



DISCIPLINARY DECISION
Cboe BZX Exchange, Inc.
Star No. 20150451635/File No. USRI-3325
Cantor Fitzgerald & Co.

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

Applicable Rules

- BZX Rules 5.1 – Written Procedures and 3.2 – Violations Prohibited.
- 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 \$160,000.

Effective Date

March 12, 2020

/s/ Greg Hoogasian

Greg Hoogasian, CRO, SVP

Cboe BZX Exchange, Inc.
LETTER OF CONSENT
Star No. 20150451635¹
File No. USRI-3325

In the Matter of:

Cantor Fitzgerald & Co.
110 East 59th Street, 4th Floor
New York, New York 10022

Respondent

Pursuant to the provisions of Cboe BZX Exchange, Inc. (“BZX” or the “Exchange”) Rule 8.3, Cantor Fitzgerald & Co. (“Cantor” 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 findings for Star No. 20150451635/File No. USRI-3325 and the stipulation of facts and findings described herein do not constitute such an admission.

BACKGROUND

1. During all relevant periods herein, Cantor Fitzgerald & Co. 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

1. During all relevant periods herein, the following rules were in full force and effect: Rule 15c3-5 – Risk Management Controls for Brokers or Dealers with Market Access, promulgated under the Securities Exchange Act of 1934, as amended, and Exchange Rules 5.1 – Written Procedures and 3.2 – Violations Prohibited.
2. Rule 15c3-5(b) required that “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 ... 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.”

¹ Includes Star Nos. 20170562450 and 20190621964.

3. Rule 15c3-5(c)(1) required firms that provide market access to establish risk management controls and supervisory procedures that are “reasonably designed to systematically limit the financial exposure of the broker or dealer that could arise as a result of market access.”
4. Rule 15c3-5(c)(1)(ii) further required controls and 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.”
5. 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.
6. Exchange Rule 3.2 prohibited, in relevant part, a Member from engaging in conduct in violation of the Securities Exchange Act of 1934 or Exchange Rules. Exchange Rule 3.2 further provided that every Member shall so supervise persons associated with the Member as to assure compliance with those requirements.

Cantor’s Market Access

7. From January 11, 2016 through June 19, 2018 (the “Review Period”)² Cantor operated, among other trading desks, an ETF Market Making Desk (the “ETF Desk”) which had market access to the Exchange.

Cantor’s Messaging Controls

Cantor’s Erroneous ETF Desk Messaging Activity

8. During the Review Period, Cantor’s ETF Desk submitted orders to the Exchange that generated numerous Exchange surveillance alerts that indicated potentially erroneous excessive messaging activity.
9. Generally, the alerts were triggered when the Firm would amend a resting bid or offer which would set a new BZX Best Bid or Offer (“BBBO”) and would either set a new National Best Bid/Offer (“NBBO”) or join the existing NBBO. The Firm then amended multiple additional existing resting orders that it maintained on the same side of the market between various price points, apparently reacting to the change in the BBBO and/or NBBO that it caused with its original amendment. The Firm then continued amending the resting orders in a cyclical pattern, in some instances sending thousands of amendments per second.

² FINRA also investigated this matter on behalf of Cboe EDGX Inc. (“EDGX”), and The NASDAQ Stock Market, LLC (“Nasdaq”), and NYSE Arca, Inc. (“NYSE Arca”).

Cantor's ETF Desk Messaging Controls

10. During the Review Period, Cantor's ETF Desk employed a global messaging control that would generate an alert each time its quoting reached set parameters. The alerts were reviewed in real time by a designated supervisor, but the ETF Desk would not be prevented from sending additional messages unless the messages were blocked by Firm personnel.
11. As of January 2016, Cantor had an additional messaging control for its ETF Desk called the Quote Reaction Threshold ("QRT") with a threshold of 2,500 messages per order. In March 2017, the Firm lowered this threshold from 2,500 messages per order to 300 messages per order. When the QRT control was triggered and produced alerts, the messaging activity would be blocked and then be allowed to automatically restart.
12. The Firm's global messaging and QRT controls were not reasonably designed to prevent the entry of erroneous excessive messages because they allowed messaging activity to automatically restart, and there were no limits to the number of times the messaging activity could automatically restart without review and intervention by Firm personnel. On December 14, 2017, a hard-stop of three (3) times was placed on the number of QRT automatic restarts. Thus, if the QRT restarted three (3) times, the strategy for quoting in that security would automatically cease, and could only restart with manual review and intervention.
13. In addition, the Firm failed to conduct a reasonable and meaningful review of the resulting QRT alerts. The Firm's written policies and supervisory procedures also failed to provide guidance to Firm personnel as to whether a review of the resulting QRT alerts was required before messaging could resume, how to review QRT alerts or what criteria should be used, or when QRT alerts should be escalated.
14. Although the Firm utilized an End of Day Supervisory Checklist that generally discussed the monitoring of alerts generated by the global messaging and QRT controls, the Firm's written supervisory procedures ("WSPs") failed to address the checklist or provide guidance as to how the supervisory review should be documented.
15. In view of the foregoing, the Firm's ETF Desk messaging controls during the Review Period were not reasonably designed to prevent the entry of excessive erroneous orders in violation of Rule 15c3-5(b). The Firm additionally lacked written policies and supervisory procedures to enable it to supervise properly the activities of associated persons of the Member and to assure their compliance with Rule 15c3-5 in violation of Exchange Rule 5.1.

Cantor's Price Controls

Cantor's ETF Desk Erroneously Priced Orders

16. On February 8, 2018, Cantor entered three erroneously priced 100-share sell orders in a ETF prior to the open. The NBBO for the security was \$50.10 x \$150.28. Cantor entered the first sell order with a limit price of \$25.48/share, and entered the next two sell orders with a limit price of \$26.98/share. The first order was executed at a price of \$60.34/share, and the next two sell orders each executed at a price of \$50.12/share. These executions were 39.85% and 50.13% lower than the security's the prior day closing price of \$100.31. Cantor filed clearly erroneous execution ("CEE") petitions and the executions were busted by the Exchange.
17. On June 19, 2018, Cantor entered one erroneously priced 100-share sell order in the same ETF prior to the open. The NBBO for the security was \$50.65 x \$151.93. Cantor entered the order with a limit price of \$10.46/share. The order was executed at a price of \$61.03/share. This execution was 39.10% lower than the security's the prior day closing price of \$100.22. Cantor filed a CEE petition and the execution was busted by the Exchange.
18. In each instance, Cantor priced the orders based on an incorrect Net Asset Value ("NAV") contained in a file it received from another source.

Cantor's ETF Desk Price Controls

19. The Firm had various controls intended to prevent erroneously priced orders for ETFs. One such control was the ETF Net Asset Value ("ETFNAV") control, which sought to prevent an order with an erroneous limit price from being routed to a market center. The Firm's ETFNAV control failed to prevent the entry of the erroneous orders described above from being sent to BZX because the control utilized the same incorrect NAV data and the Firm had no other price controls that applied to block these erroneous priced orders.
20. The Firm's price controls were not reasonably designed to prevent the entry of erroneously priced orders in violation of Rule 15c3-5(b) and (c)(1)(ii). The Firm additionally lacked written policies and supervisory procedures to enable it to supervise properly the activities of associated persons of the Member and to assure their compliance with Rule 15c3-5 in violation of Exchange Rule 5.1.
21. The acts, practices and conduct described above in paragraphs 8 through 20 constitute violations of Rules 15c3-5(b) and (c)(1)(ii), and Exchange Rules 3.2, and 5.1.

SANCTIONS

1. The Firm does not have any prior relevant disciplinary history related to Rule 15c3-5 or Exchange Rules 3.2 and 5.1.
2. 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 \$450,000, of which \$160,000 shall be paid to Cboe BZX.
3. Acceptance of this AWC is conditioned upon acceptance of similar settlement agreements in related matters between Cantor and each of the following self-regulatory organizations: (i) EDGX, (ii) Nasdaq, and (iii) 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 BZX 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.

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: 2-18-20

Cantor Fitzgerald & Co.

By: WALTER SHAW

Name: [Signature]

Title: COO