



## **DISCIPLINARY DECISION**

**Cboe Exchange, Inc.**

**Star No. 20190610657-12 / File No. USE-2277-01/URE-41-01**

**Jefferies LLC**

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

### **Applicable Rules**

- Cboe Rules 15.1 – Maintenance, Retention and Furnishing of Books, Records and Other Information, 4.2 – Adherence to Law and 4.24 – Supervision.
- Section 17(a) of the Exchange Act and Rule 17a-3 – Records to Be Made by Certain Exchange Members, Brokers and Dealers

### **Sanction**

A censure and a monetary fine in the amount of \$45,000.<sup>1</sup>

### **Effective Date**

August 8, 2022

/s/ Greg Hoogasian

Greg Hoogasian, CRO, EVP

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<sup>1</sup> This settlement relates to other settlements the Firm reached with BOX Exchange, LLC, Cboe C2 Exchange, Inc., Cboe BZX Exchange, Inc., Cboe EDGX Exchange, Inc., Miami International Securities Exchange, LLC, MIAX PEARL, LLC, Nasdaq Phlx LLC, Nasdaq ISE, LLC, Nasdaq GEMX, LLC, The Nasdaq Options Market LLC, NYSE American LLC, and NYSE Arca, Inc.

**Cboe Exchange, Inc.**  
**LETTER OF CONSENT**  
**Star No. 2019061065712/File No. USE-2277-01/URE-41-01**

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In the Matter of:

Jefferies LLC  
520 Madison Avenue  
New York, NY 10022

Subject

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Pursuant to the provisions of Cboe Exchange, Inc. (“Cboe” or the “Exchange”) Rule 13.3 – Expedited Proceeding, Jefferies LLC (“Jefferies” 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, Jefferies was acting as a registered Broker-Dealer and was an Exchange Trading Permit Holder registered to conduct business on the Exchange to conduct a floor brokerage business. The Firm’s registrations remain in effect.
2. This matter originated from a 2019 examination of the Firm conducted by the Financial Industry Regulatory Authority’s (“FINRA”) Department of Market Regulation on behalf of Cboe and other options exchanges. The examination included, among other things, a review of 143 sampled options orders handled by the Firm for compliance with the recordkeeping requirements of Section 17(a) of the Exchange Act and Exchange Act Rule 17a-3 thereunder, and Cboe recordkeeping rules, as well as related supervision, from October 2018 to June 2020.

**VIOLATIVE CONDUCT**

**Applicable Rules**

3. During all relevant periods herein, the following rules were in full force and effect: Cboe Rule 15.1 – Maintenance, Retention and Furnishing of Books, Records and

Other Information,<sup>1</sup> Cboe Rule 4.2 – Adherence to Law,<sup>2</sup> Cboe Rule 4.24 – Supervision,<sup>3</sup> and Section 17(a) of the Exchange Act and Rule 17a-3 – Records to Be Made by Certain Exchange Members, Brokers and Dealers, thereunder.

4. During all relevant periods herein, Exchange Act Rule 17a-3(a)(6)(i) required broker-dealers, such as Jefferies, to create a memorandum of each brokerage order, and of any other instruction, given or received for the purchase or sale of securities, whether executed or unexecuted. In relevant part, Rule 17a-3(a)(6)(i) requires the brokerage order memorandum to show, among other things, the time of order receipt and entry. The SEC has recognized that records must be accurate to comply with Rule 17a-3.<sup>4</sup>
5. During all relevant periods herein, Cboe Rule 15.1(a), and subsequently Cboe Rule 7.1(a), provided: “Each Trading Permit Holder shall make, keep current and preserve such books and records as the Exchange may prescribe and as may be prescribed by the Exchange Act as though such Trading Permit Holder were a broker or dealer registered pursuant to Section 15 of such Act. No Trading Permit Holder shall refuse to make available to the Exchange such books, records or other information as may be called for under the Rules or as may be requested in connection with an investigation by the Exchange. Trading Permit Holders must comply with all applicable recordkeeping and reporting requirements under the Rules.”
6. During all relevant periods herein, Cboe Rule 4.2, and subsequently Cboe Rule 8.2, provided: “No Trading Permit Holder shall engage in conduct in violation of the Exchange Act, rules or regulations thereunder, the Bylaws or the Rules of Cboe, or the Rules of the Clearing Corporation insofar as they relate to the reporting or clearance of any Cboe 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.”
7. 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.”

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<sup>1</sup> Cboe Rule 15.1 was renumbered to Cboe Rule 7.1 as of October 7, 2019.

<sup>2</sup> Cboe Rule 4.2 was renumbered to Cboe Rule 8.2 as of October 7, 2019.

<sup>3</sup> Cboe Rule 4.24 was renumbered to 8.16 as of October 7, 2019.

<sup>4</sup> *Voss & Co., Inc.*, 1981 SEC LEXIS 915, at n.16 (SEC Aug. 11, 1981) (“[A]s we have repeatedly held, the requirement that records be kept embodies the requirement that such records be true and correct.”).

## **Recordkeeping**

8. From in or about January 2019 through in or about December 2019, the Firm failed to accurately record order receipt times and failed to record transmission times for certain options orders manually routed to Cboe floor brokers. Specifically, traders and salespersons, by either submitting late order tickets or failing to use Jefferies' order management system ("OMS") functionality to generate a transmission timestamp, caused the Firm to fail to record or inaccurately record timestamps on 11 of the 14 sampled options orders manually routed to floor brokers on Cboe (78.5%).
9. The acts, practices, and conduct described in Paragraph 8 constitute violations of Cboe Rules 15.1, 4.2, and 7.1, during their respective dates of applicability, and Section 17(a) of the Exchange Act and Rule 17a-3 thereunder, by the Firm, in that the Firm failed to maintain accurate books and records.

## **Supervision**

10. In October 2018 and February 2019, Jefferies implemented coding updates that caused its OMS to capture inaccurate timestamps. After the updates, the OMS incorrectly recorded the user's workstation/desktop time rather than the server time synchronized with the Network Time Protocol<sup>5</sup> as the source for timestamps for all option orders.
11. From in or about October 2018 through in or about June 2020, Jefferies' procedures applicable to its Derivatives Trading Desk correctly described the documentation requirements of Exchange Act Rule 17a-3 and Cboe rules, including the requirement to record a timestamp on order memoranda when an options order is entered, transmitted, and executed. Jefferies' procedures further required each desk head to review order tickets for accuracy and completeness.
12. Jefferies failed to have, however, a supervisory system reasonably designed to ensure that any updates or changes it made to its OMS did not impact the system's accurate timestamp function. Specifically, the Firm did not perform any testing to ensure that the October 2018 and February 2019 changes to its OMS would not impact the automated timestamping of its options orders.
13. The acts, practices and conduct described in Paragraph 12 constitute violations of Cboe Rules 4.24 and 8.16 by the Firm, during their respective dates of applicability, in that the Firm failed to establish, maintain, and enforce a supervisory system reasonably designed to comply with the recordkeeping provisions of the federal

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<sup>5</sup> Network Time Protocol is a protocol used to synchronize computer clock times in a network (i.e., from desktops to servers).

securities laws and Cboe rules that require the accurate documentation of option order timestamps.

### SANCTIONS

14. The Firm has prior relevant disciplinary history specifically relating to the accurate recording of order receipt and transmission times. In July and August 2019, Jefferies consented to a censure and a total fine of \$84,000<sup>6</sup> allocated among Cboe Exchange, Inc., Nasdaq Phlx LLC, and NYSE American LLC for violations of Exchange Act § 17(a) and Exchange Act Rule 17a-3 thereunder, and the recordkeeping and related supervisory rules of those exchanges, for its failure to maintain accurate order receipt and order transmission times for certain of its manual options orders routed to exchange floor brokers in 2016.<sup>7</sup>
15. In light of the alleged rule violations described above, and the Firm's prior relevant disciplinary history, the Firm consents to the imposition of the following sanctions:
  - a. A censure; and
  - b. A monetary fine in the amount of \$45,000.<sup>8</sup>

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.

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 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

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<sup>6</sup> Cboe Exchange, Inc. received \$20,000 of the \$84,000 settlement.

<sup>7</sup> Matter No. 20160487695.

<sup>8</sup> This settlement relates to other settlements the Firm reached with BOX Exchange, LLC, Cboe C2 Exchange, Inc., Cboe BZX Exchange, Inc., Cboe EDGX Exchange, Inc., Miami International Securities Exchange, LLC, MIAX PEARL, LLC, Nasdaq Phlx LLC, Nasdaq ISE, LLC, Nasdaq GEMX, LLC, The Nasdaq Options Market LLC, NYSE American LLC, and NYSE Arca, Inc.

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.**

**Date:** August 5, 2022  
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**Jefferies LLC**

**By:** \_\_\_\_\_  
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**Name:** Cynthia B. Adams  
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**Title:** Managing Director, Legal  
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