

**NASDAQ PHLX LLC
NOTICE OF ACCEPTANCE OF AWC**

Certified, Return Receipt Requested

**TO: J.A.K. Securities, Inc.
James A. Kelly
President
20 Windward Court
Collegeville, PA 19426**

**FROM: Nasdaq PHLX LLC (“PHLX”)
c/o Financial Industry Regulatory Authority (“FINRA”)
Department of Enforcement
15200 Omega Drive, Suite 300
Rockville, MD 20850**

DATE: December 24, 2019

RE: Notice of Acceptance of Letter of Acceptance, Waiver and Consent No. 2016048652001

Please be advised that your above-referenced Letter of Acceptance, Waiver and Consent (“AWC”) has been accepted on **December 24, 2019** by the PHLX Review Council’s Review Subcommittee, or by the Office of Disciplinary Affairs on behalf of the PHLX Review Council, pursuant to PHLX Rule 9216. A copy of the AWC is enclosed herewith.

You are again reminded of your obligation, if currently registered, immediately to update your Uniform Application for Broker-Dealer Registration (“Form BD”) to reflect the conclusion of this disciplinary action. Additionally, you must also notify FINRA (or PHLX if you are not a member of FINRA) in writing of any change of address or other changes required to be made to your Form BD.

You are reminded that Section I of the attached Letter of Acceptance, Waiver, and Consent includes an undertaking. In accordance with the terms of the AWC, a registered principal of the firm is required to notify the Compliance Assistant, Department of Enforcement, 15200 Omega Drive, Suite 300, Rockville, MD 20850, of completion of the undertaking.

You will be notified by the Registration and Disclosure Department regarding sanctions if a suspension has been imposed and by Nasdaq’s Finance Department regarding the payment of any fine if a fine has been imposed.

J.A.K. Securities, Inc.
Page 2

If you have any questions concerning this matter, please contact me at (215) 209-7002.



Eustace T. Francis
Senior Counsel
Department of Enforcement, FINRA
Signed on behalf of PHLX

Enclosure

FINRA District 9 – New Jersey
William St. Louis
Senior Vice President and Regional Director
(Via email)

Linda Riefberg, Esq.
Counsel for Respondent
Cozen O'Connor
10 Byron Place, No. 511
Larchmont, NY 10538

NASDAQ PHLX LLC
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20160486520

TO: Nasdaq PHLX LLC
c/o Department of Enforcement
Financial Industry Regulatory Authority ("FINRA")

RE: J.A.K. Securities, Inc., Respondent
Member Firm
CRD No. 47866

Pursuant to Rule 9216 of Nasdaq PHLX LLC ("Phlx" or the "Exchange") Code of Procedure, J.A.K. Securities, Inc. ("JAK", the "Firm" or "Respondent") 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, Phlx will not bring any future actions against the 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 Phlx, or to which Phlx 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 Phlx:**

BACKGROUND

JAK has been registered as a broker-dealer with the Securities and Exchange Commission and a member organization of Phlx since August 3, 1999. Its registrations remain in effect. The Firm operates a floor brokerage business on the Phlx trading floor and primarily engages in the execution of options and equities orders on behalf of other broker-dealers. JAK is headquartered in Collegeville, Pennsylvania, and employs five registered representatives.

RELEVANT DISCIPLINARY HISTORY

On January 2, 2013, JAK consented to a censure and a \$16,500 fine for violating Phlx Rules 119, 120, 707, 748, 1014, 1051(a), 1067, and 1084 during the period between June 2009 and September 2011. The Firm: (i) executed eight options trades that traded through the Philadelphia Best Bid and Offer ("PBBO") market and two options transactions that traded through the National Best Bid and Offer ("NBBO") market; (ii) executed eight options trades that traded ahead of customer orders on the Phlx's Limit Order Book (the "Book") and two transactions that traded ahead of Streaming Quote Trader and/or Remote Streaming Quote Trader quotations with established priority; (iii)

failed to report ten percent or more of its executed options transactions to the consolidated tape within 90 seconds after execution for three separate months; and (iv) failed to establish, maintain and enforce written supervisory procedures (“WSPs”) and a system of supervision reasonably designed to comply with the Phlx’s order priority rules.

SUMMARY

1. On January 5, 2016 (the “Trade Date”), while the Phlx simultaneously operated two versions of its Floor Based Management System (“FBMS-1” and “FBMS-2”, respectively)¹, JAK, acting through a clerk (the “Clerk”) of the Firm, repeatedly attempted to execute a customer order to cross 1,443 call options of XYZ² in FBMS-2, but FBMS-2 rejected each attempt, generating error messages visible to the Clerk that indicated that there was a customer order on the Book that had priority over the Clerk’s XYZ order. Unable to execute the order in FBMS-2, JAK, acting through the Clerk, systematized and executed the order in FBMS-1, which resulted in the Firm trading ahead, and failing to honor the priority, of the customer order on the Book, in violation of Phlx Rules 119, 120, 707, 1014³, and 1067. Additionally, during the period between January 5, 2016 and the present (the “Supervisory Review Period”), JAK failed to establish and maintain WSPs and supervisory system that were reasonably designed to detect and prevent, insofar as applicable, the execution of options transactions that traded ahead of options orders with established priority, in violation of Phlx Rules 748 and 707.

FACTS AND VIOLATIVE CONDUCT

2. Phlx Rule 119, provides, in relevant part, that “[t]he highest bid shall have precedence in all cases. Where bids are made at the same price, the priority and precedence shall be determined in accordance with the following rules:

Precedence of first bid

(a) When a bid is clearly established as the first made at a particular price, the maker shall be entitled to priority and shall have precedence on the next sale at that price, up to the number of shares of stock or principal amount of bonds specified in the bid, irrespective of the number of shares of stock or principal amount of bonds specified in such bid. . . .

3. Phlx Rule 120 provides, in relevant part, that “[t]he lowest offer shall have precedence in all cases. Where offers are made at the same price the priority and precedence shall be determined in the same manner specified in Rule 119”

¹ FBMS is the Phlx’s electronic order entry and audit trail system that allows Phlx floor brokers, registered options traders and specialists to enter, route and report options transactions.

² “XYZ” is a generic identifier used to represent the company whose securities were the subject of the transaction is question.

³ Phlx Rule 1014 was superseded and replaced by Phlx Rule Options 8, Section 25 on April 16, 2019.

4. On the Trade Date, Phlx Rule 1014(g)(i)(A) required broker-dealers orders to yield priority to customer orders.
5. Phlx Rule 1067 provides that “[t]he highest bid and the lowest offer shall have precedence in all cases.”
6. Phlx Rule 707 prohibits members from engaging in conduct inconsistent with just and equitable principles of trade.
7. Phlx Rule 748(h) requires member organizations to establish, maintain and enforce WSPs, and a system of supervision for applying such procedures, that are reasonably designed to supervise the types of businesses and activities in which they and their associated persons engage, and to prevent and detect, insofar as practicable, violations of applicable securities laws and regulations, including the By-Laws and Rules of the Exchange.
8. On January 5, 2016, JAK received an order from a customer to cross 1,443 XYZ February 7 call options at a price of \$0.42. At 12:07:08, JAK, acting through the Clerk, systematized the XYZ order in FBMS-2 and gave the order to a floor broker, who then verbally represented the order in a trading crowd. At 12:07:26, with the PBBO for the XYZ February call options at \$0.40 - \$0.50, and the NBBO at \$0.40 - \$0.45, the Clerk attempted to execute the order at split prices in FBMS-2: 577 contracts at a price of \$0.45 and 866 contracts at \$0.40.
9. However, FBMS-2 rejected his attempted execution. JAK, acting through the Clerk, received the “NL w/R Nakd by Trading System – Must-be-satisfied volume validation failed” pop-up alert, which signified that a customer order with priority over the Clerk’s order was resting on the Book.
10. At 12:07:52 and 12:08:25, JAK, acting through the Clerk, again tried to execute the order at the same split prices and sizes, but each time FBMS-2 sent the same pop-up rejection alert. JAK, acting through the Clerk, made at least seven more attempts over the next five minutes to execute the trade in FBMS-2, but as before, FBMS-2 blocked each such attempt and generated the same pop-up alert.
11. At the time of each attempted execution and rejection, the Book was displaying a customer order with a bid of \$0.40, which had priority over the Clerk’s 866 contracts he wished to execute at that same price.
12. At 12:14:58, unable to secure an execution of the order in FBMS-2, JAK, acting through the Clerk, systematized the order in FBMS-1. At 12:15:26, with the PBBO still at \$0.40 - \$0.50, and the NBBO still at \$0.40 - \$0.45, the Clerk executed 866 XYZ February 7 call options in FBMS-1 at \$0.40, trading ahead of the customer order resting on the Book. At 12:15:33, the Clerk executed the remaining 577 XYZ February 7 call options in FBMS-1 at \$0.45.

13. The conduct described in paragraphs eight through 12 constitutes violations of Phlx Rules 119, 120, 707, 1014, and 1067.
14. During the Supervisory Review Period, JAK's WSPs and supervisory system were not reasonably designed to prevent and detect, insofar as practicable, the execution of options transactions that traded ahead of options orders or quotations of other market participants with established priority. JAK's WSPs and supervisory system merely required its traders to address priority violations in accordance with the recommendations of the specific Phlx specialist of the post to which he or she is assigned, as long as those recommendations complied with Exchange regulations. The Firm's WSPs and supervisory system: (i) did not provide any guidelines to help JAK traders determine order priority, or to inform its supervisors and/or compliance personnel how to detect and prevent priority violations; (ii) did not assign to any JAK supervisor supervisory responsibility reasonably designed to determine whether its traders complied with applicable priority rules; and (iii) did not provide for supervisory follow-up and review to detect whether its traders were executing options orders in compliance with the Phlx's priority rules. The Firm relied on Phlx specialists – over whom JAK had no legal or supervisory authority – to ensure that its own traders had complied with applicable priority rules.
15. During the Supervisory Review Period, JAK failed to supervise the Clerk and his activities to prevent and detect, insofar as practicable, violations of Phlx Rules applicable to the priority of options orders. Specifically, JAK did not: (i) provide any statutory or real-time guidance to the Clerk regarding how to determine order priority or prevent priority violations; and (ii) monitor or review the Clerk's trading activities to detect whether he was executing options transactions in compliance with applicable priority rules.
16. The conduct described in paragraphs 14 and 15 constitute violations of Phlx Rules 748 and 707.

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

- A censure and a fine in the amount of \$20,000 (\$15,000 for the trading violation, and \$5,000 for the supervision violations); and
- An undertaking to submit to the COMPLIANCE ASSISTANT, DEPARTMENT OF ENFORCEMENT, 15200 OMEGA DRIVE, 3rd FLOOR, ROCKVILLE, MD 20850, no later than 60 business days after the AWC becomes final, 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; and (2) a representation that the firm has in place risk management controls and supervisory procedures that address the deficiencies described above.

Respondent agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. It has submitted a Payment Information 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 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 Phlx's Code of Procedure:

- A. To have a Formal Complaint issued specifying the allegations against the Firm.**
- B. To be notified of the Formal 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 Exchange Review Council 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 Regulatory Officer, the Exchange Review Council, or any member of the Exchange Review Council, 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 Rule 9143 or the separation of functions prohibitions of 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 FINRA's Department of Enforcement**

and the Exchange Review Council, the Review Subcommittee, or the Office of Disciplinary Affairs (“ODA”), pursuant to Phlx 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 Respondent; and
- C. If accepted:
 - 1. This AWC will become part of the Respondent’s permanent disciplinary record and may be considered in any future actions brought by Phlx or any other regulator against the Respondent;
 - 2. Phlx may release this AWC or make a public announcement concerning this agreement and the subject matter thereof in accordance with Phlx Rule 8310 and IM-8310-3; and
 - 3. 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 Phlx, or to which Phlx is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects the Respondent’s right to take legal or factual positions in litigation or other legal proceedings in which Phlx is not a party.
- 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 Phlx, nor does it reflect the views of Phlx 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 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.

11/25/19
Date

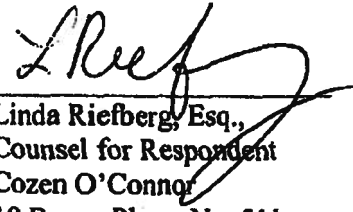
J.A.K. Securities, Inc.
Respondent

By: 

Name: JAMES A. KELLY

Title: PRESIDENT


Reviewed by:


Linda Riefberg, Esq.,
Counsel for Respondent
Cozen O'Connor
10 Byron Place, No. 511
Larchmont, New York 10538

Accepted by Phlx:

12/24/2019
Date

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


Eustace T. Francis
Senior Counsel
Department of Enforcement

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

PAYMENT INFORMATION

The fine amount will be reflected on an upcoming invoice and will be direct debited from the account for your firm that Nasdaq currently has on file. ***Please DO NOT submit payment at this time.***

Please inform your finance or applicable department of this forthcoming debit.

If you need to arrange for an alternative method of payment, please contact Nasdaq at (301) 978-8310 by no later than the last business day of the month in which the Notice of Acceptance of the AWC was issued. ***Otherwise, a direct debit will process from the account for your firm that Nasdaq currently has on file.***

Respectfully submitted,

Respondent
J.A.K. Securities, Inc.

11/25/19
Date

By: James A. Kelly
Name: JAMES A. KELLY
Title: PRESIDENT