FINANCIAL INDUSTRY REGULATORY AUTHORITY

OFFICE OF HEARING OFFICERS

Department of Enforcement, Complainant, v. Silver Leaf Partners, LLC (CRD No. 126694), Respondent.	DISCIPLINARY PROCEEDING NO. 2014042606902

COMPLAINT

The Department of Enforcement alleges:

SUMMARY

1. In 2012-2013, Silver Leaf Partners, LLC. ("Silver Leaf" or the "Firm"), improperly shared transaction-based compensation totaling approximately $200,000 with an unregistered entity involved in a new line of business involving stock loans and block trades.

2. In addition, between February 2013 and April 2015, Silver Leaf paid transaction-based compensation totaling approximately $2.7 million to unregistered entities associated with eight of its registered representatives, despite being on notice from the SEC as early as 2012 that this practice was prohibited.

3. As a result of the foregoing, Silver Leaf violated NASD Rule 2420[1] and FINRA Rule 2010.

4. From January 2012 to April 2015 (the "Relevant Period"), Silver Leaf also failed to establish and maintain a supervisory system reasonably designed to prevent payments of

[1] NASD Rule 2420 was replaced by FINRA Rule 2040 effective August 24, 2015.

transaction-based compensation to unregistered entities and to supervise its new stock loan and block trade business.

5. As a result of the foregoing, Silver Leaf violated NASD Rule 3010 (for the period up to December 1, 2014), FINRA Rule 3110 (for the period after December 1, 2014) [2] and FINRA Rule 2010.

RESPONDENT AND JURISDICTION

6. Silver Leaf has been a FINRA member since September 2003.

7. The Firm maintains its only office in New York, New York and, during the Relevant Period, had between approximately 65 to 75 registered representatives.

8. Under Article IV of the FINRA By-Laws, Silver Leaf is subject to FINRA's jurisdiction because: (a) the Firm currently is a FINRA member; and (b) the Complaint charges the firm with securities-related misconduct committed while it was a FINRA member.

FACTS

Silver Leaf Shared Transaction-Based Compensation with an Unregistered Finder

9. Silver Leaf provides brokerage services to institutional clients, including prime brokerage, global custody and clearing, and trade execution across U.S. and international markets.

10. In 2012, Silver Leaf entered a new line of business involving stock loans and block trades. Silver Leaf was paid by its clients (i) to find owners of large blocks of foreign stock who wanted to borrow against their stock on a collateralized basis or (ii) to find buyers for the stock held as collateral.

[2] NASD Rule 3010(a) was replaced by FINRA Rule 3110(a) effective December 1, 2014.

11. One of Silver Leaf's registered representatives, Broker A, worked with an unregistered individual (the "Unregistered Finder") to find entities to participate in Silver Leaf's stock loan and block trade business.

12. Silver Leaf paid most (up to 90%) of the commissions received from the stock loan and block trade transactions generated by Broker A and the Unregistered Finder to Broker A or to an unregistered entity affiliated with Broker A ("D Capital").

13. With the knowledge of Silver Leaf, Broker A or D Capital, shared the Silver Leaf commissions with the Unregistered Finder or with an unregistered entity affiliated with the Unregistered Finder.

14. Specifically, on April 24, 2012, Silver Leaf entered into an agreement with a Bahamian hedge fund (the "Bahamian Hedge Fund") active in the stock loan and block trade business, wherein the Bahamian Hedge Fund agreed to pay Silver Leaf a reasonable commission percentage based on the net amount of stock loans or block trades executed as a result of Silver Leaf's efforts.

15. On April 25, 2012, Broker A, through his unregistered entity D Capital, agreed to pay the Unregistered Finder 50% of his payout from Silver Leaf for the Bahamian Hedge Fund business as well as that from a second entity ("E Holdings"), which was also active in the stock loan and block trade business.

16. On multiple dates in 2012 and 2013 described specifically below, Silver Leaf, acting through Broker A, shared transaction-based compensation with the Unregistered Finder.

17. In making payments to the Unregistered Finder, Broker A was acting on behalf of Silver Leaf and in the ordinary course of his duties as a registered representative of the Firm.

18. Broker A's improper payments benefitted Silver Leaf through the portion of fee revenue it retained from the Unregistered Finder's continuing introductions.

19. Although Silver Leaf did not pay the Unregistered Finder directly, Silver Leaf knew that the Unregistered Finder expected to be paid by Silver Leaf for his services to Silver Leaf.

20. Silver Leaf further knew that the Unregistered Finder was acting as an agent on its behalf for stock loan and block trade introductions.

The September 7, 2012 Payment

21. On September 6, 2012, E Holdings paid Silver Leaf $13,233 in transaction-based compensation for a block trade transaction.

22. On September 7, 2012, Silver Leaf's CFO, ("KM") sent an email to Broker A indicating that the Unregistered Finder's share of that amount was $5,954.85.

23. On September 7, 2012, Silver Leaf paid Broker A's unregistered entity, D Capital, $11,413.46.

24. That same day, Broker A paid $5,954.85 to the Unregistered Finder by wiring that amount from his unregistered entity, D Capital, to the Unregistered Finder's unregistered entity.

The September 14, 2012 Payment

25. On September 13, 2012, E Holdings paid Silver Leaf $99,383.03 in transaction-based compensation for a block trade transaction.

26. On September 14, 2012, Silver Leaf paid Broker A's unregistered entity, D Capital, $85,612.86.

27. That same day, Broker A paid $44,722.36 to the Unregistered Finder by wiring that amount from his unregistered entity, D Capital, to the Unregistered Finder's unregistered entity.

The July 11, 2013 Payment

28. On July 5, 2013, the Bahamian Hedge Fund paid Silver Leaf $21,162.18 in transaction-based compensation for a stock loan transaction.

29. On July 8, 2013 Silver Leaf's CFO, KM, and Silver Leaf's CEO and CCO ("FK") received an email from Broker A in which Broker A stated that he would share $10,380.18 of that amount with the Unregistered Finder.

30. Although KM and FK have claimed they met with Broker A on July 9, 2013 and told him that transaction-based compensation could not be shared with the Unregistered Finder, they have also claimed that Broker A responded that he believed payments to the Unregistered Finder were permissible and advised them that he and the Unregistered Finder were operating on the assumption that Silver Leaf's transaction-based compensation would be shared with the Unregistered Finder.

31. Payments of transaction-based compensation continued to be shared with the Unregistered Finder after that meeting.

32. On July 10, 2013, Silver Leaf paid Broker A $18,349.49, which Broker A deposited into D Capital's account the same day.

33. On July 11, 2013, Broker A paid $10,380.18 to the Unregistered Finder by wiring that amount from his unregistered entity, D Capital, to the Unregistered Finder's unregistered entity.

The July 22, 2013 Payment

34. On July 18, 2013, the Bahamian Hedge Fund paid Silver Leaf $33,505.88 in transaction-based compensation for a stock loan transaction.

35. On the same day, Silver Leaf's CFO, KM, received an email from Broker A indicating that the Unregistered Finder's share was $16,434.84.

36. On July 19, 2013, Silver Leaf paid Broker A $29,052.56, which Broker A deposited into D Capital's account the same day.

37. On July 22, 2013, Broker A paid $16,434.84 to the Unregistered Finder by wiring that amount from his unregistered entity, D Capital, to the Unregistered Finder's unregistered entity.

The August 26 2013 Payment

38. For the next stock loan transaction, in an email dated August 20, 2013, Broker A indicated to Silver Leaf's CFO, KM, that the Bahamian Hedge Fund would directly pay the Unregistered Finder the share of the Silver Leaf commission due to the Unregistered Finder.

39. The next day, in an email sent from his personal email account to the Bahamian Hedge Fund, Broker A instructed the Bahamian Hedge Fund to apportion the transaction-based compensation due to Silver Leaf between Silver Leaf and the unregistered entity owned by the Unregistered Finder.

40. On August 26, 2013, the Bahamian Hedge Fund paid Silver Leaf $142,296.13 in transaction-based compensation for that stock loan transaction, which was approximately half of the 3% fee due to Silver Leaf.

41. An email dated August 27, 2013 from Broker A to Silver Leaf's CFO, KM, indicated that the Bahamian Hedge Fund had paid the Unregistered Finder $120,487 out of the remaining portion of the commission due to Silver Leaf.

42. Silver Leaf did not request the remainder of its fee from the Bahamian Hedge Fund and did not receive any further compensation in connection with this stock loan transaction.

Silver Leaf Paid Transaction-Based Compensation to Unregistered Entities Owned by Silver Leaf Registered Representatives

43. Between January 2011 and September 2012, Silver Leaf paid transaction-based compensation to at least four unregistered entities owned by registered representatives associated with the Firm. *Inter alia*, Silver Leaf paid D Capital, Broker A's unregistered entity, over $173,000 in transaction-based compensation during this time period.

44. In an email dated August 23, 2012 following up on its examination, the Securities and Exchange Commission ("SEC") advised Silver Leaf that such payments violated NASD Rule 2420.

45. In response, Silver Leaf advised the SEC in a September 13, 2012 letter that it would begin paying registered representatives directly and not entities owned by them pending no-action letter relief from the SEC.

46. Silver Leaf, however, never sought nor obtained no-action letter relief.

47. Further, contrary to its representation to the SEC, in February 2013, the Firm again began paying transaction-based compensation to unregistered entities owned by its registered representatives.

48. As set forth in the chart below, between February 2013 and April 2015, Silver Leaf improperly paid $2,719,407.27 in transaction-based compensation to eight unregistered

entities owned by eight Silver Leaf registered representatives.

RR	Affiliated Entity	Amount	Date
JO	S Partners	$1,719,732.61	5/2013-4/2015
JC	N Partners	$339,379.99	6/2014-4/2015
JL	N Advisors	$314,232.57	9/2013-4/2015
MF	M Enterprises	$176,501.81	3/2013-12/2014
Broker A	D Capital	$85,294.99	11/2013-4/2015
EV	C Capital	$44,770.63	1/2014-4/2015
ML	L Capital	$24,619.67	2/2013-2/2015
CL	C Consulting	$14,875.00	10/2013
	Total	**$2,719,407.27**	

Silver Leaf Failed to Establish and Maintain a Supervisory System Reasonably Designed to Prevent Payments of Transaction-based Compensation to Unregistered Entities

49. During the Relevant Period, Silver Leaf had no written procedures in the WSPs or elsewhere prohibiting or otherwise addressing the sharing of transaction-based compensation with unregistered finders. It also did not have any adequate procedures in place to prevent or stop such sharing of fees.

50. As described in detail above, Silver Leaf's CFO, KM, and its CEO and CCO, FK, were made aware that the Unregistered Finder was being paid a portion of Silver Leaf's compensation by Broker A.

51. As also described above, KM and FK claim that they had a meeting with Broker A where they told him that transaction-based compensation could not be shared with the Unregistered Finder and that Broker A responded that he and the Unregistered Finder were operating under the assumption that the Unregistered Finder would be paid by Silver Leaf.

52. After that meeting, Silver Leaf continued to receive fee revenue from transactions introduced by the Unregistered Finder, and KM continued to receive emails from Broker A indicating that transaction-based compensation paid to Silver Leaf was being shared with the Unregistered Finder.

53. Moreover, during the Relevant Period, Silver Leaf also had no written procedures in the WSPs or elsewhere prohibiting or otherwise addressing the payment of transaction-based compensation to unregistered entities owned by Silver Leaf registered representatives. It also did not have any adequate procedures in place to prevent or stop such payment of fees.

54. Despite having advised the SEC in September 2012 that it would stop paying transaction-based compensation directly to unregistered entities owned by its registered representatives absent approval by the SEC through a no-action letter, Silver Leaf resumed such payments, as detailed above, in February 2013, about five months later, without a no-action letter.

55. As a result of Silver Leaf's failure to reasonably supervise the payment of transaction-based compensation to unregistered entities owned by its registered representatives, improper payments were made for over two years in amounts over $2.7 million to eight different unregistered entities.

Silver Leaf Failed to Establish and Maintain a Supervisory System Reasonably Designed to Supervise Its Stock Loan and Block Trade Business

56. Prior to the transactions described above in 2012, Silver Leaf had little to no experience with, or supervising, stock loans and block trades.

57. This business was brought to the Firm by Broker A, after he joined Silver Leaf in 2010.

58. Throughout the Relevant Period, Silver Leaf did not give any written guidance, in its written supervisory procedures ("WSPs") or elsewhere, to its registered representatives regarding the stock loan and block trade business, and failed to implement any procedures reasonably designed to appropriately supervise this business.

59. As alleged above, Silver Leaf was compensated in July 2013 and August 2013 by

the Bahamian Hedge Fund for its role in two stock loan transactions.

60. In both those instances, the borrowers were a Turkish national and a Turkish entity, both of whom used shares of equities traded on the Istanbul Stock Exchange as collateral for the stock loan transactions.

61. The borrower in the July transaction accused the Bahamian Hedge Fund of selling the loaned shares to fund the loan, threatened to bring legal action against Silver Leaf and the Bahamian Hedge Fund, threatened to involve Turkish regulators, and had its attorney advise the Bahamian Hedge Fund that it was in default under the parties agreement.

62. Although the Bahamian Hedge Fund paid Silver Leaf for the second transaction in August 2013, the Bahamian Hedge Fund ran that transaction through a related family office (the "Bahamian Family Office").

63. The borrower in the August 2013 transaction accused the Bahamian Family Office of selling the loaned shares to fund the loan and advised Silver Leaf that Turkish regulators were investigating the transaction and that the borrower could face criminal charges in Turkey.

64. Silver Leaf responded to the red flags raised by these transactions by proposing an indemnification agreement to the Bahamian Hedge Fund and the Bahamian Family Office whereby they would indemnify Silver Leaf from any legal, regulatory, or other conflict arising out of Silver Leaf's introduction of counterparties. Silver Leaf's clients declined to do so.

65. However, Silver Leaf failed to reasonably follow up on these red flags by implementing reasonable supervisory procedures for this business. Instead, it continued to operate without written procedures and without appropriate supervisory procedures for this line of business.

66. Indeed, the Firm's failure to properly supervise this line business nearly led to the demise of the Firm as a result of a multi-million arbitration award against it arising out of a third transaction, as described further below.

The Indonesian Transaction

67. Silver Leaf introduced an institutional investor to the Bahamian Hedge Fund for the purchase of a large block of stock (the "G Stock") trading for approximately .04 USD per share on the Indonesian Exchange in October 2013.

68. A basic search of publicly available information would have revealed that MV, one of the individuals acting on behalf the Bahamian Hedge Fund for this block trade, had been arrested, plead guilty, and was barred from the securities industry for fraud.

69. Silver Leaf attempted to help the two parties reach an agreement on the structure and pricing of the block trade.

70. The two parties initially agreed that the institutional investor would buy 426 million shares of G Stock from the Bahamian Hedge Fund and this transaction would be reported on the Indonesian Exchange. The Bahamian Hedge Fund would deliver another 106.5 million shares off market and free of payment as a discount.

71. This proposed structure created the risk that price and volume reported to the Indonesian Market would not be accurate.

72. Silver Leaf hoped to play a role in the execution of the Indonesian transaction.

73. As it turned out, the institutional investor and the Bahamian Hedge Fund decided to execute the trade through another member firm.

74. Nonetheless, the Bahamian Hedge Fund still paid introductory fees from the transaction to both Silver Leaf and the Unregistered Finder.

75. In late October and early November 2013, the block purchase of G Stock unraveled amid allegations of market manipulation.

76. As a result of the unraveling of the Indonesian transaction, the other member firm ended up with 426 million G Stock shares and a debit of approximately $18 million due to the subsequent decline in the price of G Stock.

77. In April 2014, the other member firm filed a FINRA arbitration against numerous parties, including Silver Leaf, for damages from the failed transaction.

78. A FINRA Dispute Resolution arbitration award dated December 27, 2016, found that Silver Leaf, among other respondents, was jointly and severally liable for total damages in the amount of $20,024,772.00, a sum that nearly put the Firm out of business before it was able to settle the matter, post-Award, for less.

FIRST CAUSE OF ACTION
Payments to Unregistered Entities
(NASD Rule 2420 and FINRA Rule 2010)

79. The Department re-alleges and incorporates by reference paragraphs 1 through 78 above.

80. NASD Rule 2420 prohibited FINRA members from paying any commissions or fees derived from securities transactions to any non-member.

81. As described in detail above, during the Relevant Period, Silver Leaf (i) shared transaction-based compensation with the Unregistered Finder and (ii) paid transaction-based compensation to unregistered entities owned by its registered representatives, including even after being told by the SEC that such payments violated NASD Rule 2420.

82. By virtue of this conduct, Respondent Silver Leaf violated NASD Rule 2420 and FINRA Rule 2010.

SECOND CAUSE OF ACTION
Failure to Supervise
(NASD Rule 3010, FINRA Rules 3110 and 2010)

83. The Department re-alleges and incorporates by reference paragraphs 1 through 82 above.

84. NASD Rule 3010 and FINRA Rule 3110, which superseded NASD Rule 3010 on December 1, 2014, require members to establish and maintain a system to supervise the activities of each registered representative, registered principal, and other associated person that is reasonably designed to achieve compliance with the applicable securities laws and regulations and with applicable FINRA rules.

85. As described in detail above, during the Relevant Period, Silver Leaf had no written procedures in its WSPs or elsewhere, nor did it implement appropriate supervisory procedures, prohibiting or otherwise addressing the payment of transaction-based compensation to finders or to unregistered entities owned by Silver Leaf registered representatives.

86. The failure to have reasonable supervisory procedures resulted in improper payments to an Unregistered Finder and to eight unregistered entities affiliated with Silver Leaf's brokers.

87. Additionally, member firms must appropriately follow-up on "red flags" indicating that illegal or violative activity may be taking place.

88. Silver Leaf failed to take reasonable steps to prevent Broker A from sharing transaction-based compensation with the Unregistered Finder in the face of red flags such as multiple emails from Broker A to Silver Leaf's management reflecting his sharing of transaction-based compensation with the Unregistered Finder and the Unregistered Finder acting as an agent on behalf of Silver Leaf.

89. Nor did Silver Leaf follow up on the red flag of the SEC's warning that payments to unregistered entities affiliated with Silver Leaf's brokers were improper.

90. Instead, the Firm re-commenced payments to unregistered entities owned by Silver Leaf registered representatives notwithstanding its prior commitment to the SEC to stop such payments pending no-action letter relief

91. During the Relevant Period, Silver Leaf's supervisory system, including its WSPs, also completely failed to address its stock loan and block trade introduction business.

92. Indeed, Silver Leaf's CEO admitted that he did not understand the stock loan and block trade space and did not know how to supervise it.

93. Silver Leaf also failed to do due diligence to discover that MV, one of the agents of its client, the Bahamian Hedge Fund, had a criminal record and had been barred by the SEC for fraud.

94. Silver Leaf failed to follow up on red flags raised by its stock loan and block trade business.

95. In connection with its role in the Indonesian transaction, as alleged above, Silver Leaf failed to adequately respond to multiple red flags such as those raised by the prior Turkish stock loan transactions.

96. Among other things, the borrowers in the Turkish transactions complained about the sale of their collateral and threatened legal action.

97. In the Indonesian transaction, Silver Leaf knew or should have known that its client intended – as it had in the prior Turkish transactions -- to sell the collateral to fund the loan, a red flag of potential misconduct.

98. In the Indonesian transaction, Silver Leaf also knew or should have known that

the transaction was structured in a manner that could hide the number of shares being transferred and the true price for the shares, which was another red flag of potential manipulative conduct by its client.

99. Silver Leaf failed to appreciate or protect itself against the risk that it could become financially responsible for the Indonesian transaction, as in fact proved to be the case when it was sued and found liable for damages in a $20 million arbitration award.

100. Regardless of its size and complexity, each member firm is required to adopt and implement a supervisory system that is tailored specifically to the member's business and must address the activities of all of its registered representatives and associated persons.

101. In addition, member firms, as gatekeepers to the financial markets, are required to have a supervisory system that is reasonably designed to detect and prevent their own customers from engaging in illegal or fraudulent transactions that pose harm to the markets or other market participants.

102. Member firms are further required to have reasonable risk controls so that, among other things, they protect themselves from excessive risks associated with their business activities.

103. By virtue of the conduct described above, Silver Leaf failed to adequately supervise its business and failed to establish, maintain and enforce adequate written procedures in violation of NASD Rule 3010 and FINRA Rules 3110 and 2010.

RELIEF REQUESTED

WHEREFORE, the Department respectfully requests that the Panel:

A. make findings of fact and conclusions of law that Respondent committed the violations charged and alleged herein;

B. order that one or more of the sanctions provided under FINRA Rule 8310(a), including monetary sanctions, be imposed; and

C. order that Respondent bear such costs of proceeding as are deemed fair and appropriate under the circumstances in accordance with FINRA Rule 8330.

FINRA DEPARTMENT OF ENFORCEMENT

Date: September 20, 2017

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