



DISCIPLINARY DECISION

Cboe BZX Exchange, Inc.

Star No. 20170545881-09/ File No. USRI-6851-05

Jefferies LLC, as successor to Jefferies Execution Services, Inc.

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

Applicable Rules

- BZX Rules 3.2 – Violations Prohibited, 5.1 – Written Procedures, and 11.9 – Orders and Modifiers.
- Rule 611 of Regulation NMS – Order Protection Rule, promulgated under the Securities Exchange Act of 1934.

Sanction

A censure and a monetary fine in the amount of \$24,063.

Effective Date

January 3, 2022

/s/ Greg Hoogasian

Greg Hoogasian, CRO, SVP

Cboe BZX Exchange, Inc.
LETTER OF CONSENT
Star No. 2017054588109/File No. USRI-6851-05

In the Matter of:

Jefferies LLC, as successor to Jefferies Execution Services, Inc.
520 Madison Avenue, 16th Floor
New York, NY 10022

Subject

Pursuant to the provisions of Cboe BZX Exchange, Inc. (“BZX” or the “Exchange”) Rule 8.3 – Expedited Proceeding, Jefferies LLC (the “Firm”), as successor to Jefferies Execution Services, Inc. (“Jefferies”), 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 that violations of Exchange Rules or the Securities Exchange Act of 1934, as amended (the “Exchange Act”) have been committed, and the stipulation of facts and findings described herein do not constitute such an admission.

BACKGROUND

1. Jefferies Execution Services, Inc. (CRD No. 867) became a BZX Member in August 2008. In November 2017, it requested the termination of its BZX Membership. Its registration with BZX was terminated in February 2018. On January 19, 2018, Jefferies Execution Services, Inc. merged with and into Jefferies LLC (CRD No. 2347), an affiliated broker-dealer that has been a BZX Member since October 2008.¹ Jefferies Execution Services, Inc.’s principal place of business was in New York, New York. Its business primarily consisted of electronic and manual execution services on exchanges and electronic marketplaces for financial institutions, including Jefferies LLC.

VIOLATIVE CONDUCT

Applicable Rules

2. During all relevant periods herein, the following rules were in full force and effect: Rule 611 of Regulation NMS – Order Protection Rule, promulgated under the Exchange Act; and BZX Rules 3.2 – Violations Prohibited; 5.1 – Written Procedures; and 11.9 – Orders and Modifiers.

¹ Jefferies LLC assumed all liabilities and obligations of Jefferies Execution Services, Inc. at the time of the merger.

3. Rule 600(b)(30) of Regulation NMS (“Rule 600(b)(30)”) ² defined an intermarket sweep order (“ISO”) as a limit order for an NMS stock that: (i) is identified as an ISO when routed to a trading center; and (ii) simultaneously with the routing of the limit order identified as an ISO, one or more additional limit orders, as necessary, are routed to execute against the full displayed size of any protected bid, in the case of a limit order to sell, or the full displayed size of any protected offer, in the case of a limit order to buy, for the NMS stock with a price that is superior to the limit price of the limit order identified as an ISO. These additional routed orders also must be marked as ISOs. ³
4. Rule 611(c) of Regulation NMS (“Rule 611(c)”) required a trading center, broker, or dealer responsible for the routing of an ISO to take reasonable steps to establish that such order meets the requirements set forth in Rule 600(b)(30).
5. BZX Rule 11.9(d) provided that in order to be eligible for treatment as an ISO, the limit order must be marked “ISO” and the User entering the order must simultaneously route one or more additional limit orders marked “ISO,” as necessary, to away markets to execute against the full displayed size of any protected quotation for the security with a price that is superior to the limit price of the ISO entered in the System. Further, BZX Rule 11.9(d) provided that “it is the entering Member’s responsibility ... to comply with the requirements of Regulation NMS relating to [ISOs].”
6. BZX Rule 3.2 stated, “No Member shall engage in conduct in violation of the [Exchange] Act, the rules or regulations thereunder, the By-Laws, Exchange Rules or any policy or written interpretation of the By-Laws or Exchange Rules by the Board or an appropriate Exchange committee.”
7. BZX Rule 5.1 required 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.”

² After the review period, Rule 600(b)(30) became Rule 600(b)(38). Because the conduct in this matter occurred while Rule 600(b)(30) was still in effect, all references herein are to Rule 600(b)(30).

³ The Securities and Exchange Commission staff (Division of Trading and Markets) issued guidance stating that firms are not required to maintain a comprehensive database of quotation data if the firm (1) has implemented reasonable policies and procedures that include periodic review of its compliance with Rule 611, and (2) retains sufficient firm-specific quotation data to demonstrate the reasonableness of its Rule 611 compliance reviews. With regard to the second item, firms are required to maintain for a reasonable amount of time certain market data showing the protected quotations of all relevant market centers at the time they route ISOs so they can demonstrate the reasonableness of their policies and procedures. *See Responses to Frequently Asked Questions Concerning Rule 611 and Rule 610 of Regulation NMS*, Question 6.03.

Violative ISOs

8. Between February 22 and 23, 2016, and between October 2016 and October 2017, Jefferies failed to take reasonable steps to establish that the ISOs it routed met the requirements of Exchange Act Rule 600(b)(30).
9. On February 22 and 23, 2016, Jefferies' Electronic Trading Desk (the "Desk") routed a number of orders to trading centers that it marked as ISOs, but that did not meet the requirements of Rule 600(b)(30) because the Desk failed to route additional limit orders to execute against other exchanges' protected quotes. On February 23, 2016, Jefferies was notified of potential ISO routing issues by Exchange Regulatory staff, at which time, the Desk stopped routing ISOs.
10. At the time, Jefferies did not take "reasonable steps" to establish that these ISOs met the requirements of Rule 600(b)(30). The Desk failed to inform Jefferies' compliance department that it intended to begin sending ISOs. Moreover, the Desk did not have any procedures regarding compliance with Rules 611 or 600(b)(30) and did not maintain firm-specific quotation data or conduct periodic reviews to test the effectiveness of its policies and procedures for preventing trade-throughs. In addition, Jefferies failed to identify all protected quotations when determining to which venues ISOs should be routed due to a coding issue.
11. Additionally, between October 2016 and August 2017, Jefferies mistakenly routed orders to trading centers that it marked as ISOs but, in fact, were immediate-or-cancel ("IOC") orders that did not qualify as ISOs. Upon fixing the underlying programming issue that led to the mismarking, Jefferies created another coding problem. Specifically, during the period of August 2017 through October 2017, with respect to child orders routed to four exchanges, Jefferies mistakenly routed IOC orders instead of ISO orders. As a result, 51,086 violative ISOs were routed between February 2016 and October 5, 2017, including 5,691 ISOs routed to BZX.
12. At the time, Jefferies did not take "reasonable steps" to establish that the orders it had marked as ISOs qualified as ISOs under Rule 600(b)(30). During this period, Jefferies failed to conduct reasonable periodic reviews to determine whether it was complying with Rule 611. Although Jefferies implemented a daily review of ISOs in May 2016, this review was not reasonably designed, as discussed further below, and it was the only review being conducted by Jefferies with regard to Rule 611. Further, Jefferies failed to identify that a programming error within its order-execution system was causing it to mismark orders and causing Jefferies to fail to retain firm-specific quotation data, which contributed to the Jefferies' inability to perform reasonable periodic reviews to test the effectiveness of its policies and procedures for preventing trade-throughs. For these reasons, Jefferies failed to take reasonable steps to ensure the ISOs it routed met the requirements of Exchange Act Rule 600(b)(30).

13. The acts, practices, and conduct described in Paragraphs 8 through 12 constitute violations of BZX Rules 3.2 and 11.9(d); and Rule 611(c) by Jefferies, in that Jefferies failed to take reasonable steps to establish that the ISOs it routed met the requirements set forth in Rule 600(b)(30).

Supervision

14. Between February 2016 and October 2017, Jefferies did not establish, maintain, and enforce written supervisory procedures (“WSPs”) which would enable it to assure compliance with Exchange Act Rule 611(c).
15. With respect to the conduct on February 22 and 23, 2016, Jefferies did not establish a supervisory system or WSPs that were reasonably designed to ensure that the Desk did not route ISOs or, if it were to route ISOs, that such routing complied with Exchange Act Rule 611(c). Jefferies did not implement any supervisory review of ISOs until May 2016, and this review was not documented in Jefferies’ procedures until April 2017. Even after May 2016, Jefferies’ review was unreasonable given that the ISOs reviewed by Jefferies represented a small fraction of the ISOs Jefferies handled each day.
16. In addition, Jefferies’ programming errors and failure to maintain snapshot records of the market data supporting its routing of certain ISOs prevented it from performing a reasonable review of those ISOs for compliance with Exchange Act Rule 611(c).
17. The acts, practices, and conduct described in Paragraphs 14 through 16 constitute violations of BZX Rule 5.1 by Jefferies, in that Jefferies’ supervisory system, including its WSPs, was not reasonably designed to achieve compliance with Rule 611(c).

SANCTIONS

18. Jefferies does not have any prior relevant disciplinary history.
19. 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 \$24,063.⁴

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

⁴ This settlement relates to other settlements the Firm reached with Cboe BYX Exchange, Inc., Cboe EDGX Exchange, Inc., Cboe EDGA Exchange, Inc., the New York Stock Exchange, LLC, NYSE American LLC, NYSE Arca, Inc., Investors Exchange LLC, and FINRA.

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 SEC, 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 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: December 23, 2021

Jefferies LLC, as successor to Jefferies Execution Services, Inc.

By: 

Name: Cynthia Adams

Title: Managing Director, Legal