

BEFORE THE BUSINESS CONDUCT COMMITTEE
OF THE
C2 OPTIONS EXCHANGE, INCORPORATED

_____)	
In the Matter of:)	
)	
Merrill Lynch, Pierce, Fenner & Smith Inc.)	
One Bryant Park)	File No. C2 15-0015
17th Floor)	STAR No. 20150466172
New York, NY 10036)	
)	
Subject)	
_____)	

DECISION ACCEPTING LETTER OF CONSENT

This proceeding was instituted by the Business Conduct Committee (the “Committee”) of the C2 Options Exchange, Incorporated (the “Exchange” or “C2”) as a result of an investigation by the staff of the Exchange. In order to resolve this matter, the subject, Merrill Lynch, Pierce, Fenner & Smith Inc. has submitted a Letter of Consent. Such Letter of Consent was submitted solely for the purposes of this proceeding without admitting or denying that a violation of Exchange Rules has been committed. With due regard to the stipulated facts and findings and the proposed sanction contained therein, the Committee believes it is appropriate to accept the Letter of Consent for File No. C2 15-0015/STAR No. 20150466172 which is attached to and made a part of this Decision.

**SO ORDERED
FOR THE COMMITTEE**

Dated: June 2, 2016

**By: /s/ Bruce Andrews
Bruce Andrews
Chairman
Business Conduct Committee**

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LETTER OF CONSENT

In order to resolve these proceedings pursuant to C2 Options Exchange, Incorporated (“C2” or the “Exchange”) Rule 17.3 – Expedited Proceeding, the Subject, Merrill Lynch, Pierce, Fenner & Smith Incorporated (“MLPFS”) hereby submits this Letter of Consent in the above captioned matter. Only for purposes of this proceeding, and without admitting or denying that a violation of Exchange Rules has been committed, MLPFS consents to the Stipulation of Facts and Findings and Sanction set forth below.

Stipulation of Facts and Findings

1. During all relevant periods herein, MLPFS was an Exchange Trading Permit Holder registered to conduct business on the Exchange as a brokerage firm, as a clearing firm, and as a proprietary trading firm. In addition, during all relevant periods, MLPFS was approved to transact business with the public.
2. During all relevant periods herein, MLPFS was acting as a registered broker-dealer.
3. During all relevant periods herein, Exchange Rule 3.4 – Qualification and Registration was in full force and effect.
4. The Exchange conducted an option market participant examination of MLPFS that focused on the months of June 2014 through August 2014, which included, but was not limited to, a review of MLPFS’s compliance with Exchange Rule 3.4.
5. Exchange Rule 3.4(a) provides, in relevant part: “Permit Holders that are individuals (‘PHI’) and associated persons of Permit Holders engaged or to be engaged in the securities business of a Permit Holder shall be registered with the Exchange in the category of registration appropriate to the function to be performed in a form and manner prescribed by the Exchange. Before the registration can become effective, the PHI or individual associated person shall pass a qualification examination appropriate to the category of registration in a form and manner prescribed by the Exchange and submit any registration and examination fees.”
6. Exchange Rule 3.4(b) provides, in relevant part: “Each Permit Holder subject to Exchange Act Rule 15c3-1 shall designate a Financial/Operations Principal. The duties of a Financial/Operations Principal shall include taking appropriate actions to assure that the Permit Holder complies with

applicable financial and operational requirements under the Rules and the Exchange Act, including but not limited to those requirements relating to the submission of financial reports and the maintenance of books and records. Each Financial/Operations Principal is required to have successfully completed the Financial and Operations Principal Examination (Series 27 Exam). Each Financial/Operations Principal designated by a Permit Holder shall be registered in that capacity with the Exchange in a form and manner prescribed by the Exchange.”

7. Exchange Rule 3.4(c) provides, in relevant part: “Each Permit Holder shall designate a Chief Compliance Officer on Schedule A of Form BD. An individual designated as a Chief Compliance Officer is required to register with the Exchange and pass the appropriate heightened qualification examination as prescribed by the Exchange.”
8. Exchange Rule 3.4, Interpretation and Policy .06 provides, in relevant part: “Each Permit Holder must register with the Exchange in a heightened capacity each individual acting in any of the following capacities: (i) officer; (ii) partner; (iii) director; (iv) supervisor of proprietary trading, market-making or brokerage activities; and/or (v) supervisor of those engaged in proprietary trading, market-making or brokerage activities with respect to those activities. Each Permit Holder must register with the Exchange at least two individuals acting in one or more of the capacities described in (i)-(v) above.”
9. From on or about September 27, 2010 through on or about May 27, 2014, MLPFS failed to register its Financial and Operations Principal (“FINOP”) as a Financial/Operations Principal (“FN”) with the Exchange in WebCRD.
10. On various dates from on or about May 21, 2014 through on or about March 18, 2016, MLPFS failed to register ten (10) Associated Persons¹ as a Proprietary Trader Principal (“TP”) with the Exchange in WebCRD.
11. From on or about May 21, 2014 through on or about November 10, 2014, MLPFS failed to register the minimum required number of TPs with the Exchange in WebCRD.
12. On various dates from on or about May 21, 2014 through on or about November 12, 2014, the MLPFS failed to register numerous Associated Persons as a Proprietary Trader (“PT”) with the Exchange in WebCRD.
13. From on or about July 31, 2014 through on or about November 12, 2014, MLPFS failed to register its Chief Compliance Officer (“CCO”) as a Proprietary Trader Compliance Officer (“CT”) with the Exchange in WebCRD.
14. The acts, practices, and conduct described in Paragraph 9 above constitute a violation of Exchange Rule 3.4 by MLPFS, in that MLPFS failed to register its FINOP as a FN with the Exchange in WebCRD.
15. The acts, practices, and conduct described in Paragraph 10 above constitute a violation of Exchange Rule 3.4 by MLPFS, in that MLPFS failed to register ten (10) Associated Persons as a TP with the Exchange in WebCRD.

¹ Person associated with a broker or dealer as defined in the Securities Exchange Act of 1934, as amended, Section 3(a)(18).

16. The acts, practices, and conduct described in Paragraph 11 above constitute a violation of Exchange Rule 3.4 by MLPFS, in that MLPFS failed to register the minimum required number of TPs with the Exchange in WebCRD.
17. The acts, practices, and conduct described in Paragraph 12 above constitute a violation of Exchange Rule 3.4 by MLPFS, in that MLPFS failed to register numerous Associated Persons as a PT with the Exchange in WebCRD.
18. The acts, practices, and conduct described in Paragraph 13 above constitute a violation of Exchange Rule 3.4 by MLPFS, in that MLPFS failed to register its CCO as a CT with the Exchange in WebCRD.

Sanction: A \$75,000 fine and censure.

Subject acknowledges that it has read the foregoing Letter of Consent, that no promise or inducement of any kind has been made to it by the Exchange or its staff, and that this Letter of Consent is voluntary on its part.

Subject understands and acknowledges that the Committee's decision in this matter will become part of its disciplinary record and may be considered in any future Exchange proceeding.

Subject also acknowledges that the Committee's decision to accept or reject this Letter of Consent is final, and that it may not seek review thereof in accordance with Exchange Rule 17.3.

Dated: April 8, 2016

By: /s/ Merrill Lynch, Pierce, Fenner & Smith Incorporated
Merrill Lynch, Pierce, Fenner & Smith Incorporated