

FINANCIAL INDUSTRY REGULATORY AUTHORITY

In the Matter of the
Continued Membership
of
Jefferies LLC
(CRD No. 2347)

Notice Pursuant to
Rule 19h-1
Securities Exchange Act
of 1934

SD-2346

March 21, 2024

I. Introduction

On October 14, 2022, Jefferies LLC (“Jefferies” or “Firm”) submitted a Membership Continuance Application (“MC-400A” or “Application”) to FINRA’s Credentialing, Registration, Education, and Disclosure (“CRED”) Department.¹ The Application seeks to permit the Firm, a FINRA member, to continue its membership with FINRA notwithstanding its statutory disqualification. A hearing was not held in this matter; rather, pursuant to FINRA Rule 9523(b), FINRA’s Department of Member Supervision (“FINRA,” “Member Supervision,” or “Department”) approves the Application and is filing this Notice pursuant to Rule 19h-1 of the Securities Exchange Act of 1934 (“Exchange Act” or “SEA”).

II. The Statutorily Disqualifying Event

The Firm is subject to statutory disqualification, as that term is defined in Section 3(a)(39)(F) of the Exchange Act, incorporating by reference Sections 15(b)(4)(D) and (E), as a result of a September 2022 Order issued by the Securities and Exchange Commission (“SEC” or “Commission”) finding Jefferies willfully violated Section 17(a) of the Exchange Act and Rule 17a-4(b)(4) and failed reasonably to supervise its employees with a view to preventing or detecting certain of its employees’ aiding and abetting violations of Section 17(a) of the Exchange Act and Rule 17a-4(b)(4) thereunder (“SEC Order”).²

¹ See MC-400A Application and related attachments compiled by CRED, with a cover memorandum dated October 27, 2022, attached as Exhibit 1.

² See SEC Order, *In re Jefferies LLC*, Exchange Act Release No. 95923 (Sept. 27, 2022), attached as Exhibit 2.

The SEC Order also triggered disqualification under Rules 262(a)(4), 506(d)(1)(iv), and 602(c)(3) of the Securities Act of 1933 and Rule 503(a)(4)(ii) of Regulation Crowdfunding. On September 27, 2022, the SEC granted a waiver from the application of the disqualification provisions of these Rules. See *In re Certain Broker-Dealer Practices*, Securities Act Release No. 11109 (Sept. 27, 2022), attached as Exhibit 3.

According to the SEC Order, from at least January 2018 to September 2021, Jefferies' employees sent and received off-channel communications that related to the Firm's business, and a majority of these written communications were not maintained or preserved by the Firm.³ Further, supervisors who were responsible for preventing this misconduct among junior employees routinely communicated off-channel using their personal devices, and, in so doing, failed to comply with Firm policies by communicating using non-Firm approved methods on their personal devices about the Firm's broker-dealer business.⁴

The Firm was censured, ordered to cease and desist from committing or causing any future violations, ordered to pay a civil money penalty of \$50 million, and ordered to comply with undertakings.⁵ The Firm represented that it paid the penalty on October 11, 2022⁶ and is in compliance with the undertakings.⁷

III. Remedial Measures⁸

According to the Application, the Firm undertook remedial measures prior to the issuance of the SEC Order, including establishing a Centralized Surveillance Team in June 2022 dedicated to the review of electronic communications alerts and off-Platform Communication Alerts, initiating a review of the Firm's communications, surveillance and recordkeeping practices, and implementing a program to remediate the use of approved communications methods, including the prohibition of the use of personal devices for business communications.

Jefferies represented that it enhanced its communications policies and procedures to eliminate the permissive use of approved electronic communication methods on personal devices for business purposes. Instead, the Firm now requires all business-related activity to be conducted only on Firm-issued devices. The Firm further stated that it began the process of distributing more than three thousand Firm-issued devices to its employees in order to capture and archive business-related communications. The Firm also rolled out a third-party application to capture messages on WhatsApp, WeChat or other similar messaging applications on a going forward basis.

In addition to the above, the Firm represented that prior to the issuance of the SEC Order, it retained an independent compliance consultant ("IC") to evaluate, consult and advise the Firm on the adequacy of its policies, procedures, and controls related to communication

³ See Exhibit 2 at p. 2 ¶ 3.

⁴ *Id.* at p. 2 ¶ 4.

⁵ *Id.* at p. 10.

⁶ See Exhibit 1 at FINRA00016.

⁷ *Id.* at FINRA00032. See also Firm's Discovery Responses dated April 6, 2023, October 6, 2023, January 26, 2024 and January 30, 2024, collectively attached as Exhibit 4, at FINRA p. 107.

⁸ See Exhibit 1 at FINRA00032- FINRA00033. See also Exhibit 4 at FINRA p. 64.

surveillance and will continue to review all relevant policies, procedures, and controls and comply with the undertakings and conditions set forth in the SEC Order.

IV. Firm Background

The Firm has been a FINRA member since March 1963.⁹ It is headquartered in New York, New York, with 26 branches (18 of which are Offices of Supervisory Jurisdiction).¹⁰ The Firm employs approximately 2,267 registered representatives (412 of which are registered principals), 58 operations professionals, and 1,652 non-registered fingerprint employees.¹¹ The Firm does not presently employ any individuals who are subject to statutory disqualification.¹²

Jefferies is approved to engage in the following lines of business: exchange member engaged in exchange commission business other than floor activities; broker or dealer making inter-dealer markets in corporate securities over-the-counter; broker or dealer retailing corporate equity securities over-the-counter; broker or dealer selling corporate debt securities; underwriter or selling group participant (corporate securities other than mutual funds); mutual fund retailer; U.S. government securities dealer; U.S. government securities broker; municipal securities dealer; municipal securities broker; put and call broker or dealer or option writer; broker or dealer selling securities of non-profit organizations; non-exchange member arranging for transactions in listed securities by exchange member; trading securities for own account; private placements of securities; broker or dealer selling interests in mortgages or other receivables; effects transactions in commodity futures, commodities, commodity options as broker for others or dealer for own account; engages in other non-securities business and provides technology services to various corporate entities.¹³

Jefferies is a member of the following self-regulatory organizations (“SROs”): BOX Exchange LLC (“BOX”); Cboe Exchange, Inc. (“Cboe”); Cboe BYX Exchange, Inc. (“BYX”); Cboe BZX Exchange, Inc. (“BZX”); Cboe C2 Exchange, Inc. (“C2”); Cboe EDGA Exchange, Inc. (“EDGA”); Cboe EDGX Exchange, Inc. (“EDGX”); Investors Exchange LLC (“IEX”); The Long-Term Stock Exchange (“LTSE”); MEMX LLC (“MEMX”); MIAX Emerald, LLC (“MIAX Emerald”); MIAX PEARL, LLC (“MIAX PEARL”); Miami International Securities Exchange, LLC (“MIAX”); NYSE American LLC (“NYSE American”); NYSE Arca, Inc. (“NYSE Arca”); NYSE Chicago, Inc.

⁹See Central Registration Depository (“CRD”) Excerpt – Organization Registration Status, attached as Exhibit 5.

¹⁰ Verified by FINRA staff through a review of information contained in CRD, last performed on February 9, 2024.

¹¹ *Id.*

¹² *Id.*

¹³ See CRD Excerpt– Types of Business and Other Business Descriptions, collectively attached as Exhibit 6.

(“NYSE Chicago”); NYSE National, Inc. (“NYSE National”); Nasdaq BX, Inc. (“BX”); Nasdaq GEMX, LLC (“GEMX”); Nasdaq ISE, LLC (“ISE”); Nasdaq MRX, LLC (“MRX”); Nasdaq PHLX LLC (“PHLX”); The Nasdaq Stock Market LLC (“Nasdaq”); New York Stock Exchange LLC (“NYSE”);¹⁴ Municipal Securities Rulemaking Board (“MSRB”); The Depository Trust Company (“DTC”); the Fixed Income Clearing Corporation – Mortgage-Backed Securities Division (“FICC-MBS”); the Fixed Income Clearing Corporation – Government Securities Division (“FICC-GOV”); and the National Securities Clearing Corporation (“NSCC”).¹⁵

Recent Examinations

In the past two years, FINRA completed two routine examinations of the Firm, one of which resulted in a Cautionary Action Letter (“CAL”) and one of which was conducted on behalf of various SROs listed above and resulted in zero exceptions, as well as five non-routine examinations of the Firm that resulted in CALs. The SEC also completed one examination in 2022 that resulted in the issuance of two deficiency letters.

A. FINRA Routine Examinations

On August 8, 2022, FINRA completed a routine examination that resulted in five exceptions for which the Firm was issued a CAL.¹⁶ These exceptions pertained to the Firm’s failure to: 1) address or have systems and controls pertaining to how the Firm would identify and prevent a customer account that is approved for uncovered options activity with a net equity of less than \$250,000 from executing an order; 2) identify employees trading alongside customers due to Firm programming failures of an automated trade surveillance system; 3) accurately report the account equity in the “Account Value Summary” section of client statements; 4) accurately append Non-Member Affiliate-Principal Transaction Indicator to a TRACE report causing TRACE reports to be suppressed from dissemination and failing to establish and maintain supervisory systems and Written Supervisory Procedures (“WSPs”) for preventing such mistakes; and 5) accurately report 26 of 50 records to the Consolidated Audit Trail (CAT).¹⁷

Jefferies responded to FINRA by acknowledging the deficiencies and noting that it: 1) made enhancements to its Wealth Management Compliance Manual pertaining to the net equity requirements for uncovered options transactions; 2) implemented a periodic review of the trade reporting logic feed to confirm the appropriate feed; 3) worked with a vendor to remediate account statement account value inaccuracies and provided a sample

¹⁴ See Exhibit 5.

¹⁵ The Firm’s Membership was verified by FINRA staff through a search of public member directories, last performed on February 9, 2024.

¹⁶ See Disposition Letter for Examination No. 20210693378 dated August 8, 2022, Examination Report dated June 21, 2022, and the Firm Response dated July 7, 2022, collectively attached as Exhibit 7.

¹⁷ *Id.* at FINRA pp. 5-9.

remediated DVP/RVP account statement and disclosure information to FINRA for review; 4) updated its TRACE reporting logic; and 5) put in place staff and processes to monitor and rectify the CAT reporting issues, enhanced its CAT protocol, put in place a governance model similar to its TRACE model, and took corrective action with respect to the CAT reporting instances identified in the Exam Report.¹⁸

On June 21, 2022, FINRA completed an examination on behalf of BYX, BZX, C2, EDGA, Cboe, IEX, MIAX, MIAX Emerald, MIAX PEARL, GEMX, ISE, MRX, PHLX, Nasdaq, NYSE, NYSE American, NYSE Arca, NYSE Chicago, and NYSE National, pursuant to Regulatory Services Agreements, that resulted in no exceptions.¹⁹

B. FINRA Non-Routine Examinations

On June 29, 2023, FINRA issued a CAL to the Firm for failing to have reasonable policies and procedures for achieving best execution for customer transactions in Treasury securities and failing to have WSPs reasonably designed to achieve compliance with FINRA Rule 5310.²⁰ In its response to the CAL, the Firm stated that it reviewed its systems and tools used for surveillance and supervision and identified areas requiring enhancements that it intended to implement by the end of 2023.²¹

On April 18, 2023, FINRA issued a CAL to the Firm for effecting transactions during a trading pause and failing to have a supervisory system reasonably designed to identify and prevent the Firm from allocating previously executed shares to the Firm's clients during trading pauses.²² In its response to the CAL, the Firm stated that it took corrective action with respect to one of two trade flows (the other of which the Firm indicated it previously addressed in a January 18, 2022 correspondence to FINRA) and anticipated reaching out to FINRA's Office of General Counsel at FINRA's suggestion for guidance with regard to processing clearing only entries for executions that occurred during a compliant period.²³

On March 30, 2023, FINRA issued a CAL to the Firm for its failure to comply with trade reporting exceptions for Unregistered Secondary Distributions (USDs) and its failure to maintain a supervisory system reasonably designed to achieve compliance with respect to

¹⁸ *Id.* at FINRA pp. 10-16.

¹⁹ *See* Examination Closeout Letter No. 20210693380 dated June 21, 2022, attached as Exhibit 8. Since the examination cited no exceptions, the Firm was not required to submit a written response.

²⁰ *See* CAL for Examination No. 20210714791 dated June 29, 2023 and Firm Response dated July 28, 2023, collectively attached as Exhibit 9.

²¹ *Id.* at FINRA pp. 3-4.

²² *See* CAL for Examination No. 20210727178 dated April 18, 2023 and Firm Response dated May 19, 2023, collectively attached as Exhibit 10.

²³ *Id.* at FINRA pp. 3-4.

transaction reporting under FINRA Rule 6380A.²⁴ Specifically, the Firm was unable to document that certain offerings were distributions, failed to submit USDTs for USDs in over 90 instances over a nine year period, and failed to correct the inaccurate executions after learning of them.²⁵ In its written response to the CAL, the Firm indicated that it took corrective action after conducting a look-back review for late submitted USDT notifications, updated its procedures, and created a tracking spreadsheet to track notification submissions on a going forward basis.²⁶

On January 11, 2023, FINRA issued a CAL to the Firm for inaccurate account information reporting to CAT and failure to maintain a supervisory system reasonably designed to achieve compliance with FINRA Rules relating to CAT.²⁷ In its written response to the CAL, Jefferies acknowledged the inaccurate reporting and noted that it was working with its vendor to correct the impacted records.²⁸ The Firm further noted that it was actively revising its CAT supervisory procedures in compliance with FINRA requirements during the exam period and considered all aspects of its CAT reporting to have a complete set of supervisory procedures.²⁹

On September 28, 2022, FINRA issued a CAL to the Firm on behalf of MIAX Emerald in connection with the Firm's failure to mark accounts as acting-in-concert that were reported to the Large Options Positions Report ("LOPR") and failure to report listed positions to the LOPR.³⁰

C. SEC Examinations

An SEC Examination concluded in January 2022 identified various deficiencies, including the Firm's failure to: 1) comply with the delivery requirements of Form CRS and to establish a system of supervisory controls reasonably designed to ensure compliance therewith; 2) follow the updating requirements of Form CRS; 3) establish and enforce policies and procedures reasonably designed to achieve compliance with Regulation Best Interest's ("Reg BI") Care Obligation as they relate to rollover, account, and structured product recommendations; 4) establish and enforce policies and procedures reasonably

²⁴ See CAL for Examination No. 20200687019 dated March 30, 2023 and Firm Response dated April 24, 2023, collectively attached as Exhibit 11.

²⁵ *Id.* at FINRA p. 1.

²⁶ *Id.* at FINRA p. 4.

²⁷ See CAL for Examination No. 20210731660 dated January 11, 2023 and Firm Response dated January 25, 2023, collectively attached as Exhibit 12.

²⁸ *Id.* at FINRA pp. 3-4.

²⁹ *Id.* at FINRA p. 4.

³⁰ See CAL for Examination No. 20210725890 dated September 28, 2022, attached as Exhibit 13. The Firm was not required to submit a response but acknowledged receipt of the CAL.

designed to identify and mitigate all conflicts of interest associated with such recommendations as well as eliminate sales contests, sales quotas, bonuses, and non-cash compensation; 5) properly deliver Reg BI Disclosures to customers; and 6) keep accurate books and records in terms of identifying structured product transactions as solicited or unsolicited.³¹

Jefferies initially addressed some of the deficiencies cited in the SEC Examination Letter by representing that it retained an independent consultant to advise and assist the Firm in developing its compliance program and worked to keep abreast of emerging best practices including developing a Reg BI New Account Rationale Documentation Form and Reg BI Complex Product Rational Form in preparation for Reg BI and Form CRS.³² The Firm further noted that it updated its compliance manual to make it clearer that any recommendations regarding rollovers required redelivery of a Form CRS at or prior to the time of the recommendation and made updates to its WSPs.³³ Jefferies also represented that its procedures for reviewing changes to the Firm's Form CRS were updated, identifying which changes are material and highlighting any material changes for customers.³⁴ In addressing the third deficiency, the Firm represented that it updated its compliance manual to reflect the existing practice of requiring representatives to use the Rollover Tool offered by Pershing LLC.³⁵ To address the other deficiencies, the Firm represented that it updated its policies and procedures, amongst other things.³⁶

Subsequently, the SEC sent the Firm a Deficiency Follow-Up Letter in connection with the January 2022 examination findings, noting that the Firm failed to redeliver Form CRS in a timely manner, failed to enforce policies and procedures designed to identify and mitigate conflicts of interests, and failed to properly deliver Reg BI Disclosures to customers.³⁷ The Firm provided a written response explaining the errors and noting revisions to the Firm's Conflicts Committee Charter to mitigate conflicts of interest and updates to the delivery of Reg BI disclosures by directing investors directly to disclosure pages.³⁸

³¹ See SEC Examination Letter for File No. 8-15074 dated January 19, 2022 and Firm Response dated March 11, 2022, collectively attached as Exhibit 14.

³² *Id.* at FINRA p. 17, ¶¶ 2-3.

³³ *Id.* at FINRA p. 18, ¶ I.A.1.

³⁴ *Id.* at FINRA p. 19, ¶ I.A.2.

³⁵ *Id.* at ¶ I.A.3.

³⁶ *Id.* at FINRA pp. 20-32.

³⁷ See SEC Deficiency Follow-Up Letter for File No. 8-15074 dated March 28, 2022 and Firm Response dated April 12, 2022, collectively attached as Exhibit 15.

³⁸ *Id.* at FINRA pp. 6-7.

Regulatory Actions

In the past two years, Jefferies has been the subject of 27 disciplinary actions including 22 actions involving various SROs, one order issued by the Commodity Futures Trading Commission (“CFTC”), two issued by the CME Group, and two additional SEC orders besides the SEC Order at issue in this Notice.

A. CFTC Action

On September 27, 2022, the CFTC issued an order finding that the Firm violated Section 4g of the Commodity Exchange Act (7 U.S.C. § 6g), and Regulations 1.31, 1.35, and 166.3 (17 C.F.R. §§ 1.31, 1.35, 166.3 (2021)).³⁹ The violations are based on the same misconduct underlying the SEC Order that is the subject of the Firm’s Application. Jefferies was ordered to cease and desist from violating the above cited sections and regulations, to pay, jointly and severally, a \$30 million civil penalty, and to comply with various undertakings concerning the Firm’s preservation of records pertaining to electronic communications.⁴⁰ The Firm represented that the civil penalty was paid on October 11, 2022⁴¹ and provided documentation demonstrating its compliance with the undertakings.⁴²

B. Cboe, C2, BZX, EDGX, NYSE Arca, MIAX, Nasdaq Options Market LLC (“NOM”), PHLX, ISE, and GEMX Actions

Between November 30 and December 12, 2023, Cboe, C2, BZX, and EDGX issued Disciplinary Decisions incorporating Letters of Consent, MIAX issued a Letter of Consent and NYSE Arca, NOM, PHLX, ISE, and GEMX entered into Letters of Acceptance, Waiver, and Consent (“AWCs”) with the Firm, for violations of analogous rules stemming from a review of certain options orders entered by two of its proprietary traders at the end of the trading day for the purpose of improperly adjusting the price that Jefferies would use to value their positions.⁴³ Between September 2016 and April 2018, Jefferies failed to establish and maintain a supervisory system, including WSPs, reasonably designed to ensure its associated persons’ compliance with securities laws, regulations, and Exchange

³⁹ See *In re Jefferies LLC, et. al.*, CFTC Docket No. 22-43 (Sept. 27, 2022), attached as Exhibit 16.

⁴⁰ *Id.* at pp. 9-13. FINRA has determined that this is not a disqualifying event.

⁴¹ See Exhibit 4 at FINRA p. 81.

⁴² *Id.* at FINRA p. 2 Response to Request 2, and FINRA pp. 22-80.

⁴³ See Cboe Disciplinary Decision and Letter of Consent, File No. URE-28-01 (Dec. 6, 2023); C2 Disciplinary Decision and Letter of Consent, File No. URE-28-02 (Dec. 6, 2023); BZX Disciplinary Decision and Letter of Consent, File No. URE-28-03 (Dec. 6, 2023); EDGX Disciplinary Decision and Letter of Consent, File No. 28-04 (Dec. 6, 2023); NYSE Arca AWC No. 2017056214405, dated November 30, 2023; MIAX Letter of Consent No. 2017056214406, dated February 23, 2024; NOM AWC No. 2017056214407, dated December 12, 2023; PHLX AWC No. 2017056214408, dated December 12, 2023; ISE AWC No. 2017056214409, dated December 12, 2023; and GEMX AWC No. 2017056214410, dated December 12, 2023, collectively attached as Exhibit 17.

rules relating to manipulative trading, in violation of Cboe Rule 4.24, C2 Rule 4.24, BZX Rule 5.1, EDGX Rule 5.1, GEMX Rules 401 and 400, ISE Rules 401 and 400, Nasdaq Rules 3010 and 2010A, PHLX Rules 748 and 707, NOM Rule Chapter III Sections 1 and 2, NOM Rule Chapter V Section 1(b)(iv), and NYSE Arca Rule 11.18(b) and (c).⁴⁴ For these violations, the Firm consented to censures and a combined fine of \$450,000 (\$40,000 payable each to Cboe, C2, BZX and EDGX; \$48,334 payable to MIAX; and \$48,333 payable each to NYSE Arca, NOM, PHLX, ISE and GEMX).⁴⁵ The Fines were paid between December 2023, January 9, 2024 and February 28, 2024.⁴⁶

C. BOX, Cboe, BZX, C2, EDGX, MIAX, MIAX PEARL, NYSE American, NYSE Arca, PHLX, GEMX, ISE and NOM Actions

On various dates between August 5 and November 9, 2022, Jefferies entered into AWCs with PHLX, GEMX, ISE, NOM, NYSE American, and NYSE Arca, was the subject of Disciplinary Decisions incorporating Letters of Consent from C2, EDGX, Cboe, and BZX, and entered into Letters of Consent with BOX, MIAX, and MIAX PEARL, stemming from the Firm's failure to comply with the record keeping requirements of the Exchange Act and other SROs' rules, and failure to establish and maintain a supervisory system reasonably designed to achieve compliance therewith.⁴⁷ From October 2018 through June 2020, Jefferies failed to accurately record order receipt times, record transmission times for certain options orders that were manually or electronically routed, and failed to ensure that its supervisory system was reasonably designed to ensure that any updates or changes it made to its order management system did not impact the system's accurate timestamp function.⁴⁸ For these violations, the Firm was censured and ordered to pay a fine of \$225,000 to be divided amongst the regulators.⁴⁹ The BOX fine was paid on October 14, 2022; the BZX, C2, Cboe, and EDGX fines were paid on August 17, 2022; the MIAX and MIAX PEARL fines were paid on November 21, 2022; the NYSE American and NYSE Arca fines were paid on September 12, 2022; and the PHLX, GEMX, ISE and NOM fines

⁴⁴ *Id.* at FINRA pp. 2, 8, 14, 20, 27-28, 36-38, 45, 53, 61.

⁴⁵ *Id.* at FINRA pp. 2, 8, 14, 20, 29, 38, 46, 54 and 62.

⁴⁶ *See* Exhibit 4 at FINRA pp. 107 and 109.

⁴⁷ *See* PHLX AWC No. 2019061065701 dated August 23, 2022; GEMX AWC No. 2019061065702 dated August 23, 2022; ISE AWC No. 2019061065703 dated August 23, 2023; NOM AWC No. 2019061065704 dated August 23, 2022; BOX Letter of Consent No. 2019061065705 dated October 13, 2022; MIAX Letter of Consent No. 2019061065706 dated November 9, 2022; MIAX PEARL Letter of Consent No. 2019061065707 dated November 9, 2022; NYSE American AWC No. 2019061065708 dated August 5, 2022; NYSE Arca AWC No. 2019061065709 dated August 5, 2022; C2 Disciplinary Decision and Letter of Consent, File No. USE-2277-02/URE-41-02 (Aug. 8, 2022); EDGX Disciplinary Decision and Letter of Consent, File No. USE-2277-04/URE-41-04 (Aug. 8, 2022); Cboe Disciplinary Decision and Letter of Consent, File No. USE-2277-01/URE-41-01 (Aug. 8, 2022); and BZX Disciplinary Decision and Letter of Consent, File No. USE-2277-03/URE-41-03 (Aug. 8, 2022), collectively attached as Exhibit 18.

⁴⁸ *Id.*

⁴⁹ *Id.* at FINRA pp. 5-6.

were paid on October 17, 2022.⁵⁰

D. CME Group Actions

On April 10, 2023, the CME Group issued two Notice of Summary Actions finding that Jefferies failed to maintain a complete electronic audit trail for dates between November 13, 2019 and September 28, 2020 in violation of Rule 536.B.2.⁵¹ The Firm was fined \$4,000 to be divided equally between CME and CBOT.⁵² The fines were paid on April 11, 2023.⁵³

E. SEC Actions and Other Statutory Disqualification Matters

In the recent past, Jefferies was the subject of two SEC orders which also subjected the Firm to statutory disqualification but did not require the filing of a SEA Rule 19h-1 Notice with the Commission.

On September 13, 2022, the SEC issued an order finding that the Firm willfully violated Exchange Act Rule 15c2-12, MSRB Rule G-27, and Section 15B(c)(1) of the Exchange Act when it sold new issue municipal bonds without obtaining required disclosures for investors and relied on an exemption to the disclosure requirements, commonly referred to as the limited offering exemption, but failed to take the steps necessary to satisfy the exemption's criteria.⁵⁴ The Firm was censured, ordered to cease and desist from committing further violations, and ordered to pay \$143,215.22 in disgorgement, civil penalty and prejudgment interest.⁵⁵ The monetary sanctions were paid on September 21, 2022.⁵⁶

On December 9, 2019, the SEC issued an order finding that the Firm failed to reasonably supervise its registered representatives within the meaning of Section 15(b)(4)(E) of the

⁵⁰ See Exhibit 4 at FINRA p. 87, Response to Request 2, and FINRA pp. 90-105.

⁵¹ See CME Group Notice of Summary Action, *In re Jefferies LLC*, File No. CME DQA-23-1153 (Apr. 10, 2023), and CME Group Notice of Summary Action, *In re Jefferies LLC*, File No. CBOT DQA-23-1153 (Apr. 10, 2023), collectively attached as Exhibit 19.

⁵² *Id.* at FINRA p. 2.

⁵³ See Exhibit 4 at FINRA p. 108.

⁵⁴ See *In re Jefferies LLC*, Exchange Act Release No. 95749 (Sept. 13, 2022), attached as Exhibit 20. This order subjects the Firm to statutory disqualification as defined in Exchange Act Section 3(a)(39)(F), incorporating by reference Section 15(b)(4)(D).

⁵⁵ *Id.* at p. 6.

⁵⁶ See Exhibit 4 at FINRA p. 2, Response to Request 3. According to CRD, on September 28, 2022, the Firm submitted an affirmation to FINRA that sanctions were no longer in effect. Since there are no sanctions in effect for statutory disqualification purposes, an application to continue in membership is no longer required under FINRA rules. A 19h-1 Notice was not filed in connection with this matter. See also FINRA Regulatory Notice 09-19 (June 15, 2009).

Exchange Act in that the Firm's policies and procedures were not reasonably designed and implemented to prevent and detect violations of Section 17(a)(3) of the Securities Act of 1933 by associated persons on Jefferies' securities lending desk.⁵⁷ The Firm was censured, ordered to pay \$2,275,609 in disgorgement, a civil penalty in the amount of \$1,251,584.95, and prejudgment interest in the amount of \$468,346.⁵⁸ The monetary sanctions were paid on December 12, 2019.⁵⁹

V. Prior SEA Rule 19h-1 Notices

FINRA previously filed one Rule 19h-1 Notice approving Jefferies' continued membership notwithstanding the existence of its statutory disqualification.

On March 24, 2016, FINRA filed a Rule 19h-1 Notice approving Jefferies' continued membership notwithstanding the existence of its statutory disqualification stemming from a February 2, 2016 SEC Order.⁶⁰ The Commission acknowledged FINRA's Notice on April 28, 2016.⁶¹

VI. The Firm's Proposed Continued Membership with FINRA Plan of Heightened Supervision

The Firm seeks to continue its membership with FINRA notwithstanding its status as a disqualified member. The Firm has agreed to the following Plan of Heightened Supervision ("Supervision Plan" or "Plan") as a condition of its continued membership with FINRA:⁶²

Jefferies LLC (the "Firm") is subject to statutory disqualification pursuant to Section 3(a)(39)(F) of the Securities Exchange Act of 1934, which incorporates by reference Sections 15(b)(4)(D) & (E), as a result of an order issued by the U.S. Securities and Exchange Commission dated September 27, 2022, which found that the Firm willfully

⁵⁷ See *In re Jefferies LLC*, Exchange Act Release No. 87680 (Dec. 9, 2019), attached as Exhibit 21. This order subjects the Firm to statutory disqualification as defined in Exchange Act Section 3(a)(39)(F), incorporating by reference Section 15(b)(4)(E).

⁵⁸ *Id.* at pp. 7-8.

⁵⁹ See Exhibit 4 at FINRA p. 86, Response to Request 1. According to CRD, on December 16, 2019, the Firm submitted an affirmation to FINRA that sanctions were no longer in effect. Since there are no sanctions in effect for statutory disqualification purposes, an application to continue in membership is no longer required under FINRA rules. A 19h-1 Notice was not filed in connection with this matter.

⁶⁰ See *In re the Continued Membership of Jefferies LLC*, SD-MCDC-059, SD-MCDC-055, SD-MCDC-064, (FINRA Mar. 24, 2016), and the SEC's Letter of Acknowledgement dated April 28, 2016, collectively attached as Exhibit 22.

⁶¹ *Id.* at FINRA p. 6.

⁶² See Executed Consent to Plan of Heightened Supervision dated November 13, 2023, attached as Exhibit 23.

violated Section 17(a) of the Securities Exchange Act of 1934 and Rule 17a-4(b)(4) thereunder. The Order also found that the Firm failed to reasonably supervise its employees within the meaning of Section 15(b)(4)(E).

For the purpose of this Supervision Plan, the term “Digital Communication Channels” means all written electronic methods of communication used to conduct Firm business, including but not limited to, text message platforms, whether via SMS messaging, iMessage, or other messaging services such as WhatsApp; direct messaging platforms including X f/k/a “Twitter,” Instagram, LinkedIn, Slack, or Bloomberg Messaging; non-firm domain email accounts; and any other written electronic business-related correspondence. “Digital Communication Channels” encompass platforms used to exchange messages with internal or external stakeholders using either a personal or Firm-provided device.

For the purpose of this Supervision Plan, the term “Off-Channel Communications” means all business-related written electronic messages sent on Digital Communication Channels that are not captured by Firm surveillance and record-keeping systems.

In consenting to this Supervision Plan, the Firm agrees to the following:

1. The Firm shall comply with all of the undertakings outlined in the Securities and Exchange Commission (“SEC” or “Commission”) Order Instituting Administrative and Cease-and-Desist Proceedings, Pursuant to Section 15(b) and 21(C) of the Securities Exchange Act of 1934, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order, In the Matter of Jefferies LLC, Exchange Act Release No. 95923 (September 27, 2022) (“SEC Order”).
2. The Firm shall maintain copies of all correspondence between the Firm and Commission staff relating to the SEC Order, including documenting when Commission staff grants extensions to the deadlines set forth in the SEC Order. The Firm shall maintain copies of all such correspondence in a readily accessible file for ease of review by FINRA staff.
3. The Firm shall provide FINRA’s Statutory Disqualification Group with copies of all certifications submitted to the SEC upon completion of the undertakings as specified in the SEC Order. The Firm shall maintain copies of all certifications in a readily accessible file for ease of review by FINRA staff.
4. The Firm shall maintain copies of all reports and supporting documentation submitted to SEC staff in accordance with the SEC Order, as well as any other documentation needed to evidence the status and completion of each of the undertakings outlined in the SEC Order. The Firm shall maintain copies of such documentation in a readily accessible file for ease of review by FINRA staff.
5. Within six months of the SEC’s Letter of Acknowledgement (“LOA”) in this matter, to the extent that it has not already done so within the past six months, and on at least an annual basis thereafter, for a term of six years from the date of the LOA, the Firm shall conduct training for all associated persons regarding the

Digital Communication Channels that the Firm has approved for business communication, along with the Firm's current policies regarding retention of business-related electronic communications. The Firm shall maintain a record of individual completion of said training and a copy of said training materials in a readily accessible file for ease of review by FINRA staff.

6. The Firm shall conduct the training described in item number 5 above for all new hires, within 65 days from the date of commencement of new hire training, for a term of six years from the date of the LOA. The Firm shall retain a record of all new hire training, including a copy of all written training materials, and keep said record(s) in a readily accessible file for ease of review by FINRA staff.
7. Within 90 days of the LOA, the Firm shall, to the extent that it has not already done so, establish and maintain a written list(s) of all Digital Communication Channels that its associated persons are permitted to use to communicate about Firm business. The list(s) shall be circulated to all of the Firm's associated persons at least on a semi-annual basis, for a term of six years from the date of the LOA. The Firm shall require that all associated persons obtain written approval for use of any Digital Communication Channels to communicate about Firm business that are not already on the approved list(s) maintained by the Firm. The Firm shall maintain a record of all requests and approvals or rejections of each request, including the date of the requests and the Firm's decision. The Firm shall maintain copies of such requests and decisions in a readily accessible file for ease of review by FINRA staff.
8. The Firm shall require all associated persons to disclose on at least a semi-annual basis, for a term of six years from the date of the LOA, any unapproved Digital Communication Channels he/she is using to communicate about Firm business. The Firm shall retain records of such disclosures in a readily accessible file for ease of review by FINRA staff.
9. Subject to Paragraph 7 above, the Firm shall prohibit associated persons from using Off-Channel Communications.
10. Within 90 days of the LOA, the Firm shall, to the extent that it has not already done so, develop a process whereby, in the event that an associated person sends or receives an Off-Channel Communication, the Off-Channel Communication is submitted to the Firm and retained in compliance with relevant securities laws and regulations. For a term of six years from the date of the LOA, the Firm shall maintain a record of all such Off-Channel Communications, including a record of the Firm's receipt of the communication, in a readily accessible file for ease of review by FINRA staff.
11. Within 90 days of the LOA, the Firm shall, to the extent that it has not already done so, develop and maintain written supervisory policies and procedures detailing the Firm's process for disciplining associated persons who utilize Off-Channel Communications to communicate about Firm business. When the Firm utilizes the disciplinary process, the Firm shall document each instance. The Firm shall retain

records of such written supervisory policies and procedures and records of the disciplinary processes and each outcome.

12. All requested documents and certifications under this Supervision Plan shall be sent directly to FINRA's Statutory Disqualification Group at SDMailbox@FINRA.org.
13. The Firm shall obtain written approval from FINRA's Statutory Disqualification Group prior to changing any provision of the Supervision Plan.
14. The Firm shall submit any proposed changes or other requested information under this Supervision Plan to FINRA's Statutory Disqualification Group at SDMailbox@FINRA.org.

VII. Discussion

After carefully reviewing the entire record in this matter, FINRA approves the Firm's request to continue its membership with FINRA, subject to the terms and conditions set forth herein. In evaluating Jefferies' Application, FINRA assessed whether the Firm has demonstrated that its continued membership is consistent with the public interest and does not create an unreasonable risk of harm to investors or the markets. *See* FINRA By-Laws, Art. III, Sec. 3(d); *cf. Frank Kufrovich*, 55 S.E.C. 616, 624 (2002) (holding that FINRA "may deny an application by a firm for association with a statutorily disqualified individual if it determines that employment under the proposed plan would not be consistent with the public interest and the protection of investors"). Typically, factors that bear on FINRA's assessment include, among other things, the nature and gravity of the statutorily disqualifying misconduct, the time elapsed since its occurrence, the restrictions imposed, the Firm's regulatory history, and whether there has been any intervening misconduct.

As of the date of this Notice, FINRA has determined that the Firm's continued membership is consistent with the public interest and does not create an unreasonable risk of harm to investors or the markets. While the SEC Order identified serious violations of securities laws, the Firm was not expelled or suspended, nor were any limitations placed on Jefferies' securities activities. Although the SEC Order triggered certain disqualifications from exemptions from registration available under the Securities Act of 1933 ("Securities Act"), specifically Regulations A, D and E of the Securities Act and Regulation Crowdfunding, the SEC granted the Firm a waiver from the application of the disqualification provisions of Rules 262(a)(4)(ii), 506(d)(1)(iv)(B), and 602(c)(3) of the Securities Act and Rule 503(a)(4)(ii) of Regulation Crowdfunding. Moreover, the full amount of the civil monetary penalty was promptly paid, and the Firm promptly paid the sums owed to the CFTC based on an order with similar findings as the disqualifying one. Additionally, the Firm represented that it is in compliance with the ordered undertakings.

Member Supervision also acknowledges that within the SEC Order the Commission considered the Firm's prompt remedial actions and cooperation with the Commission when determining to accept the Offer of Settlement. Specifically, the Commission acknowledged that Jefferies enhanced its policies and procedures, increased training concerning the use

of approved communications methods including on personal devices and began implementing significant changes to the technology available to employees.⁶³

It is well settled that a firm's regulatory history bears upon the assessment of its ability to comply with securities law and regulations. *See In the Matter of the Continued Association of Craig Scott Taddonio with Meyers Associate, L.P.*, SD-2117, slip op. at 24-25 (FINRA NAC March 8, 2017). However, the corrective measures taken by firms to address deficiencies are weighed in determining whether to approve applications. *See In the Matter of the Association of X with the Sponsoring Firm*, SD11007 (FINRA NAC 2011) (where a firm's corrective actions negated Member Regulation's assertion that the firm failed to appreciate or respect securities rules and regulations). FINRA has also previously approved applications for continued membership where the firms had extensive regulatory history, including disqualifying events. *See In the Matter of the Continued Membership of Deutsche Bank Securities, Inc.*, SD-2190 (FINRA Jan. 14, 2020) and *In the Matter of the Continued Membership of Citigroup Global Markets, Inc.*, SD-2082 (FINRA May 2, 2017) (approving continued membership where the firms had extensive regulatory history, including recent disqualifying events).

In evaluating the Firm's Application, FINRA acknowledges its recent regulatory and disciplinary history, as well as its additional statutory disqualifying events. Member Supervision also notes that, as of the date of this Notice, the Firm has paid all fines and complied with all undertakings ordered by regulators. None of these matters would prevent the continuance of the Firm as a FINRA member. With respect to the Firm's recent examination exceptions, the Firm acted to resolve the deficiencies by enhancing its Wealth Management Compliance Manual, implementing periodic review of relevant trade reporting systems, working with an outside vendor to remediate account statement account value inaccuracies, updating its TRACE reporting logic, putting in place staff and processes to monitor and rectify CAT reporting issues, and enhancing CAT protocols that included a governance model similar to its TRACE model.

FINRA is further reassured by the controls set in place by the Firm's Supervision Plan which bolster the undertakings outlined in the SEC Order and will continue to provide oversight of the Firm and compliance with its remaining undertakings. In accordance with the Plan, the Firm agreed to conduct annual training for all associated persons, including new hires, regarding the Firm's approved digital communication methods and record retention policies for electronic communications. Further, the Plan calls for the Firm to maintain a list of approved digital communication methods that associated persons are permitted to use for Firm business and to circulate that list to its associated persons semi-annually. The Plan requires the Firm's associated persons to obtain written approval to use digital communication channels not already approved. The Plan prohibits the use of off-channel communications and requires associated persons to semi-annually disclose any unapproved digital communication methods they are using for Firm business; they must also forward any off-channel communications that may have taken place to the Firm for retention purposes. These provisions will help to ensure that the Firm is aware of the communication methods being used by associated persons so that it can appropriately

⁶³ See Exhibit 2 at p. 6.

monitor, capture, and retain those communications. Additionally, the Plan mandates that the Firm develop policies and procedures for disciplining associated persons who use unapproved communication methods for Firm business and segregate all certifications, reports, and supporting documentation submitted to the SEC regarding compliance with the undertakings, for ease of review by FINRA staff to ensure ongoing compliance.

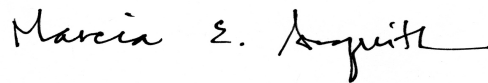
Following the approval of the Firm's continued membership in FINRA, FINRA intends to utilize its examination and surveillance processes to monitor the Firm's continued compliance with the standards prescribed by Exchange Act Rule 19h-1 and FINRA Rule 9523.

Thus, FINRA is satisfied, based on the foregoing and on the Firm's representations made pursuant to the Supervision Plan, that the Firm's continued membership in FINRA is consistent with the public interest and does not create an unreasonable risk of harm to the market or investors. Accordingly, FINRA approves Jefferies' Application to continue its membership with FINRA.

FINRA certifies that the Firm meets all qualification requirements and represents that the Firm is registered with several other SROs including BOX; Cboe; BYX; BZX; C2; EDGA; EDGX; IEX; LTSE; MEMX; MIAX Emerald; MIAX PEARL; MIAX; NYSE; NYSE American; NYSE Arca; NYSE Chicago; NYSE National; BX; GEMX; ISE; MRX; PHLX; Nasdaq; DTC; FICC-GOV; FICC-MBS; and NSCC. The SROs have been provided with the terms and conditions of Jefferies' proposed continued membership, and they concur with FINRA.

In conformity with the provisions of Rule 19h-1 of the Exchange Act, the continued membership of the Firm will become effective within 30 days of the receipt of this notice by the Commission, unless otherwise notified by the SEC.

On Behalf of FINRA,



Marcia E. Asquith
Executive Vice President & Corporate Secretary

EXHIBITS
SD-2346

1. MC-400A Application and related attachments compiled by CRED, with a cover memorandum dated October 27, 2022.
2. SEC Order, *In re Jefferies LLC*, Exchange Act Release No. 95923 (Sept. 27, 2022).
3. *In re Certain Broker-Dealer Practices*, Securities Act Release No. 11109 (Sept. 27, 2022).
4. Firm's Discovery Responses dated April 6, 2023, October 6, 2023, January 26, 2024 and January 30, 2024.
5. Firm CRD Excerpt – Organization Registration Status.
6. Firm CRD Excerpt – Types of Business and Other Business Descriptions.
7. Disposition Letter for Examination No. 20210693378 dated August 8, 2022, Examination Report dated June 21, 2022, and Firm response dated July 7, 2022.
8. Examination Closeout Letter No. 20210693380 dated June 21, 2022.
9. CAL for Examination No. 20210714791 dated June 29, 2023 and Firm Response dated July 28, 2023.
10. CAL for Examination No. 20210727178 dated April 18, 2023 and Firm Response dated May 19, 2023.
11. CAL for Examination No. 20200687019 dated March 30, 2023 and Firm Response dated April 24, 2023.
12. CAL for Examination No. 20210731660 dated January 11, 2023 and Firm Response dated January 25, 2023.
13. CAL for Examination No. 20210725890 dated September 28, 2022.
14. SEC Examination Letter for File No. 8-15074 dated January 19, 2022 and Firm Response dated March 11, 2022.
15. SEC Deficiency Follow-Up Letter for File No. 8-15074 dated March 28, 2022 and Firm Response dated April 12, 2022.
16. *In re Jefferies LLC, et. al.*, CFTC Docket No. 22-43 (Sept. 27, 2022).

17. Cboe Disciplinary Decision and Letter of Consent, File No. URE-28-01 (Dec. 6, 2023); C2 Disciplinary Decision and Letter of Consent, File No. URE-28-02 (Dec. 6, 2023); BZX Disciplinary Decision and Letter of Consent, File No. URE-28-03 (Dec. 6, 2023); EDGX Disciplinary Decision and Letter of Consent, File No. 28-04 (Dec. 6, 2023); NYSE Arca AWC No. 2017056214405, dated November 30, 2023; MIAX Letter of Consent No. 2017056214406, dated February 23, 2024; NOM AWC No. 2017056214407, dated December 12, 2023; PHLX AWC No. 2017056214408, dated December 12, 2023; ISE AWC No. 2017056214409, dated December 12, 2023; and GEMX AWC No. 2017056214410, dated December 12, 2023.
18. PHLX AWC No. 2019061065701 dated August 23, 2022; GEMX AWC No. 2019061065702 dated August 23, 2022; ISE AWC No. 2019061065703 dated August 23, 2023; NOM AWC No. 2019061065704 dated August 23, 2022; BOX Letter of Consent No. 2019061065705 dated October 13, 2022; MIAX Letter of Consent No. 2019061065706 dated November 9, 2022; MIAX PEARL Letter of Consent No. 2019061065707 dated November 9, 2022; NYSE American AWC No. 2019061065708 dated August 5, 2022; NYSE Arca AWC No. 2019061065709 dated August 5, 2022; C2 Disciplinary Decision and Letter of Consent, File No. USE-2277-02/URE-41-02 (Aug. 8, 2022); EDGX Disciplinary Decision and Letter of Consent, File No. USE-2277-04/URE-41-04 (Aug. 8, 2022); Cboe Disciplinary Decision and Letter of Consent, File No. USE-2277-01/URE-41-01 (Aug. 8, 2022); and BZX Disciplinary Decision and Letter of Consent, File No. USE-2277-03/URE-41-03 (Aug. 8, 2022).
19. CME Group Notice of Summary Action, *In re Jefferies LLC*, File No. CME DQA-23-1153 (Apr. 10, 2023), and CME Group Notice of Summary Action, *In re Jefferies LLC*, File No. CBOT DQA-23-1153 (Apr. 10, 2023).
20. *In re Jefferies LLC*, Exchange Act Release No. 95749 (Sept. 13, 2022).
21. *In re Jefferies LLC*, Exchange Act Release No. 87680 (Dec. 9, 2019).
22. *In re the Continued Membership of Jefferies LLC*, SD-MCDC-059, SD-MCDC-055, SD-MCDC-064, (FINRA Mar. 24, 2016), and the SEC's Letter of Acknowledgement dated April 28, 2016.
23. Executed Consent to Plan of Heightened Supervision dated November 13, 2023.