

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2017052227601**

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

RE: Arbor Research & Trading, LLC, Respondent
CRD No. 21313

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, the 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 the Respondent alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. The 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

Arbor Research & Trading, LLC ("Arbor" or the "firm") became a FINRA member in January 1988.¹ Arbor is a fixed income securities broker-dealer for institutional clients and offers currency trading, principal trading, and research services. Arbor employs approximately 30 registered persons, has five branches, and is headquartered in Barrington, IL.

RELEVANT DISCIPLINARY HISTORY

The firm has no relevant disciplinary history.

OVERVIEW

From August 2014 through January 2017 (the "Relevant Period"), Arbor was a broker-dealer with market access and that provided customers with access to an alternative trading system (ATS), but failed to establish, document, and maintain a system of risk management controls and supervisory procedures reasonably

¹ The firm was previously known as Fixed Income Partners, Inc. from November 1987 to February 1988.

designed to manage the financial, regulatory, and other risks of this business activity. Through this conduct, Arbor violated Section 15(c)(3) of the Securities and Exchange Act of 1934; SEA Rule 15c3-5(b), (c)(1) and (2), and (e); and FINRA Rule 2010. Arbor's conduct also violated MSRB Rule G-27.

FACTS AND VIOLATIVE CONDUCT

1. Rule 15c3-5(b) of the Securities Exchange Act of 1934 ("SEA"), provides that a broker or dealer with market access, or that provides a customer or any other person with access to an ATS, shall establish, document, and maintain a system of risk management controls and supervisory procedures reasonably designed to manage the financial, regulatory, and other risks of this business activity. The broker or dealer must preserve a copy of its supervisory procedures and a written description of its risk management controls as part of its books and records.
2. The required risk management controls and supervisory procedures include both financial and regulatory risk management controls and supervisory procedures. Pursuant to SEA Rule 15c3-5(c)(1)(i) and (ii), a firm's financial risk management controls and supervisory procedures shall be reasonably designed to prevent the entry of orders that exceed appropriate pre-set credit or capital thresholds in the aggregate for each customer and the broker or dealer and, where appropriate, more finely-tuned by sector, security, or otherwise by rejecting orders if such orders would exceed the applicable credit or capital thresholds; and prevent the entry of erroneous orders, by rejecting orders that exceed appropriate price or size parameters, on an order by order basis or over a short period of time, or that include duplicative orders.
3. SEA Rule 15c3-5(c)(2) states that a firm's regulatory risk management controls and supervisory procedures shall be reasonably designed to ensure compliance with all regulatory requirements, including: (i) prevent the entry of orders unless there has been compliance with all regulatory requirements that must be satisfied on a pre-order entry basis; (ii) prevent the entry of orders for securities for a broker or dealer, customer, or other person if such person is restricted from trading those securities; (iii) restrict access to trading systems and technology that provide market access to persons and accounts pre-approved and authorized by the broker or dealer; and (iv) assure that the appropriate surveillance personnel receive immediate post-trade execution reports that result from market access.
4. In addition, SEA Rule 15c3-5(e) requires that the broker or dealer must establish, document, and maintain a system for regularly reviewing the effectiveness of the risk management controls and supervisory procedures, including: (1) an annual review, conducted pursuant to written procedures, to assure the overall effectiveness of the market access risk controls and supervisory procedures; and (2) a certification by the Chief Executive Officer (CEO) that the broker or dealer's market access risk controls and procedures comply with sections (b) and

(c) of Rule 15c3-5 and that the review was conducted. The broker or dealer shall preserve a copy of such written procedures, and documentation of each review.

5. MSRB Rule G-27(a) requires each broker, dealer, and municipal securities dealer to supervise the conduct of their municipal securities activities and to ensure compliance with MSRB Rules and the Securities Exchange Act of 1934, and MSRB Rule G-27(b) requires municipal dealers to establish and maintain a supervisory system that is reasonably designed to achieve compliance with applicable securities laws and regulations and MSRB Rules, including the establishment and maintenance of written procedures.
6. FINRA Rule 2010 requires each firm and associated persons to observe high standards of commercial honor and just and equitable principles of trade, and a violation of SEA Rules constitutes a violation of FINRA Rule 2010.
7. During the Relevant Period, Arbor engaged in fixed income trading on five ATSS; Arbor's trading activity on these ATSS was limited to municipal fixed income securities. In addition, Arbor operated one SEC-registered ATS, Clarity BidRate, beginning in October 2016.
8. Clarity BidRate is a web-based, real time, universal trading platform for trading variable rate debt obligation (VRDO) bonds and other types of municipal fixed income debt securities. Arbor provided authorized subscriber clients access to the system in order to enter, post, and transmit bids and offers, and to effect transactions. VRDO bonds were placed into an auction on a weekly basis at a set time each week. The subscriber clients numbered approximately 25, and all were institutional customers.
9. As a result of this business activity, Arbor was both a broker-dealer with market access and a provider of market access to customers; thus, Arbor was required to comply with SEA Rule 15c3-5.
10. With regard to both its own trading on the external ATSS and its subscriber client trading on Clarity BidRate, the firm failed to establish, document, and maintain financial risk management controls and supervisory procedures reasonably designed to systematically limit the financial exposure of the broker or dealer that could arise as a result of market access, including being reasonably designed to prevent the entry of orders that exceed appropriate pre-set credit or capital thresholds in the aggregate for each customer and the broker or dealer and, where appropriate, more finely-tuned by sector, security, or otherwise by rejecting orders if such orders would exceed the applicable credit or capital thresholds; and prevent the entry of erroneous orders, by rejecting orders that exceed appropriate price or size parameters, on an order by order basis or over a short period of time, or that include duplicative orders.

11. With regard to the firm's trading on the external ATSs, the firm relied on the financial risk management controls maintained by the ATSs, but failed to establish, document, and maintain its own financial risk management controls, including those designed to prevent the entry of orders that exceeded pre-set capital thresholds, and to systemically limit the aggregate financial exposure resulting from market access across different external ATSs. Under these circumstances, the firm's reliance on the external ATS controls did not function to meet the firm's obligation to establish, document, and maintain reasonably designed financial risk management controls.
12. The firm's failures in paragraphs 10 and 11 above constitute violations of SEA Rule 15c3-5(b) and (c)(1).
13. In addition, the firm failed to establish, document, and maintain regulatory risk management supervisory procedures reasonably designed to ensure compliance with all regulatory requirements, including to: (i) prevent the entry of orders unless there has been compliance with all regulatory requirements that must be satisfied on a pre-order entry basis; (ii) prevent the entry of orders for securities for a broker or dealer, customer, or other person if such person is restricted from trading those securities; (iii) restrict access to trading systems and technology that provide market access to persons and accounts pre-approved and authorized by the broker or dealer; and (iv) assure that the appropriate surveillance personnel receive immediate post-trade execution reports that result from market access. As a result of these failures, the firm violated SEA Rule 15c3-5(b) and (c)(2).
14. The firm also failed to establish, document, and maintain a system for regularly reviewing the effectiveness of the risk management controls and supervisory procedures required by paragraphs (b) and (c) of Rule 15c3-5. Moreover, in 2015 and 2016, the firm failed to conduct an annual review to assure the overall effectiveness of its risk management controls and supervisory procedures, and to preserve a copy of the documentation of its review. During those years, the firm also failed to document the required CEO certification that such risk management controls and supervisory procedures comply with paragraphs (b) and (c), and that the broker or dealer conducted such review. As a result of these failures, the firm violated SEA Rule 15c3-5(e)(1) and (2).
15. By virtue of the foregoing, Arbor violated Section 15(c)(3) of the Securities and Exchange Act of 1934; SEA Rule 15c3-5(b), (c)(1) and (2), and (e); and FINRA Rule 2010. Through this conduct, Arbor also violated MSRB Rule G-27.

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

- A censure,
- A fine in the amount of \$25,000 (of which \$12,500 pertains to the violations of MSRB Rule G-27), and

- An undertaking to submit a Certification, in writing, by the Chief Executive Officer of Arbor to FINRA Enforcement within 90 days of the issuance of this AWC, certifying that Arbor has enhanced its supervisory system, including its written supervisory procedures, to ensure it establishes, documents, and maintains a system of risk management controls and supervisory procedures reasonably designed to manage the financial, regulatory, and other risks of the firm's business activity related to market access, in accordance with SEA Rule 15c3-5. In addition, the Certification shall attest to, contain documentation of, and set forth the details of the firm's implementation of the undertaking set forth above.

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

The 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.

Within 90 days of the acceptance of this AWC, the Chief Executive Officer on behalf of Arbor shall submit a Certification that explains how the firm has corrected its supervisory system and procedures with respect to establishing, documenting, and maintaining a system of risk management controls and supervisory procedures reasonably designed to manage the financial, regulatory, and other risks of the firm's business activity related to market access to address the violations described in this AWC. Such report shall be submitted to Nicholas A. Jablonski at FINRA's Chicago District Office located at 55 West Monroe Street, Ste. 2700, Chicago, IL 60603 by letter that identifies Arbor Research & Trading, LLC, Case No. 20170522276. The Department of Enforcement may, upon a showing of good cause and at its sole discretion, extend the time for compliance with this provision.

The sanctions imposed herein shall be effective on a date set by FINRA staff.

II.

WAIVER OF PROCEDURAL RIGHTS

The 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, the Respondent specifically and voluntarily waives any right to claim bias or prejudice 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.

The 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

The Respondent understands that:

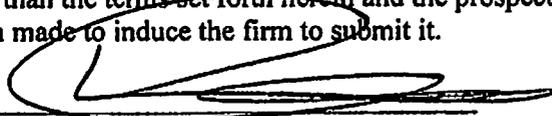
- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs ("ODA"), pursuant to FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against the 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 FINRA or any other regulator against the 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 the subject matter thereof in accordance with FINRA Rule 8313; and**
 4. **The 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. The 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 Respondent'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 Respondent may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. The 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 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 its 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.

3/13/2019

Date (mm/dd/yyyy)

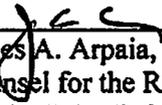

Respondent

Arbor Research & Trading, LLC

By: Christopher Heller

Its: CCO

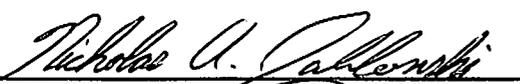
Reviewed by:


James A. Arpaia, Esq.
Counsel for the Respondent
Vedder Price P.C.
222 North LaSalle Street
Chicago, IL 60601
312.609.7618

Accepted by FINRA:

21 MAR 19
Date

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


Nicholas A. Jablonski, Esq.
Principal Counsel
FINRA Department of Enforcement
55 West Monroe Street, Suite 2700
Chicago, Illinois 60603-5052
(312) 230-5097 (Phone)
(312) 606-0742 (Fax)