



DISCIPLINARY DECISION
Cboe EDGA Exchange, Inc
Star No. 20140435574/File No. USRI-6734
Jefferies Execution Services Inc., n/k/a Jefferies LLC

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

Applicable Rule(s)

- EDGA Rules 3.1 – Business Conduct of Members and 5.1 – Written Procedures.

Sanction

- A censure and a monetary fine in the amount of \$18,800.

Effective Date

December 10, 2019

/s/ Greg Hoogasian

Greg Hoogasian, CRO, SVP

Cboe EDGA Exchange, Inc.
LETTER OF CONSENT
Star No. 20140435574
File No. USRI-6734

In the Matter of:

Jefferies Execution Services, Inc., n/k/a Jefferies LLC
520 Madison Avenue
New York, New York 10022,

Respondent

Pursuant to the provisions of Cboe EDGA Exchange, Inc. (“EDGA” or the “Exchange”) Rule 8.3, Jefferies Execution Services, Inc. (“JefEx” or the “Firm”), now known as Jefferies LLC, 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 findings for Star No. 20140435574/ File No. USRI-6734 and the stipulation of facts and findings described herein do not constitute such an admission.

BACKGROUND

1. During all relevant periods herein, the Firm was acting as a registered Broker-Dealer and was a Member of the Exchange. On November 20, 2017, the Firm requested termination of its membership with the Exchange. That request became effective on February 16, 2018. On October 31, 2017, JefEx ceased operations, including all of its market access business line, and merged its remaining businesses into Jefferies LLC, an affiliated broker-dealer.

Jefferies LLC became an Exchange Member on May 25, 2010. Its membership remains in effect.

2. This matter originated from surveillance by Exchange Regulatory Staff and FINRA’s Department of Market Regulation, Quality of Markets team, on behalf of EDGA and ten other self-regulatory organizations.¹

¹ The ten other self-regulatory organizations are The NASDAQ Stock Market LLC (“Nasdaq”), Nasdaq BX, Inc. (“BX”), Nasdaq PHLX LLC (“PHLX”), the New York Stock Exchange LLC (“NYSE”), NYSE American LLC (“NYSE American”), NYSE Arca, Inc. (“NYSE Arca”), Cboe BZX Exchange, Inc. (“BZX”), Cboe BYX Exchange, Inc. (“BYX”), Cboe EDGX Exchange, Inc. (“EDGX”), and FINRA.

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.
4. During all relevant periods herein, Exchange Rule 5.1 provided that each member shall establish, maintain and enforce written procedures which will enable it to supervise properly the activities of associated persons 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. During all relevant periods herein, Exchange Rule 3.1 required members, in the conduct of their business, to observe high standards of commercial honor and just and equitable principles of trade.

JefEx's Direct Market Access Business

6. From January 1, 2014 through February 28, 2015 (the “review period”), JefEx offered its clients, which included FINRA-registered broker-dealers and institutional clients, direct market access to multiple securities exchanges, including EDGA. Therefore, JefEx had post-trade obligations to monitor for manipulation and other improper activity entered through the Firm.

JefEx Failed to Supervise its Clients' Direct Market Access Activity for Potential Layering or Spoofing Activity

7. Layering is a form of market manipulation that typically includes placement of multiple limit orders on one side of the market at various price levels at or away from the National Best Bid and Offer (“NBBO”) that are intended to create the appearance of a change in the levels of supply and demand. In some instances, layering involves placing multiple limit orders at the same or varying prices across multiple exchanges or other trading venues. An order is then executed on the opposite side of the market and most, if not all, of the multiple limit orders are immediately cancelled. The purpose of the multiple limit orders that are subsequently cancelled is to induce, or trick, other market participants to enter orders due to the appearance of interest created by the orders such that the trader is able to receive a more favorable execution on the opposite side of the market.
8. Similar to layering, spoofing is a manipulative trading tactic designed to induce other market participants into executing trades. Spoofing is a form of market manipulation that generally involves, but is not limited to, the market manipulator placing an order or orders with the intention of cancelling the order or orders once

they have triggered some type of market movement and/or response from other market participants, from which the market manipulator might benefit by trading on the opposite side of the market.

9. Notwithstanding that the Firm provided direct market access to its clients both prior to and during the review period, the Firm did not have monitoring for layering or spoofing and therefore the Firm did not establish, maintain, and enforce a supervisory system or written supervisory procedures reasonably designed to monitor for potential layering or spoofing by its direct market access clients.
10. As a result of JefEx's supervisory failures, JefEx direct market access clients placed millions of orders per month during the review period through JefEx without being subjected to supervisory reviews for potential layering or spoofing.
11. FINRA, BZX, EDGA, and EDGX surveillance identified more than 150,000 instances of potential layering activity associated with JefEx order flow from June 2014 through February 2015. Ninety-seven percent of those instances of potential layering were concentrated from October 2014 through February 2015.
12. Upon receiving multiple notifications of the potential layering from Exchange Regulatory Staff as early as November 2014, JefEx began to develop a layering surveillance review, but it was not implemented until February 11, 2015. After implementing its surveillance, JefEx identified one particular broker-dealer client ("Client A") as potentially engaging in layering activity and terminated this client on February 13, 2015. Client A had placed approximately 24 million orders between September 2014 and February 2015. These 24 million orders accounted for six percent of JefEx's direct market access order flow during this period.
13. JefEx also updated its written supervisory procedures to reflect the integration of its layering and spoofing surveillance into its overall supervisory system and reviews. JefEx subsequently engaged the services of a third party surveillance system provider in August 2016, and completed implementation of the third party surveillance system in late 2017.
14. The acts, practices and conduct described in Paragraphs 6 through 12 constitute violations of Exchange Rules 5.1 and 3.1.

SANCTIONS

15. The Firm does not have any prior relevant disciplinary history specifically related to Exchange rules regarding supervision of potentially manipulative trading by direct market access customers.

16. 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 \$215,000, of which \$18,800 shall be paid to EDGA for violations of Exchange Rules 5.1 and 3.1.²
17. Acceptance of this Letter of Consent is conditioned upon acceptance of similar agreements in related matters between the Firm and each of the following self-regulatory organizations: (i) Nasdaq; (ii) BX; (iii) PHLX; (iv) NYSE; (v) NYSE American; (vi) NYSE Arca (vii) BZX; (viii) BYX; (ix) EDGX; and (x) FINRA. The aggregate settlement across all markets is \$215,000.

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 prejudgment 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 EDGA 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.

² The balance of the fine will be paid to the self-regulatory organizations referenced in Paragraph 17, below.

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.

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: 12-5-19

Jefferies Execution Services, Inc., n/k/a Jefferies LLC

By: 

Name: Cynthia Adams

Title: Managing Director, Legal