

NYSE ARCA, INC.
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2019-06-00003

TO: NYSE Arca, Inc.

RE: JonesTrading Institutional Services LLC, Respondent
CRD No. 6888

During the period January 1, 2018 to May 17, 2020 (the “Relevant Period”), JonesTrading Institutional Services LLC violated: (i) Rule 15c3-5(c) of the Securities Exchange Act of 1934 (“Rule 15c3-5”) by failing to establish, document, and maintain a system of risk management controls and supervisory procedures reasonably designed to manage the financial and regulatory risks of its market access activity (relating to the Firm’s erroneous order controls and credit limits); (ii) Rule 15c3-5(e) by failing to adequately review the effectiveness of its controls and by failing to maintain written supervisory procedures regarding the review of its controls; and (iii) NYSE Arca Rule 11.18 by failing to establish and maintain reasonable supervisory systems and written supervisory procedures concerning Rule 15c3-5 (relating to the above). Consent to a censure and \$40,000 fine.

* * *

Pursuant to Rule 10.9216 of the NYSE Arca, Inc. (“NYSE Arca” or the “Exchange”) Code of Procedure, JonesTrading Institutional Services LLC (“JonesTrading” 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. JonesTrading 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. JonesTrading was registered as an NYSE Arca Equity Trading Permit (“ETP”) Holder during the Relevant Period. JonesTrading is a limited liability company with its main office in Thousand Oaks, California. JonesTrading acts as an agency-only broker-dealer that handles institutional customer orders in various types of securities.

2. JonesTrading terminated its NYSE Arca membership on May 17, 2020. NYSE Regulation retains jurisdiction pursuant to NYSE Arca Rule 10.8130.

PROCEDURAL HISTORY

3. This matter arises from an investigation by NYSE Regulation (“NYSER”) into one trade in Symbol 1¹ on March 26, 2019.

VIOLATIONS

4. JonesTrading violated Rule 15c3-5 and the related supervisory provision of NYSE Arca Rules. First, the Firm failed to maintain reasonable erroneous order controls concerning (a) the entry of erroneously sized orders and (b) the entry of erroneously priced orders. Second, the Firm did not maintain written supervisory procedures (“WSPs”) related to intraday changes to customer credit limits and failed to adequately document the reasons for such intraday changes. Third, the Firm’s WSPs did not detail its process for conducting its annual review of Rule 15c3-5 controls, and the Firm did not conduct an adequate review of the appropriate levels of those controls. Fourth, in connection with the above Rule 15c3-5 violations, the Firm failed to establish and maintain a system of risk management controls and WSPs reasonably designed to manage the regulatory risks in connection with market access as required under NYSE Arca Rule 11.18.

The March 26, 2019 Erroneous Order

5. On March 26, 2019 at 9:20:22, the Firm entered an order during the pre-open session to sell 45,000 shares of Symbol 1 with a limit price. The limit price was mistakenly input due to human error at \$0.12, which was 74% away from the previous closing print of \$0.45. The order received a partial fill for 5,000 shares at \$0.12 over eight executions before the Firm cancelled the remaining unfilled 40,000 shares 17 seconds later at 9:20:39. The Firm filed a Clearly Erroneous Execution request stating that the order was sent with an erroneous limit price, and the trades were subsequently busted.
6. While the Firm did maintain a price warning message for orders entered with a limit price of 2% away from the reference price (typically the midpoint of the NBBO), the warnings were a soft block, which pauses the order and requires traders to acknowledge it, by either amending the order upon review of the message or allowing it to proceed. In this instance, upon the route of the order to the market, there existed no bid or offer (NBBO) in Symbol 1 due to the illiquidity in the security and the time of day; therefore, the referenced price for the soft block was the previous day’s close. The order ticket was populated with the incorrect limit price, and the trader, who received the order internally from the sales trader that input the incorrect price, permitted it to proceed to the market despite receiving the warning message(s). At the time of the erroneous order, JonesTrading did not maintain a hard-block price

¹ Generic identifiers have been used in place of the names of security symbols.

control. In 2019, JonesTrading subsequently implemented a hard-block price control at 20% away from the relevant reference price.

Violations of Rule 15c3-5(c)(1)(ii)

7. Rule 15c3-5(c)(1)(ii) requires broker-dealers providing market access to establish, document, and maintain controls and procedures 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.”
8. During the Relevant Period, the Firm’s erroneous order controls were not reasonably designed to prevent the entry of an erroneous order by rejecting an order that exceeded appropriate price or size parameters. Additionally, the Firm was unable to provide information demonstrating that the controls related to order size and price were reasonable.
9. Specifically, the Firm’s single-order size controls blocked orders that exceeded 500% of the 30-day ADV of a security. Although the Firm also maintained a 50,000-share single-market routing limit, these combined limits were not reasonably designed to prevent erroneously sized orders in illiquid stocks. Further, the Firm did not contemporaneously document a justification for the selection of the 500% ADV control setting and was unable to provide information demonstrating that its single-order size control setting was reasonable given its trading activity.
10. In addition, the Firm’s single-order price controls were not reasonably designed to prevent the entry of erroneously priced orders. Prior to June 2019, the Firm maintained only a 2%-away soft-block price control. While the Firm sent notices to traders to be vigilant about and to not ignore the soft block warnings, the Firm failed to establish, document, and maintain WSPs that contained adequate guidance as to when its traders should override such soft-block warnings.
11. In June 2019, the Firm established a 20%-away hard-block price control that would have prevented the March 26, 2019 erroneous order. While the Firm was able to provide information demonstrating that the Firm conducted an analysis for determining the level at which it set its hard-block price control, the Firm was unable to provide information demonstrating the control was reasonable given its trading activity.
12. Accordingly, the Firm violated Rule 15c3-5(c)(1)(ii).

Violations of Rule 15c3-5(c)(1)(i)

13. Rule 15c3-5(c)(1)(i) requires broker-dealers providing market access to establish, document, and maintain controls and procedures reasonably designed to “[p]revent the entry of orders that exceed appropriate pre-set credit or capital thresholds in the aggregate for each customer and the broker or dealer.”

14. The SEC has explained that:

Once such credit or capital threshold is met, and subsequent orders in excess of that threshold are blocked, the broker-dealer may evaluate whether it is appropriate under the particular circumstances to modify the relevant threshold, and, if appropriate, do so in accordance with supervisory procedures. The reasons for any such modification should be appropriately documented and retained as part of the broker-dealer's books and records, as required by Rule 15c3-5.

Responses to Frequently Asked Questions Concerning Risk Management Controls for Brokers or Dealers with Market Access (Apr. 15, 2014), FAQ No. 18.

15. JonesTrading did not establish, document, and maintain WSPs concerning intraday changes made to customer credit limits. In addition, JonesTrading did not appropriately document the reasons for changes made to those credit limits on an intraday basis.

16. Accordingly, the Firm violated Rule 15c3-5(c)(1)(i).

Violations of Rule 15c3-5(e)

17. Rule 15c3-5(e) requires that broker-dealers "shall establish, document, and maintain a system for regularly reviewing the effectiveness of the risk management controls and supervisory procedures . . . and for promptly addressing any issues." It further states that a broker-dealer "shall review, no less frequently than annually, the business activity of the broker or dealer in connection with market access to assure the overall effectiveness of such risk management controls and supervisory procedures. Such review shall be conducted in accordance with written procedures and shall be documented."

18. During the Relevant Period, JonesTrading did not maintain WSPs containing details for how the annual review process of its Rule 15c3-5 controls and procedures was to be conducted.

19. While the Firm did conduct an annual review of its controls, for the entirety of the Relevant Period that review was inadequate because it did not assess every control and did not assess the effectiveness of those controls in the context of the Firm's business activity.

20. Accordingly, the Firm violated Rule 15c3-5(e).

Violations of NYSE Arca Rule 11.18

21. NYSE Arca Rule 11.18(b) states that "[e]ach ETP Holder, 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. Such system must be reasonably designed

to ensure compliance with applicable federal securities laws and regulations and NYSE Arca Rules.”

22. NYSE Arca Rule 11.18(c) states that “[e]ach ETP Holder, OTP Holder or OTP Firm 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.”
23. As described in more detail above, JonesTrading’s supervisory deficiencies include failing to establish and maintain reasonably designed procedures relating to its customer credit limits and single order controls. The Firm’s WSPs in effect during the Relevant Period also did not describe how the annual review process of its Rule 15c3-5 controls and procedures was to be conducted.
24. Accordingly, JonesTrading violated NYSE Arca Rule 11.18(b) and (c).

RELEVANT PRIOR DISCIPLINARY HISTORY

25. JonesTrading has no relevant disciplinary history.

SANCTIONS

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

1. **Censure and fine in the amount of \$40,000.**

The Firm agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is 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 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.

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.

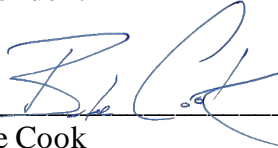
The Firm certifies that, in connection with each of the Exchange's requests for information in connection with this matter, the Firm made a diligent inquiry of all persons and systems that reasonably had possession of responsive documents and that all responsive documents have been produced. In agreeing 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.

May 11, 2021
Date

JonesTrading Institutional Services LLC,
Respondent


By: 
Burke Cook
General Counsel

Reviewed by:


James P. Dombach, Esq.
Murphy & McGonigle, P.C.
1001 G St. NW
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Washington, DC 20001
(202) 661-7019
Counsel for Respondent

Accepted by NYSE Regulation

May 14, 2021
Date


Russell A. Mawn, Jr.
Enforcement Counsel
NYSE Regulation

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