

MEMO# 21061

April 16, 2007

NASD Sanctions Former Member Firm Executives for Supervisory Failures Relating to Fraudulent Sales to Institutional Customers

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TO: EQUITY MARKETS ADVISORY COMMITTEE No. 22-07 RE: NASD SANCTIONS FORMER MEMBER FIRM EXECUTIVES FOR SUPERVISORY FAILURES RELATING TO FRAUDULENT SALES TO INSTITUTIONAL CUSTOMERS

NASD announced that it has sanctioned two former executives of a member firm for supervisory failures in connection with fraudulent sales to institutional customers. [\[1\]](#) In a 2-1 ruling, a NASD Hearing Panel found that the former executives failed to establish and enforce a supervisory system designed to ensure compliance with federal securities laws and NASD rules. Specifically, the executives failed to supervise the firm's leading institutional sales trader, who was also the brother of one of the executives, by responding inadequately to numerous red flags and allowing for the development of a supervisory void at the member firm. The executives and the member firm settled charges with the SEC in 2004 and 2005 based on the same underlying conduct.

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endnotes

[\[1\]](#) See "NASD Hearing Panel Sanctions Former Knight Securities Executives for Supervisory Failures in Connection with Fraudulent Sales," NASD News Release (April 11,

2007), available at

http://www.nasd.com/PressRoom/NewsReleases/2007NewsReleases/NASDW_018902.

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