

MEMO# 21570

September 11, 2007

SEC Settles Charges Against Stock Exchange for Failing to Protect Investor Trading Priority

[21570]

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TO: EQUITY MARKETS ADVISORY COMMITTEE No. 52-07
SEC RULES MEMBERS No. 119-07 RE: SEC SETTLES CHARGES AGAINST STOCK EXCHANGE
FOR FAILING TO PROTECT INVESTOR TRADING PRIORITY

The Securities and Exchange Commission instituted a settled administrative and cease-and-desist proceeding against the Boston Stock Exchange (“Exchange”) and its former president (“Respondent”) for failing to enforce Exchange rules protecting investor trading priority. [\[1\]](#) The Exchange and Respondent consented to the issuance of a Commission order without admitting or denying the findings in the Order.

The Order found that the Exchange and Respondent failed to prevent specialists from trading for their own accounts ahead of marketable customer orders. Specifically, the Order found that the Exchange failed to develop and implement adequate procedures for surveillance of violations of its customer priority rules, allowing hundreds of violations per day to go undetected even after the Commission staff had repeatedly warned the Exchange it needed to improve its surveillance systems. The Order also found that Respondent knew that the surveillance procedures then in effect were inadequate but failed to devote resources necessary to correct the problem.

The Exchange and Respondent consented to a censure and an order to cease and desist from future violations of Section 19(g) of the Exchange Act of 1934. The Exchange also agreed to comply with certain undertakings, including expenditure of at least \$1 million to retain a third-party consultant to conduct comprehensive audits of the Exchange’s surveillance, examination, investigation and disciplinary programs relating to trading. Respondent also consented, subject to court approval, to entry of a final judgment in a

related settled civil action, without admitting or denying the charges in the Commission's complaint. [2]

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endnotes

[1] See In the Matter of Boston Stock Exchange, Inc. and James B. Crofwell, Securities Exchange Act of 1934 Release No. 56352, Admin. Proc. File No. 3-12744 (Sept. 5, 2007), available at <http://www.sec.gov/litigation/admin/2007/34-56352.pdf>.

[2] See SEC v. James B. Crofwell, Case No. 07 CA 11640 RWZ (D. Mass.) (Sept. 5, 2007), available at <http://www.sec.gov/litigation/litreleases/2007/lr20222.htm>.

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