



SEC Settles With Ex-Amex CEO Over Lax Enforcement

By James Armstrong

Law360, New York (February 23, 2010) -- The U.S. Securities and Exchange Commission has settled an administrative proceeding against Salvatore Sodano, the former chairman and CEO of the American Stock Exchange LLC, officially finding he failed to adequately enforce order-handling rules and other requirements.

On Monday, the SEC officially found that Sodano failed to take adequate steps to ensure Amex was meeting regulatory obligations and that he also failed to enforce the exchange's own rules.

Terms of the settlement were not disclosed, and the SEC declined to comment beyond Monday's order.

The SEC originally brought the proceeding in 2007 after determining that Amex had maintained inadequate enforcement programs related to its options markets and that the exchange had deficiencies in its surveillance of equity trading and floor brokers.

Sodano, who resigned as chairman and CEO of Amex in 2005, had led the company since 1999, the SEC said.

The National Association of Securities Dealers, which owned Amex, sought to sell the exchange in 1999. As part of the sale process, Amex was supposed to rebuild its compliance departments that had been consolidated with other NASD operations.

A report that year by the SEC concluded that Amex had failed to fulfill its regulatory responsibility to enforce compliance by its members with SEC rules and federal securities laws.

The following year, the SEC imposed remedial sanctions on Amex for its handling of options orders. Amex had failed to take action in spite of evidence of violations of firm quote, customer priority, limit order display and trade reporting rules, the SEC said.

Amex was supposed to enhance and improve its regulatory programs for options order-handling rules and to provide regulators with annual affirmations detailing its progress.

However, the exchange failed to comply with these obligations, according to the SEC. As late as 2003, there remained significant deficiencies regarding order handling, and the exchange also failed to sufficiently monitor specialists and floor brokers, the SEC said.

Another SEC inspection in 2003 detailed further deficiencies with respect to documentation as well as other matters, the SEC said.

As CEO, Sodano shared Amex's obligation to enforce compliance measures, according to the SEC.

“Enforcing compliance, in fact, was one of Sodano's primary responsibilities,” the SEC said. “Sodano failed to establish procedures or a structure sufficient to monitor for, and to enforce, compliance with the applicable statute rules and regulations.”

Sodano allegedly failed to take affirmative steps to ensure that Amex met its obligations, but instead unreasonably relied on the exchange's member firm regulation department to correct deficiencies.

Those deficiencies were exacerbated by hiring freezes and budget restrictions Sodano approved, the SEC said.

Throughout Sodano's tenure, Amex's regulation department remained understaffed, and the department was forbidden from making new hires unless it would save money for the exchange, according to the SEC.

The agency concluded Sodano had failed to enforce compliance with the Securities Exchange Act, the act's rules and regulations, and Amex rules.

Counsel information for Sodano was not immediately available.

The case is In the Matter of Salvatore F. Sodano, administrative proceeding file number 3-12596, before the U.S. Securities and Exchange Commission.

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