

**NASDAQ PHLX LLC
NOTICE OF ACCEPTANCE OF AWC**

Certified, Return Receipt Requested

**TO: Jefferies Execution Services, Inc. n/k/a Jefferies LLC
Ms. Lauri Scoran
Chief Compliance Officer, Managing Director
520 Madison Avenue
New York, New York 10022**

**FROM: NASDAQ PHLX LLC (“PHLX”)
c/o Financial Industry Regulatory Authority (“FINRA”)
Department of Enforcement
9509 Key West Avenue
Rockville, MD 20850**

DATE: December 12, 2019


RE: Notice of Acceptance of Letter of Acceptance, Waiver and Consent No. 2014043557406

Please be advised that your above-referenced Letter of Acceptance, Waiver and Consent (“AWC”) has been accepted on **December 12, 2019** by the PHLX Review Council’s Review Subcommittee, or by the Office of Disciplinary Affairs on behalf of the PHLX Review Council, pursuant to PHLX Rule 9216. A copy of the AWC is enclosed herewith.

You are again reminded of your obligation, if currently registered, immediately to update your Uniform Application for Broker-Dealer Registration (“Form BD”) to reflect the conclusion of this disciplinary action. Additionally, you must also notify FINRA (or PHLX if you are not a member of FINRA) in writing of any change of address or other changes required to be made to your Form BD.

You will be notified by the Registration and Disclosure Department regarding sanctions if a suspension has been imposed and by Nasdaq’s Finance Department regarding the payment of any fine if a fine has been imposed.

If you have any questions concerning this matter, please contact me at (240) 386-6720.



David J. Prieto
Senior Counsel
Department of Enforcement, FINRA

Signed on behalf of NASDAQ PHLX LLC

Enclosure

FINRA District 10 – New York
William St. Louis
Senior Vice President and District Director
(via email)

Jefferies Execution Services, Inc. n/k/a Jefferies LLC
Ms. Cynthia Adams
Managing Director, Legal
520 Madison Avenue
New York, New York 10022

Mr. Andre E. Owens
Counsel for Respondent
WilmerHale
1875 Pennsylvania Avenue
Washington, DC 20006
(via email and certified mail)

NASDAQ PHLX LLC
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2014043557406

TO: Nasdaq PHLX LLC
c/o Department of Enforcement
Financial Industry Regulatory Authority ("FINRA")

RE: Jefferies Execution Services, Inc., n/k/a Jefferies LLC, Respondent
Member Firm
CRD No. 867

Pursuant to Rule 9216 of Nasdaq PHLX LLC ("PHLX") Code of Procedure, Jefferies Execution Services, Inc. ("JefEx," the "Firm," or "Respondent"), now known as Jefferies LLC, 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, PHLX will not bring any future actions against the Respondent alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. Respondent 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 PHLX, or to which PHLX 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 PHLX:

BACKGROUND AND RELEVANT DISCIPLINARY HISTORY

The Firm became a FINRA member on February 2, 1948 and a PHLX member on February 11, 2003. On November 20, 2017, JefEx requested termination of its PHLX membership, which became effective on December 20, 2017, and requested termination of its FINRA membership, which became effective on January 19, 2018. From January 2014 through February 2015, JefEx's principal place of business was New York, New York and it had from nine to 11 registered representatives. On October 31, 2017, the Firm ceased operations, including all of its market access business line, and merged its remaining businesses into Jefferies LLC, an affiliated broker-dealer.

Jefferies LLC became a FINRA member on March 1, 1963 and a member of PHLX on May 9, 2012. These memberships remain in effect. Jefferies LLC's principal place of business is in New York, New York, and it has over 1,700 registered representatives at its 28 branches.

JefEx does not have any relevant disciplinary history.

SUMMARY

From January 1, 2014 through February 28, 2015 (the "review period"), JefEx offered its clients, which included FINRA-registered broker-dealers and institutional clients, direct market access to various securities exchanges. Nevertheless, the Firm failed to implement a reasonably designed supervisory system and written supervisory procedures to monitor for potential layering or spoofing activity by its direct market access clients. Surveillance by FINRA and other exchanges during the review period identified more than 150,000 instances of potential layering by direct market access customers of the Firm. But JefEx did not have any supervisory system or written supervisory procedures to review for potential layering or spoofing by clients until February 2015.

As a result of the conduct described above, the Firm violated PHLX Rules 748 and 707.

FACTS AND VIOLATIVE CONDUCT

Relevant Rules

1. PHLX Rule 748(b) requires member organizations to provide for appropriate supervisory control of the organization and compliance with securities laws and regulations, including the Exchange's By-Laws and Rules. Member organizations are required to provide for appropriate written procedures of supervision and control, and to establish a separate system of follow-up and review to determine that the delegated authority and responsibility is being properly exercised. PHLX Rule 748(d) requires each person with supervisory control to reasonably discharge his duties and obligations in connection with the organization's supervision and control to prevent and detect, insofar as practicable, violations of the applicable securities laws and regulations, including the Exchange's ByLaws and Rules. PHLX Rule 748(h) requires member organizations to establish, maintain, and enforce written supervisory procedures, and a system for applying such procedures, reasonably designed to prevent and detect, insofar as practicable, violations of securities laws and regulations, including the Exchange's By-Laws and Rules.
2. Pursuant to PHLX Rule 707, members shall not engage in conduct inconsistent with just and equitable principles of trade.

JefEx's Direct Market Access Business

3. JefEx offered its clients direct market access to multiple securities exchanges, including PHLX. Therefore, JefEx had post-trade obligations to monitor for manipulation and other improper activity entered through the Firm.

JefEx Failed to Supervise its Clients' Direct Market Access Activity for Potential Layering or Spoofing Activity

4. Layering is a form of market manipulation that typically includes placement of multiple limit orders on one side of the market at various price levels at or away from the National Best Bid and Offer ("NBBO") that are intended to create the appearance of a change in the levels of supply and demand. In some instances, layering involves placing multiple limit orders at the same or varying prices across multiple exchanges or other trading venues. An order is then executed on the opposite side of the market and most, if not all, of the multiple limit orders are immediately cancelled. The purpose of the multiple limit orders that are subsequently cancelled is to induce, or trick, other market participants to enter orders due to the appearance of interest created by the orders such that the trader is able to receive a more favorable execution on the opposite side of the market.
5. Similar to layering, spoofing is a manipulative trading tactic designed to induce other market participants into executing trades. Spoofing is a form of market manipulation that generally involves, but is not limited to, the market manipulator placing an order or orders with the intention of cancelling the order or orders once they have triggered some type of market movement and/or response from other market participants, from which the market manipulator might benefit by trading on the opposite side of the market.
6. Notwithstanding that the Firm provided direct market access to its clients both prior to and during the review period, the Firm did not have monitoring for layering or spoofing and therefore the Firm did not establish, maintain, and enforce a supervisory system or written supervisory procedures reasonably designed to monitor for potential layering or spoofing by its direct market access clients.
7. As a result of JefEx's supervisory failures, JefEx direct market access clients placed millions of orders per month during the review period through the Firm without being subjected to supervisory reviews for potential layering or spoofing.
8. FINRA and other exchanges' surveillance identified more than 150,000 instances of potential layering activity associated with JefEx's order flow from June 2014 through February 2015. Ninety-seven percent of those instances of potential layering were concentrated from October 2014 through February 2015.
9. Upon receiving multiple notifications of the potential layering from another exchange as early as November 2014, JefEx began to develop a layering surveillance review, but it was not implemented until February 11, 2015. After implementing its surveillance, JefEx identified one particular broker-dealer client ("Client A") as potentially engaging in layering activity and terminated this client on February 13, 2015. Client A had placed approximately 24 million orders

between September 2014 and February 2015. These 24 million orders accounted for six percent of JefEx's direct market access order flow during this period.

10. JefEx also updated its written supervisory procedures to reflect the integration of its layering and spoofing surveillance into its overall supervisory system and reviews. JefEx subsequently engaged the services of a third party surveillance system provider in August 2016, and completed implementation of the third party surveillance system in late 2017.
 11. The acts, practices and conduct described in Paragraphs 3 through 9 constitute violations of PHLX Rules 748 and 707.
- B. Respondent also consents to the imposition of the following sanctions:
1. A censure; and
 2. A monetary fine in the amount of \$215,000, of which \$18,800 shall be paid to PHLX for violations of Rules 748 and 707.¹
 3. Acceptance of this AWC is conditioned upon acceptance of similar settlement agreements in related matters between the firm and each of the following self-regulatory organizations: (i) Nasdaq; (ii) BX; (iii) NYSE; (iv) NYSE American; (v) NYSE Arca (vi) BZX; (vii) BYX; (viii) EDGA; (ix) EDGX; and (x) FINRA. The aggregate settlement across all markets is \$215,000.

Respondent agrees to pay the monetary sanction(s) upon notice that this AWC has been accepted and that such payment(s) are due and payable. Respondent has submitted a Payment Information form showing the method by which it proposes to pay the fine imposed.

Respondent 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 sanctions imposed herein shall be effective on a date set by FINRA staff.

¹ FINRA investigated this matter on behalf of PHLX and various self-regulatory organizations, including The NASDAQ Stock Market LLC ("Nasdaq"), Nasdaq BX, Inc. ("BX"), the New York Stock Exchange LLC ("NYSE"), NYSE American LLC ("NYSE American"), NYSE Arca, Inc. ("NYSE Arca"), Cboe BZX Exchange, Inc. ("BZX"), Cboe BYX Exchange, Inc. ("BYX"), Cboe EDGA Exchange, Inc. ("EDGA"), Cboe EDGX Exchange, Inc. ("EDGX") and FINRA. The balance of the sanction will be paid to the other self-regulatory organizations listed above.

II.

WAIVER OF PROCEDURAL RIGHTS

Respondent specifically and voluntarily waives the following rights granted under PHLX's 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 PHLX Review Council and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, Respondent specifically and voluntarily waives any right to claim bias or prejudgment of the Chief Regulatory Officer, the PHLX Review Council, or any member of the PHLX Review Council, 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.

Respondent further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of Rule 9143 or the separation of functions prohibitions of Rule 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

Respondent understands that:

- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by FINRA's Department of Enforcement and the PHLX Review Council, the Review Subcommittee, or the Office of Disciplinary Affairs ("ODA"), pursuant to PHLX Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against the Respondent; and

- C. If accepted:
1. This AWC will become part of the Respondent's permanent disciplinary record and may be considered in any future actions brought by PHLX or any other regulator against the Respondent;
 2. PHLX may release this AWC or make a public announcement concerning this agreement and the subject matter thereof in accordance with PHLX Rule 8310 and IM-8310-3; and
 3. Respondent 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. Respondent may not take any position in any proceeding brought by or on behalf of PHLX, or to which PHLX is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects the Respondent's right to take legal or factual positions in litigation or other legal proceedings in which PHLX is not a party.
- D. Respondent may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondent understands that it may not deny the charges or make any statement that is inconsistent with the AWC in this Statement. This Statement does not constitute factual or legal findings by PHLX, nor does it reflect the views of PHLX or its staff.

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 the Firm 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.

Jefferies Execution Services, Inc., n/k/a Jefferies
LLC
Respondent

12-5-19
Date

By: C. Adams

Name: Cynthia Adams

Title: Managing Director, Legal

Reviewed by:



Andre Owens
Counsel for Respondent
WilmerHale
1875 Pennsylvania Avenue, NW
Washington, DC 20006 USA
+1 (202) 663-6350

Accepted by PHLX:

Dec. 12, 2019
Date

Signed on behalf of the
Director of ODA, by delegated authority

David J. Prieto
David J. Prieto, Senior Counsel
Department of Enforcement

Signed on behalf of PHLX, by delegated
authority from the Director of ODA

PAYMENT INFORMATION

The fine amount will be reflected on an upcoming invoice and will be direct debited from the account for your firm that Nasdaq currently has on file. *Please DO NOT submit payment at this time.*

Please inform your finance or applicable department of this forthcoming debit.

If you need to arrange for an alternative method of payment, please contact Nasdaq at (301) 978-8310 by no later than the last business day of the month in which the Notice of Acceptance of the AWC was issued. *Otherwise, a direct debit will process from the account for your firm that Nasdaq currently has on file.*

Respectfully submitted,

Respondent

Jefferies Execution Services, Inc., n/k/a
Jefferies LLC

12-5-19

Date

By: CBadams

Name: Cynthia Adams

Title: Managing Director, Legal