



## Notice of Disciplinary Action Against Keystone Trading Partners, a Member Organization, and Eric Schmid and Vincent Jackson, Associated Persons of Keystone Trading Partners

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**To:** Members, Member Organizations, Participants and Participant Organizations

**From:** John C. Pickford, Enforcement Counsel, NASDAQ OMX PHLX<sup>SM</sup>

**DATE:** June 21, 2012

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**FINRA Matter No. 20100242460**

**FINRA Matter No. 20120323712**

**Enforcement No. 2012-08**

On June 18, 2012, the Business Conduct Committee (the "Committee") issued a disciplinary decision against Keystone Trading Partners ("Keystone"), a member organization of the Exchange, and Eric Schmid ("Schmid") and Vincent Jackson ("Jackson"), associated persons of Keystone. In response to a Statement of Charges issued in this action, Keystone, Schmid, and Jackson submitted an Offer of Settlement, Stipulation of Facts and Consent to Sanctions ("Offer"). Solely to settle this proceeding, and without admitting or denying the charges, Keystone, Schmid and Jackson consented to findings that they committed violations of Exchange Rule 1014, Commentaries .01 and .03, Exchange Rule 748(g), and Options Floor Procedures Advices ("OFPAs") B-3 and B-4. Specifically, Keystone and Schmid consented to findings that during the period between April 2010 and June 2010 ("Review Period I"), Schmid, on behalf of Keystone, had effected 25.44% of his total options contracts in assigned options classes and had thereby failed to satisfy the minimum number of options contracts he was required to trade in assigned options classes. Similarly, during Review Period I, Schmid, on behalf of Keystone, and while off-floor, had executed 175 options contracts in his market maker account that were not for the purpose of hedging, reducing pre-existing risks, or rebalancing positions in his market maker account.

Additionally, Keystone and Jackson consented, without admitting or denying the charges, to findings that during the period between January 2012 and March 2012 ("Review Period II"), Jackson, on behalf of Keystone, and while off-floor, had executed 24.55% of his total options contracts in person and had thereby failed to satisfy the minimum number of options contracts he was required to trade in person. Keystone and Jackson also consented to findings that during Review Period II, Jackson, on behalf of Keystone, had effected 3,409 options contracts in his market maker account that were not for the purpose of hedging, reducing pre-existing risk, or rebalancing positions in his market maker account.

Finally, Keystone consented, without admitting or denying the charge, to findings that during Review Periods I and II, it had failed to establish, maintain and enforce written supervisory procedures ("WSPs"), and a system for applying such procedures, that were reasonably designed to detect and prevent violations of Exchange rules that require Registered Options Traders

("ROTs") to execute a minimum number of options contracts in person or in their assigned options classes during any given calendar quarter and govern ROTs' off-floor trading.

The Offer submitted by Keystone, Schmid and Jackson was accepted by the Committee and was the basis of its Decision. The Committee found that Keystone, Schmid and Jackson had violated Exchange Rule 1014, Commentaries .01 and .03, and OFPAs B-3 and B-4; and that Keystone had violated Exchange Rule 748(g). The Committee concurred in the sanctions consented to by Keystone, Schmid and Jackson, and ordered the imposition of the following sanctions against them: (i) a censure; (ii) a joint and several fine in the amount of \$15,000; and (iii) an undertaking, within 30 days of the issuance of a Decision by the Committee, to:

- (a) revise its WSPs to address the deficiencies identified by the Exchange;  
and
- (b) submit to Erin Saulino, FINRA Market Regulation, 1900 Market Street, Eighth Floor, Philadelphia, PA 19103, a signed, dated letter, providing the following information:
  - (1) a reference to this matter;
  - (2) a representation that Keystone has revised its WSPs to address the deficiencies identified by the Exchange;
  - (3) the date the revised WSPs were implemented; and
  - (3) a Corrective Action Statement detailing what specific actions Keystone has taken to prevent future violations of the provisions regarding trading in person, in assigned options classes, and off-floor.

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For more information, contact:

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