



DISCIPLINARY DECISION
Cboe BZX Exchange, Inc.
Star No. 20170555959 / File No. USRI-3401-05
National Financial Services, LLC

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

Applicable Rules

- BZX Rule 3.2 – Violations Prohibited; and
- Rule 15c3-5 under the Securities Exchange Act of 1934, as amended – Risk Management Controls for Brokers or Dealers with Market Access.

Sanction

A censure and a monetary fine in the amount of \$14,000.

Effective Date

April 27, 2021

/s/ Greg Hoogasian

Greg Hoogasian, CRO, SVP

Cboe BZX Exchange, Inc.
LETTER OF CONSENT
STAR No. 20170555959/File No. USRI-3401-05

In the Matter of:

National Financial Services, LLC
200 Seaport Boulevard
Boston, MA 02210

Respondent

Pursuant to the provisions of Cboe BZX Exchange, Inc. (the “Exchange”) Rule 8.3 – Expedited Proceeding, National Financial Services, LLC (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 that violations of Exchange rules or the Securities Exchange Act of 1934, as amended (the “Exchange Act”) and Exchange Act rules have been committed, 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 an Exchange Member. The Firm’s registration remains in effect.
2. This matter originated from a review conducted by FINRA’s Market Analysis Group.

VIOLATIVE CONDUCT

Applicable Rules

3. During all relevant periods herein, the following rules were in full force and effect: Exchange Rule 3.2 – Violations Prohibited; and Rule 15c3-5 – Risk Management Controls for Brokers or Dealers with Market Access under the Exchange Act (“Exchange Act Rule 15c3-5”).
4. Exchange Rule 3.2 provided that “[n]o Member shall engage in conduct in violation of the 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. Every Member shall so supervise persons associated with the Member as to assure compliance with those requirements.”

5. Exchange Act Rule 15c3-5(a)(1)(i) defined “market access” as “[a]ccess to trading in securities on an exchange or alternative trading system as a result of being a member or subscriber of the exchange or alternative trading system, respectively.”
6. Exchange Act 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.”
7. Exchange Act Rule 15c3-5(c)(1)(ii) required broker-dealers to establish, document, and maintain financial risk management controls and supervisory 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.” The Exchange Act Rule 15c3-5 Adopting Release states that erroneous order controls should be reasonably designed to prevent orders from erroneously being entered as a result of both technological malfunctions and manual errors. The Commission noted the rule “allows flexibility for the details of the controls and procedures to vary from broker-dealer to broker-dealer, depending on the nature of the business and customer base, so long as they are reasonably designed to achieve the goals articulated in the” rule.¹ As one example, the Commission cited “a systematic, pre-trade control reasonably designed to reject orders that are not reasonably related to the quoted price of the security....”²

Certain of the Firm’s Financial Risk Management Controls and Supervisory Procedures Were Not Reasonably Designed to Prevent the Entry of Erroneous Orders

8. From in or about February 2015 through December 2019, the Firm maintained a system of risk management controls and supervisory procedures designed to manage the financial risk of its market access business activity. The controls at issue existed in the Firm’s mainframe, which houses trading applications for retail and certain institutional customers; a Financial Information eXchange (“FIX”) connection and trading platform that received both retail and institutional orders; and a third-party order management system (“OMS”) the Firm used for certain orders that were routed electronically for manual handling.
9. Between on or about February 1, 2016 through on or about April 14, 2018, among the pre-trade controls maintained in the Firm’s mainframe and FIX connection was a control designed to reject orders that exceeded the greater of either the security’s: (1) 20% of the 20-day average daily volume (“ADV”) control for equity orders and

¹ Exchange Act Release No. 63241, RISK MANAGEMENT CONTROLS FOR BROKERS OR DEALERS WITH MARKET ACCESS (Nov. 3, 2010), 75 Fed. Reg. 69792, at 69802 (Nov. 15, 2010).

² *Id.* at 24.

50% of 20-day ADV for exchange traded funds (“ETFs”), or (2) the daily volume at the time of the trade (in the mainframe) or 100% of the calculated remaining volume for the day (in the FIX connection).³ These thresholds were set too high to be reasonably designed to prevent the entry of erroneous orders, absent additional reasonably designed controls. For example, on November 15, 2017, the Firm’s maximum order control allowed a market order to enter the markets that represented approximately 34.56% of the symbol’s 20-day ADV which was lower than the approximately 46.03% of the calculated remaining volume for the day, which resulted in a clearly erroneous order petition filing.

10. Starting in or about 2016, orders marked “not-held” or otherwise worked by a professional trader that were manually entered or modified in the Firm’s OMS would be subjected to a 500% 20-day ADV control, which was adjusted to 250% in 2017 and maintained at that level through 2018. Both thresholds were set too high to be reasonably designed to prevent the entry of erroneous orders, absent additional reasonably designed controls.
11. In addition, between in or about February 2016 through December 2019, the Firm’s mainframe, FIX connection, and OMS each maintained a single static order price variance control that was designed to block limit orders that were priced too far away or through the prevailing market price of a security. However, this static control was not reasonably designed as it applied the same threshold to all securities regardless of the security’s reference price. In addition, for some securities the control exceeded the numerical guidelines for clearly erroneous executions (“CEE”) under the Exchange’s rules and the Firm did not have a documented rationale for why the control was set at this level. For example, the Firm’s mainframe and FIX connectivity price variance controls were set at thresholds higher than the CEE numerical guideline under the Exchange’s rules for securities with a reference price of greater than \$25.00 and the Firm’s OMS control was set at a threshold higher than the numerical guidelines for all securities.
12. From in or about February 2017 through August 2018, the Firm’s FIX connection duplicative order control rejected orders only with the same Order ID as a prior order and did not consider characteristics of potentially duplicative orders (*i.e.*, orders with the same symbol, side, quantity, and price). The Firm also had a separate system that monitored for duplicative order flow in the Firm’s FIX connection that included order message counts on an account/side/symbol/price/quantity basis. The Firm failed to have reasonably designed procedures that detailed how orders identified by the system were to be reviewed prior to being allowed to proceed to the routing destination. Therefore, the Firm failed to establish reasonably designed controls and procedures to prevent the entry of erroneous, potentially duplicative orders.

³ On Jan. 2019, the Firm ceased using the remaining projected volume calculation in its FIX connection and instead applied the current volume calculation.

13. The acts, practices, and conduct described in Paragraphs 9 through 12 constitute violations of Exchange Act Rule 15c3-5(b) and (c)(1)(ii); and Exchange Rule 3.2 by the Firm.

SANCTIONS

14. The Firm does not have any prior relevant disciplinary history specifically related to Exchange Act Rule 15c3-5.
15. 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 \$14,000.⁴

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 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 upon notice that this Letter of Consent has been accepted and that such payment is 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 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 Cboe or any

⁴ This settlement relates to other settlements the Firm reached with the Cboe EDGA Exchange, Inc., the Cboe EDGX Exchange, Inc., and the Nasdaq Stock Market.


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: April 21, 2021

National Financial Services, LLC

By:  _____

Name: Janet M. Dyer

Title: Chief Compliance Officer