FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20060051583-08

TO: Department of Market Regulation
Financial Industry Regulatory Authority ("FINRA")

RE: **Phoenix Derivatives Group, LLC**, Respondent
Broker-Dealer
CRD No. 25802

Marcos Moises Brodsky, Respondent
CRD No. 3105944

Jon Richard Lines, Respondent
CRD No. 2780390

Wesley Wang, Respondent
CRD No. 2304216

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Phoenix Derivatives Group, LLC (the "firm" or "Phoenix"), Marcos Moises Brodsky ("Brodsky"), Jon Richard Lines ("Lines"), and Wesley Wang ("Wang") (collectively, "Respondents") submit this Letter of Acceptance, Waiver and Consent ("AWC") for the purpose of proposing a settlement of the alleged rule violations described below. This AWC is submitted on the condition that, if accepted, FINRA will not bring any future actions against the Respondents alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

A. Respondents accept and consent, without admitting or denying the findings, 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, prior to a hearing and without an adjudication of any issue of law or fact, to the entry of the following findings by FINRA:

BACKGROUND

Respondent Phoenix has been a member of FINRA since January 31, 1990, and its registration remains in effect. During portions of the time period relevant to this AWC, Phoenix was formerly known as either Phoenix Derivatives Group, Inc. or Kahn

Securities, Inc. Individual Respondents each became associated with the firm in July or August 2005 as co-founding managing directors of Phoenix Partners Group LP ("Phoenix Partners") (the present owner of the firm) and original firm co-owners under its present ownership structure (which commenced operations in early August 2005).

Respondent Brodsky has been associated with Phoenix since August 2005. He is a co-founding managing director of Phoenix Partners (the owner of the firm), and one of four original co-owners of the firm, together with Lines, Wang, and another associated person of the firm. At all relevant times to this AWC, he also acted as a firm broker. He has worked in the financial services industry for more than a decade and holds a general securities principal, general securities representative, and corporate securities and equity trader limited representative license from FINRA.

Respondent Lines joined Phoenix as an associated person in July 2005. He left the firm on Feb. 23, 2009, now lives in London, England, and is presently not associated with any FINRA member (discontinuing his registered status, effective March 2, 2009). Prior to his departure from the firm, Lines was a co-founding managing director of Phoenix Partners and one of four original co-owners of the firm, together with Brodsky, Wang, and another associated person of the firm. At all relevant times to this AWC, he also acted as a firm broker. He has worked in the financial industry for more than fifteen years. While associated with Phoenix, he held a general securities principal, general securities representative, and, for portions of the relevant review period, a corporate securities limited representative license from FINRA.

Respondent Wang has been associated with Phoenix since August 2005. He is a co-founding managing director of Phoenix Partners (the owner of the firm), and one of four original co-owners of the firm, together with Brodsky, Lines, and another associated person of the firm. At all relevant times to this AWC, he also acted as a firm broker. He has worked in the financial services industry for more than eighteen years. He holds a general securities principal, general securities representative, and equity trader limited representative license from FINRA.

RELEVANT DISCIPLINARY HISTORY

Respondents understand that their disciplinary history may be a factor that will be considered in deciding whether to accept this AWC. None of the Respondents have any relevant disciplinary history.

SUMMARY

In Review No. 20060051583, the staff of the Department of Market Regulation (the "staff") reviewed conduct by Brodsky, Lines, and Wang that appeared to be an improper attempt by Phoenix, through individual Respondents, to influence other CDS interdealer brokers about CDS dealers' proposed brokerage fee rates during the review period of July 1, 2005 through December 1, 2006 (the "review period").

In addition, this AWC concerns (i) associated supervisory failures by the firm to take steps to reasonably detect and prevent such inter-firm interactions, (ii) the firm's failure to keep certain required books and records, and (iii) its failure to produce for more than twenty months approximately 300,000 instant messages that the staff requested pursuant to NASD Rule 8210.

CDS instruments generally enable counterparties to purchase/sell "risk protection" associated with the risk of credit events (such as bankruptcies, defaults, or credit downgrades in underlying instruments). The risk protection purchaser generally pays a periodic fee to the seller for the life of the CDS. The risk protection seller agrees to pay the purchaser a set amount should a credit event occur during the CDS term. Phoenix and other CDS interdealer brokers provided an intermediary brokerage service to major commercial and investment banks that are wholesale CDS dealers, by identifying and matching counterparties for transactions between such CDS dealers. Phoenix received an agreed upon brokerage fee for successfully matching buying and selling counterparties (its clients).

FACTS AND VIOLATIVE CONDUCT

During the review period, Brodsky, Lines, and Wang communicated with personnel at certain other CDS interdealer brokers about CDS dealers' proposed brokerage fee rate reductions on numerous occasions. These communications generally arose after individual CDS dealers sought to renegotiate the CDS brokerage fees they paid by transmitting schedules of their proposed brokerage rate reductions to various interdealer brokers. Individual Respondents' communications with personnel at other interdealer brokers about the proposed rate schedules included, among other things, reactions to the proposed rate reductions and statements concerning actual or contemplated interdealer broker responses or counter-positions to the schedules (including, in some instances, discussions of mutually parallel counter-proposals to rate reduction requests). While many of the communications involved one-to-one discussions between individual Respondents and personnel from other CDS interdealer brokerage firms, some of the communications referred to similar types of interactions about the schedules involving additional interdealer brokerage firms.

In addition, during the review period, Phoenix's supervisory systems were not reasonably designed to detect such inappropriate sharing of information concerning customers' proposed brokerage fee rates. The firm's written supervisory procedures did not include supervisory reviews specifically concerning the restrictions against anti-competitive activities contained in NASD IM-2110-5. And the firm's written supervisory procedures did not require supervisory reviews of phone communications expressly for anti-competitive activities or more generically for regulatory compliance.

Moreover, the firm failed to enforce and maintain the generic supervisory reviews of electronic communications required by the written supervisory procedures. In particular, the firm (i) failed to install instant messaging monitoring equipment unrelated to Bloomberg communications prior to February 8, 2006, or to ensure that such equipment

was properly operating for portions of the relevant period from August 15, 2006 through December 1, 2006, (ii) failed to memorialize the occurrence of supervisory reviews of e-mail and Bloomberg communications prior to September 27, 2005, and (iii) maintained insufficient documentation of supervisory reviews of electronic communications thereafter.

Further, Phoenix failed to maintain any of the firm's non-Bloomberg instant messages for two periods totaling approximately ten months during 2005 and 2006.

Finally, Phoenix's productions of electronic communications to the staff remained incomplete for more than twenty months from the time the staff initially sought such information from the firm. During that time, the staff observed and notified the firm on several occasions of multiple kinds of omissions in the firm's productions. These production failures resulted in untimely responses to the staff's requests for all responsive electronic communications and otherwise delayed and impeded the staff's ongoing investigation.

CONCLUSIONS

As a result of the foregoing conduct, during the review period:

1. Brodsky, Lines, and Wang, and Phoenix, through individual Respondents, repeatedly engaged in improper communications with other interdealer brokers about CDS dealers' brokerage rate proposals for CDS transactions and, therefore, failed to abide by the firm's and individual Respondents' duties to observe high standards of commercial honor and just and equitable principles of trade. This conduct described in this paragraph constitutes a violation of both NASD Rule 2110 and the prohibition in IM-2110-5 against engaging in conduct that "attempts improperly to influence another member or person associated with a member."

2. Phoenix failed to reasonably supervise individual Respondents' communications about rate schedules for CDS transactions so as to detect and prevent violations of NASD Rules 2110 and IM-2110-5. The conduct described in this paragraph constitutes a violation of NASD Rules 2110 and 3010.

3. The firm's supervisory system did not provide for supervision reasonably designed to achieve compliance with NASD Rule 2110 and NASD IM-2110-5. Specifically, the firm's written supervisory system did not include written supervisory procedures concerning compliance with NASD Rule 2110 and IM-2110-5 that provided for (1) the identification of the person(s) responsible for supervision with respect to the applicable rule; (2) a statement of the supervisory step(s) to be taken by the identified person(s); (3) a statement as to how often such person(s) should take such step(s); and (4) a statement as to how the completion of the step(s) included in the written supervisory procedures should be documented. The conduct described in this paragraph constitutes a violation of NASD Rules 2110 and 3010.

4. The firm failed to enforce its written supervisory procedures concerning its at-least weekly general reviews of electronic communications by (i) failing to conduct reviews of non-Bloomberg instant messages for more than nine months due to the firm's failure to install instant message monitoring equipment and failure to ensure such equipment was properly operating once installed, (ii) failing to adequately document the firm's supervisory reviews of e-mail and Bloomberg communications prior to September 27, 2005, and (iii) maintaining insufficient documentation of its supervisory reviews of electronic communications thereafter that failed to specify when the reviews occurred (or their frequency), or what communications were reviewed. The conduct described in this paragraph constitutes a violation of NASD Rules 2110 and 3010.

5. The firm failed to preserve for a period of not less than three years, the first two in an accessible place, certain electronic communications that related to the firm's business. The conduct described in this paragraph constitutes a violation of NASD Rules 2110 and 3110, Section 17(a) of the Securities Exchange Act of 1934, and SEC Rule 17a-4.

6. The firm failed to fully and promptly comply with the staff's information requests for electronic communications by taking more than twenty months to complete its productions to the staff (and providing submissions in the interim that contained several forms of production omissions until the staff notified the firm to follow-up on such production issues). These production failures delayed and impeded the staff's ongoing investigation and resulted in untimely responses to the staff's requests for all responsive electronic communications. Based on the foregoing, Respondent violated NASD Rules 2110 and 8210.

B. Respondents also consent to the imposition of the following sanctions:

Phoenix is censured and fined $3 million (with $900,000 of that total fine amount constituting a joint and several fine apportioned among individual Respondents as follows: Brodsky bears joint and several responsibility with the firm for $350,000 of the total fine amount; Lines bears joint and several responsibility with the firm for $100,000 of the total fine amount; and, Wang bears joint and several responsibility with the firm for $450,000 of the total fine amount). Individual Respondents' payment obligations shall be calculated on a pro rata basis for any outstanding payment obligations on the fine.

Brodsky is suspended from associating with any member of FINRA in any capacity for a period of one month.

Lines is suspended from associating with any member of FINRA in any capacity for a period of three months.

Wang is suspended from associating with any member of FINRA in any capacity for a period of two months.

If approved by the Office of Disciplinary Affairs ("ODA"), Respondents' use of the installment method to pay the above fine shall be subject to (i) an initial payment (a down payment) of $600,000 payable no later than June 30, 2010, and (ii) a fixed interest rate of 3 percent over the Prime rate (as published in the Money Rates column of the *Wall Street Journal* on the day following receipt of the initial payment) on any unpaid balance, with interest accrued daily at the fixed rate on the unpaid balance. Respondents shall have three years to complete all fine payments, and shall make equal installment payments on a quarterly basis beginning July 1, 2010.

Should the firm be acquired by any other entity, party, or person while any fine amounts remain outstanding, the firm shall condition any such acquisition on the acquiror(s)' assumption of the firm's fine obligations in this AWC, or else any remaining outstanding fines shall become immediately due and payable prior to the completion of any such acquisition within the three-year time period the firm has to pay the total fine under this AWC.

Phoenix also is subject to an undertaking to revise the firm's written supervisory procedures with respect to the areas described in Item I.A.3 of the AWC. Within 30 business days of acceptance of this AWC by the National Adjudicatory Council ("NAC"), a registered principal of the Respondent shall submit to the COMPLIANCE ASSISTANT, LEGAL SECTION, MARKET REGULATION DEPARTMENT, 9509 KEY WEST AVENUE, ROCKVILLE, MD 20850, a signed, dated letter, or an e-mail from a work-related account of the registered principal to MarketRegulationComp@ finra.org, providing the following information: (1) a reference to this matter; (2) a representation that the firm has revised its written supervisory procedures to address the deficiencies described in Item I.A.3 of the AWC; and, (3) the date the revised procedures were implemented.

Respondents understand that if they are suspended from associating with any FINRA member, they become subject to a statutory disqualification as that term is defined in Section 3(a)(39) of the Securities Exchange Act of 1934, as amended. Accordingly, they may not be associated with any FINRA member in any capacity, including clerical or ministerial functions, during the period of the suspension. (See FINRA Rules 8310 and 8311.)

Respondents agree to pay the monetary sanction(s) upon notice that this AWC has been accepted and that such payment(s) are due and payable as specified by the terms of this AWC. Respondents have submitted an Election of Payment form showing the method by which they propose to pay the fine imposed.

Respondents specifically and voluntarily waive any right to claim that they are unable to pay, now or at any time hereafter, the monetary sanction(s) imposed in this matter.

The sanctions imposed herein shall be effective on a date set by FINRA staff.

II.

WAIVER OF PROCEDURAL RIGHTS

Respondents specifically and voluntarily waive the following rights granted under FINRA's Code of Procedure:

A. To have a Complaint issued specifying the allegations against the firm;

B. To be notified of the Complaint and have the opportunity to answer the allegations in writing;

C. To defend against the allegations in a disciplinary hearing before a hearing panel, to have a written record of the hearing made and to have a written decision issued; and

D. To appeal any such decision to the NAC and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, Respondents specifically and voluntarily waive any right to claim bias or prejudgment of the General Counsel, the NAC, or any member of the NAC, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including acceptance or rejection of this AWC.

Respondents further specifically and voluntarily waive any right to claim that a person violated the ex parte prohibitions of FINRA Rule 9143 or the separation of functions prohibitions of FINRA Rule 9144, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

III.

OTHER MATTERS

Respondents understand that:

A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or ODA, pursuant to FINRA Rule 9216;

B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against the firm; and

C. If accepted:

1. this AWC will become part of the Respondents' permanent disciplinary records and may be considered in any future actions brought by FINRA or any other regulator against them;

2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about the firm's disciplinary record;

3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and

4. Respondents may not take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or indirectly, any finding in this AWC or create the impression that the AWC is without factual basis. Respondents may not take any position in any proceeding brought by or on behalf of FINRA, or to which FINRA is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects the Respondents' right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.

D. Respondents may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondents understand that they may not deny the charges or make any statement that is inconsistent with the AWC in this Statement. This Statement does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA or its staff.

The undersigned, on behalf of the firm, certifies that a person duly authorized to act on its behalf has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that it has agreed to the AWC's provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein and the prospect of avoiding the issuance of a Complaint, has been made to induce the firm to submit it.

6/8/2010
Date

Respondent
Phoenix Derivatives Group, LLC

By: _____

Name: Nicholas S Kaplan

Title: CEO

Reviewed by:

_____
Joseph Pastore III
Counsel for Respondent
Fox Rothschild, LLP
One Landmark Square, 21st Floor
Stamford, CT 06901-2601
Phone: (203) 425-1504

Respondent Brodsky certifies that he has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that he has agreed to the AWC's provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein and the prospect of avoiding the issuance of a Complaint, has been made to induce him to submit it.

6-8-10
Date

Respondent

By: _____
Marcos Moises Brodsky

Reviewed by:

_____
Joseph Pastore III
Counsel for Respondent
Fox Rothschild, LLP
One Landmark Square, 21st Floor
Stamford, CT 06901-2601
Phone: (203) 425-1504

Respondent Lines certifies that he has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that he has agreed to the AWC's provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein and the prospect of avoiding the issuance of a Complaint, has been made to induce him to submit it.

10th June 2010
Date

Respondent

By: _____
Jon Richard Lines

Reviewed by:

_____
Joseph Pastore III
Counsel for Respondent
Fox Rothschild, LLP
One Landmark Square, 21st Floor
Stamford, CT 06901-2601
Phone: (203) 425-1504

Respondent Wang certifies that he has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that he has agreed to the AWC's provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein and the prospect of avoiding the issuance of a Complaint, has been made to induce him to submit it.

6/8/10
Date

Respondent

By: _____
Wesley Wang

Reviewed by:

_____
Joseph Pastore III
Counsel for Respondent
Fox Rothschild, LLP
One Landmark Square, 21st Floor
Stamford, CT 06901-2601
Phone: (203) 425-1504

Accepted by FINRA:

6/18/10
Date

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

Thomas R. Gira
Executive Vice President
Department of Market Regulation