EDGX EXCHANGE, INC.

Department of Enforcement, Complainant, v. Genesis Securities, LLC (CRD No. 46992), and William C. Yeh (CRD No. 2688332), Respondents.	Disciplinary Proceeding No. 2009021082504 Hearing Officer – LOM **DECISION ACCEPTING OFFER OF SETTLEMENT** Date: May 14, 2012

INTRODUCTION

Disciplinary Proceeding No. 2009021082504 was filed on February 6, 2012, by the Department of Enforcement of the Financial Industry Regulatory Authority on behalf of EDGX Exchange, Inc. (EDGX Exchange or Exchange) (Complainant). Respondents Genesis Securities, LLC (Genesis or the Firm) and William C. Yeh (Yeh) (collectively, the Respondents) submitted an Offer of Settlement (Offer) to Complainant dated May 3, 2012. Pursuant to Rule 8.8 of the Rules of EDGX Exchange, Inc. (EDGX Rules), the Complainant and the Chief Regulatory Officer (CRO) of the Exchange have accepted the uncontested Offer. Accordingly, this Decision now is issued pursuant to EDGX Rule 8.8(a). The findings, conclusions and sanctions set forth in this Decision are those stated in the Offer as accepted by the Complainant and approved by the CRO.

Under the terms of the Offer, Respondents have consented, without admitting or denying the allegations of the Statement of Charges, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of the EDGX Exchange, or to which the Exchange is a party, to the entry of findings and violations consistent with the allegations of the Statement of Charges, and to the imposition of the sanctions set forth below, and fully understand that this Decision will become part of Respondents' permanent disciplinary records and may be considered in any future actions brought by the Exchange.

BACKGROUND

Genesis Securities, LLC, a broker-dealer based in New York City, and William C. Yeh, its majority owner, President, and CEO, offered master account arrangements to Genesis customers which, in turn, recruited their own customers and opened separate accounts within the master accounts (called "subaccounts") so that these customers could engage in high-volume day trading. Genesis and Yeh, however, failed to carry out basic supervisory obligations, and Genesis's supervisory system was not tailored to Genesis's business and was not reasonably designed to achieve compliance with the requirements of the EDGX Rules or of the federal securities laws.

By 2010, Genesis had established approximately 300 master accounts containing approximately 3,000 subaccounts. Some companies and individuals had multiple master accounts and subaccounts. Genesis and Yeh also managed a master account for Regency Capital Limited. The subaccounts used a proprietary trading platform offered by Genesis that allowed direct access to different securities exchanges in the United States, including the EDGX Exchange.

Genesis and Yeh ignored their supervisory obligations to monitor the trading activity that occurred through the master accounts and subaccounts. Genesis and Yeh did nothing to curtail suspicious and potentially manipulative trading through the master accounts and subaccounts at the firm, even as regulators sent dozens of inquiries to Genesis about that trading.

Genesis's supervisory systems were not reasonably designed to achieve compliance with the requirements of the EDGX Rules or of the federal securities laws. The systems had numerous deficiencies, ranging from written supervisory procedures that were not applicable to Genesis's high-frequency and day trading business model to the opening of accounts for persons from high-risk jurisdictions without basic, required account information.

Genesis also failed to retain e-mail related to the firm's business sent and received by 14 proprietary traders, thereby precluding any supervisor's review of the traders' communications with the public.

By failing to establish, maintain and enforce supervisory systems and procedures that were reasonably designed to achieve compliance with the requirements of the EDGX rules and the federal securities laws, Genesis and Yeh violated EDGX Rules 5.1, 5.2, 5.3, and 5.4. By virtue of those violations, Genesis and Yeh also violated EDGX Rules 3.1 and 3.2.

RESPONDENTS

Genesis Securities, LLC, CRD# 46992, became a member of the EDGX Exchange in May 2010. Genesis requested termination of its EDGX Exchange membership in July 2011, but that termination has not been approved. Between 1999 and February 2012, Genesis maintained offices in New York City with as many as 86 registered individuals. During that period, Genesis Securities was owned by Genesis Capital Group, of which 80 percent was owned by William C. Yeh. Genesis filed a Uniform Request Withdrawal From Broker-Dealer Registration (Form

BDW) on December 15, 2011, and filed an amended Form BDW on December 21, 2011. Genesis's request for withdrawal from broker-dealer registration became effective on February 13, 2012.

Pursuant to Article X, Section 2 of the EDGX Exchange's By-Laws, the EDGX Exchange retains jurisdiction over Genesis because Genesis is currently an EDGX Exchange Member.

William Chingwen Yeh, CRD# 2688332, is the President and CEO of Genesis Securities and has held those positions since he created Genesis in 1999.

As CEO of Genesis, an EDGX Exchange Member, Yeh is a Person Associated with a Member (EDGX Rule 1.5(o)) and is therefore subject to the EDGX Exchange's disciplinary jurisdiction (EDGX Rule 8.1(a)).

FINDINGS AND CONCLUSIONS

It has been determined that the Offer be accepted and that findings be made as follows:

A. The Laser Trading Platform and Sogotrade

Genesis used a proprietary trading platform called Laser that offered high-frequency and day traders direct access to a number of different securities exchanges in the United States. The Laser platform generated a substantial majority of Genesis's total revenues. In 2007, Genesis reported that it executed approximately two to four percent of the daily trading volume on the NASDAQ exchange and between one and one-and-a-half percent of the daily trading volume on the NYSE Amex exchange. In 2010, shortly before Genesis started to wind down its Laser business, Genesis customers typically traded between 50 and 60 million shares a day.

The Laser trading platform is currently licensed to high-frequency and day traders and broker-dealers by Singularity Technology Solutions, LLC, which obtained the technology in November 2010, after the conduct at issue in this case.

In addition to Laser, Genesis operated a separate division called Sogotrade until mid-2011. Yeh created Sogotrade in 2006 as an on-line, low-commission option for foreign retail customers. Sogotrade was operated as a separate retail division of Genesis. Sogotrade did not provide its customers with direct market access and did not offer master/subaccount arrangements. Customers opened Sogotrade accounts directly with Genesis through the Internet.

B. Master Accounts at Genesis

Genesis actively recruited customers to open accounts and trade securities using its Laser software. Approximately 300 of these customers opened master accounts at Genesis.

Genesis and Yeh designed the master accounts so master account holders could create subaccounts within the master account and permit trading in those subaccounts.

The master account holders often recruited day traders as customers to trade in subaccounts, using the Internet to attract the day-trading customers by touting the capabilities of the Laser trading platform. Such customers used subaccounts to engage in active day trading and high frequency trading using the Laser platform, purchasing and selling the same security on the same day, and doing so more than four times within five business days.

Subaccounts made payments to the master accounts, and Genesis credited the subaccounts with funds at the direction of the master accounts. Subaccounts also withdrew funds from the master accounts, and Genesis debited the subaccounts for those withdrawals.

C. Genesis and Yeh Operated a Master Account

In addition to establishing and maintaining master accounts for customers, Genesis and Yeh managed a master account for Regency Capital Limited.

In March 2007, Yeh formed Regency Capital Limited over the internet as a company incorporated in Anguilla. Regency Capital was intended by Yeh to be used only by foreign traders.

Yeh managed the operations of Regency Capital, with the assistance of certain Genesis employees. Neither Yeh's wife nor his uncle in Taiwan played any role in managing the account. Yeh signed documents on behalf of Regency Capital using a stamp that bore his uncle's signature.

By 2010, Regency Capital had approximately 184 subaccounts, managed by approximately 12 group leaders. Those accounts engaged in active day trading and high frequency trading using the Laser platform, purchasing and selling the same security on the same day, and doing so more than four times within five business days.

Yeh closed the Regency Capital account at Genesis on September 16, 2010 because of FINRA's investigation. When Yeh closed the account, it had a balance of approximately $1.8 million. Yeh transferred that balance along with approximately $200,000 from the Regency Capital offshore bank account to CTW's account at Genesis. The total value of CTW's Genesis account on September 30, 2010 was approximately $11.4 million.

D. Supervisory Failures

Between January 1, 2006 and September 30, 2010, Genesis's policies, procedures, and internal controls were not reasonably designed to achieve compliance with EDGX Rules or the federal securities laws and regulations.

Genesis's written supervisory procedures ("WSPs") set forth processes for customer identification and verification; for detecting and closing foreign correspondent accounts and foreign shell banks; for identification of "private banking" accounts; and for monitoring accounts for suspicious activity. Genesis's WSPs, however, were not tailored to the firm's business and, therefore, could not reasonably have been expected to achieve compliance with EDGX Rules or the federal securities laws and regulations.

Despite the fact that many of the customers on the Laser and Sogotrade platforms were day traders from foreign jurisdictions, Genesis's WSPs did not address how to monitor such accounts for suspicious activity, and Genesis inadequately monitored the trading conducted by customers, including Regency Capital, on the Laser platform. Instead of reviewing trading for potentially manipulative activity, Genesis merely monitored trading to ensure that accounts did not exceed their trading limits (measured in dollars), their loss limits (measured in dollars), and their position limits (measured in shares). Moreover, the two account representatives who monitored the trading were paid based upon the level of the customer trading, giving them an interest in trading activity being as extensive as possible.

Genesis failed to monitor effectively for potential wash trading—the practice of simultaneously buying and selling an issuer's stock at the same price to give the appearance of trading activity. While the firm generated an exception report in 2008 for potential wash trades, the wash sale report covered only those trades from the same subaccount on the same exchange. The report did not capture trades placed by users with multiple subaccounts among those subaccounts, trades placed by the same subaccount on different exchanges, or trades placed by users of different subaccounts with each other. In addition, the exception report did not cover transactions executed on the NYSE.

Genesis failed to monitor effectively for potentially manipulative odd lot trading. While Genesis implemented an exception report for accounts that traded through the Laser platform for odd lot trading in November 2008, the report was generated from trading only on the NYSE Arca exchange until 2010, when the report also covered trading on the BATS exchange. Additionally, the report did not detect odd lot orders that were initially entered on one exchange that were subsequently routed to NYSE Arca, NSX, or BATS.

Genesis account representatives were expected to review the exceptions generated from each report and request explanations regarding the trading activity from the customer for certain transactions. After receiving the explanation from the customer, the account representative had the ability to warn or suspend the trading privileges of the trader. However, the account representatives were not required to document their reviews and were not given any written guidance about how to conduct their reviews or when they should warn traders and when they should suspend trading privileges for a trader. Genesis conducted no second-level review to determine if the account representatives were actually discharging their duties. Genesis also did not track in any formal manner the instances when a trader was suspended from trading.

During the period from August 2007 to January 2010, Genesis conducted no customer-identification process for most of the subaccounts notwithstanding the fact that it knew that many of the traders for the subaccounts were from countries of heightened concern. Genesis failed to establish procedures to obtain additional information about such subaccounts in order to perform effective monitoring in light of the location of the subaccounts traders and heightened risk. Beginning in approximately February 2010, Genesis began to require identification from subaccount traders, but continued to fail to conduct the required heightened review.

Not only did Genesis fail to perform heightened review in the account-opening process for Sogotrade or Laser account holders from high-risk jurisdictions or who otherwise posed heightened risks, Genesis also failed to perform heightened monitoring of the activity in those accounts. On its Sogotrade platform, Genesis opened 26 accounts for customers in Nigeria, four accounts for customers in Pakistan, and one account for a customer in Afghanistan without heightened review in the account-opening process, and Genesis failed to perform heightened monitoring of the activity in those accounts after they were opened. Another Genesis customer, DG, who was barred by the SEC for fraud, opened at least two master accounts and had subaccounts with other master accounts without any heightened review by Genesis, and Genesis failed to conduct any heightened monitoring of the activity in his accounts. In addition, for approximately 26 Sogotrade accounts, Genesis failed to learn the essential facts about the customers, such as the source of funds for the account, and approved incomplete applications for those accounts.

Genesis used a foreign finder to find customers but failed to conduct due diligence on the foreign finder. Genesis also failed to establish WSPs addressing its use of the foreign finder or verification of the identity of the customers obtained through the foreign finder.

Genesis did not adequately monitor wire activity for potential money laundering. The firm's WSPs stated that the firm would review exception reports to identify suspicious wire activity, but the firm reviewed no such exception reports for wires.

Moreover, Genesis ignored extensive red flags suggesting that its accounts were engaging in manipulative or otherwise unlawful activity. Genesis received numerous inquiries from regulators about potentially suspicious trading by its customers, including Regency Capital. Between November 28, 2007 and July 7, 2010, Genesis received approximately 36 separate inquiries from FINRA's Market Regulation Department and the Market Surveillance section of NYSE Arca. The inquiries related to trading in approximately 30 separate master accounts at Genesis. Several of those master accounts had multiple subaccounts identified in the FINRA and NYSE inquiries; Regency Capital, for example, had eight accounts identified in the inquiries. Additionally, multiple accounts were identified as the subject of more than 10 regulatory inquiries each; one account generated approximately 21 regulatory inquiries.

Genesis did not attempt to determine whether the trading activity that resulted in regulatory inquiries violated EDGX Rules or the securities laws. Genesis also took no steps to understand the trading activity of the subaccount traders who provided written statements in response to FINRA's inquiries—even when the traders' written statements to Genesis suggested that they were engaged in market manipulation. Genesis did not review trading outside of responding to FINRA's inquiries, even when an account appeared on multiple FINRA inquiries, or when multiple responses provided the same explanation for the trading at issue.

Despite receiving numerous regulatory inquiries and the fact that several subaccounts were repeatedly identified in those inquiries, Genesis did not place any of the accounts under heightened supervision. Genesis also did not track the activity identified in regulatory inquires to determine if any accounts or types of activity were the focus of multiple reviews.

FIRST CAUSE OF ACTION
VIOLATIONS OF THE EXCHANGE'S SUPERVISION RULES
GENESIS SECURITIES, LLC
EDGX RULES 5.1, 5.2, 5.3, 5.4, 3.1, AND 3.2

Genesis's supervisory systems and procedures were deficient in numerous ways. Those deficiencies included the following:

- The firm failed to adequately implement "Know Your Customer" procedures;

- The firm did not provide any sufficient supervisory review to trading by representatives who could see the trading of their clients in real-time;
- The firm failed to document that background checks were conducted on accountholders;
- The firm approved accounts that did not contain all of the required information;
- The firm did not conduct adequate reviews for potentially manipulative trading activity;
- The firm did not subject to heightened review accounts that posed heightened risk, either because of the accountholder's regulatory history, country of origin employment status, or because of trading in the account that was the subject of regulatory inquiries;
- The firm did not monitor its accounts for "politically exposed persons," as that term is used in the Foreign Corrupt Practices Act;
- The firm allowed account managers to review and approve transactions for accounts when the managers' compensation was directly tied to the level of trading activity in the account;
- The firm had approximately fifteen so-called "proprietary traders" in various unregistered locations but had no designated supervisors; and
- Genesis did not monitor or retain e-mail for fourteen of the fifteen traders.

Genesis's WSPs were also not tailored to the firm's business. For example, the firm listed as red flags certain items, such as churning, that did not pertain to Genesis, which did not solicit trades or provide its representatives with discretionary authority over customer accounts. The firm's WSPs during this time period also failed to address the master/subaccount structure of many of the firm's customers, or that Yeh was operating the Regency Capital master account. The WSPs also did not address foreign finders, although Genesis used at least one foreign finder. The WSPs did not set forth steps that the firm's representatives should take when reviewing any of the firm's exception reports, or when reviewing the firm's transactions for suspicious activity. Finally, the WSPs set forth actions that a representative could take against an account that engaged in suspicious activity, but did not specify when such actions would be appropriate or necessary.

Genesis violated EDGX Rules 5.1, 5.2, 5.3, and 5.4 by failing to have a supervisory system reasonably designed to achieve compliance with the securities laws and EDGX Rules and by failing to establish, maintain and enforce written procedures to supervise the types of business in which it engages and to supervise the activities of its registered representatives. By virtue of these violations, Genesis also violated EDGX Rules 3.1 and 3.2.

SECOND CAUSE OF ACTION
VIOLATIONS OF THE EXCHANGE'S SUPERVISION RULE
WILLIAM C. YEH
EDGX RULES 5.1, 5.2, 5.3, 5.4, AND 3.2

Yeh was ultimately responsible for Genesis's supervisory system as the firm's President since 1999 and was closely involved in all aspects of the day-to-day operations of the firm. During this time, as described above, the firm ignored many of its most important supervisory obligations and committed multiple, significant rule violations. In addition, Yeh had individual supervisory obligations that he failed to carry out.

Yeh established the master-subaccount structure at Genesis, yet he failed to take adequate steps to ensure that Genesis had a supervisory system and WSPs tailored to that business.

He directly supervised the sales representatives for accounts using the Laser system, yet took no action to meaningfully review their trading. He failed to do so even though those representatives could see the trading of their clients.

By virtue of his supervisory failures, Yeh violated EDGX Rules 5.1, 5.2, 5.3, and 5.4. By virtue of these violations, Yeh also violated EDGX Rules 3.1 and 3.2.

Based on these considerations, the sanctions hereby imposed by the acceptance of the Offer are in the public interest, are sufficiently remedial to deter Respondent from any future misconduct, and represent a proper discharge by the Exchange, of its regulatory responsibility under the Securities Exchange Act of 1934.

SANCTIONS

It is ordered that the following sanctions be imposed:

1. Yeh is barred from associating with any EDGX Exchange member in any capacity; and
2. Genesis is expelled from membership with EDGX Exchange.

The sanctions herein shall be effective on a date set by the EDGX Exchange.

SO ORDERED.

EDGX Exchange, Inc.

Thomas McManus
Chief Compliance and Regulatory Officer
EDGX Exchange Inc.
545 Washington Boulevard, 6th Fl.
Jersey City, NJ 07310
(Tel) (201) 942-8200
(Fax) (201) 942-8252