

**FINANCIAL INDUSTRY REGULATORY AUTHORITY  
OFFICE OF HEARING OFFICERS**

Department of Enforcement,

Complainant,

v.

Genesis Securities, LLC  
(CRD No. 46992),

and

William C. Yeh  
(CRD No. 2688332),

Respondents.

Disciplinary Proceeding  
No. 2009021082501

Hearing Officer – LOM

**ORDER ACCEPTING OFFER  
OF SETTLEMENT**

Date:

*May 15, 2012*

**INTRODUCTION**

Disciplinary Proceeding No. 2009021082501 was filed on February 6, 2012, by the Department of Enforcement of the Financial Industry Regulatory Authority (FINRA) (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 FINRA Rule 9270(e), the Complainant and the National Adjudicatory Council (NAC), a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs (ODA) have accepted the uncontested Offer. Accordingly, this Order now is issued pursuant to FINRA Rule 9270(e)(3). The findings, conclusions and sanctions set forth in this Order are those stated in the Offer as accepted by the Complainant and approved by the NAC.

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

### **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 so they could operate as unregistered broker-dealers. Numerous master account holders 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. The subaccounts used a proprietary trading platform offered by Genesis that allowed direct access to different securities exchanges in the United States. The master accounts charged the subaccounts commissions for their trading activity. By charging those commissions, the master account holders made substantial profits over the commissions and fees they paid to Genesis. In addition to providing a trading system and other resources, Genesis tracked commissions, profit-and-losses, deposits and withdrawals for the subaccounts, and assisted the master accounts in establishing buying power and trade limits for the subaccounts.

Genesis and Yeh managed two master accounts that operated as unregistered broker-dealers. Those master accounts were Regency Capital Limited and RJ Phoenix, LLC. Genesis and Yeh recruited traders and trading groups to trade through the Regency Capital and RJ

Phoenix subaccounts, negotiated commission rates to be paid by the subaccounts to Regency Capital and RJ Phoenix, accepted deposits of funds from the subaccount traders, and established “buying power” for the subaccounts.

Genesis received approximately \$1.8 million in commissions from trading in the Regency Capital account between April 2007 and September 2010, and approximately \$4 million in commissions from trading in the RJ Phoenix account between January 2006 and June 2007.

In addition, 17 other master accounts at Genesis were operated as unregistered broker-dealers. Genesis and Yeh aided and abetted the operation of these unregistered broker-dealers by knowingly providing substantial assistance to them.

Genesis received approximately \$7.2 million in commissions from trading in the 17 *master accounts from August 1, 2007 through August 31, 2010.*

In addition to operating unregistered broker-dealers and aiding and abetting the operation of unregistered broker-dealers, Genesis and Yeh permitted the subaccounts of the master accounts to trade as pattern day traders without maintaining the required equity of \$25,000 per account. Genesis and Yeh also permitted the subaccounts to engage in day trading in amounts in excess of four times the accounts’ maintenance margin excess.

Genesis and Yeh ignored their obligations to monitor the trading activity that occurred through the master accounts and subaccounts. Genesis and Yeh failed to monitor for or detect suspicious trading, even as regulators sent dozens of inquiries to Genesis about that trading. Moreover, they did nothing to curtail suspicious and potentially manipulative trading through the master accounts and subaccounts at the firm, and they also conducted little or no background checks on the traders for the subaccounts until February 2010.

Genesis’s supervisory systems were not reasonably designed to achieve compliance with

the requirements of FINRA rules or NASD 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 employed by Genesis.

By operating the Regency Capital and RJ Phoenix master accounts as unregistered broker-dealers, Genesis and Yeh willfully violated Section 15(a) of the Securities Exchange Act of 1934 and, by virtue of those violations, violated NASD Rule 2110 and FINRA Rule 2010.<sup>1</sup>

By providing substantial assistance to those master accounts operating as unregistered broker-dealers, Genesis and Yeh willfully aided and abetted violations of Section 15(a) of the Securities Exchange Act of 1934 and thereby violated NASD Rule 2110 and FINRA Rule 2010.

By allowing subaccounts to trade as pattern day traders without maintaining the required equity of \$25,000 per account and in excess of four times the accounts' maintenance margin excess, Genesis and Yeh violated NASD Rule 2520. By virtue of these violations, Genesis and Yeh violated NASD Rule 2110 and FINRA Rule 2010.

In failing to monitor for suspicious trading activity in the master accounts and subaccounts, Genesis and Yeh failed to establish and implement policies and procedures that could reasonably be expected to detect and cause the reporting of suspicious activity, and the Respondents failed to establish and implement policies, procedures, and internal controls reasonably designed to achieve compliance with the Bank Secrecy Act and the implementing regulations thereunder. Genesis and Yeh therefore violated NASD Rule 3011 (from January 1,

2006 to December 31, 2009) and FINRA Rule 3310 (from January 1, 2010 to September 30, 2010). By virtue of these violations, Genesis and Yeh violated NASD Rule 2110 and FINRA Rule 2010.

By failing to establish, maintain, and enforce supervisory systems and procedures that were reasonably designed to achieve compliance with the requirements of FINRA rules, NASD rules, and the federal securities laws, Genesis and Yeh violated NASD Rule 3010. By virtue of those violations, Genesis and Yeh also violated NASD Rule 2110 and FINRA Rule 2010.

By failing to retain e-mail related to the firm's business, Genesis violated Rule 17a-4 under the Securities Exchange Act of 1934 and NASD Rule 3110. By virtue of those violations, Genesis also violated NASD Rule 2110 and FINRA Rule 2010.

By withdrawing \$5.4 million of equity capital in September 2011 without obtaining FINRA's prior written consent for the withdrawal, Genesis violated FINRA Rule 4110. By virtue of that violation, Genesis also violated FINRA Rule 2010.

#### RESPONDENTS

**Genesis Securities, LLC**, CRD# 46992, registered with FINRA<sup>2</sup> in 1999. 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

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<sup>1</sup> Effective December 15, 2008, NASD Rule 2110 was replaced by FINRA Rule 2010. The text of the Rule was not changed.

<sup>2</sup> As of July 30, 2007, NASD consolidated with the member regulation and enforcement functions of NYSE Regulation and began operating under a new corporate name, the Financial Industry Regulatory Authority (FINRA). References in this complaint to FINRA include, where appropriate, NASD.

registration became effective on February 13, 2012.

Genesis remains subject to FINRA's jurisdiction for purposes of this proceeding, pursuant to Article IV, § 6 of FINRA's By-Laws, because (1) the Complaint was filed within two years after the effective date of the resignation, cancellation, or revocation of its membership, namely, February 13, 2012 and (2) the Complaint charges it with misconduct committed while it was a FINRA 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. Prior to the second quarter of 2008, Yeh also acted as the AML Compliance Officer for Genesis Securities. Yeh was the firm's Chief Compliance Officer from its inception until approximately April 2009, and again beginning on April 15, 2011. On December 21, 2011, Yeh filed a Uniform Termination Notice for Securities Industry Registration (Form U5) terminating his securities registrations. Yeh, however, remained associated with Genesis as its CEO.

Even if Yeh ceased being associated with FINRA member Genesis on December 21, 2011, he remains subject to FINRA's jurisdiction for purposes of this proceeding, pursuant to Article V, § 4 of FINRA's By-Laws, because (1) the Complaint was filed within two years after the date upon which he ceased to be associated with a FINRA member, namely, December 21, 2011 and (2) the Complaint charges him with misconduct committed while he was registered or associated with a FINRA member.

## **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 that they could be operated as unregistered broker-dealers. The master account structure created by Genesis and Yeh allowed master account holders to 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.

The subaccount holders paid commissions for their trading activity to the master accounts. Genesis allowed the master accounts to specify and track in the Laser system the commissions charged by the master accounts to the subaccounts and the trading rebates withheld from the subaccounts. In some instances, Genesis employees offered advice to the master accounts about how much the master accounts should charge the subaccounts in commissions. The master accounts earned significant profits by charging their subaccounts higher commissions than Genesis charged the master accounts. Thus, Genesis enabled the master accounts to charge the subaccounts transaction-based compensation.

Using software provided by Genesis and Yeh, the master accounts also tracked the profits and losses of each subaccount. At the direction of the master accounts, Genesis established buying power and trading limits for each subaccount using the Laser system.

Genesis allowed the master accounts to trade on margin up to four times their equity. Neither Genesis nor Yeh limited how the master accounts allocated that buying power among their subaccounts. This allowed subaccount traders to avoid the equity requirements, margin requirements, and trading limitations established by the SEC and FINRA for day traders. Those requirements generally required pattern day traders to provide \$25,000 in equity and trade no more than four times their margin excess.

By 2010, Genesis had established approximately 300 master accounts containing approximately 3,000 subaccounts. Some companies and individuals had multiple master accounts and subaccounts.

As shown in Exhibit A to the Complaint, seventeen master accounts at Genesis made tens of millions of dollars by using the Laser system and the support provided by Genesis to assess commissions to the subaccounts and withhold trading rebates. One master account, AF, made over \$17 million in this way, and another master account, ST, made nearly \$8 million. In total, the seventeen master account shown on Exhibit A made approximately \$36 million.

While the master accounts made substantial amounts of money by charging commissions to the subaccounts, Genesis also generated millions of dollars by charging commissions to the master accounts. Between August 1, 2007 and August 31, 2010, Genesis earned approximately \$7.2 million in commissions generated from the trading of 17 master accounts that were operated as domestic, unregistered broker-dealers.

### **C. The Master Accounts Operated by Genesis and Yeh**

In addition to establishing and maintaining master accounts for customers that were operated as unregistered broker-dealers, Genesis and Yeh operated two master accounts that acted as unregistered broker-dealers. Those master accounts were RJ Phoenix, LLC and Regency Capital Limited.

#### **1. RJ Phoenix**

Yeh opened an account for RJ Phoenix, LLC at Genesis on January 17, 2006. Yeh listed his wife as the contact person on the account at Genesis but he managed the RJ Phoenix account. RJ Phoenix was formed in New York and structured as a partnership for tax purposes.

RJ Phoenix had approximately 193 subaccounts. Those subaccounts engaged in active

day trading and high frequency trading using the Laser platform, purchasing and selling or selling and purchasing the same security on the same day, and doing so more than four times within five business days. The subaccount traders were managed by “group leaders,” who hired and fired traders and managed their trading. Genesis provided trading reports to the group leaders and took direction from the group leaders about Laser settings for subaccounts, such as buying power and trade limits.

Genesis and Yeh recruited RJ Phoenix subaccount traders and required them to deposit funds with RJ Phoenix in order to trade.

RJ Phoenix received transaction-based compensation from trading in its subaccounts. RJ Phoenix charged trading commissions to its subaccounts at rates determined by Yeh and negotiated between Genesis sales personnel and the subaccount traders. Yeh typically charged rates that were higher than the commissions charged by Genesis to RJ Phoenix. Just as RJ Phoenix received transaction-based compensation from the trading of its subaccounts, Genesis received approximately \$4 million in commissions from the overall trading of RJ Phoenix during 2006.

Yeh closed the RJ Phoenix account in June 2007. Shortly before Yeh closed the account, on April 12, 2007, Genesis paid RJ Phoenix approximately \$2 million through a “commission adjustment” to the RJ Phoenix account at Genesis. Two weeks later, on April 26, 2007, Yeh wired approximately \$2 million out of the RJ Phoenix account at Genesis to a bank account held by RJ Phoenix. A little more than two weeks later, on May 16, 2007, Yeh wired approximately \$2 million from the RJ Phoenix bank account to an account at Genesis in the name of Yeh’s uncle, CTW, a Taiwanese national living in Taiwan.

## **2. Regency Capital**

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 appointed his wife as Regency Capital's sole director, President, and Secretary. On March 9, 2007, Yeh caused Regency Capital to issue its one and only share of stock to Yeh's wife. Yeh opened an account for Regency Capital at Genesis on April 12, 2007. Yeh funded the Regency Capital account at Genesis on May 17, 2007 by journal transferring approximately \$2 million from CTW's account at Genesis to the Regency Capital account, thereby funding Regency Capital with the proceeds from RJ Phoenix. Yeh designated his uncle in Taiwan, CTW, as the authorized person for the Regency Capital account.

As with RJ Phoenix, however, 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.

Yeh also opened and controlled Regency Capital's offshore bank accounts. Yeh opened an account for Regency Capital on April 20, 2007 with a bank in Belize. Yeh wired \$5,000 from his wife's account at Genesis to fund the Regency Capital account at the bank in Belize. Yeh told the bank in Belize that his wife was the Director of Regency Capital, provided her personal e-mail address as a way to contact Regency Capital, and signed his correspondence with the bank as his wife.

Approximately two weeks after the bank in Belize questioned an incoming wire from Regency Capital of approximately \$600,000, Yeh moved the Regency Capital account to a bank in Turks and Caicos. While Yeh listed his uncle as the contact person for the account at the bank

in Turks and Caicos, Yeh controlled the account and signed his correspondence with the bank using his wife's name, just as he did with the bank in Belize.

Yeh and other Genesis employees recruited groups of foreign subaccount traders for Regency Capital. Yeh authorized Genesis employees to negotiate with group leaders about commission rates that Regency Capital charged its subaccounts and buying power for the trading groups. Yeh and Genesis employees required group leaders to make deposits to the Regency Capital bank account. Genesis employees, at the direction of Yeh, also steered potential traders to group leaders of Regency Capital, and told the potential traders that they could negotiate trading terms, including commissions and buying power, with the group leaders.

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 used Genesis employees and Genesis resources to provide back-office functions for Regency Capital. Genesis employees created daily profit-and-loss statements for the Regency Capital subaccounts for Yeh to review and prepared monthly calculations of the trading for each group. Each month, at Yeh's direction, Genesis transferred funds from the Regency Capital account at Genesis to Regency Capital's offshore bank account. From that offshore bank account, Yeh disbursed trading profits to group leaders.

Genesis also handled administrative requests from group leaders, such as resetting passwords for the Laser software, establishing trading limits for subaccount traders, closing subaccounts, transferring money balances among subaccounts, and providing traders with access to Laser training demonstrations.

Regency Capital used at least two e-mail addresses outside of Genesis. Yeh and another Genesis employee used the e-mail addresses to conduct business on behalf of Regency Capital. The Regency Capital e-mails were not captured by Genesis's servers unless they were sent to a Genesis e-mail address.

From August 1, 2007 through August 31, 2010, Regency Capital received approximately \$8 million in commissions from the trading in its subaccounts and received the highest interest rate on its cash balance that Genesis offered to its customers. During the same period, Genesis charged approximately \$1.8 million in commissions to Regency Capital, resulting in approximately \$6.2 million in net commission income to Regency Capital.

Regency Capital also received an ECN rebate at the highest possible rate at Genesis, which no customer other than Yeh's uncle, CTW, received. Yeh provided Regency in November 2008 with a "one time negotiated-amount" relating to ECN rebates which were paid as a lump sum of \$800,000 to Regency. This "negotiated-amount" related to higher ECN rebate rates Genesis achieved by trading through another broker-dealer between January and October 2008. Beginning November 1, 2008, Genesis paid Regency a monthly "special ECN credit" representing half of the additional income Genesis generated in rebates by routing Regency's trades through another broker-dealer. Yeh kept the other half of the rebates generated in this manner for Genesis. These rebates resulted in tens of thousands of dollars in revenues each month for both Genesis and Regency Capital.

On February 22, 2010, Regency Capital issued a \$1 million promissory note that listed Yeh's wife as the borrower. In addition, on the same day, another promissory note, for \$1.5 million, was issued from Yeh's uncle, CTW, to Yeh's wife. No interest was charged for either note. Both promissory notes bore the signature of Yeh's uncle, CTW.

In August 2010, Yeh transferred \$1.5 million from his wife's account at Genesis to CTW's account at Genesis, and transferred \$1 million from his wife's account at Genesis to Regency Capital's account at Genesis. In addition, Yeh transferred \$5 million that same month from the Regency Capital account at Genesis to CTW's account at Genesis. 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.

**FIRST CAUSE OF ACTION  
OPERATING UNREGISTERED BROKER-DEALERS  
GENESIS SECURITIES, LLC AND WILLIAM C. YEH  
WILLFUL VIOLATION OF SECTION 15(a)(1) OF THE SECURITIES EXCHANGE  
ACT OF 1934 AND VIOLATION OF NASD RULE 2110 AND FINRA RULE 2010**

Section 15(a)(1) of the Exchange Act makes it unlawful for any broker or dealer "to make use of the mails or any means or instrumentality of interstate commerce to effect any transactions in, or to induce or attempt to induce the purchase or sale of, any security (other than an exempted security or commercial paper, bankers' acceptances, or commercial bills) unless such broker or dealer is registered" in accordance with Section 15(b) of the Exchange Act. There are limited exemptions to this requirement, but none of them are applicable to this matter.

Section 3(a)(4) of the Exchange Act defines a "broker" as a person, which includes a company, engaged in the business of "effecting" transactions in securities for the account of others. A person acts as a broker if he regularly participates in securities transactions at key points in the chain of distribution. Actions indicating that a person is "effecting" securities transactions include soliciting investors; handling customer funds and securities; participating in

the order-taking or order-routing process; and extending or arranging for the extension of credit in connection with a securities transaction. A key factor that a person is engaged in the business of effecting transactions in securities for others is the receipt of transaction-based compensation.

Genesis and Yeh operated two unregistered broker-dealers, RJ Phoenix, LLC and Regency Capital Limited, through master and subaccount arrangements at Genesis, as described in detail above.

In particular, Yeh and certain Genesis employees encouraged day traders to open subaccounts with RJ Phoenix and trade through the RJ Phoenix account at Genesis. Yeh and certain Genesis employees controlled RJ Phoenix, and caused RJ Phoenix to charge the subaccount traders transaction-based compensation for securities transactions placed through RJ Phoenix's account at Genesis. In addition, Yeh and key Genesis employees handled subaccount traders' funds, which were used for securities transactions, and provided buying power to RJ Phoenix subaccount traders by allowing subaccount traders to trade against the equity of the entire pooled RJ Phoenix account at Genesis, rather than just their own equity. Yeh established and controlled the bank account of RJ Phoenix, paying trading profits to subaccount traders from that account.

Similarly, Yeh formed Regency Capital, opened a master account for Regency Capital at Genesis and, with the assistance of Genesis employees, controlled and managed the account at Genesis. As with RJ Phoenix, Yeh and certain employees of Genesis recruited subaccount traders, accepted deposits from subaccount traders so they could trade through the Regency Capital account at Genesis, and caused Regency Capital to charge transaction-based compensation to the subaccount traders for their trading through Regency Capital's account at Genesis. Yeh and Genesis provided buying power to Regency Capital subaccount traders by

allowing them to trade against the equity of the entire pooled Regency Capital account at Genesis, rather than just their own equity. Yeh established and controlled the offshore bank account of Regency Capital, paying trading profits to subaccount traders from that account.

Through the operation of the RJ Phoenix and Regency Capital master accounts, Genesis received approximately \$5.8 million in trading commissions.

As a result of the foregoing conduct, Genesis and Yeh willfully violated Section 15(a)(1) of the Securities Exchange Act of 1934. By violating Section 15(a)(1) of the Exchange Act, Genesis and Yeh violated NASD Rule 2110 and FINRA Rule 2010.

**SECOND CAUSE OF ACTION**  
**AIDING AND ABETTING THE OPERATION OF UNREGISTERED BROKER DEALERS**  
**GENESIS SECURITIES, LLC AND WILLIAM C. YEH**  
**WILLFULLY AIDING AND ABETTING VIOLATIONS OF SECTION 15(a) OF THE**  
**SECURITIES EXCHANGE ACT OF 1934, NASD RULE 2110 AND FINRA RULE 2010**

Genesis and Yeh provided knowing and substantial assistance to approximately 17 master accounts owned by domestic corporate entities so that they could operate as unregistered broker-dealers. Genesis and Yeh provided the structure and support by which the master accounts could operate as unregistered firms. They provided the master accounts holders with software that allowed them to track the trading of each subaccount, assess commissions against each subaccount, and track deposits and withdrawals by each subaccount. Genesis and Yeh were aware that the subaccounts and master accounts had different beneficial owners, that the master accounts charged the subaccounts transaction-based compensation, and that the master accounts profited by charging commission rates that were higher than the rates they paid Genesis.

The 17 master accounts were operated as unregistered broker-dealers and thus violated Section 15(a)(1) of the Exchange Act. As described above, Genesis and Yeh provided knowing and substantial assistance to the holders of these master accounts, enabling them to operate as

unregistered broker-dealers. Between August 1, 2007 and August 31, 2010, Genesis earned approximately \$7.2 million in commissions from the trading of these 17 master accounts.

As a result of the foregoing conduct, Genesis and Yeh willfully aided and abetted the violations of Section 15(a)(1) of the Securities Exchange Act of 1934 by the master accounts. By willfully aiding and abetting violations of Section 15(a)(1) of the Exchange Act, Genesis and Yeh also violated NASD Rule 2110 and FINRA Rule 2010.

**THIRD CAUSE OF ACTION  
VIOLATIONS OF FINRA'S MARGIN REQUIREMENTS  
GENESIS SECURITIES, LLC AND WILLIAM C. YEH  
NASD RULES 2520 AND 2110 AND FINRA RULE 2010**

NASD Rule 2520(b)(4) provides that the minimum equity requirement for a “pattern day trader” is \$25,000. In addition, Rule 2520(f)(8)(B)(iii) limits day-trading buying power to four times the day trader’s maintenance margin excess.

Genesis and Yeh operated RJ Phoenix and Regency Capital so as to circumvent the day-trading limitations of NASD Rule 2520. By allowing subaccount traders—who were purchasing and selling the same security on the same day, and doing so more than four times within five business days—to contribute and pool their money with RJ Phoenix and Regency Capital, Genesis and Yeh allowed the subaccount traders to day trade without making a minimum equity contribution of \$25,000, and provided them buying power of more than four times their maintenance margin excess.

Further, Genesis and Yeh permitted subaccounts—which were purchasing and selling the same security on the same day, and doing so more than four times within five business days—to trade as pattern day traders for other master accounts without maintaining equity of \$25,000, the minimum requirement for pattern day traders under FINRA rules. In addition, Genesis and Yeh

allowed these other master accounts to determine the buying power of the subaccounts, sometimes in amounts in excess of four times their equity. Genesis allowed master account holders to set the buying power of the subaccounts through Laser, often in excess of four times their equity, and did not require the subaccounts to contribute any minimum amount of equity with the master accounts.

As a result of the foregoing conduct, Genesis and Yeh violated NASD Rule 2520 and, by virtue of those violations, NASD Rule 2110 and FINRA Rule 2010.

**FOURTH CAUSE OF ACTION  
VIOLATIONS OF FINRA'S ANTI-MONEY LAUNDERING RULES  
GENESIS SECURITIES, LLC  
NASD RULES 3011(a), 3011(b) AND 2110 AND FINRA RULE 3310(a), 3310(b) AND 2010**

NASD Rule 3011, adopted on April 24, 2002 and amended on October 22, 2002, requires all member firms to “develop and implement a written anti-money laundering program reasonably designed to achieve and monitor the firm’s compliance with the requirements of the Bank Secrecy Act (31 U.S.C. § 5311, *et seq.*), and the implementing regulations promulgated thereunder by the Department of the Treasury.” NASD Rule 3011(a) specifically requires FINRA members to “establish and implement policies and procedures that can be reasonably expected to detect and cause the reporting of” suspicious activity and transactions, and NASD Rule 3011(b) requires firms to “establish and implement policies, procedures, and internal controls reasonably designed to achieve compliance with the Bank Secrecy Act and the implementing regulations thereunder.” Effective January 1, 2010, NASD Rule 3011 was renumbered as FINRA Rule 3310.

Concurrent with its adoption of Rule 3011, in April 2002, FINRA issued Notice to Members 02-21, which reminded broker-dealer firms of the requirements of their AML

procedures, including that AML procedures apply to:

- a. account opening and maintenance, including verification of the identity of the customer;
- b. monitoring of account activities, including but not limited to, trading and the flow of money into and out of the account, the types, amount, and frequency of different financial instruments deposited into and withdrawn from the account, and the origin of such deposits and the destination of withdrawals; and
- c. monitoring for, detecting, and responding to “red flags.”

Between January 1, 2006 and September 30, 2010, Genesis’s AML policies, procedures, and internal controls were not reasonably designed to achieve compliance with the Bank Secrecy Act and the implementing regulations thereunder. Genesis ignored its obligations to comply with these requirements.

Genesis’s written AML procedures described in general terms the purpose of its AML program. The AML procedures 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 written AML procedures, however, were not tailored to the firm’s high-volume trading business and, therefore, could not reasonably have been expected to detect and cause the reporting of suspicious activity and transaction or to otherwise achieve compliance with the Bank Secrecy Act and the implementing regulations thereunder.

Despite the fact that many of the customers on the Laser and Sogotrade platforms were day traders from foreign jurisdictions, Genesis’s AML procedures did not address how to

monitor such accounts for suspicious activity, and Genesis inadequately monitored the trading conducted by customers, including RJ Phoenix and Regency Capital, on the Laser platform. Instead of reviewing trading for potentially manipulative activity, Genesis merely monitored the firm's 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 subaccount 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 AML procedures 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 AML procedures 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 FINRA 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 inquiries to determine if any accounts or types of activity were the focus of multiple reviews.

As a result of the foregoing conduct, Genesis failed to establish and implement policies and procedures that could have been reasonably expected to detect and cause the reporting of suspicious activity or otherwise were reasonably designed to achieve compliance with the Bank Secrecy Act and the implementing regulations thereunder. Genesis therefore violated NASD Rules 3011(a) and 3011(b) and FINRA Rules 3310(a) and 3310(b). By virtue of these violations, Genesis also violated NASD Rule 2110 and FINRA Rule 2010.

**FIFTH CAUSE OF ACTION**  
**VIOLATIONS OF FINRA'S ANTI-MONEY LAUNDERING RULES**  
**WILLIAM C. YEH**  
**NASD RULES 3011(a), 3011(b) AND 2110 AND FINRA RULE 3310(a), 3310(b) AND 2010**

Yeh was Genesis's AML Officer until April 2008 and managed the day-to-day operations of the firm as its President since 1999. He was responsible for many of the policies that led to the AML violations by the firm.

Yeh was aware of the multiple regulatory requests about potentially manipulative trading by Genesis customers, such as Regency Capital. However, he took no effective steps to monitor such trading, or curb potentially manipulative trading.

Yeh also participated in potentially suspicious activity. He established offshore bank accounts for Regency Capital using his wife's name and operated under the pretense that she was managing Regency Capital. He nominated his wife as the contact person for the RJ Phoenix and Regency Capital accounts, when in reality his wife had nothing to do with the operation of those accounts. He signed e-mails to the banks on behalf of Regency Capital using his wife's name.

As a result of the foregoing conduct, Yeh failed to establish and implement policies and procedures that could have been reasonably expected to detect and cause the reporting of suspicious activity or otherwise were reasonably designed to achieve compliance with the Bank Secrecy Act and the implementing regulations thereunder. Yeh therefore violated NASD Rules 3011(a) and 3011(b) and FINRA Rules 3310(a) and 3310(b). By virtue of these violations, Yeh also violated NASD Rule 2110 and FINRA Rule 2010.

**SIXTH CAUSE OF ACTION  
VIOLATIONS OF FINRA'S SUPERVISION RULES  
GENESIS SECURITIES, LLC  
NASD RULES 3010 AND 2110 AND FINRA RULE 2010**

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

- The firm failed to adequately implement "Know Your Customer" procedures;
- The firm did not provide any sufficient supervisory review of 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 account applicants and on account holders;
- The firm approved accounts for customers that did not provide all of the required information;
- The firm did not conduct adequate reviews for potentially manipulative trading activity;
- The firm did not subject to appropriate review accounts that posed heightened risk, either because of the account holder's or trader's regulatory history, country of origin, or because of trading in the account that was the subject of multiple 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 accounts;

- The firm did not clearly identify its Chief Compliance Officer from 2006 until April 2009 in that different firm employees understood different individuals to be the CCO during that period;
- 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 14 of the 15 proprietary traders.

In addition, Genesis’s written supervisory procedures (WSPs) were 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 two master accounts, RJ Phoenix and Regency Capital. 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.

As a result of the foregoing conduct, Genesis violated NASD Rule 3010(a), between January 1, 2006 and September 30, 2010, by failing to have a supervisory system reasonably designed to achieve compliance with the securities laws and our rules. In addition, Genesis violated NASD Rule 3010(b), during this same period, 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. Genesis also violated NASD Rule 3010(d) by

failing to retain or review email communications sent by so-called “proprietary traders”—precluding review of such communications by a Genesis principal. By virtue of these violations, Genesis also violated NASD Rule 2110 and FINRA Rule 2010.

**SEVENTH CAUSE OF ACTION  
VIOLATIONS OF FINRA’S SUPERVISION RULES  
WILLIAM C. YEH  
NASD RULES 3010 AND 2110 AND FINRA RULE 2010**

From the inception of Genesis until approximately April 2009, Yeh was the firm’s Chief Compliance Officer and was ultimately responsible for Genesis’s supervisory system as the firm’s President. He was also 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.

Yeh directly supervised the sales representatives for master and subaccounts using the Laser system, yet took no action to meaningfully review the trading of those sales representatives, even though those representatives could see the trading of their clients.

As a result of the foregoing conduct, Yeh violated NASD Rule 3010 and, by virtue of that violation, he also violated NASD Rule 2110 and FINRA Rule 2010.

**EIGHTH CAUSE OF ACTION  
VIOLATIONS OF BOOKS AND RECORDS RULES – FAILURE TO RETAIN E-MAIL  
GENESIS SECURITIES, LLC  
SEC RULE 17a-4, NASD RULES 3110 AND 2110, AND FINRA RULE 2010**

Rule 17a-4(b)(4) under the Exchange Act requires brokerage firms to “preserve for a period of not less than three years, the first two years in an accessible place.... [o]riginals of all

communications received and copies of all communications sent by such member, broker or dealer (including inter-office memoranda and communications) relating to his business as such.”

Rule 17a-4 applies to electronic mail communications relating to a broker-dealer’s business.

NASD Rule 3110 requires, among other things, that firms comply with the recordkeeping and retention requirements of Rule 17a-4.

Genesis failed to retain e-mail for 14 of its 15 “proprietary traders” from approximately January 1, 2008 until June 1, 2010.

As a result of the foregoing conduct, Genesis violated SEC Rule 17a-4 and NASD Rule 3110. By virtue of those violations, Genesis violated NASD Rule 2110 and FINRA Rule 2010.

**NINTH CAUSE OF ACTION  
VIOLATIONS OF FINRA’S CAPITAL COMPLIANCE RULE  
GENESIS SECURITIES, LLC  
FINRA RULES 4110 AND 2010**

FINRA Rule 4110(c)(2) provides that “[a] carrying or clearing member shall not, without the prior written approval of FINRA, withdraw capital, pay a dividend or effect a similar distribution that would reduce such member's equity, or make any unsecured advance or loan to a stockholder, partner, sole proprietor, employee or affiliate, where such withdrawals, payments, reductions, advances or loans in the aggregate, in any 35 rolling calendar day period, on a net basis, exceeds 10% of its excess net capital.”

On April 14, 2011, Genesis received a notice pursuant to FINRA Rule 9557 (the “Rule 9557 Notice”) directing the firm, pursuant to FINRA Rule 4110(a), not to withdraw any capital, or make any unsecured loans or advances or otherwise reduce its capital position, other than through normal operating losses. The Rule 9557 Notice stated that “[t]his action is required for the protection of investors and will continue until Genesis completes the transfer of all customer

accounts and related customer assets to another broker-dealer acceptable to FINRA, or notifies FINRA of its intentions to continue as a going concern, which would include filing of its annual audited financial statements.”

The Rule 9557 Notice stated, “This directive is effective immediately and shall remain in effect unless FINRA staff removes or reduces the restriction pursuant to a letter of withdrawal of this notice issued as set forth pursuant to FINRA Rule 9557(g)(2).”

FINRA approved the transfer of customer accounts and related customer assets from Genesis to another FINRA member in May 2011. The transfer was completed in June 2011.

On September 6, 2011, Genesis notified FINRA that it intended to withdraw \$5.1 million from the firm. On September 9, 2011, Genesis withdrew \$4.8 million in equity capital, and on September 13, 2011, Genesis withdrew another \$600,000 in equity capital. Genesis’s aggregate withdrawal of \$5.4 million dollars over a four-day period exceeded 10% of Genesis’s excess net capital.

Genesis did not obtain prior written approval from FINRA for these withdrawals and FINRA had not issued a letter of withdrawal of the Rule 9557 Notice.

As a result of the foregoing conduct, Genesis violated FINRA Rule 4110 and, by virtue of that violation, Genesis also violated FINRA Rule 2010.

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 FINRA, of its regulatory responsibility under the Securities Exchange Act of 1934.

## SANCTIONS

It is ordered that the following sanctions be imposed:

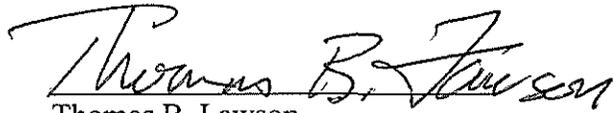
1. Yeh is barred from associating with any FINRA member in any capacity; and
2. Genesis is expelled from membership with FINRA.

Pursuant to FINRA Rule 8313(e), a bar or expulsion shall become effective upon approval or acceptance of this Order.

SO ORDERED.

FINRA

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

A handwritten signature in black ink, appearing to read "Thomas B. Lawson". The signature is written in a cursive style with a horizontal line underneath the name.

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