

NASDAQ GEMX, LLC
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20180580170-02

TO: Nasdaq GEMX, LLC
c/o Department of Enforcement
Financial Industry Regulatory Authority (“FINRA”)

RE: Global Execution Brokers, LP, Respondent
Broker-Dealer
CRD No. 126407

Pursuant to Rule 9216 of the Nasdaq GEMX, LLC (“GEMX”) Code of Procedure,¹ Global Execution Brokers, LP (“GEB” or the “Firm”) submits this Letter of Acceptance, Waiver and Consent (“AWC”) to GEMX, (“GEMX” or the “Exchange”), for the purpose of proposing a settlement of the alleged rule violations described below. This AWC is submitted on the condition that, if accepted, GEMX will not bring any future actions against the Firm alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

A. The Firm 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 GEMX, or to which GEMX 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 GEMX:

BACKGROUND

GEB has been a member of GEMX since July 2013. GEB is a broker-dealer registered with the Securities and Exchange Commission (“SEC”) located in Bala Cynwyd, Pennsylvania. The Firm has 28 registered representatives and no branches. GEB operates solely as an agency broker for other broker-dealers. The Firm has no relevant disciplinary history.

SUMMARY

This matter arose from an investigation conducted by FINRA relating to GEB’s execution of an options order on March 21, 2018. The investigation found that from March 2018 through November 2021 (the “Relevant Period”), GEB violated Rule 15c3-5 of the Securities Exchange Act of 1934 by failing to establish, document, and maintain a system of risk management controls reasonably designed to prevent the entry of erroneous orders. During the same period, GEB violated GEMX Rules 400 and 401 (for

¹ Series 9000 of The Nasdaq Stock Market, LLC (“Nasdaq”) Rules are incorporated by reference into Nasdaq GEMX General 5, Section 3, and are thus Nasdaq GEMX Rules and thereby applicable to Nasdaq GEMX Members, Associated Persons, and other persons subject to Nasdaq GEMX’s jurisdiction.

conduct prior to June 27, 2019) and Options 9, Sections 1 and 2 (for conduct on and after June 27, 2019)² by failing to establish and maintain a system of supervisory controls, including written procedures, reasonably designed to achieve compliance with (1) Exchange Act Rule 15c3-5 and (2) GEMX rules relating to the post-trade review of potentially erroneous orders.

FACTS AND VIOLATIVE CONDUCT

Applicable Rules

1. Exchange Act Rule 15c3-5(b) requires a broker-dealer with market access to “establish, document, and maintain a system of risk management controls and supervisory procedures reasonably designed to manage the financial, regulatory, and other risks of this business activity.”³
2. Exchange Act Rule 15c3-5(c)(1)(ii) specifically requires that a broker-dealer’s system of risk management controls and supervisory procedures must be 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.” In the Rule’s adopting release, the SEC provided as an example of a reasonable control: “a system-driven, pre-trade control designed to reject orders that are not reasonably related to the quoted price of the security.”⁴
3. GEMX Rule 401 states, “[n]o Member shall engage in conduct in violation of the Exchange Act, the By-Laws or the Rules of the Exchange, or the Rules of the Clearing Corporation insofar as they relate to the reporting or clearance of any Exchange Transaction, or any written interpretation thereof. Every Member shall so supervise persons associated with the Member as to assure compliance therewith.” Effective June 27, 2019, GEMX Rule 401 was relocated to Options 9, Section 2.
4. GEMX Rule 400 prohibits members from “engag[ing] in acts or practices inconsistent with just and equitable principles of trade.” Effective June 27, 2019, GEMX Rule 400 was relocated to Options 9, Section 1.

² As of June 27, 2019, GEMX Rules 400 and 401 were relocated to GEMX Options 9 which incorporates by reference Nasdaq ISE Options 9, Sections 1 and 2, respectively.

³ GEB is subject to Exchange Act Rule 15c3-5 because it is a broker with market access to GEMX as well as other option exchanges. The Rule defines market access as “[a]ccess to trading in securities on an exchange or alternative trading system as a result of being a member or subscriber of the exchange or alternative trading system, respectively.”

⁴ *Risk Management Controls for Brokers or Dealers with Market Access*, SEC Release No. 34-63241, at 11 (November 3, 2010).

Facts

5. On March 21, 2018, at 3:58:27 p.m., GEB received a market order to purchase 5,000 call option contracts in ABC⁵ (the “Order”) on behalf of one of its broker-dealer clients.
6. The Order did not breach the pre-order entry market access risk controls that the Firm had in place for its broker dealer-client in March 2018. The Order, however, was automatically routed to an options exchange, whereupon it received multiple partial executions at increasing price levels until the exchange rejected back to GEB the unfilled balance, which was then automatically routed to another exchange. The next exchange likewise executed the Order at increasing price levels until it likewise rejected back to GEB the unfilled balance. The Order was again automatically routed to another exchange, and this partial execution and rejection process continued across multiple exchanges until one exchange posted the unfilled balance as a bid, which was executed at 3:59:49 p.m., thereby completing the order. This automated activity resulted in an aggregate of nearly 500 transactions (collectively, the “Trade”) and an overall price increase of roughly 312%—from the first execution price of \$12.39 to \$38.70. The Trade was executed across 15 option exchanges, including GEMX.
7. At 3:59 p.m. and 4:00 p.m., GEB’s systems generated “Possible Bad Fill” emails alerting the GEB client service desk to potential execution quality issues for the Trade. This alert is generated when, among other things, partial executions of a market order are effected at prices that are a designated margin away from the quoted market at the time the order was received.
8. Although the balance of the Order was rejected by multiple exchanges following their respective partial executions, the Firm’s order management system did not maintain a control recognizing this fact and kept re-entering the Order until it was completely filled.
9. At around 4:13 p.m., GEB’s broker-dealer client advised GEB’s client service desk that the customer had mistakenly placed the Order and that “[h]e is looking to see if he can get any help out of it at all.”
10. At that time, the relevant exchanges, including GEMX, permitted broker-dealers to request one of two types of relief in response to an erroneous order—a broker-dealer could request review of the trade as an “Obvious Error” or “Catastrophic Error.” If the exchanges deemed a transaction an Obvious Error, then the trade could be busted. Alternatively, if the exchanges deemed a transaction a Catastrophic Error, the relief was an adjustment of the execution price (and not a

⁵ A generic identifier has been used in place of the name of the relevant option series.

bust of the trade).⁶

11. The relevant exchanges, including GEMX, required that requests for Obvious Error review be submitted within 30 minutes of the trade's execution. The deadline for a Catastrophic Error review was longer—here, GEB had until 8:30 a.m. on the following trading day to request such a review.
12. Only one member of GEB's client service desk remained after 4:00 p.m. on March 21, 2018, as all others left the office due to a severe snowstorm. At or around the time that GEB's broker-dealer client alerted GEB to the potentially erroneous trade, GEB's client service desk representative was aware that one of the counterparties to the Trade was a GEB affiliate.
13. GEB's client service representative had until around 4:29 p.m. to request Obvious Error reviews of the Trade.
14. At that time, and throughout the Relevant Period, GEB had no formal training, procedures, or other guidance regarding how to handle an erroneous order review when a GEB affiliate was a counterparty to such transaction, or any written supervisory procedure to review for the proper handling of potentially erroneous transactions.
15. On March 21, 2018, with the 30-minute deadline approaching, the GEB representative did not attempt to contact his supervisor for assistance. Instead, he sought guidance from an on-site risk manager who worked for the affiliate.
16. Ultimately, GEB did not submit the Trade for review as an Obvious Error within the 30-minute deadline. At around 4:49 p.m., GEB began filing Catastrophic Error review requests with the relevant exchanges.⁷
17. In response to GEB's Catastrophic Error submission, the relevant exchanges adjusted the execution prices on 3,864 contracts of the Trade to a price of \$21.85.⁸

Violations of Exchange Act Rule 15c3-5, and GEMX Rules 400 and 401 and Options 9, Sections 1 and 2

18. During the Relevant Period, GEB did not establish, document, and maintain a system of risk management controls and supervisory procedures reasonably designed to prevent the entry of erroneous orders. As set forth above, by allowing

⁶ A transaction determined to be a Catastrophic Error could be busted if the adjusted execution price was higher (for buy transactions) or lower (for sell transactions) than the customer's limit price.

⁷ Among the circumstances involved were that the Trade involved a significant number of individual transactions (almost 500 executions across 15 options exchanges) and the reduction of human resources due to a severe snowstorm that left only one client service desk representative available to review the Trade and assess whether the transactions qualified for erroneous order relief.

⁸ GEB subsequently contributed to a settlement between its broker-dealer client and the retail customer relating to the Trade.

the Order to be re-submitted a number of times after being rejected by multiple exchanges, the Firm's market access controls were not reasonably designed to prevent the entry of erroneous options market orders.

19. As a result, GEB violated Exchange Act Rules 15c3-5(b) and 15c3-5(c)(1)(ii), and GEMX Rules 400 and 401 and Options 9, Sections 1 and 2.

20. During the Relevant Period, GEB also failed to establish, maintain, enforce, and keep current a system of supervisory controls reasonably designed to supervise the Firm's client service desk and the process for reviewing potentially erroneous transactions. As set forth above, GEB did not have formal training, procedures, or other guidance regarding how to handle an erroneous order review when a GEB affiliate was a counterparty to such transaction, or any written supervisory procedure to review for the proper handling of potentially erroneous transactions.

21. As a result, GEB violated GEMX Rules 400 and 401 and Options 9, Sections 1 and 2.

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

1. Censure;
2. A total fine in the amount of \$150,000 (\$10,000 payable to GEMX);⁹ and
3. An undertaking requiring that GEB will provide a certification that it has developed and implemented controls and procedures reasonably designed to address the deficiencies described above. Within 60 calendar days of the notice of acceptance of this AWC, a registered principal of the firm shall submit to Compliance Assistant, FINRA Department of Enforcement, 15200 Omega Drive, Third Floor, Rockville, MD 20850, a signed, dated letter, or an email from a work-related account of the registered principal to EnforcementNotice@FINRA.org, providing the following information: (i) a reference to this matter; and (ii) the above-referenced certification.

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 Payment Information form showing the method by which it proposes to 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 sanctions imposed herein shall be effective on a date set by FINRA staff.

II.

⁹ The remainder of the fine shall be allocated to Nasdaq ISE, LLC, Nasdaq BX, Inc., Nasdaq MRX, LLC, Nasdaq Options Market LLC, Nasdaq Phlx LLC, NYSE American LLC, NYSE Arca, Inc., Cboe C2 Exchange, Inc., Cboe Exchange, Inc., Cboe EDGX Exchange, Inc., Cboe BZX Exchange, Inc., BOX Exchange LLC, the Miami International Securities Exchange, LLC, and MIAX PEARL, LLC for similar violations.

WAIVER OF PROCEDURAL RIGHTS

The Firm specifically and voluntarily waives the following rights granted under GEMX'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 Exchange Review Council 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, the Exchange Review Council, or any member of the Exchange 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.

The Firm 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

The Firm 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 Exchange Review Council, the Review Subcommittee, or the Office of Disciplinary Affairs ("ODA"), pursuant to GEMX 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 Firm; and

- C. If accepted:
1. This AWC will become part of the Firm's permanent disciplinary record and may be considered in any future actions brought by GEMX or any other regulator against the Firm;
 2. GEMX may release this AWC or make a public announcement concerning this agreement and the subject matter thereof in accordance with GEMX Rule 8310 and IM-8310-3;¹⁰ and
 3. 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 GEMX, or to which GEMX is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects the Firm's right to take legal or factual positions in litigation or other legal proceedings in which GEMX is not a party.
- D. 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. This Statement does not constitute factual or legal findings by GEMX, nor does it reflect the views of the Exchange or its staff.

¹⁰ Series 8000 of Nasdaq Rules are incorporated by reference into Nasdaq GEMX General 5, Section 2, and are thus Nasdaq GEMX Rules and thereby applicable to Nasdaq GEMX Members, Associated Persons, and other persons subject to Nasdaq GEMX's jurisdiction.

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.

September 22, 2022
Date

Global Execution Brokers, LP
Respondent

By: Brian Sopinsky

Name: Brian Sopinsky

Title: Assistant Secretary

Reviewed by:
Michael D. Wolk

Michael D. Wolk
Counsel for Respondent
Sidley Austin LLP
1501 K Street, N.W.
Washington, DC 20005

Accepted by GEMX:
September 23, 2022

Date

Jeffery Ding

Jeffery Ding
Counsel
FINRA Department of Enforcement

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