until at or near the Close because doing so could displace the market for a security, *i.e.*, cause price dislocation in the stock.[10] This is particularly true where the size of orders being entered at or near the Close is unusual in relation to the average daily volume of the stock or otherwise cannot easily be absorbed because of prevailing market conditions. Members have long been warned that they may be subject to regulatory exposure for potentially affecting the Close inappropriately by entering such orders.

46. Despite this guidance, for nearly two years, Quattro hid Client A's large closing (or opening) orders from the marketplace until at or near the Close – distorting markets and affecting the Close inappropriately.[11]

47. Client A's scheme, enabled by Quattro, primarily involved three elements. The first two elements consisted of 1) a large order designated for execution in the Closing Auction and 2) and a large order also designated for execution in the Closing Auction on the opposite side of the market (*e.g.*, if the first order was a sell, the second order was a buy, and vice versa). Upon execution in the Closing Auction, these two orders constituted an improper wash trade.

48. Client A entered the first order into the Closing Auction, which was displayed to the marketplace (reflected in the Closing Auction imbalance).

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[9] *See* former NYSE Rule 405 (superseded by NYSE Rule 2090 as of May 16, 2016).
[10] *See* NYSE Regulation Information Memo 09-26 (June 18, 2009).
[11] In addition to the improper trading on the Close, Client A engaged in a similar scheme affecting the NYSE Opening Auction.

49. Client A sent the second order on the opposite side to Quattro also to be executed in the Closing Auction. However, unlike the first order, the second order was not disclosed to the marketplace (or reflected in the Closing Auction imbalance). Rather, Quattro, pursuant to Client A's standing instructions, held the order from the marketplace until as late as possible before the Close. At that time, Quattro announced the order publicly in the trading crowd (a manual means of entering an order for the Close on the NYSE Floor) at the last possible time before the Close, resulting in a wash trade upon execution.

50. Hiding the orders was directly contradictory to the aforementioned NYSE guidance. It also had the effect of concealing the true order interest for the Closing Auction. This enabled Client A to trade off of the informational advantage that it had created in the intraday market, acquiring a stock position at an artificial price (the third element of its scheme) that it could then unwind in the Closing Auction at a more advantageous price following Quattro's last-minute reveal of the second leg of the wash trade.

51. These hidden orders, executed by Quattro, were often unusually large for the security at issue, sometimes as high as 65% of the closing or opening volume on the given day, which increased the likelihood that the orders could result in price dislocation in the stock and/or potentially affect the Close inappropriately.

52. The last-second nature of Quattro's executions also limited the marketplace's ability to easily absorb such unusually large orders, similarly increasing the chance of inappropriately dislocating the closing price (driving the price up or down), which was critical to its client's scheme.

53. Indeed, Client A's scheme was successful because Quattro failed to learn, or ignored, the essential facts of the at-the-close and at-the-open orders it executed for Client A.

54. Indeed, communications between Client A and Quattro indicated that Client A's instructions were to attempt to affect the Close inappropriately and disrupt the market. For example, Client A's communications with Quattro indicated that its strategy involved creating artificial imbalances. On March 5, 2013, after Quattro observed a small imbalance in a particular stock, Client A sent a 1.1 million share market-on-close order via a second NYSE member, thus creating a huge imbalance in that stock (the first step in its improper scheme). Client A boasted – "I don't give a shit bro…I make the volume." Quattro responded: "YOU are the vol…kaBOOM."

55. Communications between Client A and Quattro also indicated that one goal of the hidden order was to cause price displacement on the Close. Client A even complained to Quattro that the price of the stock it was *buying* had not moved higher – a complaint that would make no economic sense under the circumstances but for Client A's scheme.

56. Other communications between Client A and Quattro indicated that its strategy included wash trading – that is, sending buy and sell orders in the same symbols for execution at or near the same time.

57. Client A and Quattro also took conversations offline, with Client A requesting "private convos" and Lodewick responding, "call my cell."

58. At the time Quattro onboarded Client A, it was the only client who requested Quattro execute orders in this manner. And, Quattro negotiated a higher commission with Client A for doing so.

59. In total, Client A executed more than 1,600 trades through Quattro in furtherance of its schemes. By executing Client A's orders without understanding the propriety and/or ignored the impropriety of the instruction, and despite the impact of hiding the order from the

public on the marketplace, Quattro violated NYSE rules and acted in contravention of NYSE guidance.

60. As a result of Quattro's unreasonable controls, Quattro failed to address and prevent Client A's improper trading schemes, which continued throughout the Relevant Period.

61. Quattro benefited by enabling Client A's improper trading, making (according to the Firm) at least $250,000 in commissions from Client A during the Relevant Period.

II. Quattro Failed to Establish, Maintain, and Enforce a Reasonably Designed System of Credit Limits and Pre-Trade Risk Controls

62. In addition to failing to implement reasonable post-trade reviews, discussed above, Quattro further failed to establish, maintain, and enforce reasonably designed pre-set credit limits or pre-trade controls as required by federal law. Such failures were further examples of a culture at Quattro that prioritized generating profits above the integrity of the market.

63. The Market Access Rule requires Quattro to maintain controls that were reasonably designed to prevent the: (i) entry of orders "that exceed appropriate pre-set credit or capital thresholds in the aggregate for each customer,"[12] and (ii) "entry of erroneous orders, by rejecting orders that exceed appropriate price or size parameters."[13]

64. As the SEC has explained, credit thresholds should be based on "appropriate due diligence as to the customer's business, financial condition, trading patterns, and other matters," and broker-dealers must document their determinations.[14] A market access provider must also

[12] Rule 15c3-5(c)(1)(i).
[13] Rule 15c3-5(c)(1)(ii).
[14] Adopting Release at 69802.

"be prepared to show why it selected a particular [credit] threshold, [and] how that threshold meaningfully limits the financial exposure potentially generated by the customer."[15]

65. Failure to establish reasonable credit limits enables clients to incur financial exposure beyond their means, and can result in (among other things) errors that could be catastrophic to market participants, individual stocks, and the securities markets. The controls required by Rule 15c3-5 are critical to guarding against these risks.

66. However, in contravention of published SEC guidance, Quattro often relied on an *ad hoc* system that allowed clients billions of dollars of exposure to the markets.

67. This was done without conducting adequate diligence into, among other things, its customers' business or financial condition. Indeed, Woodworth acknowledged in her testimony that the documentation received from Client A "didn't necessarily reveal enough information" to set appropriate credit limits. In fact, Woodworth admitted that, "a lot" of Firm clients simply did not provide the financial information Quattro requested. Nevertheless, not once did Woodworth seek verifying documents from clients confirming their financial condition – a factor explicitly called for by SEC guidance.[16]

68. Quattro's credit determinations likewise were generally not reasonably documented. For instance, Client A's credit limit was initially set at approximately $2 billion. According to Woodworth, setting that limit would have been predicated on a conversation she believed Mauro had with the customer "for more information." However, Mauro was not aware of any such discussion, and Woodworth acknowledged no such conversation was documented.

[15] SEC FAQs Response to Question 8.
[16] *See* Adopting Release at 69802; SEC FAQs Response to Question 8.

69. Other client credit limits fluctuated hundreds of millions of dollars from year-to-year. For example, one client saw its credit limit increased by $1 billion based on an "increase in trading," without any further explanation. Another client was given credit exposure in a single day that was double what the client had traded in the entire prior quarter.

70. In fact, Mauro and Woodworth could not even agree on who set the credit limits at the Firm. Mauro said Woodworth was the ultimate authority in establishing credit limits. Woodworth, to the contrary, testified that Mauro determined credit limits and that she was not even necessarily involved in the discussions.

71. Quattro similarly failed to demonstrate that its pre-trade erroneous order controls meaningfully limited the financial risk to the Firm.

72. During the Relevant Period, Quattro set its thresholds for single order controls at multiples beyond the largest order its brokers actually received without a sufficiently documented rationale. Thus, Quattro failed to impose reasonable controls to prevent erroneous orders.

73. Moreover, Quattro ignored even the limited risk management controls that it purported to implement. Indeed, Mauro admitted that Firm policy was to ignore or bypass certain pre-trade risk controls "because we're here to service orders," directly contradicting the Firm's own WSPs and the requirements of Rule 15c3-5.

74. Quattro's disregard of its obligations regarding credit limits and pre-trade controls was emblematic of its practice of providing market access without consideration for the safety of the markets.

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75. In sum, throughout the Relevant Period, Quattro failed to adhere to its obligations as a broker-dealer and gatekeeper to the NYSE. Quattro failed to implement meaningful post-trade surveillances by personnel equipped to do so; failed to establish and maintain a systematic approach to establishing and enforcing pre-trade controls; failed to conduct appropriate due diligence into its clients and client order flow; and pushed the tone set from the top to ignore risk controls. And, as a result, Quattro exposed the public to unmitigated risk of manipulative and disruptive trading by bad actors – at least one of which that took advantage, utilizing Quattro to engage in more than 1,600 improper acts of deception on the market over the course of two years.

Charges

CHARGE I

Failure to Establish, Maintain, and Enforce Written Supervisory Procedures (Violations of NYSE Rules 342, 3110, 3120, and 2010)

76. NYSE Regulation re-alleges and incorporates by reference each preceding paragraph.

77. NYSE Rules require members to establish, maintain, and enforce WSPs 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 NYSE rules. Each NYSE member also is required to designate and specifically identify to the NYSE one or more principals who shall establish, maintain, and enforce a system of supervisory control policies and procedures, including the periodic examination of customer accounts to detect and prevent irregularities or abuses.[17]

78. NYSE Rule 2010 requires all NYSE members to observe high standards of commercial honor and just and equitable principles of trade in the conduct of their business.

79. As set forth above, during the Relevant Period, Quattro failed to establish, maintain, and enforce required WSPs in a number of ways, including the failure to tailor the procedures to Quattro's business and to include sufficient procedures for the Firm's market access business. Among other things, Quattro failed to establish, maintain, and enforce WSPs sufficient to detect and prevent manipulative or disruptive trading (including wash sales); failed to utilize due diligence in connection with the establishment of accounts; failed to establish appropriate credit limits and pre-trade controls required by federal law; failed to designate a responsible person who was sufficiently informed to perform her duties; and maintained WSPs

[17] *See* NYSE Rule 342 (pre-Dec. 1, 2014); NYSE Rules 3110 and 3120 (effective Dec. 1, 2014).

that were otherwise inadequate, contained errors, or were at variance with steps actually performed.

80. In so doing, Quattro violated NYSE Rules 342, 3110, 3120,[18] and 2010.

CHARGE II

Failure to Supervise Associated Persons (Violations of NYSE Rules 342, 3110, 3120 and 2010)

81. NYSE Regulation re-alleges and incorporates by reference each preceding paragraph.

82. NYSE members are required to establish and maintain a system to supervise the activities of each associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable NYSE rules, including through the establishment and maintenance of written procedures.

83. NYSE members are further required to observe high standards of commercial honor and just and equitable principles of trade in the conduct of their business.

84. As set forth above, during the Relevant Period Quattro failed to establish and maintain the required system to supervise the activities of its registered representatives, registered principals, and/or associated persons, including but not limited to Mauro and Lodewick, who failed to comply with NYSE rules and federal securities laws, and the Firm's own WSPs.

85. In so doing, Quattro violated NYSE Rules 342, 3110(a), 3120[19] and 2010.

[18] NYSE Rule 342 (pre-Dec. 1, 2014); NYSE Rules 3110 and 3120 (effective Dec. 1, 2014).
[19] NYSE Rule 342 (pre-Dec. 1, 2014); NYSE Rules 3110 and 3120 (effective Dec. 1, 2014).

CHARGE III

Failure to Implement Appropriate Risk Management Controls and Supervisory Procedures to Ensure Compliance with All Regulatory Requirements (Violations of Section 15(c)(3) of the Exchange Act and Rules 15c3-5(b) and (c)(2) thereunder, and Violations of NYSE Rules 342, 3110, 3120, and 2010)

86. NYSE Regulation re-alleges and incorporates by reference each preceding paragraph.

87. Section 15(c)(3) of the Exchange Act, and Rule 15c3-5 thereunder, requires broker-dealers 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 providing market access, as that term is defined in Rule 15c3-5. Such risk management controls and supervisory procedures must be reasonably designed to ensure compliance with all regulatory requirements, including post-trade obligations to monitor for manipulation, fraud, and other illegal activity by clients with market access.

88. During the Relevant Period, Quattro failed to establish reasonably-designed controls or procedures to monitor its market access clients for potentially suspicious, improper, or manipulative trading.

89. In so doing, Quattro violated Section 15(c)(3) of the Exchange Act and Rules 15c3-5(b) and (c)(2) thereunder, and violated NYSE Rules 342, 3110, 3120,[20] and 2010.

[20] NYSE Rule 342 (pre-Dec. 1, 2014); NYSE Rules 3110 and 3120 (effective Dec. 1, 2014).

CHARGE IV

Failure to Use Due Diligence as to Accounts
(Violations of NYSE Rules 405, 2090 and 2010)

90. NYSE Regulation re-alleges and incorporates by reference each preceding paragraph.

91. NYSE Rule 405 required members to use due diligence to learn the essential facts relative to every customer, every order, every cash or margin account accepted or carried by such organization, and to supervise diligently all accounts handled by registered representatives of the organization, in regard to the opening and maintenance of every account, to know (and retain) the essential facts concerning every customer and concerning the authority of each person acting on behalf of such customer.

92. NYSE Rule 2090 requires members to "use reasonable diligence, in regard to the opening and maintenance of every account, to know (and retain) the essential facts concerning every customer and concerning the authority of each person acting on behalf of such customer," including the facts essential to "comply with all applicable laws, regulations, and rules."

93. NYSE Rule 2010 requires all NYSE members to observe high standards of commercial honor and just and equitable principles of trade in the conduct of their business.

94. During the Relevant Period, Quattro failed to know its customers, including, for example, Client A, by failing to use due diligence to understand the origins of Client A and the individuals behind it, and the reasons for its structure and the terms of its operation, both in the course of onboarding Client A and in the maintenance of its account.

95. During the Relevant Period, Quattro failed to learn the essential facts of the orders it processed, including in connection with at-the-close and at-the-open orders from Client A.

96. In so doing, Quattro violated NYSE Rules 405,[21] 2090, and 2010.

CHARGE V

Executing Orders with No Change in Beneficial Ownership (Violations of NYSE Rules 476(a)(8) and 2010)

97. NYSE Regulation re-alleges and incorporates by reference each preceding paragraph.

98. Prior to June 13, 2013, NYSE Rule 476(a)(8) prohibited member organizations and their employees from making a fictitious bid, offer, or transaction, or giving an order for the purchase or sale of securities the execution of which would involve no change of beneficial ownership or executing such an order with knowledge of its character, regardless of intent.

99. At all times during the Relevant Period, NYSE Rule 2010 required all NYSE members to observe high standards of commercial honor and just and equitable principles of trade in the conduct of their business.

100. Quattro employees, including Mauro and Lodewick, submitted orders on behalf of Client A to the NYSE that, when executed, did not result in a change of beneficial ownership.

101. In so doing, Quattro violated NYSE Rule 476(a)(8) and NYSE Rule 2010.

[21] NYSE Rule 405 (pre-May 16, 2016); NYSE Rule 2090 (effective May 16, 2016).

CHARGE VI

Holding Back Large Orders at or Near the Close (Violations of NYSE Rule 2010)

102. NYSE Regulation re-alleges and incorporates by reference each preceding paragraph.

103. NYSE Rule 2010 requires members to observe high standards of commercial honor and just and equitable principles of trade in the conduct of their business.

104. Published NYSE guidance advises that members should not hold back large interest until at or near the Close as such actions can result in price dislocation in the relevant security and potentially affect the Close inappropriately.

105. During the Relevant Period, Quattro repeatedly held back large interest for execution on the Close at Client A's instruction, without learning the purpose and propriety of such orders.

106. In so doing, Quattro violated NYSE Rule 2010.

CHARGE VII

Failure to Implement Appropriate Pre-Set Credit Thresholds (Violations of Section 15(c)(3) of the Exchange Act and Rules 15c3-5(b) and (c)(1)(i) thereunder, and Violations of NYSE Rules 342, 3110, 3120 and 2010)

107. NYSE Regulation re-alleges and incorporates by reference each preceding paragraph.

108. Rule 15c3-5 under Section 15(c)(3) of the Exchange Act requires broker dealers 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 providing market access, as that term is defined in Rule 15c3-5. Such risk management controls and supervisory procedures shall 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 thresholds for market access clients.

109. During the Relevant Period, Quattro failed to demonstrate that it established appropriate pre-set credit controls, including with respect to demonstrating a reasonably designed system and procedures for determining and implementing such controls; documenting said methodology and process; enforcing pre-set credit limit thresholds; and permitting Firm employees to act in variance with the Firm's WSPs.

110. In so doing, Quattro violated Section 15(c)(3) of the Exchange Act and Rules 15c3-5(b) and (c)(1)(i) thereunder, and violated NYSE Rules 342, 3110, 3120[22] and 2010.

CHARGE VIII

Failure to Implement Appropriate Pre-Trade Controls
(Violations of Section 15(c)(3) of the Exchange Act and Rules 15c3-5(b) and (c)(1)(ii), and Violations of NYSE Rules 342, 3110, 3120, and 2010)

111. NYSE Regulation re-alleges and incorporates by reference each preceding paragraph.

112. Rule 15c3-5 under Section 15(c)(3) of the Exchange Act requires broker-dealers 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 providing market access, as that term is defined in Rule 15c3-5. Such risk management controls and supervisory procedures shall 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 erroneous orders.

[22] NYSE Rule 342 (pre-Dec. 1, 2014); NYSE Rules 3110 and 3120 (effective Dec. 1, 2014).

113. During the Relevant Period, Quattro failed to establish appropriate pre-trade controls, including with respect to demonstrating a reasonably designed methodology and procedures for determining and implementing such controls; documenting said methodology and process; enforcing pre-trade controls; and permitting Firm employees to act in variance with the Firm's WSPs.

114. In so doing, Quattro violated Section 15(c)(3) of the Exchange Act and Rules 15c3-5(b) and (c)(1)(ii) thereunder, and violated NYSE Rules 342, 3110, 3120,[23] and 2010.

Relief Requested

WHEREFORE, NYSE Regulation, on behalf of NYSE, respectfully requests that the Panel:

A. make findings of fact and conclusions of law that Respondent committed the violations charged and alleged herein;

B. order that one or more of the remedies provided under NYSE Rule 8310 be imposed, including without limitation monetary remedies and equitable relief against Quattro;

C. order that Quattro retain at its own expense one or more qualified independent consultants not unacceptable to NYSE Regulation staff to conduct a comprehensive review of the Firm's supervisory and market access controls;

D. order that Respondent bear such costs of this proceeding as are deemed fair and appropriate under the circumstances in accordance with NYSE Rule 8330; and

E. grant all further relief, legal or equitable, that may be just and proper.

[23] NYSE Rule 342 (pre-Dec. 1, 2014); NYSE Rules 3110 and 3120 (effective Dec. 1, 2014).

Dated: July 30, 2018
New York, New York

Respectfully submitted,

NYSE Regulation

Laura J. Seamon, Enforcement Counsel
Aaron H. Krieger, Enforcement Counsel

NYSE Regulation, on behalf of
New York Stock Exchange, LLC
New York Stock Exchange
11 Wall Street
New York, New York 10005
(t) (212) 656-2286 | (212) 656-2142
(f) (212) 656-2028 | (212) 656-2028
(e) laura.seamon@theice.com |
(e) aaron.krieger@theice.com

Statement of the Exchange Regarding Allegations
In a Disciplinary Complaint Pursuant to NYSE Rule 8313(b)(1)

This statement of charges is a disciplinary complaint under Exchange Rules. A disciplinary complaint represents the initiation of a formal proceeding by the Exchange in which findings as to the allegations in the compliant have not been made and does not represent a decision as to any of the allegations contained in the complaint.