

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20150465690-01**

TO: Department of Enforcement
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 Respondent 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

Respondent became a member of FINRA on July 15, 2009, and its registration remains in effect.

RELEVANT DISCIPLINARY HISTORY

The Respondent does not have a relevant disciplinary history.

SUMMARY

In Matter No. 20170528772, the Department of Market Regulation's Order Audit Trail System ("OATS") Operations Team ("Staff") reviewed the Firm's compliance with OATS reporting and related supervision requirements during the period of January 1, 2016 through December 31, 2016, which was subsequently expanded to include the period from May 23, 2013 through March 28, 2017 (the "Review Period").

In Matter No. 20150465690, Staff reviewed the Firm's compliance with OATS reporting requirements during the period of April 1, 2015 through June 30, 2015.

In Matter No. 20160487342, Staff reviewed the Firm's compliance with OATS reporting requirements during the period of September 1, 2015 through December 31, 2015.

In Matter No. 20160488249, Staff reviewed the Firm's compliance with OATS reporting requirements during the period of October 1, 2015 through December 31, 2015.

OVERVIEW

During the Review Period, the Firm failed to establish and maintain a supervisory system reasonably designed to achieve compliance with its OATS reporting obligations. The Respondent's supervisory deficiencies allowed OATS reporting violations to occur during the Review Period without detection, and also contributed to the Firm's failure to timely correct or address deficiencies once identified. Further, during the Review Period, the Respondent failed to enforce its written supervisory procedures ("WSPs") concerning OATS reporting.

Because FINRA uses OATS data as an integral part of its automated market surveillance program to detect manipulative activity and other potential violations of FINRA rules and the federal securities laws, a failure to transmit Reportable Order Events ("ROEs") or the transmission of inaccurate, incomplete, or untimely ROEs, can impede FINRA's ability to detect potentially violative conduct and/or create false positive alerts requiring the expenditure of unnecessary resources to resolve the alerts. Moreover, these failures cause the Audit Trail to be inaccurate.

During the Review Period, Respondent failed to submit, untimely submitted, or inaccurately submitted billions of ROEs over a four-year period. Notably, from June 2015 through January 2017, the Firm failed to submit to OATS more than 3.1 billion Route Reports related to a single customer, which represented routes back to the exchange that received the order following the customer's modification of an order. Due to the firm's lack of reasonable supervision, the Firm's OATS violations went undetected until the issue was identified by FINRA staff.

Based upon the reviews that were conducted by FINRA staff, it was determined that, during the Review Period, Respondent violated NASD Rule 3010 (for conduct prior to December 1, 2014) and FINRA Rules 2010, 3110 (for conduct on or after December 1, 2014), and 7450.

FACTS AND VIOLATIVE CONDUCT

20170528772, 20150465690, 20160487342, 20160488249

1. During the Review Period, the Firm's supervisory system did not provide for supervision reasonably designed to achieve compliance with respect to applicable securities laws and regulations, and FINRA Rules, concerning OATS. Specifically, the Firm's supervisory system failed to: (i) compare accepted OATS data to the

Firm's books and records to ensure all ROEs were submitted, and in a timely manner; (ii) ensure that rejected ROEs were properly repaired, resubmitted to, and accepted by OATS; and (iii) conduct a representative periodic sampling of the Firm's OATS reports to ensure its submissions were accurate. The conduct described in this paragraph constitutes a violation of NASD Rule 3010 (for conduct prior to December 1, 2014), FINRA Rule 3110 (for conduct on or after December 1, 2014), and FINRA Rule 2010.

2. During the 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 pertaining to certain rejected and late ROEs, it failed to take appropriate action to resolve the exceptions in a timely manner. In addition, while its WSPs stated that the Firm will evidence reviews by initialing and dating printouts of the Reporting Summaries, OATS case logs, and Monthly Report cards, the documentation provided by the Firm did not contain such evidence. The conduct described in this paragraph constitutes a violation of NASD Rule 3010 (for conduct prior to December 1, 2014), FINRA Rule 3110 (for conduct on or after December 1, 2014), and FINRA Rule 2010.¹

20170528772

3. From June 16, 2015 through January 12, 2017, the Firm failed to submit to OATS 3,173,374,529 Route Reports related to a single customer that represented routes back to the exchange that received the order following the customer's modification of an order. This issue occurred because of an oversight that was made in the set-up of the account of this customer at inception. These unreported ROEs represented 19.45% of the Firm's total reporting obligation (16,335,365,163) during this period. The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rule 7450.
4. From July 12, 2016 through March 28, 2017, the Firm failed to submit 3,217,831 ROEs to OATS on behalf of a customer due to errors during the process of setting the customer up to generate and upload OATS files to ETC's FTP site. The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rule 7450.
5. From May 23, 2013 through February 9, 2017, the Firm inaccurately submitted 68,173,138 ROEs to OATS on behalf of a customer. Specifically, 68,111,450 ROEs were submitted with an incorrect Receiving Department ID and/or Account Type Code, and 61,688 ROEs were submitted with an incorrect Special Handling Code. The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rule 7450.

¹ The Firm subsequently took remedial action to address the supervisory deficiencies cited herein and also revised its WSPs in January 2018.

20150465690

6. From April 1, 2015 through June 30, 2015, the Firm transmitted 46,832,485 ROEs to OATS that were rejected by OATS for context or syntax errors and were repairable. The Firm failed to repair 9,243,956 of these rejected ROEs, representing approximately 19.74% of all repairable rejected ROEs. As a result of the Firm's failure to repair these ROEs, the Firm failed to transmit 9,243,956 ROEs to OATS during the Second Review Period. The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rule 7450.
7. From April 1, 2015 through June 30, 2015, the Firm inaccurately submitted 105,435 ROEs to OATS. Specifically, the Firm failed to populate the Rejected ROE ID and Resubmit Flag data fields for these submissions. The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rule 7450.

20160487342

8. From September 1, 2015 through December 31, 2015, the Firm failed to timely submit 55,282,037 ROEs to OATS. Approximately 99% of these ROEs were submitted the next day. The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rule 7450.
9. From September 1, 2015 through December 31, 2015, the Firm submitted to OATS 206,652 inaccurate "Out of Sequence" New Order Reports on 73 processing days. The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rule 7450.
10. From September 1, 2015 through December 31, 2015, the Firm transmitted to OATS 91 OR Reports that contained inaccurate, incomplete, or improperly formatted data. Specifically, 44 of the OR Reports were unable to match the receiving firm's related New Order Report and 47 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.

20160488249

11. From October 1, 2015 through December 31, 2015, the Firm transmitted 29,464,412 ROEs to OATS that were rejected by OATS for context or syntax errors and were repairable. The Firm failed to repair 2,101,521 of these rejected ROEs, representing approximately 7.13% of all repairable rejected ROEs. As a result of the Firm's failure to repair these ROEs, the Firm failed to transmit 2,101,521 ROEs to OATS during the Fourth Review Period. The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rule 7450.
12. From October 1, 2015 through December 31, 2015, the Firm inaccurately submitted 336,532 ROEs to OATS. Specifically, the Firm failed to populate the Rejected ROE

ID and Resubmit Flag data fields for these submissions. The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rule 7450.

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

1. A censure, and
2. A fine of \$450,000 (consisting of a fine of \$250,000 for the violations of NASD Rule 3010 and FINRA Rules 2010 and 3110, and a fine of \$200,000 for the violations of FINRA Rule 7450).

Respondent 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.

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

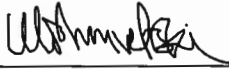
Respondent understands that:

- 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 Respondent; 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. Respondent 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. Respondent 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 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: 7/11/2018

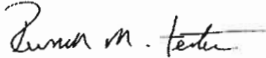
Respondent Electronic Transaction Clearing, Inc.

By: 

Name: Eli Wishnivetski

Title: CCO

Reviewed by:

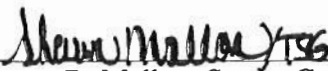


Russell M. Fecteau
Morgan, Lewis & Bockius LLP
1111 Pennsylvania Avenue NW
Washington, DC 20004

Accepted by FINRA:

8/29/18
Date

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


Shawn R. Mallon, Senior Counsel
FINRA Department of Enforcement

**Corrective Action Statement for Electronic Transaction Clearing, Inc.
STAR No. 20150465690 (20160487342, 20160488249, 20170528772)**

Electronic Transaction Clearing, Inc. ("ETC" or the "Firm") submits this Corrective Action Statement in the above-referenced matter to address the demonstrable corrective action steps the Firm has taken to prevent future Order Audit Trail System ("OATS") reporting issues. This Statement does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA or its Staff.

ETC's new management was installed in January 2017, at the end of the Review Period identified in the AWC, and has taken several steps to enhance the Firm's OATS reporting since that time. During 2017, the Firm replaced a former compliance employee with someone more experienced with OATS reporting compliance. In January 2018, ETC updated its written supervisory procedures to memorialize reviews available through the FINRA Gateway such as unmatched or unlinked trade reports. On a daily basis, ETC conducts a review of OATS issues and maintains a contemporaneous log to memorialize the root cause of the issue, the case number obtained from the OATS Help Desk, and how the issue was ultimately resolved. ETC has instituted a monthly meeting to review the OATS report card and address any patterns or issues with OATS reporting so that the Firm can work with the vendor to proactively address any such issues. The Firm also instituted a monthly data quality audit that samples order memoranda to compare against the OATS file data in order to ensure that all pertinent order information is properly submitted to OATS. The Firm believes these steps, and other ongoing efforts, are reasonably designed to prevent future OATS reporting issues.