

NYSE ARCA, INC.

NYSE REGULATION,

Complainant,

v.

SG AMERICAS SECURITIES, LLC,

Respondent.

Proceeding No. 20160487717

May 29, 2019

SG Americas Securities, LLC violated: (i) Exchange Act Rule 17a-3(a)(6)(i) and NYSE Arca Options Rule 6.68, by failing to maintain accurate manual options order tickets; and (ii) NYSE Arca Rule 11.18, by failing to implement a supervisory system reasonably designed to achieve compliance with applicable federal securities laws and NYSE Arca rules pertaining to options order tickets. Consent to censure and \$25,000 fine.

Appearances

For the Complainant: Eustace T. Francis, Esq., Eric S. Brown, Esq., and Andrew Beirne, Esq.,
FINRA Department of Enforcement.

For the Respondent: Courtenay Wood, Esq., for SG Americas Securities, LLC.

DECISION

SG Americas Securities, LLC (“SG Americas” or “Firm”) and NYSE Arca, Inc. (“NYSE Arca”) 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.²

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 American LLC (fka NYSE MKT LLC), and FINRA.

² See NYSE Arca Rule 10.6(e). The facts, allegations, and conclusions contained in this Decision were taken from the executed Offer of Settlement and Consent. Prior to August 17, 2017, the Arca rules involved in this matter were called NYSE Arca Options rules.

FINDINGS OF FACTS AND VIOLATIONS

Background and Jurisdiction

1. SG Americas became registered as an Options Trading Permit (“OTP”) Holder with NYSE Arca on April 22, 2004, and its registration remains in effect. The Firm is headquartered in New York, New York with branch offices in Boston, Chicago, Dallas, and Houston.
2. On behalf of NYSE Arca, staff from the Trading and Financial Compliance Examinations, Department of Market Regulation, Financial Industry Regulatory Authority (“FINRA”) conducted a review of SG Americas’ compliance with Section 17(a) of the Securities Exchange Act of 1934, as amended (“Section 17(a)”), Rule 17a-3(a)(6)(i) promulgated thereunder (“Rule 17a-3(a)(6)(i)”), and NYSE Arca Options Rule 6.68, which focused on manual options order tickets the Firm handled from June 13 to June 17, 2016 (“Exam Review Period”). The staff also reviewed the Firm’s compliance with NYSE Arca Rule 11.18 and the Firm’s written supervisory procedures (“WSPs”) related to the handling of manual options orders from June 2016 to June 2018 (“Supervision Review Period”).³
3. In a letter dated March 20, 2018, which SG Americas received, FINRA, on behalf of NYSE Arca, notified the Firm it was investigating whether the Firm violated Rule 17a-3(a)(6)(i), NYSE Arca Options Rule 6.68, and NYSE Arca Rule 11.18 during the Exam and Supervision Review Periods.

Relevant Disciplinary History

4. On March 23, 2016, SG Americas consented to findings that it violated Rule 17a-3(a)(6)(i), Nasdaq PHLX LLC (“PHLX”) Rules 748 and 760, and NYSE American Rules 320(e) and 956NY, in connection with its failure, during cycle and cause examinations conducted on behalf of NYSE American and PHLX between May 1, 2012, and May 17, 2013, to: (i) make and keep an accurate record of the order receipt time for ten options orders; and (ii) make and keep an accurate record of the order transmission time for 40 of 40 sampled options orders. SG Americas was censured and fined \$20,000, evenly allocated between PHLX and NYSE American.

Overview

5. During the Exam Review Period, SG Americas failed to accurately record the order receipt and order transmission times of manual options orders it routed to floor brokers at NYSE American and various other national securities exchanges for execution in

³ On August 17, 2017, NYSE Options Rule 11.18 became NYSE Arca Rule 11.18. Because the Supervision Review Period covered both rule designations, the supervision violations in this decision are referred to as NYSE Arca Rule 11.18.

violation of Rule 17a-3(a)(6)(i) and NYSE Arca Options Rule 6.68. During the Supervision Review Period, the Firm also violated NYSE Arca Rule 11.18 by failing to establish, maintain, and enforce WSPs and a system of supervision reasonably designed to achieve compliance with, and to detect and prevent violations of, the applicable recordkeeping provisions of the federal securities laws and NYSE Arca rules that require the accurate documentation of the order receipt and transmission times of options orders.

Violations

6. The policy underlying the recordkeeping provisions of the federal securities laws and NYSE Arca rules is to ensure that regulators have access to certain basic information about securities transactions. Access to transaction records serves as an essential component for effective surveillance and examination of broker-dealers by NYSE Arca and other self-regulatory organizations.
7. Section 17 and Rule 17a-3(a)(6)(i) require broker-dealers, such as SG Americas, to create a brokerage order ticket of each brokerage order, and any other instruction, given or received for the purchase or sale of securities, whether executed or unexecuted. In relevant part, the rule requires the brokerage order ticket to show the terms and conditions of the order or instructions, the time the order was received, the time the order was entered, and the time of execution or cancellation. Such records must be accurate.
8. NYSE Arca Options Rule 6.68 required members to maintain a record of every order for the purchase or sale of option contracts showing the terms and conditions of the order. The record must include order entry date and time, or the date and time of any modification of the terms of the order or cancellation of the order, order execution time and price, and other information as NYSE Arca may require.
9. The Firm handled approximately 30,080 manual options orders during 2016, approximately 45% of which were manual options orders routed to options exchange floors for execution. From a sample of 56 manual options orders routed to floor brokers for execution during the Exam Review Period, SG Americas did not maintain an accurate record of the order receipt time for 14 (approximately 25%) of the sampled options orders. Of these 14 orders, one was executed on NYSE Arca.
10. The conduct described in paragraph 9 constitutes violations of Rule 17a-3(a)(6)(i) and NYSE Arca Options Rule 6.68.
11. NYSE Arca Rule 11.18 requires, in pertinent part, OTP holders to establish and maintain a system to supervise the activities of its associated persons and the operation of its business. Such system must be reasonably designed to ensure compliance with applicable federal securities laws and regulations and NYSE Arca Rules.

12. SG Americas failed to establish and maintain WSPs and a supervisory system reasonably designed to achieve compliance with, and to detect and prevent violations of, the recordkeeping provisions of the federal securities laws and NYSE Arca rules requiring accurate documentation of the order receipt and transmission times of options orders. During the Supervisory Review Period, the Firm's WSPs and supervisory system required a quarterly supervisory review of a sample of its manual options orders that were routed to exchanges, consisting of 25 randomly selected manual options orders. During the Supervisory Review Period, SG Americas had as many as 8,300 manual options orders routed to exchanges each quarter. The Firm's supervisory review was intended to confirm the accuracy of the order receipt, transmission, and execution time stamps. Its WSPs and supervisory system further required the escalation to business heads and the Firm's compliance department of any patterns of inaccurate order information. The quarterly supervisory reviews did not, however, detect a single time-stamp inaccuracy in any of the samples reviewed during the Supervisory Review Period. Thus, no alerts were escalated to business heads and compliance. By contrast, the 56 manual options orders sampled from the Exam Review Period revealed that approximately 25% had inaccurate order receipt times and approximately 39% had inaccurate order transmission times. Given the potential for human error in connection with manual orders, the Firm's quarterly sampling of 25 randomly selected manual orders was not reasonably designed to achieve compliance with, and to detect and prevent violations of, the applicable recordkeeping provisions of the federal securities laws and NYSE Arca rules.
13. The conduct described in paragraph 12 constitutes a violation of NYSE Arca Rule 11.18.

ORDER

SG Americas Securities, LLC violated: (i) Rule 17a-3(a)(6)(i) and NYSE Arca Options Rule 6.68 during the Exam Review Period, by failing to maintain accurate manual options order tickets; and (ii) NYSE Arca Rule 11.18, by failing to implement a supervisory system, including WSPs and a system of follow-up and review, reasonably designed to achieve compliance with applicable federal securities laws and NYSE Arca rules pertaining to options order tickets.

SANCTIONS

SG Americas Securities, LLC is censured and fined \$25,000.⁴

These sanctions are effective immediately.


Matthew Campbell
Hearing Officer

⁴ Pursuant to separate settlement agreements, SG Americas agreed to a total fine of \$75,000, of which \$25,000 shall be paid to NYSE Arca Inc., and the remaining amount paid to Nasdaq PHLX LLC and NYSE American LLC.

