

FINANCIAL INDUSTRY REGULATORY AUTHORITY

In the Matter of the
Continued Membership
of
G-Trade Services LLC

Notice Pursuant to
Rule 19h-1 of the
Securities Exchange Act
of 1934

SD-2024

Date: February 26, 2015

I. Introduction

On February 4, 2014, G-Trade Services LLC (“G-Trade” or “Firm”) submitted a Membership Continuance Application (“MC-400A” or “Application”) with FINRA’s Department of Registration and Disclosure.¹ The Application seeks to permit the Firm, a FINRA member subject to a statutory disqualification, to continue in membership with FINRA notwithstanding its disqualification. A hearing was not held in this matter; rather, pursuant to FINRA Rule 9523(b), FINRA is filing this Notice pursuant to Rule 19h-1 of the Securities Exchange Act of 1934 (“Exchange Act” or “SEA”).

II. The Statutorily Disqualifying Event

G-Trade is subject to a statutory disqualification based on an Order Instituting Administrative and Cease-And-Desist Proceedings issued by the United States Securities and Exchange Commission (“SEC” or “the Commission”) dated December 18, 2013 (“the Order”), in the matter of G-Trade Services LLC (“G-Trade”), ConvergEx Global Markets Limited and ConvergEx Execution Solutions LLC (“CES”) (collectively, “Respondents”).² The Order found that G-Trade willfully violated Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, which prohibits fraudulent conduct in connection with the purchase or sale of securities. Among other things, the Order found that the Respondents, wholly owned subsidiaries of ConvergEx Group, LLC, engaged in a fraudulent scheme to conceal Respondents’ practice of routing certain global trading

¹See the MC-400A Application filed with FINRA by G-Trade on February 4, 2014, as well as related documents (attached as Exhibit 1).

²See the SEC’s Order dated December 18, 2013, in the matter of G-Trade, et al. (attached as Exhibit 2).

and transition management customer orders to an offshore affiliate in order to charge undisclosed mark-ups and mark-downs on those orders. Further, the Order found that CES and G-Trade willfully violated Section 15(c)(1) of the Exchange Act, which prohibits fraudulent conduct by a broker-dealer in effecting, inducing or attempting to induce any securities transactions. As a result of their misconduct, the Respondents were ordered to cease and desist from committing or causing any violations and future violations of various provisions of the Exchange Act; CES and G-Trade were censured; and the Respondents were required to pay, jointly and severally, disgorgement of \$79,802,448, prejudgment interest of \$7,621,981, and a civil penalty of \$20,000,000.³ CES and G-Trade have made full payments of this amount.⁴ In addition, G-Trade and CES agreed to a number of undertakings, which are detailed in the Order.⁵ In one of the undertakings, the Firm was required to retain an independent consultant to complete a review and prepare a report of its recommendations. That report was completed on May 15, 2014.⁶ The independent consultant's report resulted in twenty-two recommendations and the Firm has implemented all of the recommendations.⁷ The final, unfinished undertaking requires the Firm to certify in writing, to SEC staff, in the second year following the issuance of the Order, that it has established and "continued to maintain policies, practices and procedures consistent with the findings of the Order."⁸

III. Background Information

A. The Firm

G-Trade is based in New York, New York and has been a FINRA member since October 2006.⁹ The Firm has one branch office, which is also designated as an Office of Supervisory Jurisdiction ("OSJ"). The Firm employs 22 registered representatives, three

³*Id.*

⁴The funds were placed in an escrow account administered by JP Morgan Chase ("JP Morgan") and can only be distributed by JP Morgan upon written authorization from the SEC. The SEC's Division of Enforcement has requested a third extension, until March 27, 2015, for entry of an order approving or disapproving the Proposed Plan of Distribution. *See* SEC Extension Order, dated December 9, 2014 (attached as Exhibit 3).

⁵ *See* Exhibit 2.

⁶ *See* the report of the independent consultant, the Independent Assessment of the ConvergEx Group Ethics & Compliance Program & Culture, dated May 15, 2014 (attached as Exhibit 4).

⁷*See* letter from Steven P. Heineman and Robert Virgilio, of ConvergEx, to Jennifer S. Leete, of the SEC, wherein the Firm certifies that it has adopted and implemented the remaining recommendations, dated December 31, 2014 (attached as Exhibit 5).

⁸ The Order was issued on December 18, 2013; thus, the Firm is expected to certify by December 18, 2015. *See* Exhibit 2.

⁹*See* the Firm's Organization Registration Status from the records of Central Registration Depository ("CRD") (attached as Exhibit 6).

registered principals and 50 employees. G-Trade is engaged in the following types of businesses: broker or dealer retailing corporate equity securities over the counter; and non-exchange member arranging for transactions in listed securities by exchange member.¹⁰ G-Trade is not a member of any other self-regulatory organization.

B. Recent Routine Examinations

The 2012 FINOP examination resulted in a Cautionary Action.¹¹ From this examination, G-Trade was cited for failing to comply with FINRA Rule 3010 (Supervision); FINRA Rule 4522 (Periodic Security Counts); NYSE Rule 342 (Offices-Approval, Supervision and Control); SEA Rule 15c3-1(c)(2)(iv)/02 (Suspense Accounts); and SEA Rule 17a-3 (Records to Be Made by Certain Exchange Members, Brokers and Dealers). The exceptions related to G-Trade's failure to deliver a security and incorrectly reporting customer balances on their General Ledger; not performing a reconciliation of clearance account positions; and inaccurately reporting cash suspense balances for one account in its FOCUS Report. The Firm made the necessary adjustments for these errors; the adjustments did not result in a material impact to the Firm's Excess Net Capital.

The 2011 Sales Practice examination also resulted in a Cautionary Action.¹² From this examination, G-Trade was cited for not being in compliance with: SEA Rule 17a-3 (Records to be Made By Certain Exchange Members, Brokers and Dealers); NASD Rule 3110(a) (Books & Records Requirements); NASD Rule 3110(a) (Books & Records Requirements); NASD Rule 3010(d)(2) (Review of Correspondence); and NASD Rule 2211 (Institutional Sales Material and Correspondence).

FINRA Regulatory Action Against G-Trade

In October 2013, the Firm consented to a Minor Rule Violation ("MRV").¹³ In the MRV, the Firm was cited for a violation of FINRA Rule 7450(a) because it failed to comply with the Order Audit Trail System ("OATS") reporting requirements during the period of October 1, 2011 through June 30, 2012 (the "review period"). As a result of the violation, G-Trade was fined \$2,500.

¹⁰See Types of Business for the Firm (attached as Exhibit 7).

¹¹See the Examination Disposition Letter, dated July 13, 2012; Report on the Examination, Examination Number 20120302947, dated June 13, 2012; and the Firm's response, dated July 10, 2012 (all attached as Exhibit 8).

¹²See the Examination Disposition Letter, dated October 6, 2011; Report on the Examination, Examination Number 201102252781, dated September 1, 2011; and the Firm's response, dated September 28, 2011 (collectively attached as Exhibit 9). G-Trade is on a 4-year cycle for Sales Practice examinations. The next Sales Practice examination is scheduled to take place in 2015.

¹³See FINRA MRV Violation Letter, No. 20120352315, accepted by FINRA on November 13, 2013 (attached as Exhibit 10).

The Department is not aware of any other complaints, disciplinary proceedings, arbitrations, or regulatory actions pending against G-Trade.¹⁴

IV. The Firm's Proposed Continued Membership with FINRA and the Supervisory Plan

Notwithstanding its disqualification, G-Trade seeks to continue in membership with FINRA. In addition to the independent consultant's recommendations, the Firm has represented that, among other things, it has voluntarily taken the following measures:¹⁵

- It's Executive Management Committee now includes an ethics/compliance review at least quarterly;
- It is now explicit that the CCO has a direct reporting line to the chair of the Audit and Risk Committee;
- There is now a formal process for the Human Resources, Legal and Compliance Departments to collectively review any instances of employee misconduct;
- Departing employees are encouraged to participate in an exit interview, and the Human Resources Department has developed a list of exit interview questions that focus on ethics and compliance issues;
- The Firm has chosen a new vendor to manage its former "hotline," which has been rebranded as a "Help- Line." Calls are routed to a third party vendor, rather than the Human Resources Department;
- Compliance personnel now routinely receive profit and loss information on the businesses they support in order to facilitate more risk-based monitoring;
- Best Execution training has been held for IT personnel;
- A comprehensive robust communication and training plan has been developed and implemented; and
- A Mission and Values statement has been developed and communicated to employees.

¹⁴While not a pending regulatory matter, there is a pending civil action against the Firm involving claims of violations of the Employee Retirement Income Security Act ("ERISA").

¹⁵See letters from John Faust, of WilmerHale, to Lorraine Lee-Stepney, of FINRA, dated December 18, 2014 and January 9, 2015 (both attached as Exhibit 11).

V. Discussion

After reviewing the record in this matter (including the above representations by the Firm), FINRA approves the Firm's request to continue in membership in FINRA, subject to the terms and conditions set forth below.

In evaluating this Application, FINRA assessed whether the Firm has demonstrated that its continued membership is in the investing public's interest and does not create an unreasonable risk of harm to investors or the markets (see FINRA By-Laws, Art. 3, Sec. 3(d)). Factors that bear on FINRA's assessment include the fact that the events leading to the Firm's disqualification concluded in 2011, the nature and gravity of the statutorily disqualifying misconduct, the restrictions imposed on the Firm, and whether there has been any intervening misconduct.

As stated earlier, the Firm has represented that it has already undertaken many steps, both before and after the imposition of the SEC's Order, to remedy the violations. In addition to implementing all of the recommendations from the independent consultant's report¹⁶, the Firm has also represented that its parent terminated all employees who engaged in the misconduct; terminated its Global Transition Management business in January 2014; implemented procedures for enhanced supervision of emails; revised its existing best execution procedures; enhanced its disclosures regarding compensation practices, (including in customer agreements); and hired an outside ethics and compliance consultant to conduct an assessment of its parent, ConvergEx Group LLC's, ethics and compliance program.¹⁷

Given the special procedures set forth below, FINRA believes that the Firm has met its burden, and that its continued membership in FINRA will not create an unreasonable risk of harm to the market or investors:¹⁸

1. The Firm must comply with all of the undertakings from the Commission's Order, and it must evidence its compliance in writing, to FINRA's Regulatory Operations Department, Attn: Statutory Disqualification Manager, no later than five business days after the designated event has occurred;
2. It will be the responsibility of G-Trade staff to notify FINRA, in writing, when it has complied with the final undertaking from the Commission's Order; and

¹⁶See Exhibit 5.

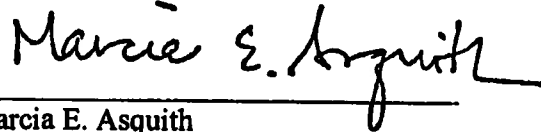
¹⁷See letter from John Faust, of WilmerHale, to Lorraine Lee-Stepney of FINRA, indicating the titles of the employees that were terminated, dated November 25, 2014 (attached as Exhibit 12).

¹⁸See the letter from Lorraine Lee-Stepney of FINRA, to John Faust, wherein the Firm agrees to its plan of heightened supervision, dated January 20, 2015 (attached as Exhibit 13).

3. The Firm has ceased the routing of U.S. securities to any offshore affiliates. If the Firm were to seek to reengage in this practice or engage in this line of business, it must first file an application as provided for in NASD Rule 1017 and obtain FINRA's approval.

FINRA certifies that the Firm meets all qualification requirements. G-Trade is not a member of any other SRO. In conformity with the provisions of SEA Rule 19h-1, the continued membership of the Firm will become effective within 30 days of the receipt of this notice by the Commission, unless otherwise notified by the Commission.

On Behalf of FINRA



Marcia E. Asquith
Senior Vice President and Corporate
Secretary