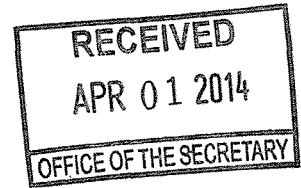


UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION



ADMINISTRATIVE PROCEEDING
File No. 3-15737

HARD COPY

In the Matter of

THOMAS C. GONNELLA,

Respondent.

ANSWER OF RESPONDENT THOMAS C. GONNELLA

Thomas C. Gonnella, by his attorneys, as and for his Answer to the Order Instituting Administrative and Cease-and-Desist Proceedings in this matter (the "OIP"), states as follows:

1. Mr. Gonnella denies the allegations of Paragraph 1 except that he admits that, between May and November 2011, he was employed as a trader at Firm A and Ryan King was employed as a trader at Firm B. Mr. Gonnella further admits that he sold certain securities on behalf of Firm A to Firm B, and that he subsequently purchased certain securities from Firm B on behalf of Firm A.

2. Mr. Gonnella denies the allegations of Paragraph 2 except that he admits that he sold ten securities on behalf of Firm A to Firm B and subsequently purchased those securities on behalf of Firm A from Firm B. Mr. Gonnella further admits that, in nine of these purchase transactions Firm B obtained gains in varying amounts and, in one of these transactions, Firm B incurred a substantial loss.

3. Mr. Gonnella denies the allegations of Paragraph 3.

4. Mr. Gonnella denies the allegations of Paragraph 4 except that he admits that, in two of the ten transactions in which he purchased securities on behalf of Firm A from Firm B, an inter-dealer broker participated in the transactions.

5. Mr. Gonnella admits the allegations of Paragraph 5.

6. Mr. Gonnella denies knowledge or information sufficient to form a belief as to the truth of the allegations in Paragraph 6 and therefore denies these allegations.

7. Mr. Gonnella denies the allegations of Paragraph 7 except that he admits that from the beginning of 2011 until his termination in November 2011, he was employed at Firm A

as a trader of esoteric asset-backed securities. Mr. Gonnella further admits that, during this period, he was allowed to commit, on behalf of Firm A, up to \$300 million of Firm A's capital for his trades and that a portion of his expected compensation for 2011 was a bonus based in part on the profitability of his trading book.

8. Mr. Gonnella denies the allegations of Paragraph 8 except that he admits that, in 2011, Firm A had an "aged inventory policy" and that, under this policy, after he held a position for three months, his book's profits began to accrue a monthly charge equivalent to 0.5% of the security's market value and that such charges accrued until he had held a position for seven months or more, when they generally became irreversible.

9. Mr. Gonnella denies knowledge or information sufficient to form a belief as to the truth of the allegations of Paragraph 9 and therefore denies these allegations except that he admits that every month he received a document informing him how long he had held each of his positions, and it was his practice to review that document to see if there were any upcoming irreversible charges.

10. Mr. Gonnella denies knowledge or information sufficient to form a belief as to the truth of the allegations of Paragraph 10 and therefore denies these allegations and refers to the text of the document that appears to be quoted in that paragraph for the complete and actual description of its content.

11. Mr. Gonnella denies the allegations of Paragraph 11 except that he admits that he offered to sell four asset-backed securities issued by Bayview Commercial Asset Trust ("BAYC") on behalf of Firm A to Firm B on May 31, 2011 and refers to the text of the document that appears to be quoted for the complete and actual description of its content.

12. Mr. Gonnella denies the allegations of Paragraph 12.

13. Mr. Gonnella denies the allegations of Paragraph 13 except that he admits that Mr. King agreed to buy, on behalf of Firm B, two of the four BAYC bonds Gonnella had offered at prices of \$56 and \$54 per bond.

14. Mr. Gonnella denies the allegations of Paragraph 14 except that he admits that, on June 1, 2011, he purchased from Firm B on behalf of Firm A the two BAYC bonds that he had previously sold to Firm B on behalf of Firm A at prices of \$57 and \$55 per bond, resulting in a gain to Firm B.

15. Mr. Gonnella denies the allegations of Paragraph 15.

16. Mr. Gonnella denies the allegations of Paragraph 16 except that he admits that, on August 30, 2011, he offered on behalf of Firm A to sell three BAYC bonds to Firm B at prices of \$72, \$73, and \$40 per bond and refers to the text of the document that appears to be quoted in that paragraph for the complete and actual description of its content.

17. Mr. Gonnella denies the allegations of Paragraph 17 except that he admits that Mr. King agreed to purchase on behalf of Firm B the three BAYC bonds that Mr. Gonnella had previously offered at the prices that Mr. Gonnella proposed and he denies knowledge and information sufficient to form a belief as to the truth of the allegations in Paragraph 17 with regard to the amount of the aged inventory charges avoided as a result of these transactions and therefore denies this allegation.

18. Mr. Gonnella denies the allegations of Paragraph 18 except that he admits that, on August 31, 2011, he purchased on behalf of Firm A two of the three BAYC bonds he had sold to Firm B on August 30, 2013 at prices of \$73.75 and \$40.75 per bond, resulting in a gain to Firm B and that, on September 7, 2011, he purchased \$12 million face amount of the third bond he had sold on behalf of Firm A to Firm B at a price of \$72.125 per bond, resulting in a gain to Firm B.

19. Mr. Gonnella denies the allegations of Paragraph 19 except that he admits that, on August 31, 2011 he sold five additional bonds on behalf of Firm A to Firm B, that, on September 2, 2011, he purchased those five bonds on behalf of Firm A from Firm B, resulting in a gain to Firm B.

20. Mr. Gonnella denies the allegations of Paragraph 20.

21. Mr. Gonnella denies knowledge or information sufficient to form a belief as to the truth of the allegations in Paragraph 21 and therefore denies these allegations.

22. Mr. Gonnella denies the allegations of Paragraph 22, except that he admits that a compliance officer from Firm A asked him questions during September 2011 about certain bond purchases he made from Firm B on behalf of Firm A on September 2, 2011.

23. Mr. Gonnella denies the allegations of Paragraph 23.

24. Mr. Gonnella denies the allegations of Paragraph 24, except that he admits that, on September 7, 2011, he purchased \$12 million face amount of the BAYC 07-4A A1 bond he had sold on behalf of Firm A to Firm B, leaving Firm B still owning \$7.65 million face amount of that bond on that date.

25. Mr. Gonnella denies the allegations of Paragraph 25, except that he admits that, on multiple occasions in September 2011, Mr. King asked Mr. Gonnella to purchase the remaining portion of the BAYC 07-4A bond and refers to the text of the document that appears to be quoted for the complete and actual description of its content.

26. Mr. Gonnella denies knowledge or information sufficient to form a belief as to the truth of the allegations in Paragraph 26 and therefore denies these allegations except that he admits that he was aware that, during the period that Firm B owned the BAYC 07-4A bond, its market value was declining and that Mr. King made statements to him during this same period indicating to Mr. Gonnella that Mr. King was also aware that the market value of this bond was declining.

27. Mr. Gonnella denies the allegations of Paragraph 27 except that he admits that, on October 11, 2011, he offered to sell two bonds known as PALS and LBSBC on behalf of Firm A to Firm B and refers to the text of the document that appears to be quoted for the complete and actual description of its content.

28. Mr. Gonnella admits the allegations of Paragraph 28.

29. Mr. Gonnella denies the allegations of Paragraph 29 and refers to the text of the document that appears to be quoted for the complete and actual description of its content.

30. Mr. Gonnella denies the allegations of Paragraph 30 except that he admits that, on October 26, 2011, Mr. Gonnella purchased the LBSBC bond on behalf of Firm A from Firm B at the market price of such bond on that date, which was higher than the market price of such bond on the date it was purchased by Firm B and resulted in a gain to Firm B.

31. Mr. Gonnella denies the allegations of Paragraph 31 except that he admits that, on October 26, 2011 and October 27, 2011, Mr. Gonnella's supervisor asked Mr. Gonnella about certain of his transactions with Mr. King that involved sales of securities followed by purchases of such securities and that, in the conversation on October 27, 2011, Mr. Gonnella's supervisor told him, in substance, that these transactions were "fine."

32. Mr. Gonnella denies the allegations of Paragraph 32 except that he admits that, on October 27, 2011, Mr. King called Mr. Gonnella and informed him that he had discussed the PALS bond and the BAYC 07-4A bond with his supervisor at Firm B and that supervisor had told him to tell Mr. Gonnella that unless Mr. Gonnella purchased both of these securities on behalf of Firm A from Firm B, that supervisor would raise the matter with Mr. Gonnella's supervisor.

33. Mr. Gonnella denies the allegations of Paragraph 33 except that he admits that, on October 27, 2011, he purchased the PALS bond on behalf of Firm A from Firm B at the market price of such bond on that date, which was higher than the market price of such bond on the date it was purchased by Firm B and resulted in a gain to Firm B. Mr. Gonnella further admits that, as a result of a conversation with Mr. King in which Mr. King informed him that Mr. King's supervisor had requested that an inter-dealer broker be used in this transaction, Mr. Gonnella agreed that an inter-dealer would be used in the transaction.

34. Mr. Gonnella denies the allegations of Paragraph 34 except that he admits that, on November 3, 2011, he purchased the BAYC 07-4A bond that Firm B still owned on behalf of Firm A at the market price of such bond on that date, which was lower than the market price of such bond on the date it was purchased by Firm B and resulted in a loss to Firm B. Mr. Gonnella further admits that Firm B received principal and interest payments on the BAYC 07-4A bond during the approximately two-month period during which it owned this bond and that, as a result of a conversation with Mr. King in which Mr. King informed him that Mr. King's supervisor had requested that an inter-dealer broker be used in this transaction, Mr. Gonnella agreed that an inter-dealer would be used in the transaction.

35. Mr. Gonnella denies the allegations of Paragraph 35 except that he admits that he accurately recorded each transaction he entered into on behalf of Firm A with Firm B in the books and records of Firm A.

36. Mr. Gonnella denies the allegations of Paragraph 36 except that he admits that he communicated with Mr. King via cell phone and text message and refers to the text of the document that appears to be quoted for the complete and actual description of its content.

37. Mr. Gonnella denies the allegations of Paragraph 37.

38. Mr. Gonnella denies knowledge or information sufficient to form a belief as to the truth of the allegations in Paragraph 38 and therefore denies these allegations.

39. Mr. Gonnella admits the allegations of Paragraph 39.

40. Paragraph 40 states a legal conclusion to which no response is required. To the extent that a response is deemed necessary, Mr. Gonnella denies the allegations of Paragraph 40.

41. Paragraph 41 states a legal conclusion as to which no response is required. To the extent that a response is deemed necessary, Mr. Gonnella denies the allegations of Paragraph 41.

FIRST AFFIRMATIVE DEFENSE

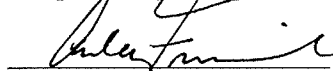
The allegation that Mr. Gonnella's conduct willfully violated Sections 17(a)(1) and 17(a)(3) of the Securities Act of 1933, as amended, and Section 10(b) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 thereunder fails to state a claim upon which relief can be granted.

SECOND AFFIRMATIVE DEFENSE

The Division of Enforcement is barred from proceeding with this action because, upon information and belief, it has failed to comply with the requirements of Section 929U of the Dodd-Frank Wall Street Reform and Consumer Protection Act, 15 U.S.C. § 78d-5.

Dated: March 31, 2014

Respectfully submitted,



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