

**Disciplinary Panel
American Stock Exchange LLC**

IN THE MATTER
OF
SCHONFELD SECURITIES, LLC

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Case No. 03-04a
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Hearing Officer – RSH
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DECISION
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August 30, 2005
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In accordance with a Stipulation of Facts and Consent to Penalty, the Disciplinary Panel Chair determined that Respondent violated Exchange Rule 320(b), as stipulated, and as a penalty imposed a censure and a \$25,000 fine.

I. Introduction

The American Stock Exchange, LLC (“Exchange”) instituted a formal disciplinary proceeding against Schonfeld Securities LLC, (“Schonfeld” or the “Firm”), a Regular Member Organization of the Exchange. The Disciplinary Panel Chair, presiding without convening a full Disciplinary Panel, pursuant to Article V, Section 1(b) of the Exchange Constitution, held a hearing on July 5, 2005, pursuant to Article V, Section 2 of the Exchange Constitution, to review a Stipulation of Facts and Consent to Penalty (“Stipulation”), which is attached as Exhibit A. The Exchange and Schonfeld entered into the Stipulation for the purposes of settling this proceeding and concluding all disciplinary actions by the Exchange against Schonfeld based upon or arising out of the facts set forth in the Stipulation.

II. Facts

Schonfeld Securities, LLC, without admitting or denying liability, stipulated to the facts set forth in the attached Stipulation. The Disciplinary Panel Chair has determined to accept the facts for purposes of this Decision, and they are incorporated herein.

III. Violations

Based upon the stipulated facts, the Disciplinary Panel Chair concludes that Schonfeld:

(1) violated Exchange Rule 320(b) by failing to have reasonable policies or procedures designed to detect and prevent registered representatives from entering multiple odd-lot orders into the firm's order entry system in an abusive manner to circumvent the round lot auction market.

IV. Penalties and Publicity

The Stipulation proposes that the Disciplinary Panel Chair impose a censure and a fine of \$25,000 on Schonfeld. During the hearing, Enforcement represented and Respondent's counsel agreed that Schonfeld had issued revised written supervisory procedures addressing the prohibition of abusive odd lot trading practices and modified their order entry system to halt the entry of prohibited odd lot orders. After considering Respondent's remedial actions, the stipulated facts and the statements of the parties, as well as the decisions cited in the Exchange's precedent memorandum, the Chair finds that the proposed penalty is appropriate under the facts and circumstances of this case, and therefore it will be imposed. The Chair further finds that the results of this disciplinary proceeding should be publicly disclosed, as provided in Rule 12 of the Exchange Rules on Disciplinary Proceedings.¹

V. Conclusion

The Disciplinary Panel Chair accepts the Stipulation of Facts and Consent to Penalty and

¹ Rule 12 exempts from publicity those cases in which the Panel finds that the offense "related solely to minor administrative requirements of the Exchange and does not materially affect the public interest or the interest of investors." That exemption does not apply to the facts of this case.

hereby imposes upon Schonfeld Securities LLC a censure and a \$25,000 fine.

FOR THE DISCIPLINARY PANEL

Rochelle S. Hall, Chair

Copies to: Christian R. Bartholomew, Esq. (*via facsimile and first class mail*)
Schonfeld Securities, LLC (*via overnight and first class mail*)
Charles Falgie, Esq. (*electronically and via first class mail*)
Arlene Collins-Day (*electronically and via first class mail*)

Disciplinary Panel
American Stock Exchange LLC

IN THE MATTER OF SCHONFELD SECURITIES, LLC	STIPULATION OF FACTS AND CONSENT TO PENALTY Case Number 03-04a
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This proceeding was instituted by the American Stock Exchange LLC (the “Exchange” or “AMEX”) against SCHONFELD SECURITIES, LLC (“Schonfeld” or the “Firm”) (CRD#23304), a Regular Member organization of the Exchange. This Stipulation of Facts and Consent to Penalty is entered into with Schonfeld pursuant to Article V, Section 2 of the Exchange Constitution in order to settle and conclude all disciplinary actions by the Exchange against Schonfeld based upon or arising out of the facts hereinafter stipulated. Schonfeld, without admitting or denying the facts, allegations and conclusions contained in this Stipulation of Facts and Consent to Penalty, hereby consents to the finding of violations of the Exchange Rules and to the imposition of the penalties hereinafter provided. Schonfeld understands that this settlement is subject to approval by an Exchange Disciplinary Panel and the Amex Adjudicatory Council and that, if so approved, shall constitute a final decision which may not be appealed by the parties. Schonfeld understands and acknowledges that the Disciplinary Panel’s decision in this matter will become part of Schonfeld’s disciplinary record, and may be considered in any future proceeding brought by the Exchange.

STIPULATED FACTS:

1.0 During the review period (“SHB”) served as the “assistant branch office manager” (“BOM”) or qualified designee for Schonfeld’s Boca Raton, Florida office. SHB’s responsibilities included performing those duties normally performed by the BOM if the BOM was not available. SHB voluntarily terminated his employment with Schonfeld on March 2, 2004 and is currently employed in the securities industry.

1.1 During the review period, GC (“GC”) was employed at Schonfeld’s Boca Raton, Florida office, serving as a Registered Representative (“RR”). At Schonfeld, GC’s duties consisted solely of trading in a propriety account over which he exercised limited buying power. Specifically, GC was given control over a small percentage of the Firm’s funds which GC used to buy and sell securities. GC voluntarily terminated his employment with Schonfeld on February 6, 2002. On information and belief, GC is currently not employed in the securities industry.

1.2 At all relevant periods herein, Exchange Rule 204 provided that:

Any order to purchase or sell a security in an amount less than the unit of trading is an odd-lot order. Such order when transmitted to an odd-lot dealer registered in such security shall be executed unless otherwise provided herein, at a price based on the price of a transaction in the round-lot market on the Floor of the Exchange, plus or minus, if any differential is charged, the amount of such differential.

1.3 During all relevant periods herein Exchange Rule 208 provided in relevant part that:

A member or member organization may not combine the orders given by several customers to buy or sell odd-lots of the same stock into a round lot order without the prior approval of all of the customers interested. When a

person gives, either for his own account, for various accounts in which he has an actual monetary interest, or for accounts over which such person is exercising investment discretion, buy or sell odd-lot orders which aggregate one or more round lots, a member or member organization shall not accept such orders for execution unless they are, as far as possible, consolidated into round lots, except that selling orders marked "long" or "short exempt" need not be so consolidated with selling orders marked "short."

- 1.4 Pursuant to Exchange Rule 205, Specialists on the Exchange are required to execute an odd-lot market order at the prevailing offer (in the case of an order to buy) or bid (in the case of an order to sell).
- 1.5 During all relevant periods herein Exchange Rules 320(b) and (c) provided in relevant part that:

(b) Each office, department or business activity of a member or member organization (including foreign incorporated branch offices) shall be under the supervision and control of the member or member organization establishing it and of the personnel delegated such authority and responsibility. The person in charge of a group of employees shall reasonably discharge his duties and obligations in connection with supervision and control of the activities of those employees related to the business of their employer including compliance with securities laws and regulations.

(c) The general partners, directors, trustees of each member organization shall provide for appropriate supervisory control and shall designate a general partner, principal executive officer, trustee to assume overall authority and responsibility for internal supervision and control of the organization and compliance with securities laws and regulations. This person shall: (1) delegate to qualified principals or employees responsibility and authority for supervision and control of each office, department or business activity, and provide for appropriate procedures of supervision and control; and (2) establish a separate system of follow-up and review to verify that the delegated authority and responsibility is being properly exercised.

ODD-LOT TRADING BY GC:

- 2.0 During the review period, stocks ABC, DEF, and GHI were listed for trading on the Exchange.

- 2.1 On November 20, 2001, GC, entered multiple odd-lot sell orders, in a Schonfeld proprietary account over which he maintained control, in the amount of eight 90 share sell orders and one 80 share sell order for ABC, which if consolidated would have resulted in a round lot order of 800 shares.
- 2.2 On November 28, 2001, GC, entered multiple odd-lot orders, for a Schonfeld proprietary account over which he maintained control, in the amount of two 90 share sell orders and one 20 share sell order for stock DEF, which if consolidated would have resulted in a round lot order of 200 shares. Soon after selling the 200 shares in odd-lots, GC purchased shares of DEF through one round lot transaction of 100 shares and two odd-lot transactions of 99 shares and 1 share trades.
- 2.3 GC engaged in additional buying and selling odd-lot activity in DEF on November 30, 2001, December 13, 2001, December 14, 2001, December 19, 2001, January 18, 2002, and January 25, 2002. In each of the transactions where GC bought and sold DEF, GC alternated buying and selling in round lot and odd-lot orders. GC executed odd-lot orders in the amount of 99, 90, 30, 20, 10 and 1 lot share trades.
- 2.4 On December 10, 2001 and December 11, 2001, GC, entered buy and sell orders for a Schonfeld proprietary account over which he maintained control, in round lots and multiple odd-lots for stock GHI in the amounts of 99, 90, 20, 10 and 1 share trades, which if consolidated would have resulted in a round lot order of 600 shares.
- 2.5 By entering multiple odd-lot orders for ABC, DEF, and GHI, GC circumvented the execution of round lot orders which would have appeared on the Exchange

tape, thereby failing to publicly reflect actual market interest by GC in ABC, DEF, and GHI. Additionally, by entering multiple odd-lot orders rather than a round lot order, the odd-lot order(s) were not represented to the trading crowd, thereby depriving public customers the opportunity for price improvement in the auction market for ABC, DEF, and GHI since only the Specialist can be the contra party to odd-lot trades.

- 2.6 By entering multiple odd-lot orders for ABC, DEF, and GHI, GC compelled the Specialist to execute the multiple odd-lot orders at the prevailing bid/offer in ABC, DEF, and GHI.

SUPERVISORY FAILURES:

- 3.0 During the review period, Schonfeld's acting branch office manager, SHB, became aware of GC's violative odd-lot trading, and directed GC to cease and desist from such activities. Schonfeld took no further action against GC, neither as to the aforesaid violative odd-lot trading, nor did the firm take further action to prevent other future violations firmwide until March 12, 2002.
- 3.1 During the review period, Schonfeld's compliance and supervisory procedures ("WSPs") did not specifically address policies and procedures concerning surveillance for possible violations of Exchange Rule 208, and, in particular, for abusive odd-lot trading practices.
- 3.2 On or about March 12, 2002, approximately 1 month subsequent to GC's voluntarily termination of his employment with Schonfeld, the Firm issued revised WSPs which specifically addressed the prohibition of abusive odd-lot

trading practices in violation of Exchange Rule 208, as well as to provide for supervisory procedures designed to detect and prevent violative odd-lot trading activity. On or about March 22, 2002, Schonfeld modified its order entry system by implementing a system block designed to prohibit the entry of potentially violative odd-lot orders.

CONCLUSION:

By reason of the foregoing Stipulated Facts, an Exchange Disciplinary Panel may conclude that:

- 4.0 Schonfeld violated Exchange Rule 320(b) in that the firm failed to have reasonable policies or procedures in place designed to detect and prevent RRs from entering multiple odd-lot orders rather than one round lot order into the firm's order entry system in an abusive manner to circumvent the round lot auction market, as described in above paragraphs 2.1 through 3.2.

DISCIPLINARY ACTION:

A Disciplinary Panel may impose the following penalties upon Schonfeld:

- a) A censure; and,
- b) a \$25,000 fine.

ON BEHALF OF:
AMERICAN STOCK EXCHANGE LLC

By: _____

David Rosenstein
Vice-President and Chief Counsel
Enforcement Department
NASD Amex Regulation Division

Agreed to this _____ day of _____, 2005.
