

**CBOE BZX EXCHANGE, INC.**  
**LETTER OF ACCEPTANCE, WAIVER AND CONSENT**  
**NO. 2016050435501**

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

RE: ITG Inc., Respondent  
Broker-Dealer  
CRD No. 29299

Pursuant to Rule 8.3 of the Rules of Cboe BZX Exchange, Inc. ("BZX"), ITG 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 has been a member of BZX since August 18, 2008, and a member of FINRA since January 8, 1992, and its registrations remain in effect. The firm has no relevant disciplinary history.

**SUMMARY**

This matter (No. 20160504335), stemmed from a referral by BZX to FINRA, based on BZX surveillance which detected unusually high quote traffic, *i.e.*, potential excessive messaging, by the firm. The subject activity involved three- to nine- second windows where the firm entered, on average, approximately 1,389 purchase orders per second in multiple securities and on multiple trading days during May 2015 and June 2015. Accordingly, FINRA's Market Regulation Department, Market Analysis Section (the "staff"), reviewed the firm's risk management controls and Written Supervisory Procedures ("WSPs"). As set forth below, the firm failed to have reasonably designed pre-trade controls to effectively monitor for, and prevent, short bursts of unintended messaging activity. Consequently, the firm violated SEC Rule 15c3-5(c)(1)(ii) and BZX Rule 3.1. Further, as set forth below, the firm failed to have supervisory procedures,

including written supervisory procedures, that were reasonably designed to surveil for erroneous orders. Consequently, the firm violated BZX Rules 3.1, 3.2, and 5.1.

## FACTS AND VIOLATIVE CONDUCT

### Regulatory Framework

1. During May 1, 2015, through June 30, 2015 (the “review period”), SEC 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 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.”
2. Pursuant to SEC Rule 15c3-5(c)(1), the risk management controls and supervisory procedures required by paragraph (b) of the rule were to be “reasonably designed to systematically limit the financial exposure of the broker or dealer that could arise as a result of market access.”
3. Subparagraph (c)(1)(ii) further provided that such controls and procedures were required to be 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. BZX Rules 3.1 and 3.2 require member firms to observe high standards of commercial honor and just and equitable principles of trade and to comply with exchange rules, the Securities and Exchange Act, the rules and regulations thereunder, and to supervise persons associated with the member to assure compliance with these rules and regulations.
5. BZX Rule 5.1 requires Members 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 BZX Rules.

### Violative Conduct

6. On five separate days during the review period, during a three- to nine- second window the firm entered, on average, approximately 1,389 orders per second to purchase a security. The messaging activity resulted from working large parent orders that were submitted by the firm’s customers. In working the large parent orders, the firm’s Smart Order Router (“SMRT”) divided the larger orders into multiple smaller “child” orders, which were then routed to the BZX for execution. Most of the child orders were Immediate or Cancel (“IOC”) Intermarket Sweep Orders (“ISOs”) that were entered at or above the National Best Offer (“NBO”). The child orders were repetitively entered and cancelled back to the firm due to having a limit price that was above the Upper Band

established by Limit Up/Limit Down rules. Consequently, there was no or minimal execution activity.

7. Although the firm stated that it utilized its Daily Aggregated Value Check ("DAVC") report as a pre-trade control to identify potentially duplicative orders, the DAVC report was not designed to identify, and did not prevent, on a pre-trade basis the entry of erroneous child orders entered by the firm's order router while working a customer's large parent order. In addition, the DAVC control was also not a reasonable control because it would only prevent certain messaging activity once the notional value threshold was reached and would not necessarily prevent short bursts of erroneous messaging.
  8. As a result of the conduct described in paragraphs A.6 and A.7, above, the firm failed to have risk management controls and supervisory procedures reasonably designed to prevent 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.
  9. The firm's supervisory system did not include written supervisory procedures providing for a statement of the supervisory step(s) to be taken by the responsible supervisor when reviewing for erroneous orders.
  10. For the forgoing reasons, the firm's risk management controls and supervisory procedures, including its written supervisory procedures, during the review period were not reasonably designed to prevent 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. Accordingly, the firm violated SEC Rule 15c3-5(c)(1)(ii) and BZX Rules 3.1, 3.2, and 5.1.
- B. The firm also consents to the imposition of the following sanctions:

A censure; a fine of \$35,000; and an undertaking to revise the firm's risk management controls and supervisory procedures, including its written supervisory procedures, with respect to the areas described in paragraphs I.A.7 through I.A.9. Within 30 business days of acceptance of this AWC by the BZX, a registered principal of the Respondent shall submit to the **COMPLIANCE ASSISTANT, MARKET REGULATION 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](mailto:MarketRegulationComp@finra.org), providing the following information: (1) a reference to this matter; (2) a representation that the firm has revised its controls and written supervisory procedures to address the deficiencies described in paragraphs I.A.7 through I.A.11; and (3) the date the revised controls and procedures were implemented.

The firm agrees to pay the monetary sanction(s) upon notice that this AWC has been accepted and that such payment(s) are 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(s) imposed in this matter.

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

## **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.

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.

12/21/18  
Date

ITG Inc.  
Respondent

By: [Signature]

Name: THOMAS SUPERVILL

Title: CCO

Reviewed by:

[Signature]

Amy J. Greer, Esq.  
Counsel for Respondent  
Morgan Lewis & Bockius LLP  
1111 Pennsylvania Avenue, N.W.  
Washington, D.C. 20004  
Telephone: 202-739-5076

1/8/2019  
Date

[Signature]

Greg Hoogasian  
Senior Vice President & Chief Regulatory Officer  
Cboe 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; or
- Wire transfer.

Respectfully submitted,

12/21/18  
Date

Respondent  
ITG Inc.

By: 

Name: THOMAS SWEENEY

Title: CCO

ITG Inc. – Corrective Action Statement - CBOE BZX – Matter No. 20160504355

Since the period at issue in this AWC, ITG Inc. has effectively fully revised its procedures for compliance with SEC Rule 15c3-5. Specifically, the Firm has already undertaken to revise its risk management controls and supervisory procedures, including, among other items, its written supervisory procedures related to its Daily Aggregated Value Check report and control, and procedures for supervisory review of erroneous orders.

*This Corrective Action Statement is submitted by the Respondent. It does not constitute factual or legal findings by the Cboe BZX Exchange, Inc., nor does it reflect the views of BZX or its staff.*