



DISCIPLINARY DECISION
Cboe BYX Exchange, Inc.
Star No. 2013037641204/File No. USRI-4239
BNP Paribas Securities Corp.

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

Applicable Rule(s)

- BYX Rules 3.1 – Business Conduct of Members and 5.1 – Written Procedures.
- Rule 15c3-5 – Risk Management Controls for Brokers or Dealers with Market Access, promulgated under the Securities Exchange Act of 1934, as amended.

Sanction

- A censure and a monetary fine in the amount of \$130,000.

Effective Date

July 24, 2020

/s/ Greg Hoogasian

Greg Hoogasian, CRO, SVP

Cboe BYX Exchange, Inc.
LETTER OF CONSENT
Star No. 2013037641204
File No. USRI-4239

In the Matter of:

BNP Paribas Securities Corp.
787 Seventh Avenue
New York, NY 10019,

Respondent

Pursuant to the provisions of Cboe BYX Exchange, Inc. (“BYX” or the “Exchange”) Rule 8.3, BNP Paribas Securities Corp. (“BNP Paribas” or the “Firm”) submits this Letter of Consent for the purposes of proposing a settlement of the alleged rule violations described below.

The Firm neither admits nor denies the allegations of the Letter of Consent for Star No. 2013037641204/File No. USRI-4239 and the stipulation of facts and findings described herein do not constitute such an admission.

BACKGROUND

1. During all relevant periods herein, BNP Paribas was acting as a registered Broker-Dealer and was a Member of the Exchange. The Firm’s registration remains in effect.
2. This matter originated from surveillance conducted by Exchange Regulatory Staff.

VIOLATIVE CONDUCT

Applicable Rules

3. During all relevant periods herein, the following rules were in full force and effect: Exchange Rules 5.1 –Written Procedures and 3.1 – Business Conduct of Members; and Section 15(c)(3) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) and Rule 15c3-5 thereunder (“Exchange Act Rule 15c3-5”) – Risk Management Controls for Brokers or Dealers with Market Access.
4. Exchange Rule 5.1 provided that “[e]ach Member shall 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 provided that a “Member, in the conduct of [its] business, shall observe high standards of commercial honor and just and equitable principles of trade.”
6. Section 15(c)(3) of the Exchange Act prohibited broker-dealers from contravening the rules and regulations prescribed by the Securities and Exchange Commission (the “Commission”) to “provide safeguards with respect to the financial responsibility and related practices of brokers and dealers.” The Commission adopted Exchange Act Rule 15c3-5 pursuant to Section 15(c)(3) on November 3, 2010. The compliance date for Exchange Act Rule 15c3-5 was July 14, 2011.
7. Exchange Act Rule 15c3-5(a)(1)(i) defined “market access” as “[a]ccess to trading in securities on an exchange or alternative trading system as a result of being a member or subscriber of the exchange or alternative trading system, respectively.”
8. Exchange Act Rule 15c3-5(b) required a broker-dealer “with market access, or that provides a customer or any other person with access to an exchange or alternative trading system through use of its market participant identifier or otherwise, shall establish, document, and maintain a system of risk management controls and supervisory procedures reasonably designed to manage the financial, regulatory, and other risks of this business activity.”
9. Exchange Act Rule 15c3-5(c)(1)(ii) required a market access broker-dealer to establish, document, and maintain financial risk management controls and supervisory procedures 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.” The Exchange Act Rule 15c3-5 Adopting Release states that erroneous order controls should be reasonably designed to prevent orders from erroneously being entered as a result of both technological malfunctions and manual errors. As one example, the Commission cited “a systematic, pre-trade control reasonably designed to reject orders that are not reasonably related to the quoted price of the security....”¹
10. Exchange Act Rule 15c3-5(e) required a market access broker-dealer to “establish, document, and maintain a system for regularly reviewing the effectiveness of the risk management controls and supervisory procedures required by [Exchange Act Rule 15c3-5(b) and (c)] and for promptly addressing any issues.” Exchange Act Rule 15c3-5(e)(1) required a market access broker-dealer to “review, no less frequently than annually, the business activity of the broker or dealer in connection

¹ Exchange Act Release No. 63241 (Nov. 3, 2010), 75 Fed. Reg. 69792, at 69802 (Nov. 15, 2010) (hereinafter the “Exchange Act Rule 15c3-5 Adopting Release”).

with market access to assure the overall effectiveness of such risk management controls and supervisory procedures.” The Exchange Act Rule 15c3-5 Adopting Release states that a market access broker-dealer should “establish written procedures that are reasonably designed to assure that the broker-dealer’s controls and procedures are adjusted, as necessary, to help assure their continued effectiveness in light of any changes in the broker-dealer’s business or weaknesses that have been revealed.”²

The Firm’s Erroneous Order Market Access Controls and Supervisory Procedures Are Unreasonably Designed

11. BNP Paribas provided direct market access to customers through its Global Execution Services desk (the “GES Desk”). The GES Desk received cash equities orders from institutional customers, including certain affiliates of BNP Paribas, through an electronic interface (“EI Orders”) or through other means of communication, such as telephone, electronic mail or instant messaging (“Non-EI Orders”). Customers could designate their orders for automated handling (“Low Touch”) or manual handling (“High Touch”). Regardless of their handling, the Firm ultimately routed GES Desk customer orders directly to exchanges or alternative trading systems (“ATs”), and/or to third-party broker-dealers.
12. BNP Paribas used a proprietary electronic interface system (“FIBEX”) and a vendor electronic interface system (“Vendor EI System”). BNP Paribas gradually migrated GES Desk customers from FIBEX to the Vendor EI System during the period of September 2015 through May 2017. During this migration period, customers used either FIBEX or the Vendor EI System, not both systems.
13. From January 1, 2015 through September 18, 2019, the Firm routed approximately 165,726 GES Desk customer equities orders to exchanges and/or ATs. Those orders represented approximately 7% of the GES Desk’s total customer equities order flow (2,276,885 orders) during this period.
14. From July 14, 2011 through the present (the “review period”), the Firm’s financial risk management controls and supervisory procedures for the GES Desk have not been reasonably designed to prevent the entry of erroneous orders, as required by Exchange Act Rule 15c3-5(c)(1)(ii).

GES Desk Erroneous Order Controls and Procedures Pre-October 2014

15. From July 14, 2011 through approximately September 2014, the Firm’s erroneous controls for the GES Desk rejected orders that:
 - a. Exceeded the single-order quantity (“SOQ”) limit and single-order notional value (“SONV”) limit established for each customer;

² Exchange Act Rule 15c3-5 Adopting Release, at 69811.

- b. Exceeded the desk-level, daily position limit on the net value of all orders entered by GES Desk customers collectively in each security;
- c. Exceeded the limit on the number of order events (*i.e.*, creations, cancellations and modifications) per minute from the same customer (the “throttle control”);
- d. Were priced more than a specified percentage away from the prior day’s closing price (the “price away control”); and
- e. Contained the same order identification number (“Order ID”) as a prior order.

With the exception of the SOQ and SONV limits (which resided in FIBEX), these erroneous order controls resided in the Firm’s market gateway system (“FORCE”).

- 16. The Firm generally set the SOQ limit and SONV limit for each customer at such high levels that the controls were not reasonably designed to prevent erroneous orders, absent additional reasonably designed controls, such as an average daily trading volume (“ADTV”) control. While the Firm was aware of its need for an ADTV control as early as October 2013, it did not implement any ADTV control – or any other reasonably designed control – until June 2017.
- 17. Additionally, the Firm’s thresholds for the price away control were set substantially higher than the numerical guidelines for clearly erroneous transactions under the Firm’s own procedures. For example, for stocks priced under \$2.00, the Firm’s control rejected orders priced more than 40% away from the stock’s prior closing price.
- 18. Likewise, the Firm’s duplicative order control was too narrow to be considered reasonably designed to prevent the entry of potentially duplicative orders because it rejected only orders containing the same Order ID as a prior order. The Firm did not have a control to prevent other potentially duplicative orders, such as repetitive orders received from the same customer with the same terms (*e.g.*, security, side, quantity, price) at or around the same time.
- 19. BNP Paribas also did not have a reasonably designed control for the GES Desk to prevent the entry of erroneous orders, by rejecting orders that exceeded appropriate price or size parameters over a short period of time.
- 20. The Firm failed to establish, maintain, and enforce written supervisory procedures that were reasonably designed to achieve compliance with Exchange Act Rule 15c3-5(c)(1)(ii). Trading personnel could request temporary changes to financial risk management control limits, including the SOQ limits, SONV limits, price away control and throttle control. Prior to February 2015, these temporary changes did not go through supervisory reviews before being implemented by

Information Technology (“IT”) staff. While the Firm employed a next day, T+1 report for supervisors to review such temporary changes, that report was not reasonably designed to include all necessary information for supervisory review nor was it consistently reviewed by Firm personnel.

21. BNP Paribas failed to prevent the transmission of erroneous orders to the markets during this period. For example, on August 1, 2013, due to a technological issue, the Firm erroneously handled a customer order to buy 180,000 shares of symbol CMCSK as an immediate market order, rather than as a time-weighted average price (“TWAP”) order over a period of time, as the customer instructed. To execute the order, the Firm entered 419 child orders to buy CMCSK at sizes ranging from 55 shares to 178,332 shares on multiple markets, including the Exchange. On the Exchange, the firm executed 1,364 shares. Those erroneous orders resulted in 636 executions and caused the price of CMCSK to increase by approximately 5% over a 1-second period.

GES Desk Erroneous Order Controls and Procedures Post-September 2014

22. In approximately October 2014, the GES Desk deployed a new vendor order management system (the “Vendor OMS”). As a result, GES Desk customer orders were no longer sent through FORCE and were therefore not subject to the controls residing therein. While the Vendor OMS included desk-level, daily position limits per security, the Vendor OMS did not include a throttle control or a control that rejected orders that were not reasonably related to the price of the security.
23. During the period of approximately October 2014 through July 22, 2018, BNP Paribas did not have a control to reject GES Desk customer orders that were not reasonably related to the price of the security.³
24. BNP Paribas implemented a price control in the Vendor EI System on July 23, 2018, after it received a FINRA inquiry. However, BNP Paribas set the threshold of the control too high to be reasonably designed to prevent erroneous orders, absent additional reasonable controls. The control rejected customer buy orders priced more than 20% above the stock’s last sale price, and customer sell orders priced more than 20% below the stock’s last sale price. Again, the percentage threshold was higher than the numerical guidelines for clearly erroneous transactions under the Firm’s own procedures.
25. During the period of approximately October 2014 through July 15, 2018, BNP Paribas did not have any control for GES Desk customer orders to prevent an unintended excessive volume of orders arising from malfunctioning algorithms, software programs or trading systems. The Firm knew of this gap in its controls

³ The Vendor OMS had a price warning alert that generated when an order was priced more than a specified percentage away from the last sale price. The alert did not prevent the entry of erroneous orders, by rejecting orders that exceeded appropriate price or size parameters, as required by Exchange Act Rule 15c3-5(c)(1)(ii).

as early as May 2016, but did not establish an excessive order control until July 16, 2018, after it received a FINRA inquiry.

26. During the period of approximately October 2014 through at least June 30, 2018, Non-EI Orders were not subject to any price control, SOQ limits, SONV limits, throttle control, or duplicative order control, before being routed to the markets. In July 2018, the Firm began applying SOQ limits, SONV limits, and a throttle control to Non-EI Orders. However, the Firm still does not apply any controls to reject Non-EI Orders that exceed appropriate price parameters or indicate duplicative orders.
27. During the period of approximately October 2014 through July 15, 2017, the Firm applied SOQ and SONV limits to EI Orders, but generally set those single-order limits at such high levels that they were not reasonably designed to prevent erroneous orders absent additional reasonably designed controls, such as an ADTV control. For example, the Firm set SOQ limits as high as 250 million shares per order, and SONV limits as high as \$1 billion per order for certain customers.
28. The Firm established ADTV controls for High Touch orders on July 16, 2017 and Low Touch orders on July 16, 2018, respectively. However, the Firm set the thresholds of these ADTV controls too high to be reasonably designed to prevent the entry of erroneous orders, absent additional reasonable controls. For example, for High Touch orders, the Firm set its control to reject orders at sizes that exceeded 50% of the stock's ADTV, which was not reasonable given the securities in which it traded. The Firm's controls remained unreasonably designed in this respect until it implemented an enhanced ADTV control for the GES Desk on April 10, 2019.
29. From approximately October 2014 through the present, the Firm's duplicative order control for EI Orders continued to be too narrow to be reasonably designed to prevent the entry of potentially duplicative orders because it rejected only orders containing the same Order ID as a prior order. The Firm still did not have a control to prevent other potentially duplicative orders, such as repetitive orders received from the same customer with the same terms (*e.g.*, security, side, quantity, price) at or around the same time.
30. From approximately October 2014 through the present, BNP Paribas has continued to fail to implement a reasonably designed control for the GES Desk to prevent the entry of erroneous orders, by rejecting orders that exceeded appropriate price or size parameters over a short period of time.
31. The Vendor EI System that BNP Paribas began to implement in September 2015 had a price control, throttle control, and ADTV control available, but the Firm did not activate them for the GES Desk, with the exception of the price control activated by the Firm on July 23, 2018, as described above.

32. The acts, practices and conduct described in Paragraphs 11 through 31 constitute violations of Section 15(c)(3); Exchange Act Rule 15c3-5(b) and (c)(1)(ii); and BYX Rules 5.1 and 3.1.

Supervisory Failures

BNP Paribas was Aware of Gaps in its Financial Risk Management Controls

33. BNP Paribas operated without reasonably designed erroneous order controls for the GES Desk for years after it became aware of gaps in those controls.
34. For example, BNP Paribas was aware that it needed to establish an ADTV control to supplement its SOQ and SONV limits as early as October 2013. Nonetheless, BNP Paribas did not supplement its erroneous order controls for the GES Desk until June 16, 2017, when it added an ADTV control for High Touch orders only and set it at an unreasonably high threshold of 50%, as described above. BNP Paribas did not make further enhancements to its erroneous order controls for the GES Desk until July 2018, after it received a FINRA inquiry.
35. In another example, BNP Paribas was aware as early as November 2014 that it did not have a reasonably designed control for the GES Desk to prevent the entry of erroneous orders, by rejecting orders that exceeded appropriate price or size parameters over a short period of time. Yet, BNP Paribas has still not established such a control for the GES Desk.

BNP Paribas Failed to Establish a Reasonably Designed Supervisory System and Procedures

36. The Firm's written procedures established two processes for reviewing its compliance with Exchange Act Rule 15c3-5: (a) quarterly reviews of its risk management controls and systems; and (b) annual compliance testing. However, BNP Paribas did not establish and maintain a supervisory system, including written supervisory procedures, that was reasonably designed to promptly address issues identified as a result of its quarterly and annual reviews.
37. The acts, practices and conduct described in Paragraphs 33 through 36 constitute violations of Section 15(c)(3); Exchange Act Rule 15c3-5(e); and BYX Rules 5.1 and 3.1.

SANCTIONS

38. The Firm does not have any prior relevant disciplinary history specifically related to Exchange Act Rule 15c3-5 and BYX rules regarding supervision of financial risk management controls.
39. In light of the alleged rule violations described above, the Firm consents to the imposition of the following sanctions:
- a. A censure; and

- b. A monetary fine in the amount of \$650,000, of which \$130,000 shall be paid to BYX.⁴

40. Acceptance of this Letter of Consent is conditioned upon acceptance of similar settlement agreements in related matters between the Firm and each of the following self-regulatory organizations: (a) FINRA; (b) the New York Stock Exchange LLC; and (c) NYSE Arca, Inc.

If this Letter of Consent is accepted, the Firm acknowledges that it shall be bound by all terms, conditions, representations and acknowledgements of this Letter of Consent, and, in accordance with the provisions of Exchange 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 prejudice of the Chief Regulatory Officer (“CRO”) in connection with the CRO’s participation in discussions regarding the terms and conditions of this Letter of Consent, or other consideration of this Letter of Consent, including acceptance or rejection of this Letter of Consent. The Firm further waives any claim that a person violated the ex parte prohibitions of Exchange Rule 8.16, in connection with such person’s participation in discussions regarding the terms and conditions of this Letter of Consent, or other consideration of this Letter of Consent, including its acceptance or rejection.

The Firm agrees to pay the monetary sanction(s) upon notice that this Letter of Consent has been accepted and that such payment(s) 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 sanction(s) imposed in this matter.

The Firm understands that submission of this Letter of Consent is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the CRO, pursuant to Exchange Rule 8.3. If the Letter of Consent 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 Letter of Consent will become part of its disciplinary record and may be considered in any future actions brought by BYX or any other regulator against the Firm. The Letter of Consent will be published on a website maintained by the Exchange in accordance with Exchange Rule 8.18.

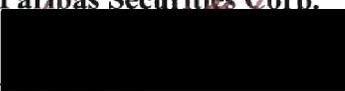
The Firm understands that it may not deny the charges or make any statement that is inconsistent with the Letter of Consent. The Firm may attach a Corrective Action Statement to this Letter of Consent that is a statement of demonstrable corrective steps taken to prevent future misconduct. Any such statement does not constitute factual or legal findings by the Exchange, nor does it reflect the views of the Exchange or its staff.

⁴ The remainder of the fine total shall be paid to the self-regulatory organizations listed in Paragraph 43.

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 Letter of Consent and has been given a full opportunity to ask questions about it; that it has agreed to the Letter of Consent'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: 7/15/2020

BNP Paribas Securities Corp.

By: 

Name: GEORGE NUNN

Title: COO