

**THE NASDAQ STOCK MARKET LLC  
LETTER OF ACCEPTANCE, WAIVER AND CONSENT  
NO. 2018057188802**

TO: The Nasdaq Stock Market LLC  
c/o Department of Enforcement  
Financial Industry Regulatory Authority (“FINRA”)

RE: Regal Securities, Inc., Respondent  
Broker-Dealer  
CRD No. 7297

Pursuant to Rule 9216 of The Nasdaq Stock Market LLC (“Nasdaq”) Code of Procedure, Regal Securities, Inc. (the “Firm”) submits 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, Nasdaq will not bring any future actions against the Firm alleging violations based on the same factual findings described herein.

**I.**

**ACCEPTANCE AND CONSENT**

- A. The Firm hereby accepts and consents, without admitting or denying the findings, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of Nasdaq, or to which Nasdaq 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 Nasdaq:

**BACKGROUND**

Regal has been a Nasdaq member since July 2006. The Firm provides online trading tools to retail investors, is headquartered in Glenview, Illinois, and has approximately 65 registered representatives and eleven branches. The Firm does not have relevant disciplinary history.

**SUMMARY**

From August 2017 through January 2019, Regal did not establish and maintain a supervisory system, including written procedures, reasonably designed to achieve compliance with Nasdaq rules regarding surveilling for potentially manipulative trading. Regal opened a self-directed trading account for a customer whose account it had previously closed. The Firm, however, failed to subject the account to heightened supervision or take other precautions despite red flags. Further, the Firm failed to reasonably review or follow up on numerous surveillance alerts indicating that this customer may have engaged in potentially manipulative trading. In other instances, the Firm failed to detect such trading. Moreover, Regal delegated supervisory responsibility for the customer’s account to the account representative and another registered representative, but its written supervisory procedures did not reasonably describe the

process for how to carry out that responsibility. As a result, the Firm violated Nasdaq Rules 3010(a) and 2010A.

### **FACTS AND VIOLATIVE CONDUCT**

1. During the relevant period, Nasdaq Rule 3010(a) required each member to establish and maintain a system to supervise the activities of each registered representative and associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations and with applicable Nasdaq rules.
2. During the relevant period, a violation of Nasdaq Rule 3010(a) was also a violation of Nasdaq Rule 2010A, which required a member to “observe high standards of commercial honor and just and equitable principles of trade” in the conduct of its business.
3. In July 2017, a Regal branch manager sought the business of a customer who once maintained an account with the Firm. Regal’s compliance department initially recommended that the customer not be allowed to open a new account with the Firm due to previous issues regarding margin calls and his trading activity. The branch manager then escalated the on-boarding of this customer to the trading desk, which, in response, also raised a concern. Nonetheless, the Firm opened a new account for the customer on August 10, 2017. The Firm delegated responsibility for supervision of this customer’s trading, including review of surveillance alerts, to the branch manager and another registered representative responsible for the account, both of whom were registered with FINRA as General Securities Principals. Both registered representatives provided the Firm with assurances that they would monitor the customer’s account activity.
4. The customer began trading in the new account on August 22, 2017. Initially, some of the customer’s trading generated Firm surveillance alerts indicating potential marking the close activity on August 23, 24, 28, and 29, 2017. Then, on August 31, a Regal executive informed the account representative that the account may need to be closed due to this trading activity. While surveillance alerts were being generated, the Firm did not reasonably review them or take any action regarding the customer at that time.
5. The customer’s trading continued until January 31, 2019, when Regal terminated his ability to trade for failing to meet margin calls. During that period, the customer’s trading activity generated approximately 1,600 Firm surveillance alerts indicating potential marking the close activity. Further, between November 2017 and June 2018, the customer’s trading activity generated approximately 40 surveillance alerts indicating potential wash trading.
6. The Firm forwarded these surveillance alerts to the designated representatives for review, however, Regal’s WSPs did not describe how alerts were to be reviewed, or how those reviews were to be documented. Moreover, the Firm did not evidence that reviews were in fact conducted to determine whether the activity was manipulative, except for in a small number of instances. In addition, neither representative on the

account escalated any concerns about the customer's trading to the compliance department, and the compliance department did not otherwise follow up with the representatives after forwarding the alerts for review.

7. Regal also failed to establish a supervisory system reasonably designed to detect other potentially manipulative trading. The Firm had no surveillance to detect layering or similar activity until January 2019.

8. Therefore, Regal violated Nasdaq Rules 3010 and 2010A.

B. The Firm also consents to the imposition of the following sanctions:

1. Censure; and

2. A total fine of \$100,000, of which \$50,000 is payable to Nasdaq.<sup>1</sup>

The Firm agrees to pay the monetary sanction(s) upon notice that this AWC has been accepted and that such payment(s) are due and payable. It has submitted a Payment Information form showing the method by which it proposes to pay the fine imposed.

The Firm specifically and voluntarily waives any right to claim that it is 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

The Firm specifically and voluntarily waives the following rights granted under Nasdaq's Code of Procedure:

- A. To have a Formal Complaint issued specifying the allegations against the Firm;
- B. To be notified of the Formal 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 Nasdaq Review Council and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, the Firm specifically and voluntarily waives any right to claim bias or prejudgment of the Chief Regulatory Officer, the Nasdaq Review Council, or any member of the Nasdaq Review

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<sup>1</sup> The remainder of the fine will be paid to FINRA.

Council, 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.

The Firm further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of Rule 9143 or the separation of functions prohibitions of 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

The Firm understands that:

- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by FINRA's Department of Enforcement and the Nasdaq Review Council, the Review Subcommittee, or the Office of Disciplinary Affairs ("ODA"), pursuant to Nasdaq 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 Firm's permanent disciplinary record and may be considered in any future actions brought by Nasdaq or any other regulator against the Firm;
  2. Nasdaq may release this AWC or make a public announcement concerning this agreement and the subject matter thereof in accordance with Nasdaq Rule General 5, Sections 8310 and IM-8310-3; and
  3. The Firm 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. The Firm may not take any position in any proceeding brought by or on behalf of Nasdaq, or to which Nasdaq is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects the Firm's right to take legal or factual positions in litigation or other legal proceedings in which Nasdaq is not a party.
- D. The Firm may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. The Firm understands that it 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 Nasdaq, nor does it reflect the views of Nasdaq 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.

April 14, 2023

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Date

Regal Securities, Inc.  
Respondent

By: Shawn Herrin

Name: Shawn Herrin

Title: President

Reviewed by:

Michael Wolk

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Michael D. Wolk  
Counsel for Respondent  
Sidley Austin LLP  
1501 K Street, N.W.  
Washington, D.C. 20005

Accepted by Nasdaq:

April 17, 2023

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Date

*Andy Hubbart*

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Andy Hubbart  
Department of Enforcement

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