

UNITED STATES DISTRICT COURT  
DISTRICT OF MASSACHUSETTS

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SECURITIES AND EXCHANGE COMMISSION

U.S. DISTRICT COURT  
DISTRICT OF MASS.

Plaintiff,

v.

Civil Action No.

JAMES B. CROFWELL,

07 CA 11640 RWZ

Defendant.

COMPLAINT

Plaintiff Securities and Exchange Commission (the "Commission") alleges that:

SUMMARY

1. This enforcement action concerns the conduct of James B. Crofwell ("Crofwell" or "Defendant"), who aided and abetted the Boston Stock Exchange, Inc.'s ("BSE") failure to enforce compliance with an exchange rule. The conduct at issue is described in the Commission's Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Sections 19(h) and 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing Sanctions, which was issued on or about September 5, 2007, with regard to the BSE and Crofwell.

2. Crofwell has consented, without admitting or denying the allegations of this Complaint, except as to personal jurisdiction and subject matter, which he admits, to the entry of a Final Judgment ordering him to pay a civil penalty of \$75,000 pursuant to Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)].

## **JURISDICTION AND VENUE**

3. This Court has jurisdiction over this action pursuant to Section 21(d)(3) and 27 of the Exchange Act [15 U.S.C. §§ 78u(d), 78u(e) and 78aa]. Venue is proper in this District because, at all relevant times, the BSE was headquartered in Massachusetts and many of the acts and practices alleged in the Complaint occurred in Massachusetts.

## **DEFENDANT**

4. Crofwell, age 55, of Scituate, Massachusetts, was employed by the BSE as the Executive Vice-President, Information Systems from October 1986 until 1995, and thereafter as President and Chief Operating Officer until his resignation during 2003. As COO, Crofwell was responsible for all surveillance and technology functions at the BSE.

## **FACTS**

5. The BSE is a self-regulatory organization located in Boston, Massachusetts and registered with the Commission as a national securities exchange pursuant to Section 6(a) of the Exchange Act.

6. Between 1999 and 2004, the BSE failed to enforce certain of its rules, referred to as customer priority rules, intended to prevent BSE broker-dealer specialist firms from trading in a way that benefited them while disadvantaging their customers who were trying to buy and sell stock. The BSE failed to develop and implement adequate procedures for surveillance of violations of its customer priority rules, which prohibit specialists from trading ahead of customer orders and interpositioning trades for their own account between customer buy and sell orders, when the customer orders could be matched.

7. Certain fundamental problems with the BSE proprietary trading platform, BEACON (Boston Exchange Automated Communication and Order-Routing Network), and the BSE's adoption of a competing specialist initiative during 1996, made it necessary for the BSE to implement fundamental programming changes to BEACON as a prerequisite to developing the necessary priority rule surveillance.

8. As a result of these problems, BSE specialists violated the Exchange's customer priority rules on frequent occasions, and violations continued even after the Commission staff had repeatedly warned the BSE of the need to improve surveillance systems.

9. Crofwell, then the BSE's President, knew of the priority rule surveillance problems, and stated in writing to the Commission that procedures would be implemented by a specific target date. He also knew of the need to take additional steps to ensure that necessary programming changes were made to the way that stocks were traded on the BSE in order for the BSE to be in a position to enforce its customer priority rules. Crofwell failed, despite repeated warnings, to take steps necessary to ensure that the BSE developed the ability to enforce its own customer priority rules.

10. Crofwell received detailed written and verbal communications from the Commission staff and others at the BSE which establish his awareness of the facts alleged herein.

11. By its actions, the BSE violated Section 19(g)(1) of the Exchange Act [15 U.S.C. § 78s(g)(1)] by failing to enforce compliance with its customer priority rules from February 1999 until July 2004 without reasonable justification or excuse.

**CLAIM FOR RELIEF**  
**Aiding and Abetting Violations of Section 19(g)(1)**  
**of the Exchange Act [15 U.S.C. § 78s(g)(1)]**

12. Paragraphs 1 through 11 are hereby realleged and incorporated herein by reference.

13. Section 19(g)(1) of the Exchange Act [15 U.S.C. § 78s(g)(1)] requires every exchange to comply with the provisions of the Exchange Act, the rules and regulations thereunder, and its own rules, and also to enforce compliance by its members with such provisions, absent some “reasonable justification or excuse” for failing to do so.

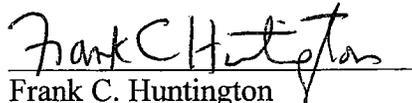
14. The BSE violated Section 19(g)(1) of the Exchange Act [15 U.S.C. § 78s(g)(1)] by failing to enforce compliance with its customer priority rules from at least February 1999 until July 2004 without reasonable justification or excuse.

15. Crofwell aided and abetted the BSE’s violations of Section 19(g)(1) of the Exchange Act [15 U.S.C. § 78s(g)(1)] by failing to take appropriate steps, after being placed on notice of the need to enforce compliance with the BSE’s customer priority rules, to implement appropriate surveillance systems or another solution.

**RELIEF REQUESTED**

WHEREFORE, Plaintiff Securities and Exchange Commission requests that the Court enter a Final Judgment ordering Defendant Crofwell to pay a \$75,000 civil penalty pursuant to Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)] .

Respectfully submitted,



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