

FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20130365319-01

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

RE: Electronic Transaction Clearing, Inc., Respondent
Broker-Dealer
CRD No. 146122

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Electronic Transaction Clearing, Inc. ("Respondent" 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 the Firm alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. Respondent 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 July 2009, and its registration remains in effect.

RELEVANT DISCIPLINARY HISTORY

On October 22, 2012, an AWC was accepted by FINRA, in which the Firm was censured and fined \$10,000 for OATS reporting violations of FINRA Rule 7450 during the period of February 1, 2010 through February 28, 2010.

On April 2, 2013, an AWC was accepted by FINRA, in which the Firm was censured and fined \$7,500 for OATS reporting violations of FINRA Rule 7450 during the period of January 1, 2011 through March 31, 2011.

On February 3, 2014, an AWC was accepted by FINRA, resulting from the 2011 TMMS exam of the Firm for trade dates August 8, 2011 through August 11, 2011. The AWC included, among other things, OATS reporting violations of FINRA Rule 7450, for which the Firm was fined \$10,000.

SUMMARY AND OVERVIEW

In Matter No. 20130365319, the Department of Market Regulation's ("Market Regulation") Order Audit Trail System ("OATS") Operations Team ("OATS Staff") reviewed the Firm's compliance with OATS reporting requirements during the period of July 1, 2012 through December 31, 2012 ("First OATS Review Period").

In Matter No. 20130389538, OATS Staff reviewed the Firm's compliance with the OATS reporting requirements during the period of May 1, 2013 through June 30, 2013 ("Second OATS Review Period").

In Matter No. 20140430853, OATS Staff reviewed the Firm's compliance with the OATS reporting requirements during the period of March 1, 2014 through May 31, 2014 ("Third OATS Review Period").

In Matter No. 20150439803, OATS Staff reviewed the Firm's compliance with the OATS reporting requirements during the period of June 1, 2014 through September 30, 2014 ("Fourth OATS Review Period").

In Matter No. 20140430054, OATS Staff reviewed the Firm's compliance with the OATS reporting requirements during the period of May 1, 2014 through August 31, 2014 ("Fifth OATS Review Period").

In Matter No. 20130395853, the Market Regulation Short Interest Team ("Short Interest Staff") reviewed the Firm's compliance with short interest reporting requirements during the period of August 30, 2013 through October 15, 2013 ("Short Interest Review Period").

As a result of its reviews, Market Regulation Staff determined that the Firm: (i) failed to transmit, untimely submitted, or inaccurately submitted, 73,647,815 Reportable Order Events ("ROEs") and Combined Order/Route Reports ("OR Reports") to OATS during the OATS Review Periods (totaling 15 months); and (ii) over-reported 878 short interest positions totaling 3,856,586 shares during the Short Interest Review Period.

In addition, Market Regulation Staff determined that the Firm failed to establish, maintain and enforce adequate supervisory procedures, including written supervisory procedures ("WSPs") and a system of follow-up and review, reasonably designed to ensure compliance with FINRA rules concerning OATS reporting requirements.

FACTS AND VIOLATIVE CONDUCT

20130365319

1. During the First OATS Review Period, the Firm failed to transmit 40,034,277 ROEs to OATS on 113 business days. These ROEs represented approximately 12% percent of all ROEs (331,288,749) that the Firm was required to transmit to OATS during the

First OATS Review Period. The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rule 7450.

2. During the First OATS Review Period, the Firm transmitted to OATS 535 OR Reports that the OATS system was unable to link to the corresponding new order transmitted by the destination member firm due to inaccurate, incomplete or improperly formatted data. Specifically, 531 of the OR Reports contained an inaccurate Destination Code and four of the OR Reports contained an inaccurate "Sent to Firm" MPID. The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rule 7450.

20130389538

3. During the Second OATS Review Period, the Firm failed to transmit 226,543 ROEs to OATS on 11 business days. These ROEs represented less than 1% percent of all ROEs (248,658,329) that the Firm was required to transmit to OATS during the Second OATS Review Period. The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rule 7450.

20140430853

4. During the Third OATS Review Period, the Firm failed to transmit 2,281,813 ROEs to OATS on 12 business days. These ROEs represented 1.39% of all ROEs (1,635,825,952) that the Firm was required to transmit to OATS during the Third OATS Review Period. The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rule 7450.

20150439803

5. During the Fourth OATS Review Period, the Firm failed to transmit 145,565 ROEs to OATS on 46 business days. These ROEs represented less than 1% of all ROEs (989,666,915) that the Firm was required to transmit to OATS during the Fourth OATS Review Period. The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rule 7450.

20140430054

6. During the Fifth OATS Review Period, the Firm failed to timely report to OATS 30,958,972 ROEs. Out of the 30,958,972 late reports, 26,985,784 (87.17%) were reported the next day. The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rule 7450.
7. During the Fifth OATS Review Period, the Firm transmitted to OATS 110 OR Reports the OATS system was unable to link to the corresponding new order transmitted by the destination member firm due to inaccurate, incomplete or improperly formatted data. Specifically, due to these errors, 96 of the OR Reports

were unable to link to related orders on other market centers and 14 of the OR Reports were unable to match the receiving firm's New Order Report. The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rule 7450.

20130365319, 20130389538, 20140430853, 20150439803, 20140430054

8. During the OATS Review Periods, 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 FINRA Rules, concerning OATS. Specifically, the Firm's supervisory system failed to: (i) conduct a comprehensive review of the Firm's OATS data submissions on the OATS website; and (ii) compare the accepted OATS data to the Firm's books and records to ensure all ROEs were submitted. The conduct described in this paragraph constitutes a violation of NASD Rule 3010 and FINRA Rule 2010.
9. During the Fifth OATS Review Period, the Firm failed to enforce its WSPs, which specified that any exceptions identified by the Firm's OATS reviews would be brought to the attention of the Chief Compliance Officer for appropriate action. Although the Firm identified some exceptions through its OATS reviews, it failed to take appropriate action to resolve the exceptions in a timely manner. The conduct described in this paragraph constitutes a violation of NASD Rule 3010 and FINRA Rule 2010.

20130395853

10. During the Short Interest Review Period, the Firm submitted to FINRA its short interest position reports, which included 946 short interest positions totaling 4,322,237 shares, when the Firm should have reported 68 short interest positions totaling 465,651 shares. The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rule 4560.

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

A censure, and a fine of \$75,000 (consisting of a fine of \$42,500 for the violations of FINRA Rule 7450, \$20,000 for the violations of NASD Rule 3010 and FINRA Rule 2010, and \$12,500 for the violations of FINRA Rule 4560).

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

Respondent 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

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

- A. To have a Complaint issued specifying the allegations against it;
- 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.

Further, Respondent specifically and voluntarily waives any right to claim bias or prejudgment 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.

Respondent 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

Respondent 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:
 - I. 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

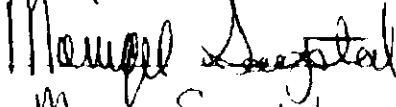
against the Firm;

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 Respondent, 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 Respondent to submit it.

Date: 4/21/16

Respondent Electronic Transaction Clearing, Inc.

By: 

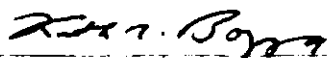
Name: Margue Sangster

Title: CCO

Accepted by FINRA:

5/12/16
Date

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


Kenneth R. Bozza
Chief Counsel, Legal Section
Department of Market Regulation