

**THE NASDAQ STOCK MARKET LLC
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2022.08.0414**

TO: The Nasdaq Stock Market LLC
Nasdaq Enforcement Department

RE: Velox Clearing LLC, Respondent
Member Firm
CRD No. 290215

Pursuant to Rule 9216 of The Nasdaq Stock Market LLC (“Nasdaq” or the “Exchange”) Code of Procedure, Velox Clearing LLC (“Velox,” the “Firm” or “Respondent”) 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, Nasdaq will not bring any future actions against the Respondent alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. The Firm 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 Nasdaq, or to which Nasdaq 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 Nasdaq:

BACKGROUND

The Firm became a Nasdaq member on May 13, 2019, and its registration remains in effect. The Firm has no relevant disciplinary history. The Firm acts as a clearing and executing broker and provides services to correspondent and institutional customers (“Introducing Firms”). While most of its Introducing Firms are U.S. Broker Dealers registered with the U.S. Securities and Exchange Commission (“SEC”) and members of the Financial Industry Regulatory Authority (“FINRA”), some are foreign financial institutions regulated by the Securities Financial Commission (“SFC”) in Hong Kong but are not members of FINRA, nor registrants with the SEC. These Introducing Firms enter into introducing broker arrangements with Velox, which allows them to route order flow through Velox’s Order Management System (“OMS”). Generally, Introducing Firms’ accounts at Velox are structured either as fully disclosed or non-disclosed omnibus accounts. Velox is affiliated with its largest customer (the “Affiliated Customer”), which trades through a non-disclosed omnibus account.

SUMMARY

From May 13, 2019, through the present (the “Relevant Period”), Velox’s customers consisted of Introducing Firms domiciled inside the United States and regulated by FINRA and Introducing Firms located outside of the United States and regulated by the SFC in Asia. While a majority of the Firm’s Introducing Firms are domiciled inside the

United States, the vast majority of transactions routed through the Firm's OMS during the Relevant Period originated from its foreign-based Introducing Firms trading through non-disclosed omnibus accounts. Of those transactions, a majority originated from two customers, one of which is an Affiliated Customer.

During the Relevant Period, the Firm failed to implement a system of supervision and surveillance to identify potentially manipulative trading on its platforms. Specifically, the Firm failed to (1) establish and maintain a supervisory system, including written supervisory procedures ("WSPs"), reasonably designed to monitor for potentially manipulative trading on its platform, (2) reasonably respond to red flags concerning potential manipulative trading identified by brokers it routed order flow to ("Routing Brokers"), and (3) respond reasonably to indicia that its Introducing Firms' supervisory systems were not reasonably designed to surveil for potentially manipulative trading. Moreover, the Firm failed to implement a reasonably designed supervisory system despite the heightened risks presented by omnibus accounts.

Velox's failure to implement a system of surveillance for potentially manipulative trading likely resulted in potentially manipulative trading occurring on the Nasdaq market during the Relevant Period. Based on the conduct described in this AWC, Velox violated Nasdaq Rules 3010 and 2010A (for conduct before December 6, 2019) and General 9, Sections 1 and 20 (for conduct on or after December 6, 2019).

FACTS AND VIOLATIVE CONDUCT

1. This matter originated from surveillance conducted by Nasdaq MarketWatch and analysis conducted by Nasdaq Enforcement.
2. Nasdaq Rule General 9, Section 20(a)¹ requires "[e]ach member [to] establish and maintain a system to supervise the activities of each registered representative and associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations and with applicable Nasdaq rules."
3. Nasdaq Rule General 9, Section 1(a) requires "[a] member, in the conduct of its business, [to] observe high standards of commercial honor and just and equitable principles of trade." A violation of General 9, Section 20(a) also constitutes a violation of General 9, Section 1(a).
4. On November 12, 2020, the SEC issued a Staff Bulletin entitled, "Risks Associated with Omnibus Accounts Transacting in Low-Priced Securities." In it, the SEC highlighted for broker-dealers various risks arising from illicit activities associated with transactions in low-priced securities through omnibus accounts, particularly transactions effected on behalf of omnibus accounts maintained for foreign financial institutions.

¹ In December 2019, Nasdaq Rule 3010 (now General 9, Section 20) and Rule 2010A (now General 9, Section 1(a)) were respectively renumbered and relocated under the General 9 title ("Regulation") in the Nasdaq rulebook. *See* Securities Exchange Act Release No. 34-87778 (December 17, 2019), 84 FR 70590 (December 23, 2019) (SRNASDAQ-2019-098).

Velox's Business Model

5. Velox provides order routing services, order execution services, market access services, and custody services, among other services, to correspondent and institutional customers. The Firm's customers are both Introducing Firms domiciled inside the United States and regulated by FINRA and others located outside of the United States and regulated by the SFC in Asia.
6. Velox entered into introducing broker arrangements with its Introducing Firm customers, including its Affiliated Customer, which allow the Introducing Firm to route orders through Velox's OMS from omnibus brokerage accounts housed at Velox. Most transactions that pass through Velox, including those from its Affiliated Customer, originate from certain omnibus accounts where Velox has limited visibility into the actual customer sending the order.
7. Orders submitted from an Introducing Firm's master account pass through Velox's OMS. After this, Velox sends the order to separate Routing Brokers for execution.
8. For most of the Relevant Period, Velox solely relied on exception reports generated by the Routing Brokers for the identification of potentially manipulative trading.

Velox's Supervisory System Was Not Reasonably Designed to Surveil for Potentially Manipulative Trading.

9. The Firm did not establish and maintain a supervisory system and WSPs that were reasonably designed to surveil for potentially manipulative trading, including layering, spoofing, wash sales, pre-arranged trading, marking the open or close, or trading indicative of ramp-and-dump schemes in low-priced securities. As a result, the Firm failed to identify potentially manipulative trading during the Relevant Period.

The Firm's Reliance on its Introducing Firms To Surveil for Potentially Manipulative Trading Was Unreasonable

10. In its agreements with its Introducing Firm clients, the Firm disclaimed responsibility to review surveillance records, exception reports or similar data it received from those clients. While the Firm reserved the right to conduct reviews, the Firm relied on the Introducing Firms to surveil for potentially manipulative trading that the Firm routed to the market on their behalf.
11. This was unreasonable because, as described below, the Firm (1) did not have a reasonably designed supervisory system to surveil for potentially manipulative trading; and (2) failed to respond reasonably to indicia received from its Routing Brokers that some of its Introducing Firms were not surveilling for manipulative trading activity.

The Firm's Supervision of Potentially Manipulative Trading On Its Platforms Was Unreasonable

12. The Firm's supervisory system, including WSPs, for potential manipulative trading on its platforms was not reasonable in several respects.

13. **First**, the Firm had limited surveillance in place to monitor for potentially manipulative trading activity between May 13, 2019, and July 5, 2023. During that time, the Firm only relied upon penny stock exception reports to surveil for potentially manipulative trading. While the Firm established a three-person OMS Monitoring Group on August 17, 2022, its role was limited to reviewing order rejections and monitoring account activity such as money and securities transfers. Only on June 9, 2023, did Velox add an individual to the group specifically responsible for identifying any unusual order traffic. Even then, the OMS Monitoring Group proved ineffective for the additional reasons below.
14. **Second**, while the Firm implemented automated surveillance to monitor for wash sales and trade volume concerns on July 5, 2023 and July 22, 2023, respectively, and implemented surveillance for marking the open and close on July 10, 2024, the Firm still has no automated surveillance in place to monitor for layering, spoofing, pre-arranged trading, or trading indicative of pump-and-dump and ramp-and-dump schemes in low-priced securities.
15. **Third**, the Firm failed to have reasonably designed WSPs concerning how to review for potentially manipulative trading. The WSPs in effect prior to 2022 made references to reports that did not exist and to reviews that did not appear to take place. For example, the Firm's 2022 WSPs noted that the Firm used T+1 reports to identify potential manipulation or patterns. However, nowhere in the WSPs or otherwise did the Firm specify which T+1 reports were used or instruct its employees on how to use them. The Firm's WSPs also failed to identify the specific exception reports it reviewed from its Routing Brokers to surveil for manipulative trading.
16. **Fourth**, the Firm failed to provide reasonable guidance as to the steps to take and factors to consider when reviewing any such exception reports, including the appropriate procedures for escalating red flags raised by its Routing Brokers. Additionally, the Firm failed to provide reasonable guidance on how to resolve and remediate account activity after escalation for further review.

The Firm Failed to Reasonably Respond to Red Flags Identified By its Routing Brokers Concerning Potentially Manipulative Trading

17. The Firm failed to reasonably respond to red flags identified by its Routing Brokers concerning potentially manipulative trading.
18. **First**, the Firm failed to act on reports identifying potential spoofing and layering activity and on other reports identifying potential wash trades, pre-arranged trading, and marking the close activity. The vast majority of the exception reports generated by Velox's Routing Brokers between January 20, 2022, and September 16, 2023 were resolved with limited action from Velox. In addition, the majority of the exception reports the Firm reviewed involved potentially manipulative trading concerning the same omnibus accounts for its Affiliated Customer.
19. **Second**, while a significant number of the activities flagged by its Routing Brokers involved trading by specific foreign brokers trading through omnibus accounts, Velox failed to take reasonable action to investigate, escalate, and address the activity. For

instance, between May 2022 and June 2023, one of Velox's Routing Brokers identified at least 26 instances of potential marking the close manipulation involving two specific foreign brokers routing through Velox. Notwithstanding the repeated sounding of alarms, Velox was either unresponsive or untimely in its responses, taking up to ten months to respond in some instances, if it responded at all. Further, when Velox did respond, it would often accept at face value the unsatisfactory explanation provided by its Introducing Firm without a reasonable investigation into whether the trading activity at issue was in fact bona fide.

20. **Third**, in instances where the Firm did respond or investigate, it did so without diligently contacting the Introducing Firms from which it received the orders. For example, the Firm did not investigate several wash sale reports.
21. **Fourth**, the Firm's rationale for resolving red flag inquiries from its Routing Brokers was often inadequate. For instance, one of the Firm's Routing Brokers generated multiple marking the close reports concerning buying activity from its Affiliated Customer's accounts comprising over 50% of the total trading volume in the minutes leading up to a market closing cross. Its Affiliated Customer indicated to Velox that the activity was justified because its clients were "relatively optimistic about the stock and its price," "being very bullish," and "buy[ing] at low for long term investment." Following these responses, Velox summarily indicated to its routing broker that "[it] did not find this activity to be alarming." However, there is no evidence that either its Affiliated Customer or Velox investigated why the activity was not indicative of marking the close before closing the reports with no further action.
22. Based on the foregoing, between May 13, 2019 and the present, Velox violated Nasdaq Rules 3010 and 2010A (for conduct before December 6, 2019) and General 9, Sections 1(a) and 20(a) (for conduct on or after December 6, 2019).

SANCTIONS

- B. The Firm also consents to the imposition of the following sanctions:
1. Censure;
 2. A fine of \$500,000; and
 3. An undertaking to do the following:
 - a. Retain at its own expense and within 45 days of the date of the notice of acceptance of this AWC, an independent consultant not unacceptable to the Exchange to review the reasonableness of its policies, systems, procedures (written or otherwise) relating to the detection and prevention of potentially manipulative trading activity and to compliance with Nasdaq General Rule 9, Sections 1 and 20.
 - b. Cooperate with its independent consultant in all respects, including providing the independent consultant with access to Respondent's files,

books, records, and personnel, as reasonably requested for the above-mentioned review. The Firm shall report to the Exchange on its activities as the Exchange may reasonably request. Further, upon request, Respondent shall make available to the Exchange any and all non-privileged communications between the consultant and the Respondent and non-privileged documents examined by its consultant.

- c. Refrain from terminating the relationship with the independent consultant without the Exchange's written approval. Respondent shall not be in and shall not have an attorney-client relationship with the independent consultant and shall not seek to invoke the attorney-client privilege or other doctrine or privilege to prevent the independent consultant from transmitting any information, reports, or documents to the Exchange.
- d. Require the independent consultant to submit a written report to Respondent and the Exchange at the conclusion of the independent consultant's review, which submission shall be no more than 120 days after the date of the notice of acceptance of this AWC. The report shall, at a minimum, (i) evaluate and address the adequacy of Respondent's compliance with its supervisory obligations with respect to potentially manipulative trading; (ii) provide a description of the review performed and the conclusions reached; and (iii) make recommendations as may be needed regarding how Respondent should modify or supplement its processes, controls, policies, systems, procedures, and training to manage its regulatory and other risks in relation to its compliance with its supervisory obligations with respect to potentially manipulative trading.
- e. Within 120 days after delivery of the report, Respondent shall adopt and implement the recommendations of the independent consultant or, if Respondent considers a recommendation to be, in whole or in part, unduly burdensome or impractical, propose an alternative procedure to the independent consultant designed to achieve the same objective. Respondent shall submit such proposed alternative procedures in writing simultaneously to the independent consultant and the Exchange.
 - i. Respondent shall require the independent consultant to (A) reasonably evaluate the alternative procedures and determine whether it will achieve the same objective as the independent consultant's original recommendation and (B) provide Respondent and the Exchange with a written report reflecting its evaluation and determination within 60 days of submission of Respondent's proposed alternative procedures. In the event the independent consultant and Respondent are unable to agree, Respondent must abide by the independent consultant's ultimate determination with respect to any proposed alternative procedure and must adopt and implement all recommendations deemed appropriate by the independent consultant.

- ii. Within 60 days after the issuance of the later of the independent consultant's initial report or any written report regarding proposed alternative procedures, Respondent shall provide the independent consultant and the Exchange with a written implementation report, certified by an officer of Respondent, attesting to, containing documentation of, and setting forth the details of Respondent's implementation of the independent consultant's recommendations. The certification shall identify the undertakings, provide written evidence of compliance in the form of a narrative, and be supported by exhibits sufficient to demonstrate compliance. The Exchange may make reasonable requests for further evidence of compliance, and Respondent agrees to provide such evidence.
- f. Upon written request showing good cause, the Exchange may extend any of the procedural dates set forth above.

Respondent agrees to pay the monetary sanction(s) in accordance with its executed Election of Payment Form.

Respondent 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 imposed herein shall be effective on a date set by Nasdaq Enforcement Department staff.

II.

WAIVER OF PROCEDURAL RIGHTS

Respondent specifically and voluntarily waives the following rights granted under Nasdaq's 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 Nasdaq Review Council and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, Respondent specifically and voluntarily waives any right to claim bias or prejudgment of the Chief Regulatory Officer, the Nasdaq Review Council, or any member of the Nasdaq Review Council, 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.

Respondent further specifically and voluntarily waives any right to claim that a person violated the ex parte 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

Respondent understands that:

- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the Nasdaq Enforcement Department and the Nasdaq Review Council, the Review Subcommittee, or the Office of Disciplinary Affairs ("ODA"), pursuant to Nasdaq 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 Respondent; and
- C. If accepted:
 - 1. This AWC will become part of the Respondent's permanent disciplinary record and may be considered in any future actions brought by Nasdaq or any other regulator against the Respondent;
 - 2. Nasdaq may release this AWC or make a public announcement concerning this agreement and the subject matter thereof in accordance with Nasdaq Rule 8310 and IM-8310-3; and
 - 3. Respondent 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. Respondent may not take any position in any proceeding brought by or on behalf of Nasdaq, or to which Nasdaq is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects the Respondent's right to take legal or factual positions in litigation or other legal proceedings in which Nasdaq is not a party.
- D. Respondent may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondent understands that it may not deny the charges or make any statement that is inconsistent with the AWC in this Statement. This Statement does not constitute factual or legal findings by Nasdaq, nor does it reflect the views of Nasdaq or its staff.

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 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 it.

Velox Clearing LLC
Respondent

By: _____

Print Name: Christopher Cook

Title: CCO

December 27, 2024

Date

Accepted by Nasdaq:

January 6, 2025

Date

Erik Wittman

Erik Wittman
Head of Enforcement
Nasdaq Enforcement Department

Signed on behalf of Nasdaq, by delegated
authority from the Director of ODA