

NYSE ARCA, INC.

NYSE REGULATION,

Complainant,

v.

ANDRIE TRADING, LLC,

Respondent.

Proceeding No. 2016-01-04-00001

May 1, 2017

Respondent violated Rules 15c3-5(b) and (c)(1)(ii) by failing to establish, document, and maintain controls that were reasonably designed to prevent the entry of excessive quotes into the market. Consent to a censure, a \$20,000 fine, and an undertaking.

Appearances

For the Complainant: Mark S. Silver, Esq. and Adam J. Wasserman, Esq., NYSE Regulation.

For the Respondent: Stephen P. Bedell, Esq., Foley & Lardner LLP.

DECISION

Andrie Trading, LLC (“Andrie” or “Firm”) and NYSE Arca, Inc. entered into an Offer of Settlement and Consent for the sole purpose of settling this disciplinary proceeding, without adjudication of any issues of law or fact, and without admitting or denying any allegations or findings referred to in the offer of settlement.¹ The Hearing Officer accepts the Offer of Settlement and Consent and issues this Decision in accordance with NYSE Arca Options Rules.²

FINDINGS OF FACTS AND VIOLATIONS

Overview

1. Andrie violated Exchange Act Rules 15c3-5(b) and (c)(1)(ii) under the Securities Exchange Act of 1934 (“Rule 15c3-5” or the “Market Access Rule”) by failing to

¹ FINRA’s Office of Hearing Officers reviewed the Offer of Settlement and Consent under the terms of a Regulatory Services Agreement (as amended) among NYSE Group, Inc., New York Stock Exchange LLC, NYSE Arca, Inc., NYSE MKT LLC, and FINRA.

² The facts, allegations, and conclusions contained in this Decision were taken from the executed Offer of Settlement and Consent.

establish, document, and maintain controls that were reasonably designed to prevent the entry of excessive quotes into the NYSE Arca, Inc. (the “Exchange”) market. As a result of this violation, Andrie submitted a large number of excessive messages over a two-month period.

Background and Jurisdiction

2. The Firm became registered as an Options Trading Permit Holder with the Exchange on September 19, 2014. The Firm terminated its registration on March 29, 2016.
3. This matter arises from an investigation by NYSE Regulation into the high numbers of messages sent by the Firm to the Exchange from January 4, 2016, to February 25, 2016 (the “Review Period”).
4. By dated May 2, 2016, NYSE Regulation notified the Firm that it was investigating whether Andrie violated Rule 15c3-5 and/or Exchange rules in connection with elevated levels of messages during the Review Period. As a result of this investigation, NYSE Regulation found that the Firm had violated Rule 15c3-5, as described in detail below.

Violations

Andrie’s Messaging Activity

5. During the Review Period, Andrie submitted excessive levels of messages across various “ABC”³ options series to the Exchange on a daily basis. Andrie served as a Market Maker for ABC on the Exchange during the Review Period.
6. For January 2016, the Firm submitted 8,895,108,170 total quotes in all ABC options series on the Exchange, for an average of 19,266 quotes submitted across all ABC options series during each second the market was open for trading.
7. From February 1, 2016, to February 25, 2016, the Firm submitted 6,619,475,966 total quotes in all ABC options series on the Exchange, for an average of 15,134 quotes submitted across all ABC options series during each second the market was open for trading.
8. Although the Firm’s average messages per second far exceeded that of other market participants during the Review Period, Andrie’s quoting activity on the Exchange resulted in only 224 executions and 1,004 contracts traded.

³ In this Decision, a generic identifier has been used in place of the name of certain options series.

Violations of Rules 15c3-5(b) and (c)(1)(ii)

9. Rule 15c3-5(b) requires broker-dealers 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.” Specifically, Rule 15c3-5(c)(1)(ii) requires that the risk management controls and supervisory procedures “shall be reasonably designed to systematically limit the financial exposure of the broker or dealer that could arise as a result of market access, including being 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.”
10. On April 15, 2014, the Division of Trading and Markets for the Securities & Exchange Commission published a document titled “Responses to Frequently Asked Questions Concerning Risk Management Controls for Brokers or Dealers with Market Access,” which stated that “Rule 15c3-5 applies to all orders, *including market maker quotes*, for securities traded on an exchange or alternative trading system (“ATS”), that are submitted by or through broker-dealers with market access. *Rule 15c3-5 does not provide any exclusion for market maker quotes*.... Accordingly, market makers must implement the pre-trade and other risk controls required by Rule 15c3-5 with respect to all of their quoting activity. Among other things, *such controls should be reasonably designed to prevent a market maker’s electronic quoting system from inadvertently entering excessive quotes into the market.*” (emphasis added).
11. As discussed, the frequency and volume of the ABC quoting on the Exchange during the Review Period was excessive relative to the Firm’s peers. The excessive messaging activity was not an isolated occurrence on specific days or even during the most volatile periods of each day. Rather, the activity was persistent throughout each trading day during the Review Period.
12. Andrie used a third-party software program for its Market Access Rule controls, but its controls were inadequate during the Review Period. Specifically, although the Firm had controls designed to meet its Market Maker quoting obligations, the Firm did not have *any* controls specifically designed to detect or prevent excessive messaging on the Exchange during the Review Period.
13. While the Firm has now developed a log to monitor for excessive messaging on other, non-NYSE exchanges, it did not have such a tool in place on the Exchange during the Review Period.
14. Thus, Andrie violated Rules 15c3-5(b) and (c)(1)(ii) by failing to establish, document, and maintain controls that were reasonably designed to prevent the entry of excessive orders into the market.

Relevant Disciplinary History

15. Andrie has no relevant disciplinary history.

ORDER

Andrie Trading, LLC violated Rules 15c3-5(b) and (c)(1)(ii) by failing to establish, document, and maintain controls that were reasonably designed to prevent the entry of excessive quotes into the market.

SANCTIONS

Andrie Trading, LLC is censured and fined \$20,000.

The Firm also is ordered to hire a qualified outside consultant to address the potential deficiencies in its market access controls and its written supervisory procedures to ensure that it has implemented controls and procedures that are reasonably designed to achieve compliance with the rules and regulations cited herein pertaining to market access requirements, including a control to detect and prevent excessive quoting activity. Within 90 days after the date of this Decision, a registered principal of the Respondent shall submit to Mark S. Silver, Enforcement Counsel, NYSE Regulation, New York Stock Exchange, 11 Wall Street, New York, NY 10005, a signed and dated letter, or an email from a work-related account on the registered principal to mark.silver@theice.com, providing the following information:

- A reference to this matter;
- A representation that the Firm has addressed any deficiencies in its market access controls and its written supervisory procedures to ensure that it has implemented controls and procedures that are reasonably designed to achieve compliance with the rules and regulations cited herein pertaining to market access requirements; and
- The date(s) the deficiencies were addressed.

These sanctions are effective immediately.



Maureen A. Delaney
Hearing Officer