

**NYSE ARCA, INC.**  
**LETTER OF ACCEPTANCE, WAIVER, AND CONSENT**  
**NOS. 2018-10-00071 & 2019-11-00056**

TO: NYSE Arca, Inc.

RE: Student Options, LLC, Respondent  
CRD No. 31626

**On November 5, 2019, Student Options, LLC (“Student” or the “Firm”) violated NYSE Arca Rule 11.1 by failing to provide the material elements of a customer order to the trading crowd prior to informing the customer that the order had been announced. On September 18 and October 17, 2018, the Firm violated NYSE Arca Rule 6.47-O by failing to request a two-sided market prior to crossing a customer-to-customer order on the NYSE Arca floor. Finally, during the period of November 5, 2019 to present, the Firm violated NYSE Arca Rule 11.18 by failing to establish and maintain written supervisory procedures (“WSPs”) and a supervisory system reasonably designed to achieve compliance with applicable laws, rules, and regulations regarding the representation of customer orders in the trading crowd. Consent to a censure, a \$20,000 fine, and an undertaking.**

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Pursuant to Rule 10.9216 of the NYSE Arca, Inc. (“NYSE Arca” or the “Exchange”) Code of Procedure, Student 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, NYSE Arca will not bring any future actions against the Firm alleging violations based on the same factual findings described herein.

**I. ACCEPTANCE AND CONSENT**

- A. Student 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 NYSE Arca, or to which NYSE Arca 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 NYSE Arca:

**BACKGROUND AND JURISDICTION**

1. The Firm became registered as an Options Trading Permit Holder (“OTP Holder”) with NYSE Arca on January 16, 2004. The Firm conducts business as a floor broker on the NYSE Arca trading floor in San Francisco, California.

## VIOLATIONS

### *Failure to Properly Announce Customer Order*

2. One of the functions of a floor broker is to handle facilitated and solicited crosses on the floor for its customers. A key element of the handling of a cross is the disclosure to the trading crowd of the material elements of the order prior to its execution. *See* NYSE Arca Rule 6.47-O(b) (Facilitation Procedure) (“The Agency Order shall first be represented in the trading crowd by public outcry, at which time the price, size and all components of the Agency Order shall be disclosed”); NYSE Arca Rule 6.47-O(c) (Crossing of Solicited Orders) (“The Original Order shall first be represented in the trading crowd by public outcry, at which time the size and all components of the Original Order shall be disclosed.”).
3. Additionally, to the extent that a floor broker’s customer (or its customer’s customer) intends to hedge an order, that hedging can only begin once “[a]ll the terms and conditions of the originating order . . . are disclosed to the trading crowd.” NYSE Arca Rule 6.49-O(b).<sup>1</sup> Customers that intend to hedge a cross being handled by a floor broker typically request that the floor broker inform them by phone or instant message that the order has been announced so that they can begin hedging. Because the customer is prohibited from hedging until an order has been announced but has no first-hand knowledge of when that actually occurs, it is critical that a floor broker only inform a customer that an order has been announced after the material terms and conditions have been disclosed to the crowd. *See* NYSE Arca Options Regulatory Bulletin 20-01, *Obligations of OTP and ATP Holders Acting as Floor Brokers* (“A Floor Broker may be found in violation of Exchange rules if, prior to [vocalizing the terms and conditions of the order], the Floor Broker informs its client that its order is ‘announced’ or ‘represented.’”).
4. On November 5, 2019, a Student clerk informed one of the Firm’s customers that a facilitated cross order had been announced, despite the fact that the floor broker handling the order failed to convey an exact price and/or quantity of the order to the trading crowd in open outcry. The Firm floor broker did not provide a definite price and quantity to the trading crowd until approximately six minutes after the Firm

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<sup>1</sup> NYSE Arca Rule 6.49-O(b) provides in full that “It will be considered conduct inconsistent with just and equitable principles of trade for any OTP Holder or OTP Firm or person associated with a OTP Holder or OTP Firm, who has knowledge of all material terms and conditions of an originating order, a solicited order, or a facilitation order, the execution of which are imminent, to enter, based on such knowledge, an order to buy or sell an option on the underlying securities of any option that is the subject of the order, or an order to buy or sell the security underlying any option that is the subject of the order, or any order to buy or sell any related instrument until either: 1) All the terms and conditions of the originating order and any changes in the terms or conditions of the order of which the OTP Holder or OTP Firm or person associated with the OTP Holder or OTP Firm has knowledge are disclosed to the trading crowd, or 2) The trade can no longer reasonably be considered imminent in view of the passage of time since the order was received.”



informed its customer that the order had been announced.

5. The Firm also failed to implement WSPs or a supervisory system reasonably designed to ensure that its customers are only informed that an order has been announced after all of the material terms of the customer order have been properly conveyed to the trading crowd.
6. Accordingly, the Firm violated NYSE Arca Rule 11.1(b), which requires that members “shall at all times adhere to the principles of good business practice in the conduct of its or their business affairs.”
7. The Firm further violated NYSE Arca Rule 11.18, which requires that members “establish and maintain a system to supervise the activities of its associated persons and the operations of its business . . . reasonably designed to ensure compliance with applicable federal securities laws and regulations and NYSE Arca Rules,” and “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 ensure compliance with applicable federal securities laws and regulations, and with the NYSE Arca Rules.”

*Failure to Request a Two-Sided Market*

8. NYSE Arca Rule 6.47-O(e) requires that a floor broker attempting to cross an order customer-to-customer “must request bids and offers for the option series involved and make the trading crowd and the Trading Official aware of the request for a market via open outcry.” After asking for a two-sided market (*i.e.*, requesting both bids and offers), the floor broker “must bid above the highest bid in the crowd, and offer below the lowest offer in the crowd,” and may then announce “by open outcry that he is crossing orders on behalf of Customers, and giving the quantity and price. . . .”
9. On September 18 and October 17, 2018, a Student employee failed to properly request a two-sided market before crossing a customer-to-customer order.
10. In both instances, other Exchange members and/or Exchange officials pointed out that the trade had not been properly announced. In one instance, the order was ultimately executed on another exchange floor, and in the other instance, the trade was executed again on the NYSE Arca floor at the same price after being re-announced in the crowd.
11. Accordingly, on at least two instances, the Firm violated NYSE Arca Rule 6.47-O.

**RELEVANT PRIOR DISCIPLINARY HISTORY**

12. On July 18, 2019, the Firm was issued a Cautionary Action Letter by NYSE Regulation for violations of NYSE Arca Rules 6.67-O(c) (Order Format and System

Entry Requirements) and 11.1(b) (Adherence to Law and Good Business Practice) arising from one instance where it informed a customer that an order had been announced prior to that order being recorded in the Exchange's Electronic Order Capture System.

### **SANCTIONS**

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

**1. Censure and fine in the amount of \$20,000**

The Firm agrees to pay the monetary sanction(s) upon notice that this AWC has been accepted and that such payment(s) are due and payable. The Firm has submitted a Method of Payment Confirmation form showing the method by which it will 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(s) imposed in this matter.

The Firm agrees that it shall not seek or accept, directly or indirectly, reimbursement or indemnification from any source, including but not limited to payment made pursuant to any insurance policy, with regard to any fine amounts that the Firm pays pursuant to this AWC, regardless of the use of the fine amounts. The Firm further agrees that it shall not claim, assert, or apply for a tax deduction or tax credit with regard to any federal, state, or local tax for any fine amounts that the Firm pays pursuant to this AWC, regardless of the use of the fine amounts.

**2. Undertaking**

Within 90 days of the execution of this AWC (or such other time as may be mutually agreed to with NYSE Regulation staff), the Firm agrees to provide: 1) a certification that the Firm has revised its written supervisory procedures and supervisory systems to address the deficiencies described in paragraphs 2 through 7 above; and 2) the date the revised procedures were implemented.

The sanctions imposed herein shall be effective on a date set by NYSE Regulation staff.

## **II. WAIVER OF PROCEDURAL RIGHTS**

The Firm specifically and voluntarily waives the following rights granted under the NYSE Arca 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's Board of Directors 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 of NYSE Arca; the Exchange's Board of Directors, Disciplinary Action Committee ("DAC"), and Committee for Review ("CFR"); any Director, DAC member, or CFR member; Counsel to the Exchange Board of Directors or CFR; any other NYSE Arca employee; or any Regulatory Staff as defined in Rule 10.9120 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 communication prohibitions of Rule 10.9143 or the separation of functions prohibitions of Rule 10.9144, 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 by NYSE Regulation, and accepted by the Chief Regulatory Officer of NYSE Arca pursuant to NYSE Arca Rule 10.9216;
- 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. The AWC shall be sent to each Director and each member of the Committee for Review via courier, express delivery or electronic means, and shall be deemed final and shall constitute the complaint, answer, and decision in the matter, 25 days after it is sent to each Director and each member of the Committee for Review, unless review by the Exchange Board of Directors is requested pursuant to NYSE Arca Rule 10.9310(a)(1)(B);
  - 2. This AWC will become part of the Firm's permanent disciplinary record and may be considered in any future actions brought by the Exchange, or any other regulator against the Firm;

3. NYSE Arca shall publish a copy of the AWC on its website in accordance with NYSE Arca Rule 10.8313;
  4. NYSE Arca may make a public announcement concerning this agreement and the subject matter thereof in accordance with NYSE Arca Rule 10.8313; and
  5. 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 the Exchange, or to which the Exchange is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects the Firm's (i) testimonial obligations; or (ii) right to take legal or factual positions in litigation or other legal proceedings in which the Exchange is not a party.
- D. A signed copy of this AWC and the accompanying Method of Payment Confirmation form delivered by email, facsimile or other means of electronic transmission shall be deemed to have the same legal effect as delivery of an original signed copy.
- E. 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. Any such statement does not constitute factual or legal findings by the Exchange, nor does it reflect the views of NYSE Regulation or its staff.


The Firm certifies that, in connection with each of the Exchange's requests for information in connection with this matter, the Firm made a diligent inquiry of all persons and systems that reasonably had possession of responsive documents and that all responsive documents have been produced. In agreeing to the AWC, the Exchange has relied upon, among other things, the completeness of the document productions.

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.

9-15-20  
Date

Student Options, LLC,  
Respondent


By:   
Steven D. Student  
President

Reviewed by:

  
Derek N. Lacarrubba, Esq.  
Schulte Roth & Zabel LLP  
919 Third Avenue  
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(212) 756-2000  
Counsel for Respondent

Accepted by NYSE Regulation

9/16/2020  
Date

  
William R. Vanderveer  
Regulatory Attorney  
NYSE Regulation

Signed on behalf of NYSE Arca, Inc., by  
delegated authority from its Chief  
Regulatory Officer