

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2022075850501**

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

RE: Jefferies LLC (Respondent)
Member Firm
CRD No. 2347

Pursuant to FINRA Rule 9216, Respondent Jefferies LLC (Jefferies) 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 in this AWC.

I.

ACCEPTANCE AND CONSENT

- A. Respondent accepts and consents to the following findings by FINRA without admitting or denying them:

BACKGROUND

Jefferies has been a FINRA member since March 1963. Headquartered in New York, NY, the firm provides investment banking and brokerage services. It has approximately 2,400 registered representatives and 35 branch offices.¹

OVERVIEW

Between September 2009 and July 2022, Jefferies inaccurately calculated its customer and proprietary accounts of broker-dealers (PAB) reserve formula computations, as required by § 15(c) of the Securities Exchange Act of 1934 and Exchange Act Rule 15c3-3, resulting in 136 customer reserve hindsight deficiencies and three PAB reserve hindsight deficiencies. This caused the firm to maintain inaccurate books and records and file inaccurate FOCUS reports. As a result, Jefferies violated Exchange Act §§ 15(c) and 17(a), Exchange Act Rules 15c3-3(e), 17a-4, and 17a-5(a), NASD Rule 3110, and FINRA Rules 4511 and 2010.

Between September 2009 and July 2022, Jefferies failed to establish, maintain, and enforce a supervisory system, including written supervisory procedures, reasonably

¹ For more information about the firm, including prior regulatory events, visit BrokerCheck® at www.finra.org/brokercheck.

designed to achieve compliance with Exchange Act § 15(c) and Exchange Act Rule 15c3-3(e), in violation of NASD Rule 3010, and FINRA Rules 3110 and 2010.

For these violations, Jefferies is censured and fined \$1,000,000.

FACTS AND VIOLATIVE CONDUCT

This matter originated from Jefferies' self-report of a hindsight deficiency in its customer and PAB Reserve Accounts.

A. Jefferies did not maintain sufficient balances in its customer and PAB Reserve Accounts.

The purpose of Exchange Act Rule 15c3-3, also known as the "Customer Protection Rule," is to protect customer securities and funds that customers leave in a firm's custody from being improperly used by a broker-dealer to fund its business operations and to ensure that funds are available for distribution to customers if the broker-dealer becomes insolvent. Exchange Act Rule 15c3-3(e)(1) requires broker-dealers that hold customer funds to open and maintain a "Special Reserve Bank Account for the Exclusive Benefit of Customers" (the Reserve Account). Broker-dealers must at all times maintain certain minimum deposits of cash or "qualified securities" in the Reserve Account computed in accordance with a formula incorporated in Exchange Act Rule 15c3-3 (the Reserve Formula).²

Firms are also required to calculate reserve requirements for proprietary accounts of broker-dealers. For PAB accounts, firms must segregate the reserve of funds or qualified securities into a PAB Reserve Account.

Exchange Act Rule 15c3-3(e)(1) requires broker-dealers to calculate the amounts they owe to customers (reserve credits) and compare that amount to the amounts its customers owe to the broker-dealer (reserve debits). If reserve credits exceed reserve debits, as determined by the Reserve Formula, broker-dealers must deposit the difference in their Reserve Accounts. Rule 15c3-3(e)(3)(i)(A)³ requires broker-dealers to perform weekly calculations as of the close of the last business day of the week to determine the requisite amount to be deposited in the Reserve Account.

A firm is entitled to the inclusion of a debit in its Reserve Formula calculation for the contract value of securities borrowed from any person to cover short sales by a customer

² Rule 15c3-3(a)(6) defines a qualified security as a security issued by the United States or a security in respect of which the principal and interest are guaranteed by the United States.

³ Rule 15c3-3(e)(3)(i)(A) requires that, except for broker-dealers that meet the criteria under Rule 15c3-3(e)(3)(i)(B)(1) and (C), "computations necessary to determine the amount required to be deposited in the Customer Reserve Bank Account and PAB Reserve Bank Account as specified in paragraph (e)(1) of this section must be made weekly, as of the close of the last business day of the week, and the deposit so computed must be made no later than one hour after the opening of banking business on the second following business day".

but only when the borrowed securities are fully secured by cash, qualified securities, or a secured letter of credit.⁴

A violation of Exchange Act § 15(c) and Exchange Act Rule 15c3-3 is also a violation of FINRA Rule 2010, which requires members and their associated persons to “observe high standards of commercial honor and just and equitable principles of trade” in the conduct of their business.

Between September 2009 and July 2022, Jefferies did not identify certain non-cash borrows collateralized by non-qualified securities related to short sales by institutional customers, which caused Jefferies to overstate the debits in its 15c3-3 customer and PAB reserve formulas and underfund its customer and PAB Reserve Accounts 136 times. In the course of its business, Jefferies borrowed securities to cover both institutional customer and firm short sale transactions, and it pledged cash or securities for the securities it borrowed. To perform its Reserve Formula calculations, the firm used a computerized system that obtained data from various sources. Between September 2009 and July 2022, the system did not distinguish whether a borrowed security was collateralized by securities that met the definition of qualified securities under Rule 15c3-3(a)(6). Because only non-cash borrows collateralized by qualified securities or other acceptable collateral can be counted as debits in the Reserve Formula, Jefferies improperly represented as debits its non-cash borrows collateralized by non-qualified securities, resulting in overstatements of reserve debits that caused the firm’s Reserve Accounts to be underfunded. As a result, the firm incurred 136 customer reserve hindsight deficiencies of between \$9,697,733 to \$532,610,055, and three PAB reserve hindsight deficiencies ranging from \$3.4 million to \$42,552,620.

Therefore, Jefferies violated Exchange Act § 15(c), Exchange Act Rule 15c3-3(e), and FINRA Rule 2010.

B. Jefferies filed inaccurate FOCUS reports and maintained inaccurate books and records.

FINRA Rule 4511 and its predecessor, NASD Rule 3110⁵ require FINRA members to make and preserve books and records as required under the FINRA rules, the Exchange Act, and the applicable Exchange Act rules. Exchange Act § 17(a) and Exchange Act Rule 17a-4(b)(5) require broker-dealers to preserve all trial balances, computations of aggregate indebtedness and net capital, among other things. An SEC Interpretation of this Rule states that all reserve computations and supporting documents made pursuant to Rule 15c3-3(e)(3) are included within this requirement.

Exchange Act § 17(a) and Exchange Act Rule 17a-5(a) require broker-dealers to file monthly or quarterly Financial and Operational Combined Uniform Single (FOCUS)

⁴ Securities Exchange Act Rule 15c3-3 Exhibit A and Related Interpretations, 15c3-3(Item 11)/01 Securities Borrowed for Customer Transactions. Non-cash borrows can also be collateralized by other acceptable collateral as defined in Exchange Act Rule 15c3-3(b)(3)(iii)(A)/04 Other Acceptable Collateral.

⁵ FINRA Rule 4511 superseded the relevant subsection of NASD Rule 3110 effective December 5, 2011.

reports containing certain accounting and financial information, including the firm's calculation of its Reserve Formula.

Inherent in the obligation to make and preserve books and records is the requirement that they be accurate. A violation of Exchange Act § 17(a), Exchange Act Rules 17a-4 and 17a-5, NASD Rule 3110, and FINRA Rule 4511 is also a violation of FINRA Rule 2010.

Between September 2009 and July 2022, Jefferies inaccurately classified as debit items in its reserve formula computation non-cash borrows collateralized by securities that did not meet the definition of qualified securities under Rule 15c3-3(a)(6). As a result, the firm's record of its computation of its Reserve Account requirement and 135 FOCUS reports filed by the firm based on those computations were inaccurate.

Therefore, Jefferies violated Exchange Act § 17(a), Exchange Act Rules 17a-4(b)(5) and 17a-5(a), NASD Rule 3110, and FINRA Rules 4511 and 2010.

C. Jefferies failed to establish, maintain, and enforce a supervisory system, including written supervisory procedures, reasonably designed to achieve compliance with the Exchange Act's customer reserve and PAB reserve requirements.

FINRA Rule 3110(a) and its predecessor, NASD Rule 3010(a),⁶ require members to establish and maintain a system, including WSPs, that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA rules. FINRA Rule 3110(b) and its predecessor, NASD Rule 3010(b), require member firms to establish, maintain, and enforce written procedures to supervise the types of business in which it engages and the activities of its associated persons that are reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA rules. A violation of NASD Rule 3010 and FINRA Rule 3110 is also a violation of FINRA Rule 2010.

Between September 2009 and July 2022, Jefferies' supervisory system, including its WSPs, was not reasonably designed to achieve compliance with Exchange Act Rule 15c3-3(e). The firm's system had no specific process or procedures to verify that borrowed securities collateralized by non-qualified securities were accurately incorporated into its customer and PAB Reserve Formula calculations. In July 2022, Jefferies amended its WSPs and implemented a process to verify that borrowed securities collateralized by non-qualified securities are accurately incorporated into its customer and PAB Reserve Formula calculations.

Therefore, Jefferies violated NASD Rule 3010 and FINRA Rules 3110 and 2010.

⁶ FINRA Rule 3110 superseded the relevant subsections of NASD Rule 3010 effective December 1, 2014.

CREDIT FOR EXTRAORDINARY COOPERATION

In resolving this matter, FINRA has recognized Jefferies' extraordinary cooperation for having: (1) self-reported its violative conduct, including proactively meeting with FINRA to discuss its hindsight deficiencies; (2) engaged an independent consultant to conduct a look-back analysis covering the entire period of its violation; (3) corrected its supervisory deficiencies in a timely manner; and (4) provided substantial assistance to FINRA in its investigation.

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

- a censure and
- a \$1,000,000 fine.

Respondent agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. Respondent 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 an inability to pay, now or at any time after the execution of this AWC, the monetary sanction imposed in this matter.

The sanctions imposed in this AWC shall be effective on a date set by FINRA.

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 its acceptance or rejection.

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 Respondent's permanent disciplinary record and may be considered in any future action brought by FINRA or any other regulator against Respondent;
 - 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 its subject matter 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 Respondent's right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party. Nothing in this provision affects Respondent's testimonial obligations in any litigation or other legal proceedings.

- D. Respondent may attach a corrective action statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondent 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.

The undersigned, on behalf of Respondent, certifies that a person duly authorized to act on Respondent's 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 Respondent 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 in this AWC and the prospect of avoiding the issuance of a complaint, has been made to induce Respondent to submit this AWC.

August 25, 2025

Date

Michael Sharp

Jefferies LLC

Respondent

Michael Sharp

General Counsel

Accepted by FINRA:

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

September 10, 2025

Date

Carolyn Isaac

Carolyn Isaac

Principal Counsel

FINRA

Department of Enforcement

9509 Key West Ave.

Rockville, MD 20850