

NYSE ARCA, INC.
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2020-12-09-00020

TO: NYSE Arca, Inc.

RE: Casey Securities LLC, Respondent
CRD No. 35230

On November 30, 2020, in connection with its handling of a customer options order, Casey Securities LLC violated: (i) NYSE Arca Rule 6.47-O, Commentary .01 by failing to document an order as a tied hedge transaction; (ii) NYSE Arca Rule 11.1(b) by prematurely informing its customer that the order was announced in open outcry; and (iii) NYSE Arca Rule 11.18(b) by failing to reasonably supervise its personnel’s handling of tied hedge transactions. Consent to a censure and \$7,500 fine.

* * *

Pursuant to Rule 10.9216 of the NYSE Arca, Inc. (“NYSE Arca” or the “Exchange”) Code of Procedure, Casey Securities LLC (“Casey” or the “Firm”) submits this Letter of Acceptance, Waiver, and Consent (“AWC”) for the purpose of proposing a settlement of the alleged rule violations described below. This AWC is submitted on the condition that, if accepted, NYSE Arca will not bring any future actions against the Firm alleging violations based on the same factual findings described herein.

I. ACCEPTANCE AND CONSENT

- A. Casey hereby accepts and consents, without admitting or denying the findings, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of NYSE Arca, or to which NYSE Arca is a party, prior to a hearing and without an adjudication of any issue of law or fact, to the entry of the following findings by NYSE Arca:

BACKGROUND AND JURISDICTION

1. Casey became registered as an Options Trading Permit (“OTP”) holder with the Pacific Stock Exchange, now known as NYSE Arca, on November 1, 1976, and its registration remains in effect. Its principal place of business is in San Francisco, California. Casey performs execution-only services for other broker-dealers customers.

VIOLATIONS

A. November 30, 2020 Trading Activity

2. On November 30, 2020, Casey received a Flex options order¹ from its customer that was “against working shares” with a specified reference price and a specified delta.
3. Casey informed the trading crowd that its customer wished to execute a Flex options order using a specified reference price and a specified delta to the stock. Casey did not represent the order as a tied hedge order to the crowd and did not record the order as a tied hedge order on the order ticket. The crowd indicated their interest at 15% of the trade.
4. Casey then informed its customer, “you can start working your stock you are announced crowd may care on some,” and its customer began executing its hedge transactions in the underlying stock.
5. After Casey’s customer completed its stock hedge transactions, Casey returned to the trading crowd, announced the customer’s average execution price for the stock hedge, and then traded the Flex options order at the adjusted price (which was better for the customer and reflected the agreed-upon delta for the trade). The trading crowd participated on 15% of the order.
6. As will be discussed, as a result of this trading activity, Casey violated NYSE Arca Rules 6.47-O Commentary .01, 11.1(b), and 11.18(b).

B. Violation of NYSE Arca Rule 6.47-O, Commentary .01

7. NYSE Arca Rule 6.47-O sets forth the procedures by which floor brokers may cross orders. Rule 6.47-O(b) sets forth the process by which a floor broker who holds a customer order (“Agency Order”) and an order for the proprietary account of an OTP Holder or OTP Firm that is representing that customer (“Facilitation Order”) may cross those orders. In relevant part, Rule 6.47-O(b) requires, before crossing these orders, that all of the terms of such orders must be displayed on the EOC and that the “Agency Order shall first be represented in the trading crowd by public outcry, at which time the price, size and all components of the Agency Order shall be disclosed.”
8. Commentary .01 to Rule 6.47-O states, in relevant part, that Rule 6.49-O(b)² does not

¹ Flexible Exchange (FLEX) options are customized equity or index contracts that allow investors to customize key contract terms, including exercise price, exercise style, and expiration date, and can be traded on any underlying security for which the NYSE Arca Options trades conventional equity options.

² Rule 6.49-O(b) prohibits anticipatory hedging, providing, in relevant part, that it is “conduct inconsistent with just and equitable principles of trade” for any OTP Holder or OTP Firm with knowledge of all material terms and conditions of an order, the execution of which is imminent, to enter, based on such knowledge, an order to buy or sell the security underlying any option that is the subject of the order until either: (1) all the terms and conditions of the originating order and any changes in the terms or conditions of the order of which the OTP Holder or OTP Firm

prohibit an OTP Holder or OTP Firm from buying or selling a stock following receipt of an option order, but “prior to announcing such order to the Trading Crowd, provided that:

(a) the option order is in a class designated as eligible for ‘tied hedge’ transactions (as described below) as determined by the Exchange and is within the designated tied hedge eligibility size parameters ...;

(b) such OTP Holder or OTP Firm shall create an electronic record that it is engaging in a tied hedge transaction in a form and manner prescribed by the Exchange;

(c) such hedging position is:

- i. comprised of a position designated as eligible for a tied hedge transaction as determined by the Exchange and may include the same underlying stock applicable to the option order ...;
- ii. brought without undue delay to the Trading Crowd and announced concurrently with the option order;
- iii. offered to the Trading Crowd in its entirety; and
- iv. offered, at the execution price received by the OTP Holder or OTP Firm introducing the option, to any in-crowd market participant who has established parity or priority for the related options

A combination option and hedging position offered in reliance on this Commentary .01 shall be referred to as ‘tied hedge’ orders.”

9. An agreement between Casey’s customer and its end customer wherein Casey’s customer executes its stock hedge transactions first and then determines the price of the end customer’s options order based on the agreed-upon economics (the specified reference price and delta) may only be done as a tied hedge order.
10. Because the Flex options order was a tied hedge order, Casey was required to follow the tied hedge procedures set forth in Commentary .01 to NYSE Arca Rule 6.47-O, including the requirement that a record be created that it engaged in a tied hedge transaction.
11. By failing to record the order as a tied hedge transaction on the Flex options order ticket, Casey violated Commentary .01 to NYSE Arca Rule 6.47-O.

C. Violation of NYSE Arca Rule 11.1(b)

12. NYSE Arca Rule 11.1(b) requires that every OTP Holder, OTP Firm, and all associated persons thereof “shall at all times adhere to the principles of good business

has knowledge are disclosed to the trading crowd, or (2) the trade can no longer reasonably be considered imminent in view of the passage of time since the order was received.

practice in the conduct of its or their business affairs.”

13. NYSE Arca Options RB-20-01, *Obligations of OTP and ATP Holders Acting as Floor Brokers* (March 13, 2020), provides, in relevant part, that “an order will not be considered ‘announced’ or ‘represented’ until (a) the order has first received a “Pending Approval” status (and timestamp) in BLAZE -- indicating that it has been routed to a Trading Official workstation and (b) the Floor Broker representing the order has then vocalized the terms and conditions of the order,” and emphasizes that a Floor Broker “may be found in violation of Exchange rules if, prior to the satisfaction of the two requirements in the preceding sentence, the Floor Broker informs its client that its order is ‘announced’ or ‘represented.’”
14. Casey systematized the order and informed its customer that the order was announced, and its customer then began executing its hedge transactions in the underlying stock. However, an order is not considered “announced” until the order has been systematized, routed to a Trading Official, and the Floor Broker representing the order has disclosed all of the terms and conditions of the order to the trading crowd.
15. Furthermore, while a Floor Broker may probe the trading crowd for interest in a tied hedge transaction, as occurred here, it cannot be “announced” until the stock hedge has been completed, pursuant to Rule 6.47-O, Commentary .01, which requires, among other things, that the hedging position shall be “brought without undue delay to the Trading Crowd and announced concurrently with the option order; [and] offered to the Trading Crowd in its entirety.”
16. By improperly informing its customer that its order was announced before disclosing all of the terms and conditions of the order and before its customer’s stock hedge had been completed, Casey failed to “adhere to the principles of good business practice” in the conduct of its business affairs, in violation of NYSE Arca Rule 11.1(b).

D. Violation of NYSE Arca Rule 11.18(b)

17. NYSE Arca Rule 11.18(b) requires that each OTP Holder or OTP Firm “must establish and maintain a system to supervise the activities of its associated persons and the operations of its business” that is “reasonably designed to ensure compliance with applicable federal securities laws and regulations and NYSE Arca Rules.”
18. Casey had written supervisory procedures (“WSPs”) in place concerning the use of tied hedge orders and the announcement of customer orders. However, Firm personnel did not adequately understand these requirements, and so failed to properly document the tied hedge transaction and improperly informed the Firm’s customer that its order was announced.
19. By failing to reasonably supervise its personnel’s handling of tied hedge transactions and the announcement of customer orders, Casey violated NYSE Arca Rule 11.18(b).

RELEVANT PRIOR DISCIPLINARY HISTORY

20. On March 26, 2020, Casey was issued a first-level Minor Rule Violation (“MRV”) with a \$1,000 fine for violating NYSE Arca Rule 6.47-O, Commentary .01 by failing to adhere to the tied hedge order documentation and size requirements.
21. On November 29, 2019, Casey was issued a Cautionary Action Letter (“CAL”) for violating NYSE Arca Rule 6.47-O, Commentary .01 by failing to adhere to the tied hedge order documentation and size requirements.
22. Casey also has relevant prior informal disciplinary history relating to Firm personnel informing customers that orders had been announced prior to the orders being systematized or announced in open outcry in violation of NYSE Arca Rules 6.67-O(c) and 11.1(b). On March 25, 2021, Casey was issued a first-level MRV with a \$1,500 fine in connection with trading activity on February 27, 2020; on October 26, 2020, the Firm was issued a CAL for trading activity on July 19, 2019; and on May 29, 2020, the Firm was issued a CAL for trading activity on October 5, 2018, April 1, 2019, and May 23, 2019.

OTHER FACTORS

23. In determining to resolve this matter on the basis set forth herein, Enforcement took into consideration that it found no harm to other market participants or customers resulting from the Firm’s violations.

SANCTIONS

B. The Firm also consents to the imposition of the following sanctions:

1. **Censure and fine in the amount of \$7,500**

The Firm agrees to pay the monetary sanction(s) upon notice that this AWC has been accepted and that such payment(s) are due and payable. The Firm has submitted a Method of Payment Confirmation form showing the method by which it will pay the fine imposed.

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(s) imposed in this matter.

The Firm agrees that it shall not seek or accept, directly or indirectly, reimbursement or indemnification from any source, including but not limited to payment made pursuant to any insurance policy, with regard to any fine amounts that the Firm pays pursuant to this AWC, regardless of the use of the fine amounts. The Firm further agrees that it shall not claim, assert, or apply for a tax deduction or tax credit with regard to any federal, state, or local tax for any fine amounts that the Firm pays pursuant to this AWC, regardless of the use of the fine amounts.

The sanctions imposed herein shall be effective on a date set by NYSE Regulation staff.

II. WAIVER OF PROCEDURAL RIGHTS

The Firm specifically and voluntarily waives the following rights granted under the NYSE Arca Code of Procedure:

- A. To have a Formal Complaint issued specifying the allegations against the Firm;
- B. To be notified of the Formal Complaint and have the opportunity to answer the allegations in writing;
- C. To defend against the allegations in a disciplinary hearing before a hearing panel, to have a written record of the hearing made and to have a written decision issued; and
- D. To appeal any such decision to the Exchange's Board of Directors and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, the Firm specifically and voluntarily waives any right to claim bias or prejudice of the Chief Regulatory Officer of NYSE Arca; the Exchange's Board of Directors, Disciplinary Action Committee ("DAC"), and Committee for Review ("CFR"); any Director, DAC member, or CFR member; Counsel to the Exchange Board of Directors or CFR; any other NYSE Arca employee; or any Regulatory Staff as defined in Rule 10.9120 in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including acceptance or rejection of this AWC.

The Firm further specifically and voluntarily waives any right to claim that a person violated the ex parte communication prohibitions of Rule 10.9143 or the separation of functions prohibitions of Rule 10.9144, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

III. OTHER MATTERS

The Firm understands that:

- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed by NYSE Regulation, and accepted by the Chief Regulatory Officer of NYSE Arca pursuant to NYSE Arca Rule 10.9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against the Firm; and
- C. If accepted:
 - 1. The AWC shall be sent to each Director and each member of the Committee for Review via courier, express delivery or electronic means, and shall be deemed final and shall constitute the complaint, answer, and decision in the matter, 10 days after it is sent to each Director and each member of the

Committee for Review, unless review by the Exchange Board of Directors is requested pursuant to NYSE Arca Rule 10.9310(a)(1)(B);

2. This AWC will become part of the Firm's permanent disciplinary record and may be considered in any future actions brought by the Exchange, or any other regulator against the Firm;
 3. NYSE Arca shall publish a copy of the AWC on its website in accordance with NYSE Arca Rule 10.8313;
 4. NYSE Arca may make a public announcement concerning this agreement and the subject matter thereof in accordance with NYSE Arca Rule 10.8313; and
 5. The Firm may not take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or indirectly, any finding in this AWC or create the impression that the AWC is without factual basis. The Firm may not take any position in any proceeding brought by or on behalf of the Exchange, or to which the Exchange is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects the Firm's (i) testimonial obligations; or (ii) right to take legal or factual positions in litigation or other legal proceedings in which the Exchange is not a party.
- D. A signed copy of this AWC and the accompanying Method of Payment Confirmation form delivered by email, facsimile or other means of electronic transmission shall be deemed to have the same legal effect as delivery of an original signed copy.
- E. The Firm may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. The Firm understands that it may not deny the charges or make any statement that is inconsistent with the AWC in this Statement. Any such statement does not constitute factual or legal findings by the Exchange, nor does it reflect the views of NYSE Regulation or its staff.

The Firm certifies that, in connection with each of the Exchange's requests for information in connection with this matter, the Firm made a diligent inquiry of all persons and systems that reasonably had possession of responsive documents and that all responsive documents have been produced. In agreeing to the AWC, the Exchange has relied upon, among other things, the completeness of the document productions.

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 AWC and has been given a full opportunity to ask questions about it; that it has agreed to the AWC's provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein and the prospect of avoiding the issuance of a Complaint, has been made to induce the firm to submit it.

9/22/21 _____
Date

Casey Securities LLC,
Respondent

By: Willie Wong
Willie Wong
Chief Compliance Officer

Accepted by NYSE Regulation

9/22/21 _____
Date

Catherine Lifeso
Catherine Lifeso
Director, Enforcement
NYSE Regulation

Signed on behalf of NYSE Arca, Inc., by
delegated authority from its Chief
Regulatory Officer