

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

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

RE: E*Trade Securities LLC, Respondent
Broker-Dealer
CRD No. 29106

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, E*Trade Securities LLC (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, 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

The firm has been registered with the United State Securities Exchange Commission since September 12, 1991. ETRS has been a FINRA member since February 19, 1992. The firm provides on-line securities investing and trading services for retail customers.

The firm has no relevant prior disciplinary history.

SUMMARY

The Trading Examinations Unit ("TEU") of the Market Regulation Department reviewed the order routing practices of ETRS during the period of July 2011 through June 2012 (the "Review Period").

During the Review Period, the firm: (i) failed to conduct adequate regular and rigorous reviews of the quality of the execution of its customers' orders in violation of NASD Rule 2320 and FINRA Rules 5310 and 2010;¹ and (ii) failed to establish and maintain a supervisory system reasonably designed to achieve compliance with respect to its review for best execution or to

¹ Effective as of May 31, 2012, NASD Rule 2320 – Best Execution and Interpositions, became FINRA Rule 5310. STAR No. 20130368815 (MWB)

protect customer order information available to employees who were dually registered with its market making affiliate, in violation of NASD Rule 3010 and FINRA Rule 2010

FACTS AND VIOLATIVE CONDUCT

Background

1. The firm provides on-line securities investing and trading services for retail customers, who are able to submit orders to the firm electronically for execution. The firm does not facilitate customer orders principally, instead routing customer orders as agent to various exchanges and non-exchange market centers based on priorities the firm set within its order routing system.
2. The firm's Best Execution Committee (the "BEC") was responsible for reviewing the execution quality received by the firm. The BEC met monthly to review the execution statistics from the previous month. The BEC reviewed, among other things, the execution quality measurements of the market centers to which it routed orders and compared its execution quality with certain industry and custom averages. In addition, the BEC included a compliance representative that was dually registered with the firm and its affiliated market maker G1 Execution Services ("G1X").
3. During the Review Period, the firm employed an "internalization model," whereby it routed the majority of its market and marketable limit orders to G1X. As part of this model, throughout the Review Period, the firm regularly accepted requests from G1X to change its priority in the firm's order routing system for particular securities or order sizes, in order to increase or decrease the amount and type of order flow it received from the firm.

NASD Rule 2320 (Best Execution) and 3010 (Supervision) and FINRA Rules 5310 (Regular and Rigorous Review of Execution Quality) and 2010 (Standards of Commercial Honor and Principles of Trade)

4. During the Review Period, the BEC lacked sufficient accurate information to reasonably assess the execution quality it provided its customers. Specifically, the BEC: (i) did not take into account the internalization model employed by the firm; (ii) relied on execution-quality statistics based on flawed data in assessing the execution quality of the market centers to which it routed its customers' orders; and (iii) was overly reliant on comparisons of the firm's overall execution quality with industry and custom averages, rather than focusing on comparisons to the actual execution quality provided by the market centers to which the firm routed orders.
5. As a result, the firm failed to conduct adequate regular and rigorous reviews of execution quality.
6. The conduct described in paragraphs 4 and 5 constitutes separate and distinct violations of NASD Rule 2320 (for conduct on or before May 31, 2012) and FINRA Rules 5310

(for conduct after May 31, 2012) and 2010.

7. Moreover, throughout the Review Period, the firm regularly accepted requests from G1X to change its priority in the firm's order routing system and to redirect certain order flow, without making an adequate nor diligent determination of whether these changes would improve the quality of execution.
8. The conduct described in paragraph 7 constitutes separate and distinct violations of FINRA Rule 2010
9. In addition, during the Review Period, the firm failed to establish and maintain a system reasonably designed to achieve compliance with respect to its review for best execution and compliance with NASD Rule 2310 (for conduct on or before May 31, 2012) and FINRA Rule 5310 (for conduct after May 31, 2012).
10. The conduct described in paragraph 9 constitutes separate and distinct violations of FINRA Rule 2010 and NASD Rule 3010.

NASD Rule 3010 and FINRA Rule 2010 (Supervision)

11. During the Review Period, nine individuals who were dually registered with the firm and G1X had access to the firm's order routing system. Two of these individuals were located in the firm's order room and had access to the firm's order management and routing systems, whereby they could, among other things, (i) view all customer orders; (ii) view order statistics and monitoring tools; (iii) view and update exception tickets; (iv) create orders; and (v) cancel orders.
 12. At all times, however, the firm failed to have adequate systems and controls in place to ensure that there was no misuse of customer confidential order information by these dually registered individuals.
 13. By providing access to confidential customer order information to two individuals registered by a market center to which it routed such orders without a system in place to detect and/or prevent the misuse of such information, the firm failed to observe high standards of commercial honor and just and equitable principals of trade.
 14. The conduct described in paragraphs 11 through 13 constitutes separate and distinct violations of FINRA Rule 2010 and NASD Rule 3010.
- B. Respondent also consents to the imposition of the following sanctions:
- Censure and fine of \$900,000 (consisting of \$700,000 for violation of NASD Rule 2320 and FINRA Rules 5310 and 2010; and \$200,000 for its supervisory violations)

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 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 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 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: (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. Respondent 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.

4/26/2016
Date

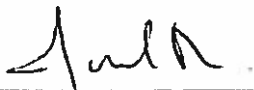
Respondent
E*Trade Securities LLC

By: N. Blair Vietmeyer

Name: N. Blair Vietmeyer

Title: Associate General Counsel

Reviewed by:



Julian Rainero, Esq.
Schulte, Roth & Zabel LLP
919 Third Avenue
New York, NY 10022
(212) 756-2411

Accepted by FINRA:

6-2-16

Date

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



David E. Rosenstein
Senior Vice President
FINRA Department of Market Regulation