

BATS BZX EXCHANGE, INC.
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20130365748-03

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

RE: Barclays Capital Inc., Respondent
Broker-Dealer
CRD No. 19714

Pursuant to Rule 8.3 of the Rules of Bats BZX Exchange, Inc. ("BZX"), Barclays Capital 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, BZX 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 BZX, or to which BZX 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 BZX:

BACKGROUND

The firm became a member of FINRA on October 19, 1987 and BZX on August 18, 2008. The firm's registrations remain in effect. The firm does not have any relevant disciplinary history.

SUMMARY

In Review No. 20140407384, FINRA's Department of Market Regulation ("Market Regulation") reviewed the firm's compliance with Rule 15c3-5 of the Securities Exchange Act of 1934 ("Rule 15c3-5") and related requirements pertaining to BZX supervision rules with respect to trading by the firm on BZX on May 3, 2012 (the "review period") in security "ABCD." Upon the filing of a clearly erroneous ("CE") petition by the firm in ABCD, BZX cancelled the execution in question. As a result of its review, Market Regulation found the firm had inadequate risk management controls and supervisory procedures pertaining to market access in violation of Rule 15c3-5 and BZX Rules 3.1 and 5.1 during the review period.

FACTS AND VIOLATIVE CONDUCT

1. Rule 15c3-5 is designed to reduce the risks faced by broker-dealers, as well as the

markets and the financial system as a whole, as a result of various market access arrangements, by requiring effective financial and regulatory risk management controls reasonably designed to limit financial exposure and ensure compliance with applicable regulatory requirements to be implemented on a market-wide basis.

2. Rule 15c3-5(b) requires, among other things, a broker or 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, to “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.”
3. Rule 15c3-5(c)(1)(ii) provides that the risk management controls and supervisory procedures required by Rule 15c3-5(b) must be reasonably designed to systematically limit the financial exposure of the broker or dealer that could arise as a result of market access, including being 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.”
4. The firm’s controls were inadequate, as evidenced by the example below, in that the firm lacked price controls within a smart order router to prevent the entry of an erroneous order.
5. On May 3, 2012, at approximately 9:32:21, the firm entered an order on BZX to sell ABCD at prices significantly lower than the National Best Bid/Offer (“NBBO.”) The firm’s client originally sent the ABCD order through the firm’s order management system (“OMS”) as a market order. The firm’s smart order router (“SOR”) subsequently converted the parent market order into child orders at specific limits to multiple exchanges.
6. The child order was entered to sell 16 shares of ABCD with a time in force of immediate or cancel (“IOC”) at a limit \$97,506, 20% below the NBBO bid of \$121,926. As a result, 1 share traded at \$121,924 on BZX and 1 share traded at \$115,000 (a market impact of 5.7% below the NBBO), which was the next best bid on BZX. The remainder of the child order, 14 shares, was routed to the various exchanges, resulting in executions or cancellations of the remaining 14 shares. The execution of 1 share of ABCD at \$115,000 on BZX was busted as a result of a CE petition by the firm.
7. Subsequently, the firm entered a second order to sell 9 shares of ABCD IOC at a limit of \$115,000 on BZX, more than 5.5% below the NBBO bid of \$121,883 and the BZX bid of \$121,812, resulting in executions of 1 share at \$121,872 on BZX and 1 share at \$121,812, the next best bid on BZX. The remaining 7 shares were deleted.
8. Although the firm’s OMS had a pre-trade price control in place, it was bypassed due to the fact that the client entered the parent order as a market order. The firm’s SOR also had a pre-trade price control in place that would have prevented the clearly erroneous event, but it had been disabled the previous day in order to fix a software issue. The price control was brought back online on a limited basis on May 4, 2012, and in full on May 8,

2012.

9. For the foregoing reasons, the firm's risk management controls during the review period were not reasonably designed to comply with Rule 15c3-5. Accordingly, the firm violated SEC Rule 15c3-5(b) and 15c3-5(c)(1)(ii), and BZX Rules 3.1 and 5.1.

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

1. A censure,
2. A total fine of \$105,000 (of which \$10,000 shall be paid to BZX for the violations of Rule 15c3-5 and BZX Rules 3.1 and 5.1);¹ and
3. Acceptance of this AWC is conditioned upon acceptance of a similar agreement in a related matter between the firm and Nasdaq and Bats EDGA Exchange, Inc. The aggregate settlement amount across all markets is \$105,000.

The firm agrees to pay the monetary sanction(s) in accordance with its executed Election of Payment Form.

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 sanctions imposed herein shall be effective on a date set by BZX staff.

II.

WAIVER OF PROCEDURAL RIGHTS

The firm specifically and voluntarily waives the following rights granted under BZX 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 BZX'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.

¹ The balance of the sanction will be paid to Nasdaq and Bats EDGA Exchange, Inc.

The firm further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of BZX 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 BZX 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 BZX or any other regulator against the firm;
 2. this AWC will be published on a website maintained by BZX in accordance with BZX 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 BZX, or to which BZX 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 BZX 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 BZX, nor does it reflect the views of BZX 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.

3/17/17
Date

Barclays Capital Inc.
Respondent

By: Penny Rosenberg
Name: Penny Rosenberg
Title: Director

Reviewed by:

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

3/30/2017
Date

Greg Hoogasian
Greg Hoogasian
Senior Vice President & Chief Regulatory Officer
Bats BZX 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;
- Wire transfer.

Respectfully submitted,

Respondent

Barclays Capital Inc.

3/17/17

Date

By: Penny Rosenberg

Name: Penny Rosenberg

Title: Director