

**UNITED STATES OF AMERICA**  
**Before the**  
**SECURITIES AND EXCHANGE COMMISSION**

**SECURITIES ACT OF 1933**

**Release No. 10094 / June 13, 2016**

**SECURITIES EXCHANGE ACT 1934**

**Release No. 78043 / June 13, 2016**

**INVESTMENT COMPANY ACT OF 1940**

**Release No. 32144 / June 13, 2016**

**ADMINISTRATIVE PROCEEDING**

**File No. 3-16978**

**In the Matter of**

**Behruz Afshar, Shahryar Afshar,  
Richard F. Kenny, IV, Fineline  
Trading Group LLC, and Makino  
Capital LLC,**

**Respondents.**

**ORDER MAKING FINDINGS AND  
IMPOSING REMEDIAL SANCTIONS  
AND A CEASE-AND-DESIST ORDER  
PURSUANT TO SECTION 8A OF THE  
SECURITIES ACT OF 1933, SECTIONS  
15(b) AND 21C OF THE SECURITIES  
EXCHANGE ACT OF 1934, AND  
SECTION 9(b) OF THE INVESTMENT  
COMPANY ACT OF 1940**

**I.**

On December 3, 2015, the Securities and Exchange Commission (“Commission”) instituted public administrative and cease-and-desist proceedings pursuant to Section 8A of the Securities Act of 1933 (“Securities Act”), Sections 15(b) and 21C of the Securities Exchange Act of 1934 (“Exchange Act”), and Section 9(b) of the Investment Company Act of 1940 (“Investment Company Act”) against Behruz Afshar (“Behruz”) and Richard F. Kenny, IV (“Kenny”), and instituted public administrative and cease-and-desist proceedings pursuant to Section 8A of the Securities Act and Section 21C of the Exchange Act against Shahryar Afshar (“Shahryar”), Fineline Trading Group LLC (“Fineline”), and Makino Capital LLC (“Makino”).

**II.**

Behruz, Shahryar, Kenny, Fineline, and Makino (collectively, “Respondents”) have submitted an Offer of Settlement (the “Offer”) which the Commission has determined to accept.

Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission's jurisdiction over them and the subject matter of these proceedings, which are admitted, Respondents consent to the entry of this Order Making Findings and Imposing Remedial Sanctions and a Cease-and-Desist Order Pursuant to Section 8A of the Securities Act of 1933, Sections 15(b) and 21C of the Exchange Act, and Section 9(b) of the Investment Company Act ("Order"), as set forth below.

### **III.**

On the basis of this Order and Respondents' Offer, the Commission finds that:

#### **SUMMARY**

1. This case involves two fraudulent trading schemes by Behruz Afshar ("Behruz") and his twin brother, Shahryar Afshar ("Shahryar"), and their close friend, Richard F. Kenny, IV ("Kenny"): the mismarking of option orders to obtain "customer priority" and "spoofing" to generate liquidity rebates. The Afshars are sophisticated options traders and former registered representatives. Kenny, during the relevant time period, was a registered representative at Lightspeed Trading, LLC ("Lightspeed"). The Afshars and Kenny conducted the schemes through two Lightspeed accounts in the name of Fineline Trading Group LLC ("Fineline") and Makino Capital LLC ("Makino"), limited liability companies which the Afshars owned.

2. The first scheme involved the mismarking of option orders to take advantage of the benefits that certain exchanges provide to non-professional, public retail investors. These exchanges, including the Chicago Board Options Exchange, the NYSE AMEX Options, the International Securities Exchange, and Nasdaq OMX PHLX ("PHLX"), require option orders from the accounts of public customers (not broker-dealers or market-makers) to be marked as either "customer" or "professional."

3. Orders marked "customer" have priority of execution over, and earn higher rebates and incur lower fees than, orders marked "professional" at the same price. A non-broker-dealer person or entity that places more than 390 orders in listed options per day (on average)—whether executed or not—on any listed options exchange during any calendar month in a quarter will be designated as a "professional" for the next quarter. Conversely, a "customer" is a non-broker-dealer person or entity that does not exceed the 390-order threshold for each calendar month in a quarter.

4. Despite far exceeding the 390-order threshold for every quarter from October 2010 to December 2012, the Respondents were able to continually place "customer"-marked orders throughout this time period by shifting their trading operations on a quarterly basis between the accounts of Fineline and Makino. When Fineline was designated as "professional" for an upcoming quarter, the Afshars' trading operations transitioned that quarter to Makino's account (designated as "customer"), essentially ceasing activity in Fineline's account. Fineline's inactivity would ensure that its account fell below the 390-order threshold, thereby achieving "customer" status for the next quarter, and thus enabling the trading to continue with

the benefits of “customer” designation for that subsequent quarter (while trading in Makino essentially ceased).

5. The Afshars and Kenny accomplished this back-and-forth scheme through false representations to Lightspeed that Behruz had the sole beneficial interest in Fineline and that Shahryar had the sole beneficial interest in Makino, when in fact Behruz had a beneficial interest in both companies. Kenny facilitated the movement of funds and trading operations between the accounts. He also traded in the Afshars’ accounts, received a portion of their trading gains, and shared his commissions with the Afshars.

6. By placing orders improperly marked as “customer,” the Respondents received several exchanges—wrongly avoiding over \$2 million in transaction fees—and unfairly disadvantaged other market participants with orders that received execution priority.

7. The second scheme involved manipulative trading known as “spoofing” to collect rebates from the PHLX. During the relevant time period, the PHLX employed a “maker-taker” fee model that offered rebates for orders that provided—or “made”—liquidity (i.e., orders that are posted to the exchange’s order book before executing against a subsequent incoming order) and charged fees for orders that “took” liquidity (i.e., orders that execute immediately against previously-received, liquidity-providing orders).

8. Between May 2011 and December 2012, the Respondents placed All-Or-None (“AON”) orders—undisplayed orders that must be executed in their entirety or not at all—in options on the PHLX to generate liquidity rebates. The Respondents then placed smaller orders in the same option series and price as the larger AON orders, but on the opposite side of the market. These small-lot orders, which were displayed, were not bona fide orders because they were not intended to be executed. Instead, they were placed to alter the option’s best bid or offer (“BBO”) in order to induce, or “spoofer,” other market participants into submitting orders at the new BBO, which would then execute against the AON orders. Upon execution of those AON orders, any open displayed orders placed by the Respondents were cancelled.

9. Because the executed AON orders existed prior to the entry of the other market participants’ orders, they were deemed to have added liquidity and, thereby, generated rebates. In contrast, the other market participants, induced into trading against the AON orders, were assessed a “take” fee. As a result of this trading scheme, the Respondents’ accounts reaped over \$204,000 in ill-gotten rebates.

## **RESPONDENTS**

10. **Behruz Afshar**, age 45, of Chicago, IL, worked at Terra Nova Financial, LLC (“Terra Nova”), a registered broker-dealer, from February 1997 to August 2007. While at Terra Nova, Behruz was the firm’s head trader, managing and supervising all trading operations of the broker-dealer. Behruz was also associated with another registered broker-dealer from October 2009 to December 2011. In March 2008, Behruz started his own trading company, Fineline, which began trading through a master sub-account at Terra Nova. During the relevant time period, Fineline traded through a master sub-account at Lightspeed. Behruz employed traders

on an independent contracting basis to trade in Fineline's sub-accounts. Behruz held Series 3, 4, 7, 24, 53, 55, and 63 licenses.

11. **Shahryar Afshar**, age 45, of Chicago, IL, is the twin brother of Behruz and was a registered representative with Terra Nova from 1998 to 1999, and from March 2005 to October 2005, and with various other broker-dealers from 2000 to 2004. In December 2010, together with Behruz and Kenny, Shahryar formed and took an ownership interest in Makino, which traded through a master sub-account at Lightspeed. Makino utilized the same independent contracting traders as Fineline to trade in its sub-accounts. Shahryar held Series 3, 7, 55, and 63 licenses.

12. **Richard F. Kenny, IV**, age 45, of Chicago, IL, was a registered representative at Terra Nova from 1996 to 1998 and from January 2005 until October 2010, when he became a registered representative at Lightspeed as a result of Lightspeed's acquisition of Terra Nova. Kenny held Series 3, 7, 24, 55, and 63 licenses. Kenny resigned from Lightspeed in December 2013, due to his refusal to formally attest that he was not sharing his commissions with any customers or non-registered individuals. On October 2014, FINRA filed a complaint against Kenny for repeatedly refusing to respond to informational requests in connection with its investigation of the Afshars' trading activity. In June 2015, FINRA issued a decision against Kenny for his failure to provide information and documents that would have identified the Afshars and bank accounts in their names or under their control. FINRA's decision, which became final in July 2015, barred Kenny from association with any FINRA member firm and ordered him to pay costs.

13. **Fineline Trading Group LLC** is a Nevada limited liability company that Behruz formed in December 2007. Fineline is a trading company through which Behruz, during the relevant time period, employed up to four independent contracting traders to trade in its sub-accounts. Behruz and Kenny also traded in Fineline's sub-accounts. Behruz controlled and handled all of Fineline's trading operations, risk management, and accounting.

14. **Makino Capital LLC** is a Nevada limited liability company that Shahryar, Behruz, and Kenny formed in December 2010. Makino utilized the same independent contracting traders as Fineline to trade in its master sub-account. Shahryar, Behruz, and Kenny also traded in Makino's sub-accounts. Behruz controlled and handled all trading operations, risk management, and accounting for Makino.

#### **OTHER RELEVANT ENTITIES**

15. **Lightspeed Trading LLC** is a New York limited liability company that was formed in 1998. Lightspeed is a broker-dealer registered with the Commission pursuant to Section 15(b) of the Exchange Act. Lightspeed's principal place of business is in New York, New York; the firm also has a branch office in Chicago. Lightspeed, which acquired Terra Nova in 2010, is a member of FINRA and various exchanges.

16. **Third Rail Management, Inc. ("Third Rail")** is a Nevada S corporation that Kenny formed in 2008. During the relevant time period, among other things, Third Rail's

bank account facilitated monetary transfers between the checking accounts of Fineline and Makino.

## **FINDINGS**

### **A. The Afshar Brothers and Kenny**

17. The Afshar brothers and Kenny are close friends. They attended the same middle school and college, and had overlapping tenures at Terra Nova where Behruz was director of the firm's trading operations, and where Kenny and Shahryar were registered representatives.

18. In October 2010, Kenny became a registered representative at Lightspeed as a result of Lightspeed's acquisition of Terra Nova. Kenny, although a registered representative with Lightspeed, was considered an independent contractor or "external broker" of the firm.

19. Kenny brought with him to Lightspeed some of the customer accounts he personally serviced while at Terra Nova, including his two largest customers, Behruz and Shahryar and their accounts, most notably, Fineline.

20. During his tenure at Lightspeed, Kenny, as an "external broker," was not required to work at the firm's registered office in Chicago, but operated alongside Behruz at a trading desk they leased on one of the floors of the Chicago Stock Exchange, Inc. Shahryar traded from his home or at one of the terminals at his brother's and Kenny's rented trading desk.

21. Kenny helped Behruz form Fineline and Makino by filing the formation documents with the state of Nevada and serving as Fineline's resident agent. Kenny was also Fineline's registered representative at Terra Nova (and later at Lightspeed) and Makino's registered representative at Lightspeed, earning commissions on trades in their accounts. Kenny, along with Behruz, was also a signer on the companies' checking accounts and a named cardholder of Fineline's business credit card.

22. During the relevant time period, Fineline and Makino employed at least four traders on an independent contracting basis to trade in the companies' sub-accounts, using trading capital provided by the Afshars.

23. Generally, a master sub-account is an account at a broker-dealer where a top-level customer, in most instances a limited liability company or limited liability partnership, is allowed to have subordinate accounts for different trading activities. These subordinate, or sub-, accounts are then typically used by individual traders or groups of traders.

24. Three of the independent contracting traders of Fineline and Makino traded in the same office space in San Francisco, and the other trader was a friend of the Afshars who traded primarily alongside Behruz and Kenny at their trading desk.

25. The master sub-account arrangement with portfolio margining afforded the traders increased "buying power" and leverage as each trader could trade on margin against the

value of the entire Finline or Makino master account. The traders agreed to split their respective net gains—which included the rebates earned on their trades—with the Afshars on a 50-50 basis.

26. Behruz oversaw all of the activity of the sub-account traders of Finline and Makino on a real-time basis, kept track of their order counts, provided operational, risk-management, and technological support, as well as access to trading software to place and route orders to specific exchanges. Behruz also controlled and handled the traders' capital and managed all accounting, including determining the sub-account traders' payouts and expense reimbursements, and ensuring that the companies' trading profits (after compensating the sub-account traders) were split three ways—among himself, Shahryar, and Kenny.

27. Behruz and Kenny also kept track of, on a monthly basis, the exchanges' maker-taker pricing models and fee schedules and informed the sub-account traders of any changes.

28. From October 2010 to December 2013, Kenny earned approximately \$2 million in commissions, of which over \$1.5 million was earned from the Afshars' accounts. Kenny shared those commissions with the Afshars and personally traded in the sub-accounts of both Finline and Makino. This conduct, which Kenny failed to disclose to Lightspeed, violated the broker-dealer's written supervisory procedures.

## **B. The “Professional” Order Type for Options**

29. A “professional order” is defined as an order for the account of a person or entity that: (1) is not a broker or dealer in securities; and (2) places more than 390 orders in listed options per day—whether executed or not—on any listed options exchange on average during any calendar month of a quarter for its own beneficial account(s) (“390-order threshold”). Three hundred ninety orders is equal to the total number of orders that a person would place in a day if that person entered one order every minute from market open to market close.

30. A “customer priority” order is defined as an order for the account of a non-broker-dealer person or entity that falls below the 390-order threshold for each calendar month in a quarter.

31. All orders for multiple accounts beneficially owned or controlled by the same person or entity, and all sub-accounts of a person or entity's master account, must be aggregated when determining whether the 390-order threshold has been exceeded by that person or entity.

32. A “customer priority” order is given priority of trade execution over “professional” and broker-dealer orders at the same price and, with few exceptions, does not incur any transaction fees and receives higher rebates (or pays lower fees) for adding (or removing) liquidity. Options exchanges provide these benefits to customer priority orders to attract retail order flow and level the playing field for retail investors over market professionals.

33. Lightspeed coded orders as “customer” or “professional” based on a quarterly counting of its customers’ orders. Orders from accounts with the same beneficial ownership (including all sub-accounts under a master account) were aggregated and totaled on a per-month basis to determine whether an account exceeded the 390-order threshold. Because trading activity was reviewed quarterly to determine whether orders for an account should be represented as “professional” or “customer,” a professional account one quarter can become a customer account next quarter, and vice versa, depending on the previous quarter’s order count.

## **C. The “Customer-Priority” Scheme**

### **1. The Scheme Generally**

34. From at least December 2010 to December 2012, the Afshars and Kenny perpetrated a scheme to fraudulently maintain “customer”-designation of all the orders from the Afshars’ accounts without interruption despite their order counts at Lightspeed far exceeding the 390-order threshold for every month during that time period.

35. The scheme was accomplished by having the trading operations at Lightspeed alternate between the Fineline and Makino accounts each quarter, depending on which account was “customer”-designated, with the other “professional” account conducting little to no activity.

36. Both Kenny and Behruz knew Lightspeed’s quarterly review procedures which required the aggregation of orders for all beneficially owned accounts (and their sub-accounts, if any existed). Kenny also read industry guidance regarding the requirement to aggregate orders and the exchanges’ prohibition on avoiding the “professional” designation by spreading trading activity over multiple accounts.

37. Typically, at the end of each quarter, Kenny or Behruz sought confirmation from Lightspeed that either the Fineline or Makino account would be designated as “professional” and that the other account would “come off pro” and revert back to “customer.”

38. After receiving confirmation from Lightspeed that the mostly dormant “professional” account would return to “customer” status at the start of the next quarter, Behruz alerted the sub-account traders of their upcoming transition to a new account and required them to wind down any open positions. Kenny ensured that the sub-account traders had trading authority and proper access credentials to seamlessly move between accounts. He also assisted the Afshars in transferring sufficient trading capital between the two master sub-accounts to enable the trading operations to continue without interruption.

39. To avoid account aggregation, the Afshars and Kenny represented to Lightspeed that Behruz was the sole beneficial owner of the former, and Shahryar was the sole beneficial owner of the latter.

40. In fact, Behruz had a beneficial interest in both Fineline and Makino. Fineline’s account opening documents, signed by Behruz and submitted to Lightspeed, listed Behruz as the only individual with a beneficial interest in the company. Fineline’s incorporation

documents also reflect that Behruz was the sole managing member of the company during the relevant time period.

41. For Makino, Behruz controlled the trading in the account and shared in its profits.

42. Had Lightspeed known that Behruz in fact controlled and managed both companies' accounts and had a beneficial interest in Makino, or that both companies' trading profits (after paying the sub-account traders) were divided among the Afshars and Kenny, the accounts of Finline and Makino would have been marked "professional" for every quarter during the relevant time period.

## **2. The Genesis and Intent of the Customer-Priority Scheme**

43. The scheme took shape in December 2010, when Behruz and Kenny, fully aware of the aggregation requirements of orders from beneficially owned accounts, explored ways to ensure that Finline's trading continued in a "customer"-marked account for the first quarter of 2011. Behruz and Kenny initially sought to open a new master sub-account at another broker-dealer. In mid-December 2010, Behruz forwarded to one of the sub-account traders an email from the other broker-dealer about the availability of a new master sub-account for trading by January 3, 2011, stating, "[b]elow is an email from my guy at the other BD we plan on trading soon.... In case you were wondering, we plan on having accounts open at multiple firms under different names so we can keep trading :)."

44. The idea of opening an account at the other broker-dealer was abandoned when Lightspeed's compliance department refused to approve Kenny's dual association with the other broker-dealer.

45. Behruz, Kenny, and Shahryar ultimately decided to form a new entity, Makino, named after a sushi restaurant in Las Vegas, Nevada that Shahryar frequented, open a master sub-account in its name at Lightspeed, and then make it appear that Makino was not beneficially owned by Finline and/or Behruz. As Behruz explained to a sub-account trader via instant message:

*Behruz:* i'm always about the money, the problem that we face is Monday [January 3, 2011] we are Pro[fessional]...that doesn't change

*Behruz:* I was ready to have a customer account for [sic] to trade in as of last week, but some powers that may be came in and put some strain on that account so we had to go another route which will still accomplish our goal....

*Behruz*: you should see all the s\*\*\* we're doing here...too funny  
*Sub-Account Trader*: costume party? what do you mean?  
*Behruz*: opening bank accounts, trading accounts, etc ....  
*Behruz*: i think we have about 10 llc here all tied to sushi names  
*Sub-Account Trader*: LOL  
*Sub-Account Trader*: you and your fish man  
*Sub-Account Trader*: too funny  
*Behruz*: i'm not even the one that came up with these damn names  
*Sub-Account Trader*: haha who made em up  
*Behruz*: my bro and rich

46. Kenny filed paperwork with the state of Nevada to form Makino on December 20, 2010. Those formation documents included Shahryar as the only principal of the company, despite the fact that Behruz and Kenny also had a beneficial interest in the company. One week later, Kenny completed and submitted an application to Lightspeed for a new master sub-account for Makino. That application, signed by Shahryar, falsely stated that Shahryar had the sole interest in Makino.

47. Once Makino's master sub-account was approved by Lightspeed in mid-January 2011, Fineline's trading, with Behruz managing the operations and Kenny serving as the registered representative (and an unofficial sub-account trader), was able to continue as a "customer"—for the first quarter of 2011 in the new Makino account—and for all subsequent quarters in the relevant time period as those operations seamlessly alternated between the two accounts.

48. By the fourth quarter of 2012, Behruz became frustrated with aggregating the sub-account traders' orders for purposes of determining the 390-order threshold, and confided in a former colleague from Terra Nova that it was time to "kill the whole idea of having these master sub setups and having individual traders being just backed and they have to monitor their order counts. That way we don't – they don't have to f\*\*\*in' bounce around" between Fineline and Makino.

49. As a result, starting in January 2013, the Respondents' plan was for each sub-account trader to establish their own LLC, open an account at Lightspeed in the name of that LLC in which to trade, and have Fineline "operate as we always have, but more as a lender of capital," controller of all the "money flow," and recipient of a split of the traders' respective net gains. "The idea," as Behruz wrote, "[was] to function in a capacity where [Fineline] will not have beneficial ownership but will still be able to provide traders with the same service" and with trading capital. Moreover, each trader had to "adhere to the 390 rule or else run the risk of being coded pro-customer."

### 3. Specific Example of the Customer-Priority Scheme

50. The Respondents placed the following number of orders in the fourth quarter of 2011:

Month	Account Name	Account Designation	Aggregate Orders	Daily Average
October 2011	Fineline Trading Group LLC	Customer	91,250	4,345
	Makino Capital LLC	Professional	78	4
November 2011	Fineline Trading Group LLC	Customer	76,916	3,663
	Makino Capital LLC	Professional	2	0.10
December 2011	Fineline Trading Group LLC	Customer	80,134	3,816
	Makino Capital LLC	Professional	0	0

51. In anticipation of Fineline becoming designated as “professional” for the first quarter of 2012 based on the order counts above, Kenny began the process of re-activating the Makino sub-accounts in late December 2011.

52. On December 27, 2011, Kenny emailed a representative in Lightspeed’s accounts department requesting log-in credentials for the Makino sub-accounts. In his email, Kenny falsely represented that only Shahryar would be trading in each of the sub-accounts and that Shahryar was the only member of Makino, attaching trade authorization forms signed by Shahryar listing only his name for each sub-account. On December 30, 2011, Kenny received the log-in credentials.

53. As part of ensuring a seamless transition of trading operations from Fineline to Makino for the start of the first quarter of 2012, Behruz transferred trading capital from Fineline to Makino through an entity owned by Kenny.

54. On December 30, 2011, Behruz submitted a wire request to Lightspeed to transfer \$420,000 from Fineline’s brokerage account to its checking account. After receiving those funds, on the same day, Fineline’s checking account transferred \$220,000 to a checking account in the name of Third Rail, an entity Kenny owned and which helped facilitate money transfers between Fineline and Makino, with the remaining \$200,000 transferred to Makino’s checking account (increasing Makino’s account balance to over \$400,000).

55. On January 3, 2012, Third Rail transferred \$200,000 to Makino’s checking account (increasing its account balance to more than \$600,000). Later that day, Makino transferred \$600,000 to its brokerage account at Lightspeed and Kenny emailed the sub-account traders their respective log-in credentials received from Lightspeed’s accounts department to begin trading in the Makino sub-accounts.

56. The next day, January 4, Third Rail’s checking account transferred \$250,000 to Makino’s checking account, all of which Makino then transferred to its brokerage account at Lightspeed, providing additional trading funds.

57. Third Rail’s involvement in the transfers between Finline and Makino was intended to avoid raising suspicions that the two companies were affiliated.

58. The following shows the shifting of trading activity from Finline’s account to Makino’s account (now “customer”) in the first quarter of 2012:

Month	Account Name	Account Designation	Aggregate Orders	Daily Average
January 2012	Finline Trading Group LLC	Professional	438	21
	Makino Capital LLC	Customer	97,122	4,625
February 2012	Finline Trading Group LLC	Professional	16	0.8
	Makino Capital LLC	Customer	100,187	5,009
March 2012	Finline Trading Group LLC	Professional	12	0.55
	Makino Capital LLC	Customer	107,232	4,874

59. On March 29, 2012, Kenny requested, and received, confirmation from Lightspeed that Finline’s designation would revert back to “customer” at the start of the second quarter based on the order counts above. Later that day, Kenny requested that Lightspeed “expire” the Makino log-in credentials used by the sub-account traders and “enable” four Finline log-in credentials, effective Monday, April 2, 2012, the first trading day of the next quarter.

60. As part of transitioning the trading operations from Makino back to Finline for the start of the second quarter of 2012, Makino transferred trading capital to Finline. On Friday, March 30, 2012, Makino requested a wire transfer of \$730,000 from its Lightspeed account to its checking account. On April 2, 2012, Makino transferred \$500,000 and \$80,000 to Third Rail’s and Finline’s checking accounts, respectively, and Kenny emailed the sub-account traders their new log-in credentials for the re-activated Finline sub-accounts. On April 4, 2012, Third Rail transferred \$300,000 to Finline’s checking account. Several days later, on April 9, 2012, Finline transferred \$400,000 to its Lightspeed account providing additional trading funds.

#### 4. The Deceived Parties of the Customer-Priority Scheme

61. The “customer priority” scheme was intended to deceive the exchanges requiring option orders from public customers to be designated as either “customer” or “professional.” On the basis of that order designation, the exchanges determined which orders received priority of execution and the amounts of all related transaction credits and debits, including liquidity rebates, “take” fees, transaction costs, and cancellation fees. Lightspeed passed on the full amount of these credits and debits from the exchanges to the corresponding customers that placed the orders.

62. As a result, the customer-priority scheme netted the Respondents’ accounts over \$2 million in exchange fees avoided.

63. In addition, the scheme unfairly disadvantaged other professional market participants over whom the Respondents' "customer" orders wrongly received priority of execution for orders at the same price. Put another way, professional public customers placing orders at the same price as Respondents' orders were harmed by the Respondents' advantageous position of execution priority through the customer-priority scheme.

64. The Respondents' trading operations and the volume and frequency of their orders in no way resembled those of a non-professional, retail customer. The Respondents undermined the purpose of the "professional"-order type, which was to level the playing field between public customers and professional traders, by wrongly claiming for themselves the benefits exchanges only offered to non-professional, public customers.

#### **D. The "Spoofing" Scheme**

##### **1. The Scheme Generally**

65. Between May 2011 and December 2012, the Respondents engaged in "spoofing" to generate rebates from the PHLX, which was a maker-taker exchange at the time. In general, spoofing describes a trader's use of "non-bona fide" orders (i.e., orders that the trader does not intend to have executed) in a security on one side of the market, which affect the price and/or volume of that security, for the purpose of inducing other market participants to execute against the trader's orders in the same security but on the opposite side of the market. The spoofing employed by the Respondents focused on options in symbols that were eligible for rebates on the PHLX.

66. The Respondents, or the sub-account traders under the Respondents' direction and/or supervision, entered a series of nondisplayed AON orders to buy (or sell) options on the PHLX in these symbols at a price that was a penny more (or less) than the option's current best bid (or offer). AON orders are undisplayed orders to buy or sell securities that must be executed in their entirety, or not executed at all. AON orders continue to remain active (and hidden) until they are executed or cancelled. Because AON orders are undisplayed, their prices do not affect the national best bid or offer ("NBBO").

67. The Respondents, or the sub-account traders under the Respondents' direction and/or supervision, then placed smaller, non-bona fide sell (or buy) orders—typically, for one contract ("a one-lot")—on the PHLX (or a different exchange) at the same price as the AON orders, but on the opposite side of the market (the "small-lot orders"). Because the size of the small-lot orders was less than the AON orders, those orders did not execute against each other. The small-lot orders, which were displayed, were placed for the purpose of lowering (or raising) the option's best offer (or bid) by one penny in order to induce other market participants to send orders on the same side at that price level. Once other market participants joined the small-lot order with sufficient quantity, their orders executed against the AON orders. After the AON orders were filled, any open, non-bona fide, small-lot order was cancelled. Typically, the strategy was repeated on the opposite side of the market to close out the position.

68. Because the AON orders were posted to the PHLX's order book before executing against subsequently received orders, the PHLX credited them with having provided liquidity and paid rebates that Lightspeed passed on to the Afshars' accounts. Conversely, the orders from the other market participants, who were "spoofed" into executing against the pre-existing AON orders, were considered to have removed liquidity and charged a "take" fee by the PHLX.

69. Once the PHLX removed their maker-taker pricing schedule for "customer"-marked orders effective January 2013, the AON spoofing scheme came to an end, or as Behruz summed it up, "bye bye AON fun." As a result of this scheme, the Respondents' accounts generated over \$204,000 in rebates from the PHLX.

70. The use of small-lot orders to spoof other market participants into executing against the non-displayed AON orders was described by Behruz as the "hidden X-A," referring to the coding of orders that earned rebates from the PHLX ("X" for PHLX and "A" for adding liquidity) and described by Kenny as "bringing in the offer" (to fill AON buy orders) or "bringing in the bid" (to fill AON sell orders), as reflected in instant messages:

*Behruz:* i love getting 'em with the hidden x-a anyhow . . . bring me such pleasure and joy . . . at times I roll over laughing

*Sub-Account Trader:* haha

*Sub-Account Trader:* yes

*Sub-Account Trader:* it's a nice feeling

*Sub-Account Trader:* I love it when I use nasd [to place the small-lot order] to bring the bid/offer in and then get em

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*Sub-Account Trader:* did you see the [Microsoft trade] [last] month?

*Sub-Account Trader:* yday

*Sub-Account Trader:* no liquidity

*Kenny:* i didn't...you get some?

*Sub-Account Trader:* but i offered em on phlx aon and brought the bid in on phlc [sic]

*Sub-Account Trader:* i LOVE doin that lol ...

*Kenny:* that is the finest... bringing in the bid or offer

*Kenny:* makes you feel proactive!

*Sub-Account Trader:* makes me feel like i was smarter than the computer haha

*Kenny:* true dat

## 2. A Specific Spoofing Example

71. On October 15, 2012, between 9:52:50 and 9:52:54, Kenny himself placed twelve AON orders, each to sell ten call option contracts of Ford, with November 2012 expiration and a strike price of \$11.00, for \$.08 on the PHLX (for a total of 120 contracts).

- At the time, the inside bid for this option series was \$.07 and the inside offer was \$0.09 and the bid size was over 2,400 contracts.
- The AON orders did not change the national best offer because they were not displayed to other market participants.
- Kenny placed the AON orders in one of the sub-accounts of Fineline, which was designated “customer” because its activity in the prior quarter fell below the 390-order threshold.

72. At 9:52:56, Kenny placed a one-lot order to purchase the same call option series in Ford for \$0.08 on the PHLX from one of the sub-accounts of Makino, which at the time was designated “professional,” presumably to avoid raising any suspicions of a wash trade and to decrease the likelihood of an execution (due to the lower priority of “professional” orders).

- The one-lot order raised the national best bid from \$0.07 to \$0.08—narrowing the NBBO spread from two cents (\$0.07 x \$0.09) to one cent (\$0.08 x \$0.09). At that one-cent spread, the bid size was only one contract—reflecting the one-lot order.
- That order was guaranteed not to execute against the AON orders because the quantity of the AON orders exceeded the one-lot.
- At 9:52:59, Kenny cancelled the one-lot order, which lowered the national best bid back to \$0.07 (at which price the bid size was more than 2,300 contracts).

73. At 9:56:01, Kenny placed another one-lot buy order at \$0.08 in the same call option series.

- The one-lot order increased the best bid to \$0.08 (at which price the bid size was again one contract).
- At 9:56:03, Kenny placed six more AON sell orders in the same call option series at \$0.08 (increasing the AON sell orders to 180 total contracts).
- Between 9:56:03 and 9:56:43, other market participants submitted buy orders at \$0.08 in sufficient quantities to completely fill all eighteen AON orders.
- At 9:56:43, all eighteen AON orders were executed, resulting in \$46.80 in liquidity rebates for the Fineline account (\$0.26 per contract).

- At 9:56:45, Kenny cancelled the open one-lot order, dropping the best bid back to \$0.07.

### 3. The Genesis and Intent of the Spoofing Scheme

74. Behruz developed the scheme, sometimes referred to as “AON-ing,” or simply “AON,” after he observed non-marketable orders from the Afshars’ accounts—which he believed were eligible for rebates upon their execution—executed immediately and were charged a “take” fee for removing liquidity. After learning that the orders executed against hidden orders, Behruz began testing AON orders on the PHLX.

75. Behruz later learned that “customer”-marked AON orders were not assessed cancellation fees by the PHLX (unlike “professional” AON orders). This made the spoofing strategy economically viable because the Afshars’ accounts could post AON orders and cancel them without penalty if they were not filled. As a result, in early May 2011, Behruz introduced the AON strategy to Kenny and the sub-account traders.

76. On some occasions, Behruz and Kenny placed small-lot orders on the PHLX to assist the sub-account traders in filling their AON orders, typically using a different sub-account (or the account designated as “professional” at the time). Kenny told one of the sub-account traders that “as far as AON goes, [Behruz] and i love to help. i love to positions [sic] get closed.”

77. At times, the sub-account traders requested this assistance and other times, Behruz and Kenny proactively offered it. For example, Kenny wrote one sub-account trader: “that you AONing in MSFT? i’m gonna prop it up and get u filled” and, on another occasion, wrote: “lemme help you out. load up your aons.” Similarly, Behruz corresponded with a trader:

*Behruz:*... I’d rather do the phlx aon on that and bring the offer in

*Sub-Account Trader:* ok . . .

*Sub-Account Trader:* 10 50 lots?

*Behruz:* yes

*Sub-Account Trader:* ok done

*Behruz:* when you’re done we’ll cancel the 1 lot

*Behruz:* that’s my offer

*Sub-Account Trader:* k

*Behruz:* come here kitty kitty

*Behruz:* they are afraid :)

### 4. The Victims of the Spoofing Scheme

78. Market participants were deceived when they interpreted the small-lot orders as reflecting genuine demand or supply and joined those orders with hopes of offering liquidity and earning rebates. Instead, their orders often executed against the hidden AON orders and resulted in “take” fees. These market participants were deceived into executing against AON orders placed from the Afshars’ accounts at prices that had been artificially raised (or lowered) by those same accounts.

79. In fact, one market participant alerted the PHLX about being deceived by such trading. On October 31, 2012, a trader at a registered broker-dealer, market-maker, and proprietary trading firm, notified her supervisor, the head of the firm's U.S. options market making ("Head Trader #1"), that "[t]oday we saw in GE us remove large size on PHLX using quotes. We join a 1-lot bid and end up removing liquidity via 10-lot trades (the 1-lot remains). Last time we saw this behavior the exchange verified that we had crossed with an ALL-or-NONE order. I am curious if it is the same case here and if the counterparty we execute against is the same firm that has a 1-lot bid in the depth."

80. Unbeknownst to the firm, on October 31, 2012, from 12:29:31 to 12:29:43, Kenny, in one of Fineline's sub-accounts, placed twenty-four AON orders on the PHLX, each to sell ten contracts of GE (with November 2012 expiration and strike price of \$22.00) for \$0.07 (for a total of 240 contracts). At the time, the inside bid for this option was \$0.06 (with a size of 1,897 contracts) and the inside ask was \$0.08 (at 5,291 contracts). At 12:29:47, Kenny, from one of Makino's sub-accounts, placed a one-lot order on the PHLX to buy the same option at \$0.07. That one-lot order raised the inside bid from \$0.06 to \$0.07 (with a bid size of one contract).

81. In response to that price movement, at 12:34:38, the firm's trading algorithm joined the one-lot order with an order to buy 130 contracts of the November 2012 GE option at \$0.07 to provide liquidity at the new bid and potentially earn rebates. However, rather than providing liquidity, the firm's order immediately executed in full against thirteen of the preexisting twenty-four AON orders placed by Kenny. The firm's order thus removed liquidity and was charged a "take" fee by the PHLX. At 12:36:36, Kenny cancelled the one-lot order, moving the inside bid back to \$0.06 (with a size of 602 contracts).

82. Several hours later, after being informed of these findings, Head Trader #1 emailed individuals at the PHLX about his concerns: "[W]e have encountered some strange trading behavior recently on PHLX. It appears like we are trading against hidden AON orders, and we believe that someone might be manipulating the market. Here is one example from today that we found in GE, all timestamps are CST. Before the trades happened the PHLX BBO was .07 bid at .08. The volume on the .07 bid was 1 contract. We tried to join the .07 bid for a size of 130 contracts, and we immediately traded 13 times, each trade was for 10 contracts. We are particularly concerned that a market participant is entering an order to buy 1 contract at .07 (not AON), and then they are layering many orders to sell at .07 using an AON contingency."

### **VIOLATIONS**

83. As a result of the conduct described above, Respondents Behruz Afshar and Kenny willfully violated Section 9(a)(2) of the Exchange Act, which makes it unlawful "to effect, alone or with one or more other persons, a series of transactions in any security . . . creating actual or apparent active trading in such security, or raising or depressing the price of such security, for the purpose of inducing the purchase or sale of such security by others."

84. As a result of the conduct described above, Respondents Behruz Afshar and Kenny willfully violated Sections 17(a)(1), (2) and (3) of the Securities Act and Section 10(b) of the Exchange Act and Rules 10b-5(a), (b) and (c) thereunder, which prohibit fraudulent conduct in the offer and sale of securities and in connection with the purchase or sale of securities.

85. As a result of the conduct described above, Respondents Shahryar Afshar, Finline, and Makino violated Sections 17(a)(1), (2) and (3) of the Securities Act, Sections 9(a)(2) and 10(b) of the Exchange Act and Rules 10b-5(a), (b) and (c) thereunder.

#### IV.

In view of the foregoing, the Commission deems it appropriate, in the public interest, and for the protection of investors to impose the sanctions agreed to in the Respondents' Offer.

Accordingly, pursuant to Section 8A of the Securities Act, Sections 15(b) and 21C of the Exchange Act, and Section 9(b) of the Investment Company Act as to Respondents Behruz Afshar and Kenny, and Section 8A of the Securities Act and Section 21C of the Exchange Act as to Respondents Shahryar Afshar, Finline, and Makino, it is hereby ORDERED that:

A. Respondents cease and desist from committing or causing any violations and any future violations of Section 17(a)(1), (2) and (3) of the Securities Act, Sections 9(a)(2) and 10(b) of the Exchange Act and Rules 10b-5(a), (b) and (c) thereunder.

B. Respondents Behruz Afshar and Kenny be, and hereby are:

barred from association with any broker, dealer, investment adviser, municipal securities dealer, municipal advisor, transfer agent, or nationally recognized statistical rating organization;

prohibited from serving or acting as an employee, officer, director, member of an advisory board, investment adviser or depositor of, or principal underwriter for, a registered investment company or affiliated person of such investment adviser, depositor, or principal underwriter; and

barred from participating in any offering of a penny stock, including: acting as a promoter, finder, consultant, agent or other person who engages in activities with a broker, dealer or issuer for purposes of the issuance or trading in any penny stock, or inducing or attempting to induce the purchase or sale of any penny stock.

C. Any reapplication for association by Respondents Behruz Afshar or Kenny will be subject to the applicable laws and regulations governing the reentry process, and reentry may be conditioned upon a number of factors, including, but not limited to, the satisfaction of any or all of the following: (a) any disgorgement ordered against Respondents Behruz Afshar or Kenny, whether or not the Commission has fully or partially waived payment of such disgorgement; (b) any arbitration award related to the conduct that served as the basis for the Commission order; (c) any self-regulatory organization arbitration award to a customer, whether or not related to the conduct that served as the basis for the Commission order; and (d) any restitution order by a self-regulatory organization, whether or not related to the conduct that served as the basis for the Commission order.

D. Respondents Behruz and Shahryar Afshar shall pay disgorgement of \$1,048,824.67, for which they shall be jointly and severally liable. In addition, Behruz Afshar shall pay a civil money penalty of \$150,000 and Shahryar Afshar shall pay a civil money penalty of \$75,000. Payments shall be made to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3). Payment shall be made in the following installments:

- (1) \$666,666.67 within 10 days of entry of the Order;
- (2) \$133,333.33 within 120 days of entry of the Order;
- (3) \$133,333.34 within 240 days of entry of the Order; and
- (4) \$340,491.33 within 360 days of entry of the Order.

If any of these payments is not made by the date the payment is required by this Order, the entire outstanding balance of disgorgement and civil penalties, plus any additional interest accrued pursuant to SEC Rule of Practice 600 and pursuant to 31 U.S.C. §3717, shall be due and payable immediately, without further application.

E. Respondent Kenny shall pay disgorgement of \$524,412.33 and a civil money penalty of \$100,000 to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3). Payment shall be made in the following installments:

- (1) \$333,333.33 within 10 days of entry of the Order;
- (2) \$66,666.67 within 120 days of entry of the Order;
- (3) \$66,666.66 within 240 days of entry of the Order; and
- (4) \$157,745.67 within 360 days of entry of the Order.

If any of these payments is not made by the date the payment is required by this Order, the entire outstanding balance of disgorgement and civil penalties, plus any additional interest accrued pursuant to SEC Rule of Practice 600 and pursuant to 31 U.S.C. §3717, shall be due and payable immediately, without further application.

F. Payments must be made in one of the following ways:

- (1) Respondents may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;
- (2) Respondents may make direct payment from a bank account via Pay.gov through the SEC website at <http://www.sec.gov/about/offices/ofm.htm>; or
- (3) Respondents may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center  
Accounts Receivable Branch  
HQ Bldg., Room 181, AMZ-341  
6500 South MacArthur Boulevard  
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying the Respondent making the payment as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Robert Cohen, Co-Chief, Market Abuse Unit, Division of Enforcement, Securities and Exchange Commission, 100 F St., NE, Washington, DC 20549.

G. Amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondents agree that in any Related Investor Action, they shall not argue that they are entitled to, nor shall they benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondents' payment of civil money penalties in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondents agree that they shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the Securities and Exchange Commission. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil money penalties imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action" means a private damages action brought against a Respondent by or on behalf of one or more investors based on substantially the same facts as found in the Order.

H. It is further Ordered that, solely for purposes of exceptions to discharge set forth in Section 523 of the Bankruptcy Code, 11 U.S. C. §523, that the findings in the Order are true and admitted by Respondents, and further, any debt for disgorgement, civil penalty or other amounts due by Respondents under the Order or any other judgment, order, consent order, decree or settlement agreement entered in connection with this proceeding, is a debt for the violation by Respondents of the federal securities laws or any regulation or order issued under such laws, as set forth in Section 523(a)(19) of the Bankruptcy Code, 11 U.S.C. §523(a)(19).

By the Commission.

Brent J. Fields  
Secretary