

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2023077057701**

TO: Department of Enforcement
Financial Industry Regulatory Authority (FINRA)

RE: Stonecrest Capital Markets, Inc. (Respondent)
Member Firm
CRD No. 39616

Pursuant to FINRA Rule 9216, Respondent Stonecrest Capital Markets, Inc. 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, FINRA will not bring any future actions against Respondent alleging violations based on the same factual findings described in this AWC.

I.

ACCEPTANCE AND CONSENT

- A. Respondent accepts and consents to the following findings by FINRA without admitting or denying them:

BACKGROUND

Stonecrest Capital Markets, Inc. has been a FINRA member since February 1996. The firm has 43 registered representatives and five branches, including its headquarters in Austin, Texas. The firm engages in a general securities business.

In March 2019, Stonecrest was censured and fined \$15,000 for, among other violations, failing to report 40 transactions to the Trade Reporting and Compliance Engine in violation of FINRA Rules 6730(a) and 2010.¹

OVERVIEW

FINRA's Trade Reporting and Compliance Engine (TRACE) facilitates the mandatory reporting of certain securities transactions and provides increased price transparency to market participants and investors. From February 2022 through February 2023, Stonecrest failed to re-report 96 TRACE-eligible transactions after they were rejected by TRACE. The firm also inaccurately reported an additional 35 transactions to TRACE. During the same period, Stonecrest failed to establish and maintain a supervisory system, including written supervisory procedures (WSPs), reasonably designed to achieve compliance with TRACE reporting requirements. For these violations of FINRA Rules

¹ For more information about the firm, including prior regulatory events, visit BrokerCheck® at www.finra.org/brokercheck.

6730, 3110, and 2010, Stonecrest is censured, fined \$45,000, and has agreed to an undertaking to remediate the issues identified in this AWC.

FACTS AND VIOLATIVE CONDUCT

This matter originated from FINRA's 2023 cycle exam of Stonecrest.

FINRA Rule 6730 (Transaction Reporting) sets out the requirements that apply to firms when reporting transactions in TRACE-eligible securities.² Untimely trade reporting of disseminated trades directly affects investors and other market participants by depriving them of meaningful information necessary to make trading and valuation decisions. Inaccurate information, including reporting transactions that should not have been reported, affects the audit trail and can result in either false alerts or the inability to detect problematic transactions.

A violation of FINRA Rule 6730 is also a violation of FINRA Rule 2010, which requires member firms to "observe high standards of commercial honor and just and equitable principles of trade" in the conduct of their business.

Stonecrest failed to report transactions to TRACE.

FINRA Rule 6730(a) provides that each member that is a party to a transaction in a TRACE-eligible security must report the transaction to TRACE, and do so promptly, accurately, and completely. The reporting firm is also responsible for correcting and resubmitting rejected trade reports.³

From February 2022 through February 2023, Stonecrest failed to report to TRACE 58 transactions in TRACE-eligible securitized products, 30 transactions in TRACE-eligible corporate bonds, and eight transactions in TRACE-eligible agency debt. The firm initially reported these 96 transactions to TRACE, but the TRACE system rejected them. Although Stonecrest received reject messages, the firm did not re-report the transactions. These reports constituted approximately 4.0% of the firm's TRACE-eligible transactions reported during that time.

Therefore, Stonecrest violated FINRA Rules 6730(a) and 2010.

² FINRA Rule 6710(a) defines TRACE-eligible security as "a debt security that is United States ('U.S.') dollar-denominated and is: (1) issued by a U.S. or foreign private issuer, and, if a 'restricted security' as defined in Securities Act Rule 144(a)(3), sold pursuant to Securities Act Rule 144A; (2) issued or guaranteed by an Agency as defined in paragraph (k) or a Government-Sponsored Enterprise as defined in paragraph (n); (3) a U.S. Treasury Security as defined in paragraph (p); or (4) a Foreign Sovereign Debt Security as defined in paragraph (kk). 'TRACE-Eligible Security' does not include a debt security that is a Money Market Instrument as defined in paragraph (o)."

³ See Frequently Asked Questions (FAQ) about the Trade Reporting and Compliance Engine (TRACE), Q 3.1.14 ("The firm that had the original reporting obligation is ultimately responsible for resubmitting corrected reports."), available at <https://www.finra.org/filing-reporting/trace/faq>.

Stonecrest reported inaccurate information to TRACE.

FINRA Rule 6730(c) identifies information that must be included in trade reports submitted to TRACE including, among other things, the size of the transaction, the price of the transaction, the date of trade execution, the capacity (principal or agent), and the date of settlement.

From February 2022 through February 2023, Stonecrest submitted 35 inaccurate reports to TRACE. For 24 transactions, the firm reported an inaccurate capacity; for six transactions, the firm reported an inaccurate trade price; for four transactions, the firm reported an inaccurate settlement date; and for one transaction, the firm reported an inaccurate transaction size and trade date. These inaccurate reports constituted approximately 1.5% of the firm's TRACE-eligible transactions reported during that time.

Therefore, Stonecrest violated FINRA Rules 6730(c) and 2010.

Stonecrest's supervisory system was not reasonably designed to achieve compliance with TRACE reporting rules.

FINRA Rule 3110(a) requires a member firm to establish and maintain a system to supervise the activities of each associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA rules. FINRA Rule 3110(b) requires a member firm to establish, maintain, and enforce written procedures to supervise the types of business in which it engages and the activities of its associated persons that are reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA rules. The duty to supervise under Rule 3110 also includes the responsibility to reasonably investigate red flags that indicate rule violations may be occurring and to act upon the results of such investigation. A violation of FINRA Rule 3110 is also a violation of FINRA Rule 2010.

From at least February 2022 through at least February 2023, Stonecrest's supervisory system, including its WSPs, was not reasonably designed to achieve compliance with FINRA Rule 6730. The firm failed to reasonably investigate and act upon red flags relating to its TRACE reporting. Although the firm received and reviewed TRACE reject messages, it did not take reasonable steps to determine and remediate the underlying causes of the rejections. Further, the firm's WSPs did not provide guidance explaining how supervisors should review the firm's TRACE reporting for timeliness or accuracy, did not explain how often supervisors should conduct reviews of TRACE reporting, and did not explain when or how supervisors should escalate TRACE reporting issues.

Therefore, Stonecrest violated FINRA Rules 3110 and 2010.

- B. Respondent also consents to the imposition of the following sanctions:
- a censure;

- a \$45,000 fine; and
- an undertaking that, within 60 days of the date of the notice of acceptance of this AWC, a member of Respondent's senior management who is a registered principal of the firm shall certify in writing that, as of the date of the certification, the firm has remediated the issues identified in this AWC and implemented a supervisory system, including WSPs, reasonably designed to achieve compliance with Rule 6730 regarding the issues identified in this AWC. The certification shall include a narrative description and supporting exhibits sufficient to demonstrate Respondent's remediation and implementation. FINRA staff may request further evidence of Respondent's remediation and implementation, and Respondent agrees to provide such evidence. Respondent shall submit the certification to Steven W. Peretz, Counsel, 200 Liberty Street, New York, NY 10281, Steve.Peretz@FINRA.org, with a copy to EnforcementNotice@finra.org. Upon written request showing good cause, FINRA staff may extend this deadline.

Respondent agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. Respondent has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

Respondent specifically and voluntarily waives any right to claim an inability to pay, now or at any time after the execution of this AWC, the monetary sanction imposed in this matter.

The sanctions imposed in this AWC shall be effective on a date set by FINRA.

II.

WAIVER OF PROCEDURAL RIGHTS

Respondent specifically and voluntarily waives the following rights granted under FINRA's Code of Procedure:

- A. To have a complaint issued specifying the allegations against it;
- B. To be notified of the 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 National Adjudicatory Council (NAC) and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, Respondent specifically and voluntarily waives any right to claim bias or prejudice of the Chief Legal Officer, the NAC, or any member of the NAC, 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.

Respondent further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of FINRA Rule 9143 or the separation of functions prohibitions of FINRA 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

Respondent 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 the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs (ODA), pursuant to FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against Respondent; and
- C. If accepted:
 - 1. this AWC will become part of Respondent's permanent disciplinary record and may be considered in any future action brought by FINRA or any other regulator against Respondent;
 - 2. this AWC will be made available through FINRA's public disclosure program in accordance with FINRA Rule 8313;
 - 3. FINRA may make a public announcement concerning this agreement and its subject matter in accordance with FINRA Rule 8313; and
 - 4. Respondent 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. Respondent may not take any position in any proceeding brought by or on behalf of FINRA, or to which FINRA is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects Respondent's right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party. Nothing in this provision affects Respondent's testimonial obligations in any litigation or other legal proceedings.

- D. Respondent may attach a corrective action statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondent 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 FINRA, nor does it reflect the views of FINRA.

The undersigned, on behalf of Respondent, certifies that a person duly authorized to act on Respondent's 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 Respondent has agreed to the AWC's provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth in this AWC and the prospect of avoiding the issuance of a complaint, has been made to induce Respondent to submit this AWC.

1/31/2025
Date


Stonecrest Capital Markets, Inc.
Respondent


Print Name: Jim Randolph

Title: CEO

Accepted by FINRA:

Signed on behalf of the
Director of ODA, by ~~delegated~~ authority

02/12/2025
Date


Steven W. Peretz
Counsel
FINRA
Department of Enforcement
200 Liberty Street
New York, NY 10281

STONECREST CAPITAL MARKETS, INC.

January 31, 2025

Mr. Steven Peretz
Counsel
FINRA, Department of Enforcement
200 Liberty Street
New York, NY 10281

Re: Corrective Action Statement by Respondent
Transmittal of Acceptance, Waiver and Consent
Matter No. 2023077057701

This Corrective Action Statement is submitted by the Respondent. It does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA, or its staff.

Additional Disclaimer: The background information given below is shortened from the original for conciseness.

Transaction Reporting Violations of Rule 6730

From February 2022 through February 2023, Stonecrest failed to report, or re-report, 96 transactions in TRACE-eligible securities to TRACE, as required by Rule 6730(a). In the same time period, Stonecrest submitted 35 inaccurate reports to TRACE (24 for inaccurate capacity indicator, 6 for inaccurate price, 4 for inaccurate settlement date and one for inaccurate size and trade date), as required by Rule 6730(c).

Corrective Action

During the Firm's 2023 Cycle Exam (Matter 20230770577), in preparation of responses to request Items and follow-ups, and in consideration of the comments from FINRA examiners, the Firm recognized specific areas where it could improve its TRACE reporting procedures. Some of the solutions included providing additional training of the Firm's trading and trading support staff to reinforce the significance of accurate and timely TRACE reporting responsibilities. For example, when in doubt, for over-the-counter fixed-income securities in particular, trading staff should first assume that a transaction is TRACE eligible and not otherwise. Other specific corrective actions implemented are included in the next section.

To document these corrective processes, the Firm implemented a Fixed Income Procedures WSP Guidance document and updated relevant sections of the Firm's Written Supervisory Procedures.

Supervisory System

From at least February 2022 through at least February 2023, Stonecrest's supervisory system was not reasonably designed to achieve compliance with Rule 6730 (see AWC for greater context).

300 W. 6TH STREET, SUITE 1520, AUSTIN, TX 78701

STONECREST CAPITAL MARKETS, INC.

Corrective Action

During 2024, the Firm conducted a search for an experienced compliance professional to fill the Chief Compliance Officer role. The primary near-term objectives of the Firm were to evaluate and update the full scope of the Firm's supervisory procedures, including those that guide the Firm's procedures dictated by Rule 6730. In December 2024, the Firm finalized the hiring process, and effective January 1, 2025, the Firm formally appointed its new CCO.

In addition to the addition of a guidance document and updates to the Firm's WSP's as described above, the Firm implemented the specific processes and supervisory reviews to create additional check points for satisfying its TRACE reporting obligations, as follows:

The Firm's fixed-income trading personnel are required to verify TRACE eligibility of each security they may transact in, either via Bloomberg or via the Pershing Netx360 platform. For TRACE eligible securities, the traders are required to communicate with trade support staff to ensure the cusips are added and active on the TRACE platform prior to executing any transactions in that cusip. Upon execution, trade support staff are required to monitor TRACE in real-time to ensure accurate reporting. Any rejected transactions must be immediately corrected and re-reported to TRACE. At the completion of each trading day, support staff review the TRACE Trade Management Report and compare it to the Pershing daily Trade History screen on Netx360 to ensure all trades have been accurately reported. On the first business day following the previous trading week, trade support staff compile the TRACE Trade Management Reports for each day and the Netx360 weekly Trade Blotter, ensuring accurate reporting of all trades and making note of any exceptions and subsequent corrections. On a weekly basis, the designated Principal reviews these reports and documents such reviews.



John Randolph
CEO

300 W. 6TH STREET, SUITE 1520, AUSTIN, TX 78701

SECURITIES OFFERED THROUGH STONECREST CAPITAL MARKETS, INC. MEMBER FINRA/SIPC
INVESTMENT ADVISORY SERVICES OFFERED THROUGH STONECREST ADVISORS, INC., A STATE-REGISTERED INVESTMENT ADVISOR