

NYSE ARCA, INC.

FINRA DEPARTMENT OF MARKET
REGULATION,

Complainant,

v.

JUMP TRADING, LLC

Respondent.

FINRA Proceeding No. 20140430990¹

October 28, 2016

Respondent violated: (1) Reg NMS Rule 611(c) and NYSE Arca Equities Rules 7.31(e)(2) and 7.37(e)(2) by routing intermarket sweep orders through protected quotations, and by failing to avoid displaying and engaging in a pattern or practice of displaying quotations that locked or crossed a protection quotation; and (2) NYSE Arca Equities Rules 6.18 and 2010 by failing to establish and maintain a supervisory system, including written supervisory procedures, that was reasonably designed to achieve compliance with the applicable securities laws and regulations, and Exchange Rules, concerning compliance with Reg NMS Rule 611(c). Consent to a censure, a \$20,000 fine, and an undertaking.

Appearances

Complainant:

Bryan Wallace, Esq.

Kenneth R. Bozza, Esq.

Robert A. Marchman, Esq.

Respondent:

James Draddy

¹ Includes proceeding numbers 20140430995, 20140437794, and 20150452818.

A Hearing Officer at the Financial Industry Regulatory Authority (“FINRA”) considered an Offer of Settlement and Consent entered into between FINRA’s Department of Market Regulation on behalf of NYSE Arca, Inc.² and Jump Trading LLC. (“Firm”).

The Firm submitted the 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.

The Hearing Officer approves the terms of the Offer of Settlement and Consent and issues this Decision in accordance with NYSE Arca Equities Rules.³

FINDINGS OF FACTS AND VIOLATIONS

Background and Jurisdiction

1. The Firm became registered as an Equities Trading Permit Holder (“ETP Holder”) with NYSE Arca Equities Inc. (“Exchange”) on March 22, 2002, and the Firm’s registration remains in effect.
2. In connection with Matter Nos. 20140430990 and 20150452818, the Market Analysis Section of FINRA’s Department of Market Regulation (“Staff”) reviewed the Firm’s compliance with Securities Exchange Act of 1934 Rule 611(c) of Regulation NMS (“Reg NMS Rule 611(c)”) and the rules related to the routing of intermarket sweep orders during the periods between April 1, 2014, and June 30, 2014, and between October 1, 2014, and December 31, 2014, which periods were later expanded to encompass the period between February 11, 2014, and December 22, 2014 (“First Relevant Period”).
3. In connection with Matter Nos. 20140430995 and 20140437794, the Staff reviewed the Firm’s compliance with Reg NMS Rule 611(c) and the rules related to locked/crossed markets during the periods between April 1, 2014, through June 30, 2014, and July 1, 2014, through September 30, 2014, which periods were later expanded to encompass the period between May 1, 2014, through October 31, 2014 (“Second Relevant Period”).
4. By letters dated June 25, 2015, and September 30, 2015, which the Firm received, Market Regulation, on behalf of the Exchange, notified the Firm of its investigations of these matters.

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 MKT LLC, and FINRA.

³ The facts, allegations, and conclusions contained in this Decision were taken from the executed Offer of Settlement and Consent.

The Firm's Relevant Disciplinary History

5. On July 21, 2014, The NASDAQ Stock Market LLC accepted a Letter of Acceptance, Waiver and Consent ("AWC") from the Firm in which the Firm consented to a censure and a \$25,000 fine for violations of Reg NMS Rule 611(c), Nasdaq Rules 4613(e), 4755(a)(4), 2110, and 3010, in connection with conduct occurring between February 7, 2012, and April 4, 2013.
6. On July 21, 2014, NASDAQ BX, Inc. (formerly NASDAQ OMX BX, Inc.) accepted an AWC from the Firm in which the Firm consented to a censure and a \$25,000 fine for violations of Reg NMS Rule 611(c) and BX Rules 4613(e), 4755(b), 2110, and 3010, in connection with conduct occurring between February 7, 2012, and April 4, 2013.

Overview

7. On numerous occasions during the First and Second Relevant Periods, due to various issues the Firm routed intermarket sweep orders through protected quotations and failed to avoid displaying and engaged in a pattern or practice of displaying quotations that locked or crossed a protection quotation.

Violations

8. During the First and Second Relevant Periods, Reg NMS Rule 611(c) required that a trading center, broker, or dealer responsible for the routing of intermarket sweep orders take reasonable steps to establish that such orders meet the requirements in Reg NMS Rule 600(b)(30). Reg NMS Rule 600(b)(30) required that simultaneously with the routing of a limit order identified as an intermarket sweep order, one or more additional limit orders, as necessary, are routed 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 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 intermarket sweep order.
9. Moreover, during the First and Second Relevant Periods, NYSE Arca Equities Rule 7.31(e)(2) required that ETP Holders comply with Reg NMS Rule 611 and NYSE Arca Equities Rule 7.37(e) with respect to intermarket sweep orders. NYSE Arca Equities Rule 7.37(e) required that ETP Holders reasonably avoid displaying, and shall not engage in a pattern or practice of displaying, any quotations that lock or cross a Protected Quotation pursuant to an effective national market system plan.
10. During the First and Second Relevant Periods, NYSE Arca Equities Rule 6.18(a) required, among other things, that every ETP Holder supervise persons associated with it to ensure compliance with federal securities laws and the Constitution or the Rules of

NYSE Arca. NYSE Arca Equities Rule 6.18(b) required each ETP Holder to “establish and maintain a system to supervise the activities of its associated persons and the operation of its business[,]” and that such system “must be reasonably designed to ensure compliance with applicable federal securities laws and regulations and NYSE Arca Equities Rules.” Moreover, NYSE Arca Equities Rule 6.18(c) required 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 with the NYSE Arca Equities Rules.”

11. During the First and Second Relevant Periods, NYSE Arca Equities Rule 2010 required an ETP Holder, in the conduct of its business, to observe high standards of commercial honor and just and equitable principles of trade.

Matter Nos. 20140430990 and 20150452818

12. During the First Relevant Period, the Firm failed to take reasonable steps to establish that intermarket sweep orders it routed met the definitional requirements set forth in Reg NMS Rule 600(b)(30). The conduct described in this paragraph constitutes separate and distinct violations of Reg NMS Rule 611(c) and NYSE Arca Equities Rule 7.31(e)(2).

Matter 20140430995 and 20140437794

13. During the Second Relevant Period, the Firm failed to take reasonable steps to establish that intermarket sweep orders it routed met the definitional requirements set forth in Reg NMS Rule 600(b)(30), in that the Firm failed to reasonably avoid displaying, and engaged in a pattern or practice of displaying, quotations that locked or crossed a protected quotation, by entering intermarket sweep orders into the Exchange that locked or crossed a quotation previously disseminated pursuant to an effective national market system plan and failed to simultaneously route an intermarket sweep order to execute against the full displayed size of the locked or crossed protected quote. The conduct described in this paragraph constitutes separate and distinct violations of Reg NMS Rule 611(c) and NYSE Arca Equities Rules 7.31(e)(2) and 7.37(e)(2).

Matter Nos. 20140430990, 20150452818, 20140430995, and 20140437794

14. During the First and Second Relevant Periods, the Firm failed to establish and maintain a supervisory system that was reasonably designed to achieve compliance with the applicable securities laws and regulations, and Exchange Rules, concerning compliance with Reg NMS Rule 611(c). In addition, the Firm’s supervisory system did not include sufficient written supervisory procedures to ensure compliance with Reg NMS Rule 611(c). Specifically, the Firm’s written supervisory procedures did not provide:(a) the

identification of the person(s) responsible for supervision with respect to the applicable rules; (b) a statement of the supervisory step(s) to be taken by the identified person(s); (c) a statement as to how often such person(s) should take such step(s); or (d) a statement as to how the completion of the step(s) included in the written supervisory procedures should be documented. The conduct described in this paragraph constitutes a violation of NYSE Arca Equities Rules 6.18 and 2010.

DECISION

Jump Trading, LLC violated:

- Reg NMS Rule 611(c) and NYSE Arca Equities Rules 7.31(e)(2) and 7.37(e)(2) by routing intermarket sweep orders through protected quotations, and by failing to avoid displaying and engaging in a pattern or practice of displaying quotations that locked or crossed a protection quotation; and
- NYSE Arca Equities Rules 6.18 and 2010 by failing to establish and maintain a supervisory system, including written supervisory procedures, that was reasonably designed to achieve compliance with the applicable securities laws and regulations, and Exchange Rules, concerning compliance with Reg NMS Rule 611(c).

SANCTIONS

Jump Trading, LLC is censured and fined \$20,000 (\$15,000 for the violations of Reg NMS Rule 611(c), NYSE Arca Equities Rules 7.31(e)(2) and 7.37(e)(2); and \$5,000 for the violations of NYSE Arca Equities Rules 6.18 and 2010).⁴

Jump Trading, LLC also is ordered to address the Reg NMS 611(c) deficiencies described in this Decision to ensure that the Firm has implemented procedures that are reasonably designed to achieve compliance with the rules and regulations cited herein.

Within 30 days of the date of this Decision, a registered principal of the Firm shall submit to the COMPLIANCE ASSISTANT, LEGAL SECTION, MARKET REGULATION DEPARTMENT, 9509 KEY WEST AVENUE, ROCKVILLE, MD 20850, a signed and dated

⁴ Under the Offer of Settlement and Consent, the Firm agreed to pay a total of \$110,000, of which \$20,000 shall be paid to NYSE Arca, Inc. and the remaining to Bats EDGA Exchange, Inc.; Bats EDGX Exchange, Inc.; Bats BZX Exchange, Inc.; Bats BYX Exchange, Inc.; The NASDAQ Stock Market LLC; and NASDAQ BX, Inc. in accordance with the terms of settlement agreements between the Firm and each exchange.

letter, or an e-mail from a work-related account of the registered principal addressed to MarketRegulationComp@finra.org, with the following information:

1. a reference to this matter;
2. a representation that the Firm has revised its supervisory systems and procedures to address the deficiencies described above; and
3. the dates that this was completed.

These sanctions are effective immediately.



Andrew H. Perkins
Chief Hearing Officer