

NASDAQ PHLX LLC
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2020066741313

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

RE: Velocity Clearing, LLC, Respondent
Broker-Dealer
CRD No. 126588

Pursuant to Rule 9216 of Nasdaq Phlx LLC (“Phlx”) Code of Procedure,¹ Velocity Clearing, LLC (“Velocity” or 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, Phlx 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 Phlx, or to which Phlx 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 Phlx:

BACKGROUND

Velocity has been a FINRA member since August 2003 and a member of Phlx since February 2020. The Firm is headquartered in Hazlet, New Jersey, and employs approximately 120 registered persons across five branches. The Firm provides retail brokerage, lending and market making services and engages in proprietary trading.

The Firm does not have any relevant disciplinary history.

SUMMARY

From February 2020 through the present, Velocity violated Phlx Rule General 9, Section 20(h), Phlx Rule General 9, Section 1(c) (for conduct on and after January 22, 2021), and Phlx Rule Options 9, Section 1 (for conduct between February 3, 2020 and January 21,

¹ The Nasdaq Stock Market LLC Rules General 5 Section 9000 et al. are incorporated by reference into Phlx Rule General 5, Section 3, and are thus Phlx Rules and thereby applicable to Phlx members, member organizations, persons associated with member organizations, and other persons subject to Phlx’s jurisdiction.

2021)² by failing to establish, maintain, and enforce a supervisory system, including written supervisory procedures (WSPs), reasonably designed to prevent and detect, insofar as practicable, potentially manipulative trading activity by its customers.

For this violation, Velocity has agreed to a censure, a \$1,000,000 fine, and an undertaking to hire an independent consultant.

FACTS AND VIOLATIVE CONDUCT

1. This matter arose from cross-market surveillance conducted by FINRA.
2. Phlx Rule General 9, Section 20(h) provides that “[e]ach member or member organization shall establish, maintain, and enforce written supervisory procedures, and a system for applying such procedures, to supervise the types of business(es) in which the member or member organization engages in and to supervise the activities of all registered representatives, employees, and associated persons. The written supervisory procedures and the system for applying such procedures shall reasonably be designed to prevent and detect, insofar as practicable, violations of the applicable securities laws and regulations, including the By-Laws and Rules of [Phlx].”
3. Phlx Rule General 9, Section 1(c), like its predecessor Phlx Rule Options 9, Section 1, provides that members “shall not engage in conduct inconsistent with just and equitable principles of trade.”
4. From at least February 2020 through the present, Velocity failed to establish, maintain, and enforce a supervisory system, including WSPs, reasonably designed to prevent and detect, insofar as practicable, potentially manipulative trading activity by its customers.
5. During the relevant period, Velocity’s WSPs required the Firm to monitor customer trading activity for the use of any fraudulent device, scheme, or course of business in connection with the purchase or sale of securities. Velocity’s WSPs did not provide any guidance as to what factors or information to consider when assessing surveillance alerts or explanations offered by traders or customers for the trading activity under review. The WSPs also did not address whether the aggregate activity or the number of surveillance alerts generated by a particular customer (or individual trader of the customer) was relevant to the Firm’s review, or how to document the review and disposition of an alert. Nor did the WSPs provide guidance on when and how to escalate an alert for a Firm principal to conduct a secondary review.
6. From at least February 2020 through June 2023, Velocity used an automated surveillance system to identify potentially manipulative trading such as spoofing,

² Phlx Rule General 9, Section 1(c) superseded Phlx Rule Options 9, Section 1 effective January 22, 2021.

layering, cross trades, wash trading, and prearranged trading. However, from at least February 2020 through December 2022, the Firm had not enabled the system's prearranged trading surveillance, even after Velocity received inquiries from other broker-dealers about potential prearranged trading by more than 40 of the Firm's customers. In December 2022, Velocity enabled the prearranged trading surveillance alert offered by its automated surveillance system, but the Firm never reviewed the more than 10,000 alerts generated by this surveillance between December 2022 and February 2023.

7. From February 2020 through June 2023, Velocity's surveillance system generated nearly 150,000 alerts identifying potentially manipulative trading by the Firm's customers, including more than 100,000 alerts for cross trades and spoofing. The WSPs delegated responsibility for reviewing surveillance alerts to the Firm's Compliance Department, but the Compliance Department's review of those alerts was not reasonable.
8. Between February 2020 and June 2023, Velocity closed more than 140,000 of the alerts identifying potentially manipulative trading by its customers—including potential cross trades, spoofing, layering, and wash trading—without conducting any investigation into the trading or the customers' potential patterns of trading over time. Approximately one-third of the surveillance alerts were closed on the same day they were opened, and Compliance Department staff often closed hundreds or thousands of surveillance alerts on a single day. Velocity did not conduct any supervisory review of the alerts after they were closed. While many alerts were closed quickly without reasonable review, others were not addressed at all.
9. Velocity dedicated insufficient resources to reviewing surveillance alerts. For part of the relevant period, the responsibility to review alerts fell to a single employee who also spent a significant amount of time on other responsibilities. Velocity later hired five additional Compliance staff but still lacked the staffing to reasonably investigate and respond to surveillance alerts. In addition, Compliance staff were not provided with any written guidance or training on how to review surveillance alerts. The volume of alerts, lack of adequate staffing, and lack of training or guidance prevented the Firm's Compliance personnel from conducting reasonable reviews and follow-up investigations.
10. In July 2023, Velocity replaced its surveillance system with a new automated surveillance system. Since that time, the Firm's new surveillance system has generated approximately 15.2 million alerts identifying potentially manipulative trading by the Firm's customers, including alerts for layering, spoofing, and wash trading. The Firm closed nearly all such alerts without any investigation or action. As of early 2025, over 5.2 million alerts identifying potentially manipulative trading remained unreviewed.
11. Accordingly, Velocity violated Phlx Rule General 9, Sections 20(h), Phlx Rule General 9, Section 1(c) (for conduct on and after January 22, 2021), and Phlx

Rule Options 9, Section 1 (for conduct between February 3, 2020 and January 21, 2021).

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

1. a censure;
2. a \$1,000,000 fine, of which \$81,056 shall be paid to Phlx;³ and
3. an undertaking requiring Velocity to retain an Independent Consultant as described below.

C. Independent Consultant

1. Velocity shall:
 - a. Retain, within 60 days of the date of the Notice of Acceptance of this AWC, an Independent Consultant, not unacceptable to Phlx staff, to conduct a comprehensive review of the adequacy of the Firm's policies, systems and procedures (written and otherwise) and training relating to the detection and prevention of potentially manipulative trading activity and compliance with Phlx Rule General 9, Section 20(h) and FINRA Rule 3110.
 - b. Exclusively bear all costs, including compensation and expenses, associated with the retention of the Independent Consultant.
 - c. Cooperate with the Independent Consultant in all respects, including by providing staff support. Velocity shall place no restrictions on the Independent Consultant's communications with Phlx staff and, upon request, shall make available to Phlx staff any and all communications between the Independent Consultant and the Firm and documents reviewed by the Independent Consultant in connection with his or her engagement. Once retained, Velocity shall not terminate the relationship with the Independent Consultant without Phlx staff's written approval; Velocity shall not be in and shall not have an attorney-client relationship with the Independent Consultant and shall not seek to invoke the attorney-client privilege or other doctrine or privilege to prevent the Independent Consultant from transmitting any information, reports or documents to Phlx.
 - d. At the conclusion of the review, which shall be no more than 90 days after the date of the Notice of Acceptance of this AWC, require the Independent Consultant to submit to the Firm and Phlx staff an Initial Report. The Initial Report shall address, at a minimum, (i) the adequacy of the Firm's policies,

³ The remainder of the fine will be paid to FINRA; Cboe EDGA Exchange, Inc.; Cboe EDGX Exchange, Inc.; Cboe BYX Exchange, Inc.; Cboe BZX Exchange, Inc.; Investors Exchange LLC; Members Exchange LLC; MIAX Pearl, LLC; New York Stock Exchange LLC; NYSE Arca, Inc.; The Nasdaq Stock Market LLC; and Nasdaq BX, Inc.

- systems, procedures, and training relating to the detection and prevention of potentially manipulative trading activity and compliance with Phlx Rule General 9, Section 20(h) and FINRA Rule 3110; (ii) a description of the review performed and the conclusions reached, and (iii) the Independent Consultant's recommendations for modifications and additions to the Firm's policies, systems, procedures and training; and
- e. Require the Independent Consultant to enter into a written agreement that provides that for the period of engagement and for a period of two years from completion of the engagement, the Independent Consultant shall not enter into any other employment, consultant, attorney-client, auditing or other professional relationship with Velocity, or any of its present or former affiliates, directors, officers, employees, or agents acting in their capacity as such. Any firm with which the Independent Consultant is affiliated in performing his or her duties pursuant to this AWC shall not, without prior written consent of Phlx staff, enter into any employment, consultant, attorney-client, auditing or other professional relationship with Velocity or any of its present or former affiliates, directors, officers, employees, or agents acting in their capacity as such for the period of the engagement and for a period of two years after the engagement.
 2. Within 60 days after delivery of the Initial Report, Velocity shall adopt and implement the recommendations of the Independent Consultant or, if it determines that a recommendation is unduly burdensome or impractical, propose an alternative procedure to the Independent Consultant designed to achieve the same objective. The Firm shall submit such proposed alternatives in writing simultaneously to the Independent Consultant and Phlx staff. Within 30 days of receipt of any proposed alternative procedure, the Independent Consultant shall: (i) reasonably evaluate the alternative procedure and determine whether it will achieve the same objective as the Independent Consultant's original recommendation; and (ii) provide the Firm with a written decision reflecting his or her determination. The Firm will abide by the Independent Consultant's ultimate determination with respect to any proposed alternative procedure and must adopt and implement all recommendations deemed appropriate by the Independent Consultant.
 3. Within 30 days after the issuance of the later of the Independent Consultant's Written Report or written determination regarding alternative procedures (if any), Velocity shall provide Phlx staff with a written implementation report, certified by an officer of Velocity, attesting to, containing documentation of, and setting forth the details of the Firm's implementation of the Independent Consultant's recommendations.
 4. Velocity shall further retain the Independent Consultant to conduct a follow up review and submit a written Final Report to the Firm and to Phlx staff no later than one year from the date of the Notice of Acceptance of this AWC. In the Final Report, the Independent Consultant shall address the Firm's implementation of

the systems, policies, procedures, and training and make any further recommendation he or she deems necessary. Within 30 days of receipt of the Independent Consultant's Final Report, Velocity shall adopt and implement recommendations contained in the Final Report.

5. Upon written request showing good cause, Phlx staff may extend any of the procedural dates set forth above.

The Firm agrees to pay the monetary sanction(s) upon notice that this AWC has been accepted and that such payment(s) is due and payable. The Firm 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 Phlx'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 Exchange 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 Exchange Review Council, or any member of the Exchange Review 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 Exchange Review Council, the Review Subcommittee, or the Office of Disciplinary Affairs ("ODA"), pursuant to Phlx 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 Phlx or any other regulator against the Firm;
 - 2. Phlx may release this AWC or make a public announcement concerning this agreement and the subject matter thereof in accordance with Phlx Rule 8310 and IM-8310-3;⁴ 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 Phlx, or to which Phlx 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 Phlx 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 Phlx, nor does it reflect the views of Phlx 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 the Firm has agreed to the AWC's provisions voluntarily; and that

⁴ Series 8000 of Nasdaq Rules are incorporated by reference into Phlx General 5, Section 2, and are thus Phlx Rules and thereby applicable to Phlx members, member organizations, persons associated with member organizations, and other persons subject to Phlx's jurisdiction.

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.

September 25, 2025

Date

Velocity Clearing, LLC
Respondent

By: Laura Crawford

Name: Laura Crawford

Title: CCO

Reviewed by:

Thomas J. McCabe, Esq.

Thomas J. McCabe, Esq.
Counsel for Respondent
The McCabe Law Firm PC
2389 Yorktown Street
Oceanside, NY 11572

Accepted by Phlx:

September 30, 2025

Date

Joseph Strauss

Joseph E. Strauss
Senior Counsel
Department of Enforcement

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