

NYSE ARCA, INC.

NYSE REGULATION,

Complainant,

v.

GTS SECURITIES LLC,

Respondent.

FINRA Proceeding No. 20150467692-01¹

September 21, 2018

GTS Securities LLC violated: (i) SEC Rule 611(c) of Regulation NMS and NYSE Arca Equities Rules 7.31(jj) and 7.31(e)(2), by failing to take reasonable steps to establish that intermarket sweep orders met the requirements set forth in SEC Rule 600(b)(30); (ii) NYSE Arca Equities Rule 7.37(e)(2), by failing to avoid displaying, or engaging in a pattern or practice of displaying, quotations that locked or crossed a Protected Quotation; and (iii) NYSE Arca Equities Rule 6.18, by failing to establish a supervisory system reasonably designed to achieve compliance with NYSE Arca Equities Rule 7.37(e)(2). Consent to censure, \$19,500 fine, and undertaking.

Appearances

For the Complainant: Dean Floyd, Esq., Gerard P. Finn, Esq., and Elizabeth Hogan, Esq.,
FINRA Department of Enforcement.

For the Respondent: Patrick J. Romanello, GTS Securities LLC.

DECISION

GTS Securities LLC (“GTS Securities” or “Firm”) and NYSE Arca, Inc. (“Exchange”) 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

¹ Includes Matter Nos. 20150468027 and 20160492958.

any allegations or findings referred to in the offer of settlement.² The Hearing Officer accepts the Offer of Settlement and Consent and issues this Decision in accordance with NYSE Arca Rules.³

FINDINGS OF FACTS AND VIOLATIONS

Overview

1. This matter involves GTS Securities' compliance with SEC Rule 611(c) and NYSE Arca Equities Rules 6.18, 7.31(jj), 7.31(e)(2), 7.37(e)(2), and 2010 during three Review Periods.

Background and Jurisdiction

2. GTS Securities became registered as an Equities Trading Permit ("ETP") Holder with NYSE Arca, Inc. on October 9, 2014. The Firm has no relevant disciplinary history.
3. On behalf of the Exchange, the Financial Industry Regulatory Authority ("FINRA") Department of Market Regulation staff conducted a review of GTS Securities' compliance with Rule 611(c) of Securities and Exchange Commission Regulation NMS ("SEC Rule 611(c)") and NYSE Arca Equities Rules 7.31(jj) and 7.31(e)(2) from October 9, 2014, through July 10, 2016 ("First Review Period"), and NYSE Arca Equities Rule 7.37(e)(2) from January 1 through September 30, 2015 ("Second Review Period"), and October 1, 2015, through June 30, 2016 ("Third Review Period").
4. In letters dated September 26, 2016, June 19, 2017, and September 27, 2017, which GTS Securities received, FINRA's Department of Enforcement, on behalf of the Exchange, notified the Firm that it was investigating whether the Firm violated NYSE Arca Equities Rules 6.18, 7.31(jj), 7.31(e)(2), 7.37(e)(2), and 2010 during the Review Periods.

Violations

5. SEC Rule 611(c) states, in relevant part: "The trading center, broker, or dealer responsible for the routing of an intermarket sweep order shall take reasonable steps to establish that such order meets the requirements set forth in Rule 600(b)(30)." SEC Rule 600(b)(30) defines an intermarket sweep order ("ISO") as a limit order for an NMS stock that meets two requirements: (i) it is identified as an ISO; and (ii) the firm routes additional limit orders, as necessary, 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

² 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 American LLC, and FINRA.

³ The facts, allegations, and conclusions contained in this Decision were taken from the executed Offer of Settlement and Consent. Prior to August 17, 2017, the rules involved in this matter were called NYSE Arca Equities rules.

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.

6. NYSE Arca Equities Rule 7.31(jj), in effect prior to April 23, 2015, stated: “An ISO means a limit order for an NMS stock that meets the requirements of Rule 600(b)(30) of Regulation NMS under the Securities Exchange Act. An ISO is never routed to an away market and may trade through Protected Quotations. Any inbound order received over NMS Linkage will constitute an Intermarket Sweep Order. Users shall be responsible for compliance with SEC Rule 611 of Regulation NMS and NYSE Arca Rule 7.37(e) with respect to Intermarket Sweep Orders. Any order marked ISO will not be rejected or cancelled if it would lock, cross or be marketable against an away market.”
7. NYSE Arca Equities Rule 7.31(e)(2) replaced Rule 7.31(jj) on April 23, 2015, and continued to require Exchange members to comply with SEC Rule 611 and NYSE Arca Rule 7.37(e) with respect to ISOs.
8. NYSE Arca Equities Rule 7.37(e)(2) states, in relevant part: “Members shall reasonably avoid displaying, and shall not engage in a pattern or practice of displaying, any quotations that lock or cross a Protected Quotation.”
9. NYSE Arca Equities Rule 6.18 requires each ETP Holder to “establish and maintain a system to supervise the activities of its associated persons and the operation of its business. Such system must be reasonably designed to ensure compliance with applicable federal securities laws and regulations and NYSE Arca Equities Rules.” NYSE Arca Equities Rule 6.18(c) also requires each ETP Holder to “establish, maintain, and enforce written procedures to supervise the business in which it engages and to supervise the activities of its associated persons that are reasonably designed to achieve compliance with applicable federal securities laws and regulations, and with the NYSE Arca Equities Rules.”
10. NYSE Arca Equities Rule 2010 states: “A member or member organization, in the conduct of its business, shall observe high standards of commercial honor and just and equitable principles of trade.”
11. During the First Review Period, GTS Securities mistakenly relied on the crossed market exception set forth in SEC Rule 611(b)(4).⁴ This resulted in the Firm failing to send ISOs to execute against the full displayed size of certain protected quotations. As a result of this conduct, the Firm failed to take reasonable steps to establish that ISOs met the requirements of SEC Rule 600(b)(30) of Regulation NMS.

⁴ SEC Rule 611(b)(4) of Regulation NMS provides to trading centers an exception for transactions that trade through protected quotations when such transactions are executed at a time when a protected bid is higher than a protected offer in the NMS stock.

12. Accordingly, GTS Securities violated SEC Rule 611(c) and NYSE Arca Equities Rules 7.31(jj) (for conduct prior to April 23, 2015) and 7.31(e)(2) (for conduct on or after April 23, 2015) during the First Review Period.
13. During the Second and Third Review Periods, GTS Securities failed to reasonably avoid displaying, and engaged in a pattern or practice of displaying, quotations that locked or crossed a protected quotation.
14. Accordingly, GTS Securities violated NYSE Arca Equities Rule 7.37(e)(2) during the Second and Third Review Periods.
15. During the Second Review Period, GTS Securities' supervisory system did not provide for supervision reasonably designed to achieve compliance with NYSE Arca Equities Rule 7.37(e)(2). Specifically, the Firm's supervisory system did not include written supervisory procedures ("WSPs") providing for a review for cancelled directed ISOs.
16. During the Third Review Period, GTS Securities' supervisory system did not provide for supervision reasonably designed to achieve compliance with NYSE Arca Equities Rule 7.37(e)(2). Specifically, the Firm's WSPs did not describe supervisory steps to ensure that all order data is fed into the Firm's post-trade compliance review system.
17. Accordingly, GTS Securities violated NYSE Arca Equities Rules 6.18 and 2010 during the Second and Third Review Periods.

ORDER

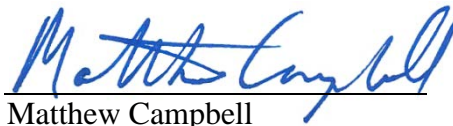
GTS Securities LLC violated: (i) SEC Rule 611(c) and NYSE Arca Equities Rules 7.31(jj) and 7.31(e)(2), by failing to take reasonable steps to establish that ISOs met the requirements set forth in SEC Rule 600(b)(30); (ii) NYSE Arca Equities Rule 7.37(e)(2), by failing to avoid displaying, or engaging in a pattern or practice of displaying, any quotations that locked or crossed a Protected Quotation; and (iii) NYSE Arca Equities Rule 6.18, by failing to establish a supervisory system reasonably designed to achieve compliance with NYSE Arca Equities Rule 7.37(e)(2).

SANCTIONS

GTS Securities LLC is censured and fined \$19,500.⁵

GTS Securities shall undertake to revise the Firm's WSPs with respect to the areas described in paragraphs 15 and 16 above. Within 30 business days of this Decision, a senior executive of the Firm shall submit a signed, dated letter to the Compliance Assistant, Department of Enforcement, 9509 Key West Avenue, Rockville, MD 20850, or an e-mail from a work-related account of the registered principal to MarketRegulationComp@finra.org, providing the following information: (i) a reference to this matter; (ii) a representation that the Firm has revised its WSPs to address the deficiencies; and (iii) the date the revised procedures were implemented.

These sanctions are effective immediately.



Matthew Campbell
Hearing Officer

⁵ GTS Securities agreed to pay a total fine of \$97,500 (consisting of a fine of \$65,000 for the ISO violations in matter 20150467692 and a fine of \$32,500 for the lock/cross and supervision violations in matters 20150468027 and 20160492958) to be paid jointly to the Exchange, New York Stock Exchange LLC, The NASDAQ Stock Market LLC, NASDAQ PHLX LLC and NASDAQ BX, Inc., of which \$19,500 of that total amount shall be paid to the Exchange.