SECURITIES OPERATIONS

REGULATORY UPDATE

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IN THIS ISSUE

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SEC Amends Offering Framework Exemptions

On November 2, 2020, the Securities and Exchange Commission ("SEC" or "Commission") adopted amendments to facilitate capital formation and increase opportunities for investors by expanding access to capital for small- and medium-sized businesses and entrepreneurs across the United States. Specifically, the amendments simplify, harmonize, and improve certain aspects of the exempt offering framework to promote capital formation while preserving or enhancing important investor protections. The amendments also seek to close gaps and reduce complexities in the exempt offering framework that may impede access to investment opportunities for investors and access to capital for businesses and entrepreneurs.

The amendments generally:

- Establish more clearly, in one broadly applicable rule, the ability of issuers to move from one exemption to another;
- Increase the offering limits for Regulation A, Regulation Crowdfunding, and Rule 504 offerings, and revise certain individual investment limits;
- Set clear and consistent rules governing certain offering communications, including permitting certain "test-the-waters" and "demo day" activities; and
- Harmonize certain disclosure and eligibility requirements and bad actor disqualification provisions.

An updated summary chart of the offering exemptions is included at the end of the fact sheet included in the press release. The amendments will be effective 60 days after publication in the Federal Register, except for the extension of the temporary Regulation Crowdfunding provisions, which will be effective upon publication in the Federal Register.

Final Rule: https://www.sec.gov/rules/final/2020/33-10844.pdf
Press Release: https://www.sec.gov/news/press-release/2020-273
Public Statement: https://www.sec.gov/news/public-statement/clayton-harmonization-2020-11-2

SEC UPDATES DISCLOSURE REQUIREMENTS IN REGULATION S-K

On November 19, 2020, the SEC adopted amendments to modernize, simplify, and enhance certain financial disclosure requirements in Regulation S-K, and related rules and forms. Specifically, the amendments eliminate the requirement for Selected Financial Data and modernize, streamline the requirement to disclose Supplementary Financial Information and amend Management's Discussion & Analysis of Financial Condition and Results of Operations ("MD&A"). The amendments are intended to eliminate duplicative disclosures and modernize and enhance MD&A disclosures for the benefit of investors, while simplifying compliance efforts for registrants. In addition, the Commission adopted certain parallel amendments to the financial disclosure requirements applicable to foreign private issuers, including to Forms 20-F and 40-F, as well as other conforming amendments to the Commission's rules and forms, as appropriate.

Final Rule: https://www.sec.gov/rules/final/2020/33-10890.pdf
Press Release: https://www.sec.gov/news/press-release/2020-290
Effective Date: 30 days after publication in the Federal Register

SEC ADOPTS ELECTRONIC SIGNATURES IN REGULATION S-T

On November 17, 2020, the SEC adopted amendments to Regulation S-T and the Electronic Data Gathering, Analysis, and Retrieval system ("EDGAR") Filer Manual ("EDGAR Filer Manual" or "Filer Manual") to permit the use of electronic signatures in signature authentication documents required under Regulation S-T in connection with electronic filings on EDGAR that are required to be signed. The SEC also adopted corresponding revisions to several rules and forms under the Securities Act of 1933 ("Securities Act"), Securities Exchange Act of 1934 ("Exchange Act"), and Investment Company Act of 1940 ("Investment Company Act") to permit the use of electronic signatures in signature authentication documents in connection with certain other filings.

Effective Date: Date of publication in Federal Register

SEC DIVISION OF ENFORCEMENT PUBLISHES ANNUAL REPORT

On November 2, 2020, the SEC published the Division of Enforcement's ("Division's") Annual Report. The Annual Report provides a comprehensive view of the Division's accomplishments over the past year, discusses significant actions and key areas of strategic change, and details the Division's COVID-19-related enforcement efforts. This year's Annual Report discusses how the Division took affirmative steps to prevent potential fraud related to the COVID-19 pandemic and bring actions against wrongdoers who attempted to capitalize on it, while at the same time continuing to focus on existing and new non-COVID-related enforcement issues arising in the normal course. The Annual Report also describes strategic changes the Division implemented to improve its operations in several key areas, including by implementing a number of efficiencies in the whistleblower program and increasing the pace of investigations. Additionally, as in prior years, the Annual Report highlights the Division's commitment to core principles such as the protection of retail investors, a focus on individual accountability, and the imposition of remedies that most effectively further enforcement goals.

Enforcement Annual Report 2020: https://www.sec.gov/files/enforcement-annual-report-2020.pdf
Press Release: https://www.sec.gov/news/press-release/2020-274

CHAIRMAN CLAYTON CONFIRMS CONCLUSION OF TENURE AT YEAR END

On November 16, 2020, the SEC published a press release announcing that SEC Chairman Jay Clayton confirmed he will conclude his tenure at the end of the year. Under Chairman Clayton's leadership, the agency experienced an historically productive rulemaking period, advancing more than 65 final rules to date from the Commission's policy divisions and offices, many of which modernized and improved rule sets that had not been reviewed and updated in decades. To promote transparency and engagement with market participants, Chairman Clayton established the practice of using the agency's congressionally mandated near-term agendas as a transparent roadmap for the Commission's regulatory work. The SEC advanced an average of 86% of the initiatives on the near-term agendas under Chairman Clayton's leadership.

Press Release: https://www.sec.gov/news/press-release/2020-284

FINRA ADOPTS CHANGE TO GRANULARITY OF TIMESTAMPS

On November 12, 2020, the SEC published an order granting approval of a Financial Industry Regulatory Authority ("FINRA")-proposed rule change to require member firms, in accordance with an SEC order granting exemptive relief from certain requirements of the Consolidated Audit Trail ("CAT") NMS Plan, to report time fields, in trade reports submitted to an equity trade reporting facility ("TRF"), using the same timestamp granularity that they use to report to the CAT. FINRA will provide advance notice of the implementation date at least 120 days prior to the implementation date.

Approval Order: https://www.sec.gov/rules/sro/finra/2020/34-90396.pdf

FINRA ADOPTS RELIEF TO ALLOW REMOTE INSPECTIONS FOR 2020 AND 2021

On November 18, 2020, the SEC published for comment a FINRA-proposed rule change, effective on filing, to provide member firms the option, subject to specified requirements under the proposed supplementary material, to complete remotely their calendar year 2020 and calendar year 2021 inspection obligations under FINRA Rule 3110(c) (Internal Inspections), without an on-site visit to the office or location. The temporary rule change is necessitated by the compelling health and safety concerns and the operational challenges member firms are facing due to the sustained COVID-19 pandemic. The proposed rule change will automatically sunset on December 31, 2021. If FINRA seeks to extend the duration of the temporary proposed rule beyond December 31, 2021, FINRA will submit a separate rule filing to further renew the temporary relief.

Notice Release: https://www.sec.gov/rules/sro/finra/2020/34-90454.pdf
Comments Due: December 15, 2020

FINRA PROPOSES REQUIREMENT TO FILE RETAIL COMMUNICATIONS

On November 2, 2020, the SEC published for comment a FINRA-proposed rule change to amend FINRA Rules 5122 (Private Placements of Securities Issued by Members) and 5123 (Private Placements of Securities) that would require members to file retail communications concerning private placement offerings that are subject to those Rules' filing requirements. Given the comparatively high rate of non-compliance of private placement retail communications, and the increased risk of investor harm associated with those communications, FINRA proposes to amend Rules 5122 and 5123 to require such retail communications to be filed, in addition to the currently required private placement memorandums, term sheets, and other offering documents. Rules 5122 and 5123 focus on the private placements that raise the greatest concerns—those sold to retail investors, whether or not accredited. FINRA proposes to limit the new filing requirement to the same offerings; it would not apply to any offerings that are currently exempt from filing. A member would be required to file with FINRA such retail communications no later than the date on which a filing is required under Rules 5122 and 5123.15. The proposal would not require members to file private placement retail communications for offerings that are not subject to the filing requirements in Rules 5122 or 5123, such as sales exclusively to institutional accounts. The Rules' requirements that material amendments to offering documents must be filed also would apply to retail communications.

Notice Release: https://www.sec.gov/rules/sro/finra/2020/34-90302.pdf

NASDAQ PROPOSES AMENDMENTS TO LISTING FEES

On November 25, 2020, the SEC published for comment a Nasdaq proposal, effective on filing, to modify its all-inclusive annual listing fees for all domestic and foreign companies listing equity securities covered by Listing Rules 5910 and 5920 on the Nasdaq Global Select, Global and Capital Markets. Nasdaq also proposed to update the maximum fee applicable to a closed-end fund family and the maximum fee applicable to a REIT family to reflect the proposed fee change for other equity securities. Additionally, Nasdaq proposed to remove references to fees that are no longer applicable because they were superseded by new fee rates specified in the rule text. While these changes are effective upon filing, Nasdaq has designated the proposed amendments to be operative on January 1, 2021.

Notice Release: https://www.sec.gov/rules/sro/nasdaq/2020/34-90519.pdf
Comments Due: 21 Days after publication in the Federal Register

NASDAQ AMENDS TRANSACTION CREDITS

On November 13, 2020, the SEC published for comment a Nasdaq proposal, effective on filing, to amend its schedule of credits at Equity 7, Section 118, to add a new credit for executing orders in securities on all three Tapes. Nasdaq proposed to add a new, higher credit for members that meet criteria similar to the present thresholds, albeit with higher volume requirements. Specifically, Nasdaq proposed to provide a new credit of $0.00305 per share of displayed orders/quotes (other than Supplemental Orders or Designated Retail Orders) that provide liquidity to the extent such members (i) have shares of liquidity provided in all securities through one or more of its Nasdaq Market Center MPIDs that represent 1.20% or more of Consolidated Volume during the month; (ii) execute 0.40% or more of Consolidated Volume during the month through providing midpoint orders and through Midpoint Extended Life Orders, or "MELOs"; and (iii) remove at least 1.10% of Consolidated Volume during the month of Consolidated Volume during the month through one or more of their Nasdaq Market Center MPIDs[sic].

Notice Release: https://www.sec.gov/rules/sro/nasdaq/2020/34-90423.pdf
Comments Due: December 10, 2020

NASDAQ PERMITS CERTAIN HEARINGS BY VIDEO CONFERENCE

On November 10, 2020, the SEC published for comment a Nasdaq proposal, effective on filing, to harmonize Nasdaq Rules 1015, 9261, 9524 and 9830 with recent changes made by FINRA. The amendments to these Rules temporarily grant Nasdaq's Office of Hearing Officers and the Exchange Review Council authority to conduct hearings in connection with appeals of Membership Application Program decisions, disciplinary actions, eligibility proceedings and temporary and permanent cease and desist orders by video conference, if warranted by the current COVID-19-related public health risks posed by an in-person hearing. As proposed, these temporary amendments would be in effect through December 31, 2020.

Notice Release: https://www.sec.gov/rules/sro/nasdaq/2020/34-90390.pdf
Comments Due: December 8, 2020

NASDAQ TEMPORARILY EXTENDS PERIOD FOR REGISTERED PERSONS TO FUNCTION AS PRINCIPALS

On November 5, 2020, the SEC published for comment, a Nasdaq-proposed rule change, effective on filing, to adopt temporary Supplementary Material .13 (Temporary Extension of the Limited Period for Registered Persons to Function as Principals) under Rule 1.1210. The proposed rule change would extend the 120-day period that certain individuals can function as a principal without having successfully passed an appropriate qualification examination through December 31, 2020, and would apply only to those individuals who were designated to function as a principal prior to September 3, 2020. This proposed rule change is based on a filing recently submitted by FINRA and is intended to harmonize Nasdaq's registration rules with those of FINRA so as to promote uniform standards across the securities industry.

Notice Release: https://www.sec.gov/rules/sro/nasdaq/2020/34-90359.pdf

NASDAQ PROPOSES AMENDMENTS TO LISTING REQUIREMENTS

On November 5, 2020, the SEC issued an order instituting proceedings on whether to approve or disapprove a Nasdaq-proposed rule change to amend certain listing requirements relating to maintaining a minimum number of beneficial holders and minimum number of shares outstanding. The proposed rule change was published for comment in the Federal Register on August 7, 2020. On September 10, 2020, the SEC designated a longer period within which to approve the proposed rule change, disapprove the proposed rule change, or institute proceedings to determine whether to disapprove the proposed rule change. The Commission received no comments on the proposed rule change. Nasdaq proposes to amend Nasdaq Rule 5704 to: (1) remove the requirement that, 12 months after the commencement of trading on the Exchange, a series of Exchange Traded Fund Shares must have 50 or more beneficial holders; and (2) replace its existing minimum number of shares requirement with a requirement that each series of Exchange Traded Fund Shares have a sufficient number of shares outstanding at the commencement of trading to facilitate the formation of at least one creation unit. The SEC has consistently recognized the importance of the minimum number of holders and other similar requirements in exchange listing standards. The order states the SEC is providing notice of the grounds for disapproval under consideration. Under the Commission's Rules of Practice, the "burden to demonstrate that a proposed rule change is consistent with the Exchange Act and the rules and regulations issued thereunder...is on the self-regulatory organization ['SRO'] that proposed the rule change." Accordingly, the SEC believes it is appropriate to institute proceedings pursuant to Section 19(b)(2)(B) of the Exchange Act to determine whether the proposal should be approved or disapproved.

Notice Release: https://www.sec.gov/rules/sro/nasdaq/2020/34-90355.pdf

NYSE EXCHANGES PROPOSE CANCELLATION OF ALO ORDERS THAT LOCK DISPLAYED INTEREST

On November 2, 2020, the SEC published for comment, New York Stock Exchange LLC ("NYSE")- and NYSE American LLC (NYSE American")- (collectively the "Exchanges") proposed rules changes to cancel Add Liquidity Only ("ALO") Orders that lock displayed interest. To effect this change, the Exchanges propose to delete the portion of Rule 7.31 and Rule 7.31E, respectively, providing that an ALO Order that locks displayed interest will be "assigned a working price and display price one minimum price variation ("MPV") below (above) the displayed order on the Exchange Book" and instead provide that such order would be cancelled. The NYSE-proposed rule change also adds two new types of Self Trade Prevention ("STP") modifiers. Currently, the NYSE offers two versions of STP: STP Cancel Newest ("STPN") and STP Cancel Oldest ("STPO"). The NYSE proposes to expand its STP offerings to establish STP Decrement and Cancel ("STPD") and STP Cancel Both ("STPC"). The proposed STPD and STPC offerings are based in part on the STPD and STPC offerings on the NYSE's affiliates NYSE Arca, Inc. ("NYSE Arca"), NYSE American, NYSE Chicago, Inc., and NYSE National, Inc. (collectively, the "Affiliated Exchanges"), with differences to separately describe order processing for orders that are allocated in price-time priority and how STPD and STPC would function consistent with the NYSE's parity allocation model. The proposed functionality is based on the STPD functionality available on the Affiliated Exchanges. The NYSE also proposes to amend current Rule 7.31 to specify that STPD and STPC modifiers would only be available for use with Pillar phase II protocols. Because of the technology changes associated with these proposed rule changes, the Exchanges will announce the implementation date by Trader Update. Subject to approval of these proposed rule changes, the Exchanges anticipate that the proposed changes will be implemented in January 2021.

NYSE: https://www.sec.gov/rules/sro/nyse/2020/34-90309.pdf
NYSE American: https://www.sec.gov/rules/sro/nyseamer/2020/34-90310.pdf

NYSE EXCHANGES REDUCE ACCESS AND REDISTIBUTION FEES

On November 12, 2020, the SEC published for comment NYSE- and NYSE American-proposed rule changes, effective on filing, to (1) amend the fees for NYSE/NYSE American BBO and NYSE Trades by modifying the application of the Access Fee; and (2) amend the fees for NYSE Trades by adopting a waiver applicable to the Redistribution Fee. Specifically, the Exchanges proposed to (1) reduce the Access Fees by more than 93% for Redistributors of NYSE/NYSE American BBO and NYSE Trades that subscribe to only such data feeds and do not subscribe to any other market data product listed on the applicable Exchange's Fee Schedule (other than NYSE BQT for NYSE), and use such market data products for external distribution only; and (2) waive the Redistribution Fee for Redistributors that are eligible for the Per User Access Fee if the Redistributor provides NYSE/NYSE American Trades externally to at least one data feed recipient and reports such recipient to the applicable Exchange. All of the proposed changes would decrease fees for market data on the Exchanges. Collectively, the proposed fee decreases are intended to respond to competition posed by similar products offered by the other exchange groups. The Exchanges proposed to implement these proposed fee changes on January 1, 2021.

NYSE: https://www.sec.gov/rules/sro/nyse/2020/34-90407.pdf
NYSE American: https://www.sec.gov/rules/sro/nyseamer/2020/34-90408.pdf
Comments Due: December 9, 2020

NYSE SHORTENS AWC AND SETTLEMENT OFFER TIME PERIODS

On November 19, 2020, the SEC published for comment, a NYSE-proposed rule change, effective on filing, to shorten the time period before a letter of acceptance, waiver, and consent under Rule 9216 and an uncontested offer of settlement under Rule 9270(f) becomes final and the corresponding time period to request review of these settlements under Rule 9310 from 25 days to 10 days.

Notice Release: https://www.sec.gov/rules/sro/nyse/2020/34-90458.pdf
Comments Due: December 16, 2020

NYSE EXTENDS AMENDED PRICE LIST THROUGH DECEMBER

On November 10, 2020, the SEC published for comment a NYSE-proposed rule change, effective on filing, to amend its Price List to extend through December 2020 the waiver of equipment and related service charges and trading license fees for NYSE Trading Floor-based member organizations implemented for April through October 2020. The Exchange proposed to implement the fee changes effective November 2, 2020.

Notice Release: https://www.sec.gov/rules/sro/nyse/2020/34-90391.pdf
Comments Due: December 8, 2020

NYSE PROPOSES AMENDMENTS TO RULE 7.35

On November 5, 2020, the SEC published for comment a NYSE-proposed rule change to amend Rule 7.35C. NYSE proposes to amend Rule 7.35C (Exchange-Facilitated Auctions) to (1) provide the NYSE authority to facilitate a Trading Halt Auction if a security has not reopened following a Market-wide Circuit Breaker Halt ("MWCB") Halt by 3:30 p.m.; (2) widen the Auction Collar for an Exchange-facilitated Trading Halt Auction following an MWCB Halt; (3) provide that certain Designated Market Maker ("DMM") Interest would not be cancelled following an Exchange-facilitated Auction; and (4) change the Auction Reference Price for Exchange-facilitated Core Open Auctions. On November 10, 2020, the SEC published for comment a related NYSE-proposed rule change to amend Rules 7.35 and 7.35A. In that filing, the NYSE proposed to (1) amend Rule 7.35 to make permanent that the NYSE would disseminate Auction Imbalance Information if a security is an IPO or Direct Listing and has not had its IPO Auction or Direct Listing Auction; and (2) amend Rule 7.35A regarding consultations in connection with an IPO or Direct Listing.

November 5 Notice Release: https://www.sec.gov/rules/sro/nyse/2020/34-90363.pdf
November 10 Notice Release: https://www.sec.gov/rules/sro/nyse/2020/34-90387.pdf
Comments Due: December 8, 2020

NYSE CLARIFIES EXCEPTION TO PRECLUSION OF ORDERS WITH MORE THAN ONE FLOOR BROKER

On November 6, 2020, the SEC published for comment, and approved on an accelerated basis, a NYSE-proposed amendment to NYSE Rule 122 (Orders with More than One Broker), which replaced and superseded the previously proposed rule change in its entirety. The proposal reorganizes the existing rule text into new subsections (a) and (b), which NYSE believes will enhance comprehension of the rule. Additionally, NYSE has proposed Rule Commentary .01 to specify that, for the purposes of Rule 122, sending

to, maintaining with, or using "more than one Floor broker" would mean more than one Floor broker member organization, or two different individual Floor brokers at the same Floor broker member organization. The NYSE also proposed to add Rule Commentary .02 to provide more specificity as to when a member organization's own orders are not presumed to be for the account of the same principal. Proposed Rule Commentary .03 would apply the same concepts to circumstances when a member organization uses more than one Floor broker for multiple orders that it represents on an agency basis. Proposed Rule Commentary .04 would add that notwithstanding Commentary .02(a) and .03(a), that there is a presumption that orders are for the account of the same principal (i.e., not from Independent Units) if the trading strategies are run by the same desk, group, employee(s), or portfolio manager(s); are otherwise overseen or supervised by the same desk, group, employee(s), or portfolio managers; or share capital or roll up to the same profit and loss center.

Notice Release: https://www.sec.gov/rules/sro/nyse/2020/34-90371.pdf

NYSE AMENDS PRICE LIST TO REDUCE FOCUS FEE

On November 2, 2020, the SEC published for comment, a NYSE-proposed rule change, effective on filing, to amend its Price List to reduce the gross FOCUS fee charged to member organizations. Specifically, the NYSE proposed to amend its Price List to reduce the gross FOCUS fee from $0.12 per $1,000 Gross FOCUS Revenue to $0.11 per $1,000 Gross FOCUS Revenue, effective January 1, 2021.

Notice Release: https://www.sec.gov/rules/sro/nyse/2020/34-90307.pdf

NYSE AMERICAN ELIMINATES FLOOR BROKER REBATE PROGRAM

On November 16, 2020, the SEC published for comment a NYSE American-proposed rule change, effective on filing, to amend the Options Fee Schedule ("Fee Schedule") regarding an incentive program for Floor Brokers (the "Rebate"). NYSE adopted the Rebate—a voluntary program—in June 2020 to encourage Floor Broker organizations to execute billable volume on NYSE. However, because the Rebate program was underutilized (and therefore did not achieve its intended effect), NYSE proposed to eliminate the Rebate program from the Fee Schedule.

Notice Release: https://www.sec.gov/rules/sro/nyseamer/2020/34-90433.pdf
Comments Due: December 11, 2020

NYSE AMERICAN MODIFIES OPTIONS FEE REBATES FOR COMPLEX CUSTOMER BEST EXECUTION AUCTION

On November 12, 2020, the SEC published for comment, a NYSE American-proposed rule change, effective on filing, to modify (reduce) the NYSE American Options Fee Schedule ("Fee Schedule") regarding the amount of rebates for initiating a Complex Customer Best Execution ("CUBE") Auction. Section I.G. of the Fee Schedule sets forth the rates for per contract fees and credits for executions associated with Single-Leg and Complex CUBE Auctions. To encourage participants to utilize Complex CUBE Auctions, NYSE American offers rebates and credits on certain initiating Complex CUBE volume. Currently, credits are offered to the Initiating Participant for each contract in a Complex Contra Order paired with a Complex CUBE Order that does not trade with the Complex CUBE Order because it is replaced in the auction. NYSE American offers an

alternative enhanced Initiating Participant credit to ATP Holders that qualify for Tier 5 of the American Customer Engagement Program and also execute more than 1% TCADV in monthly Initiating Complex CUBE Orders --($0.45) per contract for Penny issues and ($0.90) per contract for Non-Penny issues (the "Enhanced Initiating Credit"). NYSE proposed to modify (reduce) the Enhanced Initiating Credit to ($0.38) per contract for Penny issues and ($0.80) per contract for Non-Penny issues.

Notice Release: https://www.sec.gov/rules/sro/nyseamer/2020/34-90410.pdf
Comments Due: December 9, 2020

Notable Enforcement Actions

This month's Notable Enforcement Actions highlight the need for firms to monitor their supervisory systems, including electronic monitoring systems, to ensure they are reasonably designed to detect noncompliance with regulatory requirements and do not contain coding errors or a lack of adequate guidance on how supervisory steps should be conducted, rendering the supervisory systems inadequate.

A firm was fined $2,250,000 for submitting blue sheet responses to FINRA and the SEC that inaccurately reported information concerning trades. The findings stated that certain of the firm's blue sheet responses incorrectly identified the exchanges on which certain options trades were executed because of a coding error. As a result of this error, the firm incorrectly identified the exchange locations for options trades in blue sheet responses to FINRA and the SEC. In addition, the firm's blue sheets incorrectly identified options trades executed on an agency basis as equities trades executed on an agency basis. As a result of this error, the firm incorrectly identified options trades as equity trades on blue sheet responses to FINRA and the SEC. Furthermore, the firm reported incorrect execution times for options and equities trades on blue sheet responses to FINRA and the SEC. These errors occurred because the firm compressed trades in its blue sheet submissions, consolidating multiple trades that were part of the same order for the same account number on the same day with the same price into a single aggregate trade at a single time. **(FINRA Case #2015047010401)**
https://www.finra.org/sites/default/files/fda_documents/2015047010401%20ETRADE%20Securities%20LLC%20CRD%2029106%20AWC%20sl%20%282020-1602289170674%29.pdf

A firm was fined $375,000 and required to establish and implement policies, procedures and internal controls reasonably designed to address and remediate its supervisory system, which was found to be not reasonably designed to detect red flags associated with trading or otherwise assess whether its customers were engaged in unlawful trading activity, such as manipulation of microcap securities and/or the sale of unregistered securities. The findings stated that the firm liquidated low-priced securities for two foreign financial institutions. Some of this trading raised red flags of potential misconduct by the customers engaged in the trading. The firm's Written Supervisory Procedures ("WSPs") did not address manipulation of low-priced securities, did not address the sale of unregistered securities in possible contravention of Section 5 of the Securities Act and did not specify how low-priced security trading was to be reviewed, or how any exception reports would be reviewed or applied. The firm's anti-money laundering (AML) program also failed to reasonably address the risks associated with low-priced securities liquidations for purposes of its obligation to investigate and/or report suspicious activity. After the liquidation of low-priced securities for the two foreign financial institutions was brought to its attention, the firm took corrective actions. The findings also stated that the firm's AML program for its newly acquired clearing business had certain deficiencies in how it tracked (or failed to track) automated clearing house (ACH) transfers, foreign accounts that had common addresses and customers that had previously been blocked by its direct business. The firm failed to include ACH transactions for its customers into its system monitoring for suspicious activity, defined in its applicable AML procedures as patterns of unusual size, volume, or type of transactions. In addition, the firm's system was not initially configured to detect common addresses for its foreign brokerage customers, although it was so configured for domestic accounts, for purposes of risk scoring. Furthermore, the firm's direct brokerage and securities clearing businesses maintained separate systems which identified accounts closed for engaging in potentially suspicious transactions. The firm did not cross-reference accounts on its two internal systems until the issue was brought to its attention during a FINRA exam. **(FINRA Case #2017053820401)**
https://www.finra.org/sites/default/files/fda_documents/2017053820401%20INTL%20FCStone%20Financial%20Inc%20CRD%2045993%20AWC%20sl%20%282020-1602461970848%29.pdf

A firm was fined $90,000 and required to revise its WSPs with respect to Order Audit Trail System (OATSTM) compliance. The findings stated the firm submitted inaccurate or incomplete Reportable Order Events (ROEs) to OATS. The findings stated that the firm transmitted desk reports that contained an inaccurate desk type code and new order type events that failed to report an information barrier ID. The firm submitted desk reports coding its equity retail orders with a desk type code that indicated its trading desk received the relevant orders for execution. However, since all of the orders were sent through the firm's agency desk and routed to other market destinations for execution, the firm should have used the desk type code for agency when reporting these orders to OATS. Additionally, the findings stated that the firm failed to have a reasonably designed supervisory system in place to ensure that it was accurately reporting its OATS data. The firm's WSPs did not require a review of the OATS data submissions to assess the accuracy of the desk type code and information barrier IDs. Although the firm updated its WSPs to include a quarterly OATS review to check the accuracy of its data, the revised WSPs failed to provide reasonable guidance on how the review should be done, including which OATS reporting fields should be checked, how often each data field should be checked, or how the fields should be checked for accuracy. Furthermore, the firm failed to reasonably respond to the OATS reporting deficiencies identified by FINRA. FINRA initially alerted the firm to the desk type code reporting issue. After a number of discussions between the firm, its order submitting organization and FINRA, the firm remediated this issue. Similarly, FINRA notified the firm about the information barrier issue. However, the firm again failed to remediate the issue for all its order flows and order submitting organizations until nearly a year and a half after FINRA alerted it to the issue. **(FINRA Case #2017054220101)**
https://www.finra.org/sites/default/files/fda_documents/2017054220101%20Janney%20Montgomery%20Scott%20LLC%20CRD%20463%20AWC%20sl%20%282020-1602289170575%29.pdf

A firm was fined $75,000 because, although it disclosed generally that it had payment for order flow arrangements with multiple venues to which it routed non-directed orders for execution, it failed to report the material aspects of those relationships. The findings stated that the firm failed to report the payment amounts per share or per order that it received from the venues identified in its quarterly reports published pursuant to SEC Rule 606 promulgated under the Exchange Act. The firm believed, incorrectly, that Rule 606 did not require disclosure on a per share or per order basis of payments received. The findings also stated that the firm's supervisory system, including its WSPs, was not reasonably designed to achieve compliance with Rule 606. The supervisory system lacked any procedures, written or otherwise, that required a review of the accuracy or completeness of the information provided in its quarterly Rule 606 reports, including a review of its payment-for-order-flow disclosures. As such, the firm's supervisory system was not reasonably designed to review for the material aspects as required. **(FINRA Case #2016048614401)**
https://www.finra.org/sites/default/files/fda_documents/2016048614401%20State%20Street%20Global%20Markets%2C%20LLC%20CRD%20285852%20AWC%20sl%20%282020-1601770770971%29.pdf

A firm was fined $48,000 because its supervisory system and pre-trade risk management controls were not reasonably designed to prevent the entry of erroneous orders. The findings stated that the firm applied both general and customer-specific pre-trade erroneous order controls to its order flow. However, the parameters of both the firm's general controls and customer-specific controls were too wide to be reasonably effective in detecting potentially erroneous orders, thus blocking them from being routed to an exchange. Among the pre-trade controls maintained by the firm that were common to all of its customers and designed to take into account the individual characteristics of a security was an average daily volume check, which rejected market orders that exceeded a defined percentage of a security's average daily volume. Another pre-trade control, common to all of the firm's customers, was a price deviation check. This control rejected limit orders greater than a certain percentage away from a security's National Best Bid or Offer (NBBO). Additionally, the firm applied several controls to each customer's order flow: a credit limit; single order size; single order notional value; and order entry rate. The thresholds of these controls

were based on a customer's historical trading activity and were revised quarterly. Although the firm reduced the multiplier for buying power, the maximum order shares and the maximum order notional value for onboarding new clients, these controls were not reasonably designed to prevent erroneous order entry. Furthermore, although the firm regularly reviewed its system of pre-trade controls for those accounts and tightened its order handling controls and procedures on multiple occasions, these limits were not reasonably designed to prevent firm customers from placing orders that greatly exceeded their historical trading patterns, and therefore were not reasonably designed to prevent erroneous order entry. **(FINRA Case #2016049884201)**
https://www.finra.org/sites/default/files/fda_documents/2016049884201%20FIS%20Brokerage%20%26%20Securities%20Services%20LLC%20CRD%20104162%20AWC%20sl%20%282020-1604103569129%29.pdf

A firm was fined $40,000 for lacking a supervisory system, including WSPs, reasonably designed to detect and prevent the firm and its registered representatives from executing pre-arranged transactions. The findings stated that the firm did not have exception reports, trade alerts, or other supervisory mechanisms designed to enable its supervisors to identify potential pre-arranged transactions. Instead, the firm relied on its supervisors to detect and prevent such transactions as part of their daily review of thousands of transactions on trade blotters. Though the firm's automated reviews of its trade blotters flagged some types of prohibited transactions for supervisory review, they did not flag pre-arranged transactions. **(FINRA Case #2018057286802)**
https://www.finra.org/sites/default/files/fda_documents/2018057286802%20Stifel%2C%20Nicolaus%20%26%20Company%2C%20Inc%20CRD%20793%20AWC%20sl%20%282020-1601684371148%29.pdf

A firm was fined $30,000 for failing to demonstrate eligibility of the Exchange Act Rule 15c2-11(f)(2) exception by making a contemporaneous record of information in connection with quotations. The findings stated that the firm required its broker-dealer clients to affirm on a blanket or order-by-order basis that relevant orders sent to it were unsolicited in order to comply with the exception. To affirm on a blanket basis, the firm required each broker-dealer client to execute an unsolicited order letter, kept on file, in which the client represented it would only send unsolicited orders to the firm. Broker-dealer clients that did not execute unsolicited order letters could affirm that orders sent to the firm were unsolicited on an order-by-order basis. The firm’s original client gateway identified certain orders as exceptions where a broker-dealer client did not have an unsolicited order letter and the broker-dealer client populated the solicited flag with a “Y” or left it blank. The original client gateway’s controls prohibited the firm from automatically displaying the orders, flagged the orders as exceptions and required a manual review to ensure they were unsolicited, which was documented on an unsolicited order confirmation log. As a result of an inadvertent logic change, the firm’s new client gateway did not identify as exceptions where a broker-dealer client did not have an unsolicited order letter and the client left the solicited flag field blank. Therefore, the new client gateway treated certain orders as unsolicited and eligible for display. Additionally, in connection with one quotation, the firm’s broker-dealer client cancelled the order prior to the entry of the quote. In connection with another quotation, the firm’s broker-dealer customer’s order was an unsolicited sell order of 1,000 shares, but the posted quotation was for 3,410 shares. The firm, therefore, did not have unsolicited customer orders, either in hand or for the full amount of the quotation, when it published the quotations. The findings also stated that the firm failed to establish and maintain a system to supervise, including WSPs, reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA rules. The process utilized by the firm to achieve compliance with the relevant rules was flawed because it did not flag as exceptions orders with blank solicited flags. The WSPs did not provide any description as to what the actual supervisory review entailed or any steps to be taken by the designated individual to achieve compliance with FINRA Rule 6432. **(FINRA Case #2017053653101)**

https://www.finra.org/sites/default/files/fda_documents/2017053653101%20Citadel%20Securities%20LLC%20CRD%20116797%20AWC%20va%20%282020-1601770771209%29.pdf

A firm was fined $25,000 for selling returned shares at the initial public offering (IPO) price to certain investors who did not have unfilled orders as required. The findings stated that an issuer engaged the firm as lead placement agent in connection with the IPO. The offering satisfied both the share and listing contingencies and the transaction closed. After the closing, the firm realized that the offering exceeded the maximum share cap and began contacting investors to reduce the number of shares allocated to them. Subsequently, 17 investors agreed to reduce their subscription amounts. After secondary trading had begun, shares were returned to the firm as a result of trade cancellations and other returns. Instead of offering those shares to the investors with unfilled orders pursuant to a random allocation methodology as required, the firm sold the shares to two other investors. As a result, the two investors received an instant profit of $30,428.75. The findings also stated that the firm failed to provide the required trade confirmations to any of the investors who purchased shares in the best-efforts offering. **(FINRA Case #2016051318601)**
https://www.finra.org/sites/default/files/fda_documents/2016051318601%20ViewTrade%20Securities%2C%20Incorporated%20CRD%2046987%20AWC%20sl%20%282020-1602461970682%29.pdf