

**FINANCIAL INDUSTRY REGULATORY AUTHORITY  
LETTER OF ACCEPTANCE, WAIVER AND CONSENT  
NO. 2016050185301**

TO: Department of Enforcement  
Financial Industry Regulatory Authority (“FINRA”)

RE: Jefferies LLC, Respondent  
CRD No. 2347

Pursuant to FINRA Rule 9216 of FINRA’s Code of Procedure, Respondent Jefferies LLC (“Jefferies” or the “Firm”) 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, FINRA will not bring any future actions against Jefferies alleging violations based on the same factual findings described herein.

**I.**

**ACCEPTANCE AND CONSENT**

- A. Jefferies 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 FINRA, or to which FINRA 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 FINRA:

**BACKGROUND**

Jefferies has been a FINRA member firm since March 1, 1963. The Firm, which is headquartered in New York City, employs approximately 1,600 registered representatives that transact business from over 20 branch offices. Jefferies conducts a full-service securities and investment banking business for institutional and high net-worth retail customers.

**RELEVANT DISCIPLINARY HISTORY**

The Firm has no relevant disciplinary history.

**OVERVIEW**

During the periods July 2013 through March 2016, and May 22, 2015 through June 8, 2015, the Firm violated Section 15(c) of the Securities Exchange Act of 1934 (“SEA”), Rule 15c3-3(b) thereunder, and FINRA Rule 2010, by failing to hold customer fully-paid and excess margin securities in good control locations. In addition, from July 2013 to July 2016, the Firm violated NASD Rules 3010(a) and 3010(b) and FINRA Rules 3110(a), 3110(b), and 2010 by failing to establish,

maintain, and enforce a supervisory system and written procedures that were reasonably designed to achieve compliance with the possession or control requirements of SEA Section 15(c) and SEA Rule 15c3-3.

## **FACTS AND VIOLATIVE CONDUCT**

### **A. Customer Protection Rule**

Section 15 of the SEA and SEA Rule 15c3-3-(b)(1) thereunder require broker-dealers to promptly obtain and thereafter maintain physical possession or control of all fully-paid and excess margin securities they carry for the accounts of customers. This requirement, known as the Customer Protection Rule, requires broker-dealers to protect securities that customers leave in a firm's custody. The Customer Protection Rule is intended to protect customer funds and securities from misuse and ensure that customer assets will be available for distribution in the event that a broker-dealer becomes insolvent.

Securities are considered to be under a broker-dealer's control if they are held in locations designated under SEA Rule 15c3-3(c) and held free of liens or any other interest that could be exercised by a third-party. For customers' foreign securities in foreign locations, sub-part 4 of SEA Rule 15c3-3(c) provides that certain foreign depositories are good control locations. As stated in SEC Release No. 34-10429 (Oct. 12, 1973), foreign securities in the custody of foreign depositories will be deemed to be in satisfactory control locations and in the control of the broker-dealer provided that (1) they are "not subject to any right, charge, security interest, lien or claim of any kind in favor of the foreign entity except for their safe custody or administration" and (2) the "beneficial ownership of such securities is freely transferable without the payment of money or value other than for safe custody or administration."

#### **i. Greece Clearance Account**

From July 2013 through March 2016, the Firm held fully-paid and excess margin securities belonging to four Firm customers in a clearance account at a foreign depository in Greece (the "Greece Clearance Account"). All of the securities held in the Greece Clearance Account were subject to a general lien by the Greece foreign depository, rather than a lien limited for their particular safe custody or administration. However, the Firm did not take steps to determine whether such a lien existed, did not identify the lien until August 2015, and did not transfer the last customer's fully-paid securities from the clearance account to an appropriate segregation account until March 2016.

#### **ii. Spain Clearance Account**

From March 2015 through February 2016, the Firm held customer fully-paid and excess margin securities in a clearance account at a foreign depository in Spain (the "Spain Clearance Account"). The securities held in the Spain Clearance

Account were subject to a lien by the Spanish foreign depository, its agents or creditors, if there were claims of payment for the purchase price, safe custody or administration of the securities in the account. On three days between March 2015 and May 2015, there were claims for payment of the purchase price of some of the securities in the account. However, the Firm did not take steps to determine whether a lien existed and did not identify the lien.

### **iii. Deficits in Customer Securities**

From May 22, 2015 to June 8, 2015, the Firm failed to promptly transfer approximately 28 million shares of 63 different customer fully-paid and excess margin securities from 14 foreign clearance accounts that were not good control locations to foreign segregation accounts. To obtain possession or control, the Firm generated a daily report that identified instances in which foreign securities needed to be transferred to foreign segregation accounts in order to obtain physical possession or control of the securities (the "Report"). The Firm tasked operations personnel located at one of the Firm's foreign affiliates (the "Affiliate Personnel") with reviewing the Report manually and transferring the securities as necessary. The Affiliate Personnel did not promptly make the necessary transfers for these 63 securities. Even though the Firm's U.S.-based operations department was ultimately responsible for the Firm's compliance with the Customer Protection Rule, the Firm did not establish a process for that department to review the Affiliate Personnel's work. These errors resulted in deficits in the customer securities the Firm was required to segregate. The Firm did not correct the deficits for periods ranging from 2 days to 12 days.

By reason of the foregoing, the Firm violated SEA Section 15(c) and Rule 15c3-3(b) promulgated thereunder and FINRA Rule 2010.

## **B. Supervision**

From July 2013 until July 2016, the Firm failed to establish, maintain, and enforce a supervisory system and written supervisory procedures reasonably designed to ensure compliance with the possession or control requirements of the Customer Protection Rule for customer securities held at foreign depositories.

From July 2013 to July 2016, the Firm unreasonably failed to instruct or establish written procedures requiring the staff responsible for opening accounts at foreign depositories to perform due diligence or obtain and retain written documentation to verify whether the foreign depository was a satisfactory control location. As a result, for 17 foreign depositories at which the Firm held customer fully paid and excess margin securities during the period May 22, 2015 through June 8, 2015, the Firm could not locate contemporaneous documentation reflecting that those foreign depositories met the criteria for satisfactory control locations.

In addition, from May 2015 to November 2015, the Firm failed to reasonably supervise the Affiliate Personnel responsible for manually reviewing the Report

and transferring foreign securities to segregation accounts. For example, the Firm did not establish any process or procedure for the U.S.-based department that was responsible for the Firm's compliance with the Customer Protection Rule to verify that the Affiliate Personnel were correctly transferring securities as required to comply with the Customer Protection Rule, until revising its procedures during November 2015.

By reason of the foregoing, the Firm violated NASD Rules 3010(a) and 3010(b) and FINRA Rules 3110(a), 3110(b), and 2010.<sup>1</sup>

B. Jefferies also consents to the imposition of the following sanctions:

- Censure and
- A fine in the amount of \$150,000.

Jefferies agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. Jefferies has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

Jefferies 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.

### WAIVER OF PROCEDURAL RIGHTS

Jefferies specifically and voluntarily waives the following rights granted under FINRA's Code of Procedure:

- A. To have a Complaint issued specifying the allegations against me;
- B. To be notified of the 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 National Adjudicatory Council ("NAC") and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

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<sup>1</sup> NASD Rule 3010 was in effect prior to December 1, 2014. FINRA Rule 3110 superseded NASD Rule 3010 effective December 1, 2014.

Further, Jefferies specifically and voluntarily waives any right to claim bias or prejudice of the Chief Legal Officer, the NAC, or any member of the NAC, 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.

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

Jefferies 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 the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs ("ODA"), pursuant to FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against me; and
- C. If accepted:
  - 1. this AWC will become part of Jefferies's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against Jefferies;
  - 2. this AWC will be made available through FINRA's public disclosure program in accordance with FINRA Rule 8313;
  - 3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and
  - 4. Jefferies 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. Jefferies may not take any position in any proceeding brought by or on behalf of FINRA, or to which FINRA is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects Respondent's: (i) testimonial obligations; or (ii) right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.

- D. Jefferies may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Jefferies 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 FINRA, nor does it reflect the views of FINRA 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 its 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.

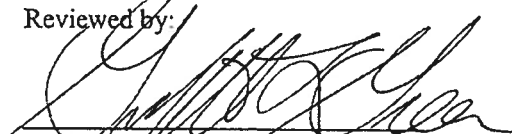
12/6/2017  
Date (mm/dd/yyyy)

\_\_\_\_\_  
Respondent Jefferies LLC

By: 

Title: Managing Director, legal

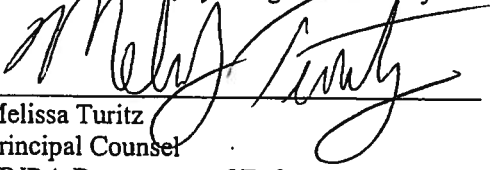
Reviewed by:

  
Griffith Green  
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Accepted by FINRA:

1/16/2018  
Date

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

  
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