

NYSE ARCA, INC.

NYSE REGULATION,

Complainant,

v.

INTEGRAL DERIVATIVES, LLC

and

WILLIAM FALLON,

Respondents.

Proceeding No. 2017-06-00087

June 19, 2018

Integral Derivatives, LLC violated (i) NYSE Arca Rules 2.24(b) and 11.18(d) and former NYSE Arca Equities Rules 2.21(b) and 6.18(d), by failing to register its Chief Compliance Officer and Executive Manager and Floor Supervisor with the Exchange as General Securities Principals; and (ii) NYSE Arca Rule 11.18(b)-(c) and former NYSE Arca Equities Rule 6.18(b)-(c), by failing to establish and maintain a system, including written supervisory procedures, reasonably designed to ensure compliance with Exchange rules related to registration requirements.

William Fallon violated NYSE Arca Rules 2.24(b) and 11.18(d), and former NYSE Arca Equities Rules 2.21(b) and 6.18(d), by failing to register with the Exchange as a General Securities Principal.

Respondents are censured and fined, collectively, \$52,500 (\$45,000 against Integral Derivatives, LLC, and \$7,500 against Integral Derivatives, LLC and William Fallon, jointly and severally). An undertaking is also imposed on Integral Derivatives, LLC.

Appearances

For the Complainant: Danielle A. Kantor, Esq., and Adam J. Wasserman, Esq., NYSE Regulation.

For the Respondent: Michael Bachner, Esq., Bachner & Associates, PC.

DECISION

Integral Derivatives, LLC (“Integral” or “Firm”), William Fallon (“Fallon”) 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 Rules.²

FINDINGS OF FACTS AND VIOLATIONS

Overview

1. This matter involves Integral’s and Fallon’s failures to comply with supervisory registration requirements during the period July 18, 2015, through September 25, 2017 (“Firm Review Period”), and the period July 18, 2015, through December 14, 2016 (“Individual Review Period”).

Background and Jurisdiction

2. Integral became registered as an Equities Trading Permit (“ETP”) Holder with NYSE Arca, Inc. (the “Exchange”) on August 19, 2009. The Firm’s registration remains in effect.
3. This matter arises from a referral to NYSE Regulation by the Financial Industry Regulatory Authority, Inc. (“FINRA”). FINRA’s Trading and Financial Compliance Examinations group conducted a review of the registration status of certain of Integral’s personnel during the Firm Review Period.
4. In a letter dated July 26, 2017, which Integral received, the Enforcement Section of NYSE Regulation, on behalf of the Exchange, notified the Firm that it was investigating whether the Firm or any individuals associated therewith violated NYSE Arca rules by failing to comply with registration requirements.

Violations

Registration Violations

5. Since its adoption on August 17, 2017, NYSE Arca Rule 2.24(b) (Registration – Employees of ETP Holders) has stated that “employees of ETP Holders must satisfy

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.

applicable examination requirements as prescribed by the Exchange[.]” Prior to the adoption on NYSE Arca Rule 2.24(b), NYSE Arca Equities Rule 2.21(b) imposed similar obligations.

6. Since its adoption on August 17, 2017, NYSE Arca Rule 11.18(d) has stated that “the person or person(s) designated to direct day-to-day compliance activity (such as the Compliance Officer, Partner or Director) . . . must pass the General Securities Principal Examination (Series 24) . . .” Prior to the adoption of NYSE Arca Rule 11.18(d), NYSE Arca Equities Rule 6.18(d) imposed similar obligations.
7. During the Firm Review Period, Integral’s Executive Manager and Floor Supervisor performed supervisory duties without registering with the Exchange as a General Securities Principal. Accordingly, the Firm violated NYSE Arca Rules 2.24(b) and 11.18(d), and former NYSE Arca Equities Rules 2.21(b) and 6.18(d) during the Firm Review Period.
8. During the Individual Review Period, Fallon functioned as Integral’s Chief Compliance Officer without registering with the Exchange as a General Securities Principal. As Chief Compliance Officer, Fallon was responsible for ensuring that all Firm employees were properly registered. Accordingly, the Firm and Fallon violated NYSE Arca Rules 2.24(b) and 11.18(d), and former NYSE Arca Equities Rules 2.21(b) and 6.18(d) during the Individual Review Period.

Firm Supervisory Violations

9. Since its adoption on August 17, 2017, NYSE Arca Rule 11.18(b) has stated, in pertinent part, that “[e]ach ETP Holder . . . must establish and maintain a system to supervise the activities of its associated persons and the operations of its business. Such system must be reasonably designed to ensure compliance with applicable federal securities laws and regulations and NYSE Arca Rules.” Prior to the adoption of NYSE Arca Rule 11.18(b), NYSE Arca Equities Rule 6.18(b) imposed similar obligations.
10. Since its adoption on August 17, 2017, NYSE Arca Rule 11.18(c) has stated, in pertinent part, that “[e]ach ETP Holder . . . must 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 ensure compliance with applicable federal securities laws and regulations, and with the NYSE Arca Rules.” Prior to the adoption of NYSE Arca Rule 11.18(c), NYSE Arca Equities Rule 6.18(c) imposed similar obligations.
11. During the Firm Review Period, Integral failed to establish and maintain a system, including written supervisory procedures (“WSPs”), reasonably designed to ensure compliance with NYSE Arca rules related to registration requirements. The Firm’s WSPs did not require regular review to ensure associated persons were properly qualified and

registered with the applicable authorities to perform their duties, and did not require any such review to be documented. No such reviews were conducted. The WSPs also were silent as to the maintenance of registration statements or other relevant documentation. Therefore, the Firm violated NYSE Arca Rule 11.18(b)-(c) and former NYSE Arca Equities Rule 6.18(b)-(c).

12. During the Firm Review Period, Integral's WSPs required the Firm's principals to "maintain required qualifications, currently Series 7 and Series 24." Neither Fallon, the Firm's Chief Compliance Officer, nor the Firm's Executive Manager and Floor Supervisor, were registered with the Exchange as General Securities Principals. Therefore, the Firm violated NYSE Arca Rule 11.18(b)-(c) and former NYSE Arca Equities Rule 6.18(b)-(c).

Relevant Disciplinary History

13. On July 17, 2015, FINRA Trading and Financial Compliance Examinations staff issued Integral a Cautionary Action Letter citing the fact that Fallon and three other individuals (including the Executive Manager of the Firm) were not registered as General Securities Principals.

Other Factors Considered

14. In determining to resolve this matter on the basis set forth herein, Enforcement took into consideration that Fallon stepped down from his position voluntarily, and Integral's Executive Manager and Floor Supervisor abdicated his supervisory responsibility.
15. As it relates to Fallon, Enforcement also took into consideration that, subsequent to Integral receiving the Cautionary Action Letter referenced in Paragraph 13 above, Fallon began the process of registering as a General Securities Principal by passing the General Securities Representative Examination on November 12, 2015, which is a prerequisite for the General Securities Principal Examination. Furthermore, Fallon stepped down from his position as Chief Compliance Officer on December 14, 2016, thereby obviating the need to register as a General Securities Principal.

ORDER

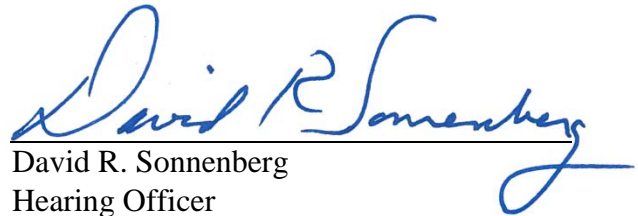
Integral Derivatives, LLC violated (i) NYSE Arca Rules 2.24(b) and 11.18(d) and former NYSE Arca Equities Rules 2.21(b) and 6.18(d), by failing to register its Chief Compliance Officer, and Executive Manager and Floor Supervisor, with the Exchange as General Securities Principals; and (ii) NYSE Arca Rule 11.18(b)-(c) and former NYSE Arca Equities Rule 6.18(b)-(c), by failing to establish and maintain a system, including WSPs, reasonably designed to ensure compliance with Exchange rules related to registration requirements.

William Fallon violated NYSE Arca Rules 2.24(b) and 11.18(d), and former NYSE Arca Equities Rules 2.21(b) and 6.18(d), by failing to register with the Exchange as a General Securities Principal.

SANCTIONS

Integral Derivatives, LLC and William Fallon are censured, fined \$52,500,³ and the Firm shall undertake to ensure that (i) all employees are properly registered; (ii) Firm WSPs and Web CRD information for the Firm and associated persons are updated to reflect current employment designations and registration; and (iii) the Firm's WSPs are amended to reflect regular review and documentation of employee registration.

These sanctions are effective immediately.


David R. Sonnenberg
Hearing Officer

³ The fine is apportioned as follows: \$45,000 against the Firm, and \$7,500 against the Firm and Fallon on a joint and several basis.