



DISCIPLINARY DECISION

Cboe Exchange, Inc.

Star No. 20180580170-10/File No. USRI-8726-01/URE-20-01

Global Execution Brokers, LP

Pursuant to Exchange Rule 13.3, attached to and incorporated as part of this Decision is a Letter of Consent.

Applicable Rule(s)

- Exchange Act Rule 15c3-5 – Risk Management Controls for Brokers or Dealers with Market Access
- Cboe Rule 4.24 – Supervision and Cboe Rule 4.2 – Adherence to Law¹

Sanction

A censure to Global Execution Brokers, LP and a fine of \$10,000.

Effective Date

August 16, 2022

/s/ Greg Hoogasian

Greg Hoogasian, CRO, EVP

¹ As of October 7, 2019, Cboe Rule 4.24 was re-numbered to Cboe Rule 8.16 and Cboe Rule 4.2 was re-numbered to Cboe Rule 8.2.

Cboe Exchange, Inc.
LETTER OF CONSENT

Star No. 20180580170-10/File No. USRI-8726-01/File No. URE-20-01

In the Matter of:

Global Execution Brokers, LP
401 City Avenue
Bala Cynwyd, PA 19004

Subject

Pursuant to the provisions of Cboe Exchange, Inc. (“Cboe” or the “Exchange”) Rule 13.3 – Expedited Proceeding, Global Execution Brokers, LP (“GEB” or the “Firm”) submits this Letter of Consent for the purpose 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 (“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, GEB was acting as a registered Broker-Dealer and was an Exchange Trading Permit Holder registered to conduct business on the Exchange as a floor broker. The Firm’s registrations remain in effect.
2. This matter originated from an investigation conducted by the Financial Industry Regulatory Authority, Inc. (“FINRA”) relating to GEB’s execution of an options order on March 21, 2018.

VIOLATIVE CONDUCT

Applicable Rules

3. During all relevant periods herein, the following rules were in full force and effect: Cboe Rule 4.24 – Supervision; Cboe Rule 4.2 – Adherence to Law;¹ and Rule 15c3-5 – Risk Management Controls for Brokers or Dealers with Market Access, promulgated under the Exchange Act (“Exchange Act Rule 15c3-5”).

¹ As of October 7, 2019, Cboe Rule 4.24 was re-numbered to Cboe Rule 8.16 and Cboe Rule 4.2 was re-numbered to Cboe Rule 8.2.

4. During all relevant periods herein, Exchange Act Rule 15c3-5(b) requires a broker-dealer with market access to “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
5. During all relevant periods herein, Exchange Act Rule 15c3-5(c)(1)(ii) specifically requires that a broker-dealer’s system of risk management controls and supervisory procedures must 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.” In the Rule’s adopting release, the SEC provided as an example of a reasonable control: “a system-driven, pre-trade control designed to reject orders that are not reasonably related to the quoted price of the security.”³
6. During all relevant periods herein, Cboe Rule 4.24(e), and subsequently Cboe Rule 8.16(e), provided, in relevant part: “Each Trading Permit Holder shall establish, maintain, and enforce written supervisory procedures, and a system for applying such procedures, to supervise the types of business in which the Trading Permit Holder engages and to supervise the activities of all associated persons. The written supervisory procedures and the system for applying such procedures shall reasonably be designed to prevent and detect violations of applicable securities laws and regulations, and applicable Exchange rules.”
7. During all relevant periods here, Cboe Rule 4.2, and subsequently Cboe Rule 8.2, provided: “No Trading Permit Holder shall engage in conduct in violation of the Securities Exchange Act of 1934, as amended, rules or regulations thereunder, the Bylaws or the Rules of the Exchange, or the Rules of the Clearing Corporation insofar as they relate to the reporting or clearance of any Exchange transaction, or any written interpretation thereof. Every Trading Permit Holder shall so supervise persons associated with the Trading Permit Holder as to assure compliance therewith.”

Market Access Controls and Procedures

8. On March 21, 2018, at 3:58:27 p.m., GEB received a market order to purchase 5,000 call option contracts in ABC⁴ (the “Order”) on behalf of one of its broker-dealer clients.

² GEB is subject to Exchange Act Rule 15c3-5 because it is a broker with market access to the Exchange as well as other option exchanges. The Rule defines 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.”

³ *Risk Management Controls for Brokers or Dealers with Market Access*, SEC Release No. 34-63241, at 11 (November 3, 2010).

⁴ A generic identifier has been used in place of the name of the relevant option series.

9. GEB applied the pre-trade market access risk controls it had in place for its broker-dealer client in March 2018 to the Order, which included a 10,000-contract size control for the options contracts in this security and a \$25M single order notional value threshold. The 5,000-contract Order with a pre-trade estimated notional value of \$6.2M did not trigger either control.⁵
10. The Order did not breach the pre-order entry market access risk controls that the Firm had in place for its broker-dealer client in March 2018. The Order, however, was automatically routed to an options exchange, whereupon it received multiple partial executions at increasing price levels until the exchange rejected back to GEB the unfilled balance, which was then automatically routed to another exchange. The next exchange likewise executed the Order at increasing price levels until it likewise rejected back to GEB the unfilled balance. The Order was again automatically routed to another exchange, and this partial execution and rejection process continued across multiple exchanges until one exchange posted the unfilled balance as a bid, which was executed at 3:59:49 p.m., thereby completing the order. This automated activity resulted in an aggregate of nearly 500 transactions (collectively, the “Trade”) and an overall price increase of roughly 312%—from the first execution price of \$12.39 to \$38.70.
11. At 3:59 p.m. and 4:00 p.m., GEB’s systems generated “Possible Bad Fill” emails alerting the GEB client service desk to potential execution quality issues for the Trade. This alert is generated when, among other things, partial executions of a market order are effected at prices that are a designated margin away from the quoted market at the time the order was received. GEB had price reasonability checks for limit orders, but it did not have controls that would systematically reject potentially erroneous market orders that may impact the market price of the security.
12. Although the balance of the Order was rejected by multiple exchanges following their respective partial executions, the Firm’s order management system did not maintain a control recognizing this fact and kept re-entering the Order until it was completely filled.
13. GEB’s market access controls for market orders were not reasonably designed, in that its size controls were set too high in light of the absence of a control that would systematically reject potentially erroneous market orders that may impact the market price of the security. As a result, the Order was allowed to be submitted to successive exchanges after exceeding the prior exchange’s price protection controls.

⁵ As of October 7, 2021, GEB’s relevant market access controls remained the same as they were on March 21, 2018.

14. As a result, the Firm's system of controls failed to prevent the entry of erroneous options market orders, which then were executed across option exchanges,⁶ including Cboe.
15. The acts, practices, and conduct described in Paragraphs 8 through 14 constitute violations of Exchange Act Rules 15c3-5(b) and 15c3-5(c)(1)(ii) and Cboe Rule 4.2 by the Firm.

Supervision

16. At around 4:13 p.m., GEB's broker-dealer client advised GEB's client service desk that the customer had mistakenly placed the Order and that "[h]e is looking to see if he can get any help out of it at all."
17. In March 2018, the Relevant Exchanges, including Cboe, permitted broker-dealers to request one of two types of relief in response to an erroneous order—a broker-dealer could request review of the trade as an "Obvious Error" or "Catastrophic Error." If the exchanges deemed a transaction an Obvious Error, then the trade could be busted. Alternatively, if Cboe deemed a transaction a Catastrophic Error, the relief available was an adjustment of the execution price.⁷
18. The Relevant Exchanges, including Cboe, required that requests for Obvious Error review be submitted within 30 minutes of the trade's execution. The deadline for a Catastrophic Error review was longer—here, GEB had until 8:30 a.m. on the following trading day to request such a review.
19. Only one member of GEB's client service desk remained after 4:00 p.m. on March 21, 2018, as all others left the office due to a severe snowstorm. At or around the time that GEB's broker-dealer client alerted GEB to the potentially erroneous trade, GEB's client service desk representative was aware that one of the counterparties to the Trade was a GEB affiliate. GEB's client service representative had until around 4:29 p.m. to request Obvious Error reviews of the Trade.
20. On March 21, 2018, with the 30-minute deadline approaching, the GEB representative did not attempt to contact his supervisor for assistance. Instead, he sought guidance from an on-site risk manager who worked for the affiliate.

⁶ In addition to Cboe, the Order was sent to the following exchanges: Cboe C2 Exchange, Inc. ("C2"), Cboe BZX Exchange, Inc. ("BZX"), Cboe EDGX Exchange, Inc. ("EDGX"), Nasdaq BX Inc. ("Nasdaq BX"), Nasdaq GEMX, Inc. ("Nasdaq GEMX"), Nasdaq ISE LLC ("Nasdaq ISE"), Nasdaq MRX LLC ("Nasdaq MRX"), Nasdaq Options Market LLC ("Nasdaq Options Market"), Nasdaq Phlx LLC ("Nasdaq Phlx"), NYSE American LLC ("NYSE American"), NYSE Arca, Inc. ("NYSE Arca"), BOX Exchange LLC ("BOX Exchange"), the Miami International Securities Exchange, LLC ("Miami International Securities Exchange"), and MIAX PEARL, LLC ("MIAX PEARL") ("Relevant Exchanges").

⁷ A transaction determined to be a Catastrophic Error could be busted if the adjusted execution price was higher (for buy transactions) or lower (for sell transactions) than the customer's limit price.

21. Ultimately, GEB did not submit the Trade for review as an Obvious Error within the 30-minute deadline.⁸ At around 4:49 p.m., GEB began filing Catastrophic Error review requests with the Relevant Exchanges. The Relevant Exchanges adjusted the execution prices on 3,864 contracts of the Trade to a price of \$21.85. 83 contracts were voluntarily busted by the parties.
22. In March 2018, GEB failed to establish, maintain, enforce, and keep current a system of supervisory controls reasonably designed to supervise the Firm's client service desk and the process for reviewing potentially erroneous transactions. GEB did not have formal training, procedures, or other guidance regarding how to handle an erroneous order review when a GEB affiliate was a counterparty to such transaction, or any written supervisory procedure to review for the proper handling of potentially erroneous transactions.
23. The acts, practices, and conduct described in Paragraphs 16 through 22 constitute violations of Cboe Rule 4.24(e) by the Firm.

SANCTIONS

24. The Firm does not have any prior relevant disciplinary history specifically related to controls to prevent entry of erroneous orders or post-trade review of potentially erroneous orders.
25. 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 \$10,000.⁹

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 13.3, 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.

⁸ Among the circumstances involved were that the Trade involved a significant number of individual transactions (almost 500 executions across 15 options exchanges) and the reduction of human resources due to a severe snowstorm that left only one client service desk representative available to review the Trade and assess whether the transactions qualified for erroneous order relief.

⁹ This settlement relates to other settlements the Firm reached with C2, BZX, EDGX, Nasdaq BX, Nasdaq ISE, Nasdaq MRX, Nasdaq Options Market, Nasdaq Phlx, NYSE American, NYSE Arca, BOX, the Miami International Securities Exchange, and MIAX PEARL. GEB also contributed to a settlement between its broker-dealer client and the retail customer relating to the Trade.

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 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 13.3. 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 other regulator against the Firm.

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.

August 15, 2022
Date: _____

Global Execution Brokers, LP

By: _____

Brian Sopinsky
Name: _____

Assistant Secretary
Title: _____