

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT**

NO. 20130362579-01

TO: Department of Market Regulation
Financial Industry Regulatory Authority ("FINRA")

RE: Archipelago Trading Services, Inc., Respondent
Broker-Dealer
CRD No. 15853

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Archipelago Trading Services, Inc. (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 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 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

The firm became a member of FINRA in 1985, and its registration remains in effect. The firm has no relevant disciplinary history.

SUMMARY

In connection with matter 20130362579, the Short Sales Team of the Department of Market Regulation (the "Short Sales staff") reviewed the firm's compliance with trade reporting rules, including FINRA Rule 7330(d) from January 1, 2012 through December 31, 2013 (the "review period"). Based on their review, the Short Sales staff found trade reporting violations and related supervisory violations.

OVERVIEW

The firm operates ArcaEdge, an alternative trading system (“ATS”) that facilitates transactions in over-the-counter (“OTC”) equity securities either by matching orders from its subscribers, FINRA member broker-dealers, or by routing orders to OTC Markets via OTC Link for execution. During the review period, the firm had a total of 396 subscribers, of which 389 had executed a Uniform Service Bureau/Executing Broker Agreement (“USB agreement”) with the firm. Pursuant to the USB agreement, the firm had the responsibility to report trades executed both on ArcaEdge and via OTC Link to the OTC Reporting Facility (“ORF”) on behalf of its subscribers.

The firm routes subscriber orders to OTC Markets to access a posted bid/ask quote. When the firm routes a buy order received from a subscriber to OTC Markets, the firm may interact via OTC Link with another one of its subscribers. When such interaction occurs with a subscriber with whom the firm has a USB agreement and it results in the execution of a trade, the firm has the responsibility to report the trade to the ORF on behalf of both the buyer and the seller. The firm, however, did not ascertain if the seller with whom it had a USB agreement was selling short and reported all trades that match the scenarios described above as long sales. Accordingly, the Short Sale staff’s review revealed that when the firm represented both the buy and sell side of a trade communicated via OTC Link, when routing a buy order to interact with a displayed offer on OTC Link, the firm always reported the sell side as long to the ORF. The reporting issue came to the attention of the firm in July 2010, but the steps the firm took to correct the issue were insufficient, and the issue was not resolved until 2014 – well after the initiation of the review in this matter.

Short Sales staff also determined that the firm failed to take appropriate and timely supervisory action to address the trade reporting issues described above. Additionally, Short Sales staff determined that the steps set forth in the firm’s Written Supervisory Procedures were not reasonably designed to achieve compliance with the rules concerning trade report input.

SUMMARY OF FINDINGS

During the review period, the firm effected 62,673 short sale transactions and failed to report each of these transactions to the OTC Reporting Facility with a short sale modifier in violation of FINRA Rule 7330(d). Given that the firm knew about the problem for more than three years, but failed to correct its reporting problem, the firm’s supervisory system did not provide for supervision reasonably designed to achieve compliance with respect to the FINRA rules regarding trade report input. Additionally, the steps set forth in the firm’s Written Supervisory Procedures were not reasonably designed to achieve compliance with the rules concerning trade report input.

FACTS AND VIOLATIVE CONDUCT

1. During the review period, the firm operated ArcaEdge, an ATS that facilitated transactions in OTC equity securities either by matching orders from its subscribers, FINRA member broker-dealers, or by routing orders to OTC Markets via OTC Link for

execution. Pursuant to USB agreements with its subscribers, the firm had the responsibility to accurately report trades executed both on ArcaEdge and via OTC Link to the OTC Reporting Facility on behalf of its subscribers. The firm reported all such trades as long sales. Consequently, during the review period, the firm effected 62,673 short sale transactions and failed to report each of these transactions to the OTC Reporting Facility with a short sale modifier. The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rule 7330(d).

2. In addition, the firm was aware of the trade reporting violations described above in paragraph A.1 from at least July 2010, yet the firm continued to report trades that were not in compliance with the trade reporting rules. Additionally, during the review period, the firm's supervisory system did not provide for supervision reasonably designed to achieve compliance with respect to the applicable securities laws and regulations, and the rules of FINRA, concerning trade reporting of short sales. More specifically, the firm's supervisory system did not include written supervisory procedures providing for a statement of the supervisory step(s) to be taken by the person(s) responsible for supervision with respect to the rules regarding trade reporting of short sales. The conduct described in this paragraph constitutes violations of NASD Rule 3010 and FINRA Rule 2010.

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

A censure, a fine of \$100,000 (\$50,000 for the violations of FINRA Rule 7330(d) and \$50,000 for the supervisory violations), and an undertaking to revise the firm's written supervisory procedures with respect to the area described in paragraph I.A.2. Within 30 business days of acceptance of this AWC by the National Adjudicatory Council ("NAC"), a registered principal of the Respondent shall submit to the COMPLIANCE ASSISTANT, LEGAL SECTION, MARKET REGULATION DEPARTMENT, 9509 KEY WEST AVENUE, ROCKVILLE, MD 20850, a signed, dated letter, or an e-mail from a work-related account of the registered principal to MarketRegulationComp@finra.org, providing the following information: (1) a reference to this matter; (2) a representation that the firm has revised its written supervisory procedures to address the deficiencies described in paragraph I.A.2; and (3) the date the revised procedures were implemented.

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. It has submitted an Election of Payment 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(s) imposed in this matter.

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

II.

WAIVER OF PROCEDURAL RIGHTS

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

- A. To have a Complaint issued specifying the allegations against the firm;
- 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 NAC 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 prejudgment of the General Counsel, 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.

The firm 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

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 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 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 FINRA or any other regulator against the firm;
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. 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 FINRA, or to which FINRA 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 FINRA 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 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 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.

10-28-15
Date

Respondent
Archipelago Trading Services, Inc.
By: [Signature]
Name: Paul Adcock
Title: V.P.

Reviewed by:
[Signature]
Counsel for Respondent

Accepted by FINRA:

11/19/15
Date

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

[Signature] /GF
David E. Rosenstein
Senior Vice President, Legal Section
Department of Market Regulation