

BATS EDGX EXCHANGE, INC.
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20140411132-03

TO: Bats EDGX Exchange, Inc.
c/o Department of Enforcement
Financial Industry Regulatory Authority ("FINRA")

RE: Scottrade, Inc., Respondent
Broker-Dealer
CRD No. 8206

Pursuant to Rule 8.3 of the Rules of Bats EDGX Exchange, Inc. ("EDGX"), Scottrade, Inc. (the "firm") 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, EDGX will not bring any future actions against the firm alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. The firm hereby accepts and consents, without admitting or denying the findings, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of EDGX, or to which EDGX is a party, prior to a hearing and without an adjudication of any issue of law or fact, to the entry of the following findings by EDGX:

BACKGROUND

The firm became a member of EDGX on May 27, 2010, and its registration remains in effect.

RELEVANT PRIOR DISCIPLINARY HISTORY

The firm has no prior relevant disciplinary history.

SUMMARY

In May 2014, two orders entered by a firm customer triggered a trading pause in the security that was the subject of the orders. As a result of the trading pause, the Market Analysis Section of FINRA's Department of Market Regulation ("Market Regulation"), on behalf of EDGX, reviewed the firm's compliance with SEC Rule 15c3-5 of the Securities Exchange Act of 1934 (the "Exchange Act"). Based on that review, as set forth below, the Department of Enforcement determined that the firm's limit price controls for stock priced less than \$10, and its single order quantity control of 999,999 shares, were not reasonably designed to prevent the entry of erroneous orders, in

violation of Section 15(c)(3) of the Exchange Act and Rule 15c3-5(c)(1)(ii) thereunder, and EDGX Rules 5.1 and 3.1.

FACTS AND VIOLATIVE CONDUCT

As a result of the May 2, 2014 trading pause, the Market Analysis Section of the Department of Market Regulation, on behalf of EDGX, reviewed the firm's compliance with SEC Rule 15c3-5 of the Exchange Act, including the erroneous order provisions of SEC Rule 15c3-5(c)(1)(ii).

SEC Rule 15c3-5(c)(1)(ii) of the Exchange Act requires a broker-dealer with market access to establish written supervisory procedures and financial risk management controls that are reasonably designed to "[p]revent the entry of erroneous orders, by rejecting orders that exceed appropriate price or size parameters, on an order-by-order basis or over a short period of time, or that indicate duplicative orders."

In pertinent part, EDGX's supervision rule, EDGX Rule 5.1, requires a 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 Act] Rules."

Limit Order Price Limits

As part of its erroneous order controls, the firm had implemented a limit order price control for stocks priced less than \$10 per share. In certain instances, the limit price control for stocks priced less than \$10 would allow a customer to enter a limit order up to almost 400% of the stock's quoted or last sale price without the order being rejected. A price limit that allowed for orders to be priced at nearly 400 % of a stock's quoted or last sale price was too high to be reasonably expected to prevent erroneous orders without additional, reasonably designed price limit controls in place to supplement the control established by the firm.

The firm also imposed a price limit control of 5% or more through the stock's last sale price for all stocks. This control, however, did not operate as a hard block. When triggered, it only warned the customer that the limit price exceeded the 5% limit. Customers could override the control's warning, and choose to continue with the order as originally priced. An erroneous order control that could be overridden by the customer could not reasonably be expected to prevent the entry of an erroneous order absent other reasonably designed controls.

Single Order Quantity Control

As part of its erroneous order controls, the firm also had implemented a single order quantity ("SOQ") limit of 999,999 shares. Pursuant to its SOQ control, only an equity

order of one million shares or more would be rejected by the firm. The use of a single parameter that applied to all securities, and that was set at 999,999 shares, could not reasonably be expected to prevent erroneous-sized orders without additional, reasonably designed share size controls in place to supplement the control established by the firm. Such parameter did not adequately take into account the retail nature of the firm's client base, and, given the broad spectrum of securities that trade in U.S. markets, did not adequately take into account the trading characteristics of the specific security underlying an order.

As a result of the firm's failure to establish and maintain a risk management control reasonably designed to prevent the entry of erroneous orders by rejecting orders that exceed appropriate price or size parameters, the firm, during the period from May 2, 2014 through June 30, 2016, when it subsequently implemented new erroneous order controls, violated Section 15(c)(3) of the Exchange Act and Rule 15c3-5(c)(1)(ii) thereunder, and EDGX Rules 5.1 and 3.1.

B. The firm also consents to the imposition of the following sanctions:

A censure, a fine of \$7,500, and an undertaking to revise the firm's written supervisory procedures and/or risk management controls with respect to the areas described in paragraph I.A. above.

Within two weeks of acceptance of this AWC, a registered principal of the Respondent shall submit to the **COMPLIANCE ASSISTANT, DEPARTMENT OF ENFORCEMENT, 9509 KEY WEST AVENUE, ROCKVILLE, MD 20850**, a signed, dated letter, or an e-mail from a work-related account of the registered principal to MarketRegulationComp@finra.org, providing the following information: (1) a reference to this matter; (2) a representation that the firm has revised its written supervisory procedures and/or risk management controls to address the deficiency described in paragraphs I.A.; and, (3) the date the revised procedures were implemented.

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

The firm specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, the monetary sanction imposed in this matter.

The sanctions imposed herein shall be effective on a date set by EDGX.

II.

WAIVER OF PROCEDURAL RIGHTS

The firm specifically and voluntarily waives the following rights granted under EDGX Rules:

- A. To have a Statement of Charges issued specifying the allegations against the firm;
- B. To be notified of the Statement of Charges 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 Appeals Committee of the EDGX's Board of Directors and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, the firm specifically and voluntarily 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 AWC, or other consideration of this AWC, including acceptance or rejection of this AWC.

The firm further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of EDGX Rule 8.16, 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

The firm 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 CRO, pursuant to EDGX Rule 8.3;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against the firm; and
- C. If accepted:
 1. this AWC will become part of the firm's permanent disciplinary record and may be considered in any future actions brought by EDGX or any other regulator against the firm;
 2. this AWC will be published on a website maintained by EDGX in

accordance with EDGX Rule 8.18. In addition, this AWC will be made available through FINRA's public disclosure program in response to public inquiries about the firm's disciplinary record; and

3. The firm 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. The firm may not take any position in any proceeding brought by or on behalf of EDGX, or to which EDGX is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects the firm's: (i) testimonial obligations; or (ii) right to take legal or factual positions in litigation or other legal proceedings in which EDGX is not a party.
- D. The firm may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. The firm 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 EDGX, nor does it reflect the views of EDGX 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 AWC and has been given a full opportunity to ask questions about it; that it 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 herein and the prospect of avoiding the issuance of a Complaint, has been made to induce the firm to submit it.

2/5/2018
Date

Scottrade, Inc.
Respondent

By: RB
Name: RYAN BARKE

Title: VP, MANAGING COUNSEL

Reviewed by:

N/A
Counsel for Respondent
Firm Name
Address
City/State/Zip
Phone Number

2/6/2018
Date

GH
Greg Hoogasian
Senior Vice President & Chief Regulatory Officer
Bats EDGX Exchange, Inc.

ELECTION OF PAYMENT FORM

The firm intends to pay the fine proposed in the attached Letter of Acceptance, Waiver and Consent by the following method (check one):

- A firm check or bank check for the full amount; or
- Wire transfer.

Respectfully submitted,

2/5/2018

Date

Respondent

Scottrade, Inc.

By: RB

Name: RYAN BARKE

Title: VP, MANAGING COUNSEL