



DISCIPLINARY DECISION

**Members Exchange LLC
Matter No. 2020066741307
Velocity Clearing, LLC**

Pursuant to Exchange Rule 8.3, attached to and incorporated as part of this Decision is a Letter of Consent.

Applicable Rules

- Rule 3.1 – Business Conduct of Members
- Rule 5.1 – Written Procedures

Sanction

A censure, a monetary fine in the amount of \$1,000,000, of which \$81,056 is payable to MEMX, and an undertaking detailed in the attached Letter of Consent.

Effective Date

September 30, 2025

Adam Schwartz

Adam Schwartz, CRO

MEMBERS EXCHANGE LLC
LETTER OF CONSENT
No. 2020066741307

In the Matter of:

Velocity Clearing, LLC
1301 Route 36
Suite 103
Hazlet, NJ 07730

Subject

Pursuant to the provisions of Members Exchange LLC (MEMX or the Exchange) Rule 8.3 – Expedited Proceeding, Velocity Clearing, LLC (Velocity or the firm) submits this Letter of Consent (LOC) for the purpose of proposing a settlement of the alleged rule violations described below.

Velocity neither admits nor denies that violations of MEMX rules have been committed, and the stipulation of facts and findings described in this LOC do not constitute such an admission.

BACKGROUND

1. The firm became a Member of the Exchange in June 2021 and the firm’s registrations remain in effect.
2. 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.
3. This matter originated from cross-market surveillance conducted by FINRA.

VIOLATIVE CONDUCT

Applicable Rules

4. Exchange Rule 5.1 requires each Member to “establish, maintain and enforce written procedures which will enable it to supervise properly the activities of associated persons of the Member and to assure their compliance with applicable securities laws, rules, regulations and statements of policy promulgated thereunder, with the rules of the designated self-regulatory organization, where appropriate, and with Exchange Rules.”

5. Exchange Rule 3.1 requires that each Member, “in the conduct of its business, shall observe high standards of commercial honor and just and equitable principles of trade.”

Violations

6. From at least June 2021 through the present, Velocity failed to establish, maintain, and enforce a supervisory system, including WSPs, reasonably designed to achieve compliance with rules prohibiting manipulative trading activity by its customers.
7. At all relevant times, 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.
8. From at least June 2021 through June 2023, Velocity used an automated surveillance system to identify potentially manipulative trading such as spoofing, layering, cross trades, wash trading, and prearranged trading. However, from at least June 2021 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.
9. From June 2021 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 staff’s review of those alerts was not reasonable.
10. Between June 2021 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.

11. 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.
12. 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.
13. Accordingly, Velocity violated Exchange Rules 5.1 and 3.1.

SANCTIONS

In light of the alleged rule violations described above, the firm consents to the imposition of the following sanctions:

- a. A censure;
 - b. A total fine in the amount of \$1,000,000, of which \$81,056 is payable to MEMX;¹ and
 - c. an undertaking to retain an independent consultant as described below.
1. Velocity has undertaken to do the following:
 - a. Retain at its own expense and within 60 days of the date of the notice of acceptance of this AWC an independent consultant not unacceptable to FINRA to conduct a comprehensive review of the reasonableness of its policies, systems, procedures (written or otherwise) relating to the detection

¹ This settlement relates to other settlements the firm reached with FINRA; Cboe EDGA Exchange, Inc.; Cboe EDGX Exchange, Inc.; Cboe BYX Exchange, Inc.; Cboe BZX Exchange, Inc.; Investors Exchange LLC; MIAX Pearl, LLC; New York Stock Exchange LLC; NYSE Arca, Inc.; The Nasdaq Stock Market LLC; Nasdaq BX, Inc.; and Nasdaq Phlx LLC.

and prevention of potentially manipulative trading activity and compliance with Exchange Rule 5.1.

- b. Ensure that the independent consultant, any firm with which the independent consultant is affiliated or of which he or she is a member, and any person engaged to assist the independent consultant in performance of his or her duties, shall not have provided consulting, legal, auditing, or other professional services to, or had any affiliation with, Velocity during the two years prior to the date of the notice of acceptance of this AWC.
- c. Cooperate with the independent consultant in all respects, including providing the independent consultant with access to Velocity's files, books, records, and personnel, as reasonably requested for the above-mentioned review. Velocity shall require the independent consultant to report to FINRA on its activities as FINRA may request and shall place no restrictions on the independent consultant's communications with FINRA. Further, upon request, Velocity shall make available to FINRA any and all communications between the independent consultant and the Velocity and documents examined by the independent consultant in connection with this review.
- d. Refrain from terminating the relationship with the independent consultant without FINRA'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 FINRA.
- e. Require the independent consultant to submit an initial written report to Respondent and FINRA at the conclusion of the independent consultant's review, which shall be no more than 90 days after the date of the notice of acceptance of this AWC. The initial report shall, at a minimum, (i) evaluate and address the adequacy of Velocity's supervisory systems, policies, procedures (written or otherwise), and internal controls relating to the monitoring, detection, and prevention of potentially manipulative trading activity; (ii) provide a description of the review performed and the conclusions reached; and (iii) make recommendations as may be needed regarding how Velocity should modify or supplement its processes, controls, policies, systems, procedures, and training to manage its regulatory and other risks in relation to monitoring, detecting, and preventing potentially manipulative trading; and
 - i. Within 60 days after delivery of the initial report, Velocity shall adopt and implement the recommendations of the independent consultant or, if Velocity considers a recommendation to be, in whole or in part, unduly burdensome or impractical, propose an alternative procedure to the independent consultant designed to achieve the same objective. Velocity shall submit such proposed

alternative procedures in writing simultaneously to the independent consultant and FINRA.

- ii. Velocity shall require the independent consultant to (A) reasonably evaluate the alternative procedures and determine whether it will achieve the same objective as the independent consultant's original recommendation and (B) provide Velocity and MEMX with a written report reflecting its evaluation and determination within 30 days of submission of any Velocity's proposed alternative procedures. In the event the independent consultant and Velocity are unable to agree, Velocity must 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.
 - iii. Within 30 days after the issuance of the later of the independent consultant's initial report or any written report regarding proposed alternative procedures, Velocity shall provide the independent consultant and MEMX with a written implementation report, certified by an officer of Velocity, attesting to, containing documentation of, and setting forth the details of Velocity's implementation of the independent consultant's recommendations. The certification shall identify the undertakings, provide written evidence of compliance in the form of a narrative, and be supported by exhibits sufficient to demonstrate compliance. MEMX may make reasonable requests for further evidence of compliance, and Velocity agrees to provide such evidence.
- f. Require the independent consultant to enter into a written agreement that, for the duration of the engagement and for a period of two years from the 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 or of which it is a member, and any person engaged to assist the independent consultant in the performance of its duties pursuant to this AWC, shall not, without MEMX's prior written consent, enter into any employment, consultant, attorney-client, auditing, or other professional relationship with Velocity or any of Velocity's 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.
- g. Further retain the independent consultant to conduct a follow-up review and submit a final written report to the Velocity and to MEMX 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 Velocity's implementation of the systems, policies, procedures, and training, and shall make any further recommendations it deems necessary. Within 30 days of receipt of the independent consultant's final report, Velocity shall adopt and implement the recommendations contained in the final report, and inform FINRA in writing that it has done so.

2. Upon written request showing good cause, MEMX may extend any of the procedural dates set forth above.

If this LOC is accepted, the firm acknowledges that it shall be bound by all terms, conditions, representations and acknowledgements of this LOC, and, in accordance with the provisions of MEMX Rule 8.3, waives the right to review or to defend against any of these allegations in a disciplinary hearing before a Hearing Panel. The firm further waives the right to appeal any such decision to the Board of Directors, the U.S. Securities and Exchange Commission, a U.S. Federal District Court, or a U.S. Court of Appeals.

The firm waives any right to claim bias or prejudgment of the Chief Regulatory Officer (CRO) in connection with the CRO's participation in discussions regarding the terms and conditions of this LOC, or other consideration of this LOC, including acceptance or rejection of this LOC. The firm further waives any claim that a person violated the ex parte prohibitions of MEMX Rule 8.16, in connection with such person's participation in discussions regarding the terms and conditions of this LOC, or other consideration of this LOC, including its acceptance or rejection.

The firm agrees to pay the monetary sanctions upon notice that this LOC has been accepted and that such payments are due and payable. The firm specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, the monetary sanctions imposed in this matter.

The firm understands that submission of this LOC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the CRO, pursuant to MEMX Rule 8.3. If the LOC is not accepted, it will not be used as evidence to prove any of the allegations against the firm.

The firm understands and acknowledges that acceptance of this LOC will become part of its disciplinary record and may be considered in any future actions brought by MEMX or any other regulator against the firm. The LOC will be published on a website maintained by MEMX in accordance with MEMX Rule 8.18.

The firm understands that it may not deny the charges or make any statement that is inconsistent with the LOC. The firm may attach a Corrective Action Statement to this LOC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Any such statement does not constitute factual or legal findings by MEMX, nor does it reflect the views of MEMX 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 LOC and has been given a full

opportunity to ask questions about it; that it has agreed to the LOC's provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein, has been made to induce the firm to submit it.

Date: September 10, 2025

Velocity Clearing, LLC



Name: Laura Crawford

Title: Chief Compliance Officer