

# Execution Compliance and Surveillance Service

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## In this Brochure

[Jordan & Jordan's Execution Compliance and Surveillance Service](#)

## [Key Features of ECS](#)

### [The ECS Modules](#)

- [Spoofing/layering](#)
- [Marking the close](#)
- [Wash Sales](#)
- [Manipulating the Open](#)
- [Short Sale Compliance](#)
- [Trade-Through Compliance](#)
- [Best Execution / NBBO](#)
- [ISO Order Routing and Quote Analysis](#)
- [Disclosure of Order Execution and Routing Information](#)
- [Limit Up-Limit Down](#)

### [Sample ECS Screenshots](#)

For additional information on Jordan & Jordan's Execution Compliance and Surveillance Service, email [info@jandj.com](mailto:info@jandj.com) or call 212-655-2934.

Jordan & Jordan



## Jordan & Jordan's Execution Compliance and Surveillance Service

Jordan & Jordan's Execution Compliance and Surveillance Service (ECS) helps firms evaluate and demonstrate their performance in monitoring for market abusive activity as well as complying with the SEC's and FINRA's rules related to Reg NMS, Short Sale Amendments, and execution quality. Specifically, this includes:

1. Spoofing/Layering (including FINRA Rule 5210)
2. Marking-the-close
3. Wash Sales
4. Manipulating the open
5. Best Execution/NBBO (FINRA Rule 5310) (including OTC and Fixed Income securities)
6. Amendments to Reg SHO (SEC Rule 201)
7. Order Protection Rule (SEC Rule 611)
8. ISO Order Routing and Quote Analysis (SEC Rule 611)
9. Disclosure of Order Execution Information (SEC Rule 605)
10. Disclosure of Order Routing Information (SEC Rule 606)
11. Limit Up-Limit Down (SEC Rule 608)

ECS enables clients to monitor the effectiveness of their required policies and procedures. Equally important, ECS provides detailed records to demonstrate the firm's commitment to ongoing surveillance.

From high-altitude views of trading activity to a ground-level breakdown of executions and market data, ECS offers the transparency needed to be proactive, compliant, and competitive.

## Key Features of ECS

- **Dynamic Charts and Summary Statistics:** Create custom report cards to view trade data from multiple perspectives.
- **Configurable Quote Window:** Define a +/- millisecond timeframe to assist in identifying flickering quotes and data latency.
- **Case Management:** allows users to identify items that are under review, closed or flagged for pattern review. Users can also add notes and attachments to any items to create a detailed audit trail
- **Record Sorting and Filtering:** Quickly focus on items that require attention.
- **Instant Report Aggregation:** View statistics for a range of reports including weekly, monthly, quarterly, or any period of time you specify.
- **Network and Firm Quote Data:** Compare trading activity to internal snapshots and/or network data. ECS uses the NBBO and/or protected quotes displayed by each market center. Network data is the key source for comparative analysis used by regulators.
- **Secure Hosted Solution:** Relieve your IT department of the processing and storage burden. Access your reports on the Web. ECS also hosts your public regulatory 605 and 606 reports.
- **Report Export:** Download reports as Excel or CSV for further investigation and offline storage. Every record includes a hyperlink to its complete details online.



## Key Questions

### Why does my firm need the Execution Compliance and Surveillance Service for compliance monitoring?

J&J's ECS system will provide a daily analysis of your activity and alert you to any issues concerning:

- Spoofing/layering
- Marking-the-close
- Wash Sales
- Manipulating the Open
- Short Sales
- Trade-Throughs
- Execution Quality
- ISORouting
- Snap Quotes
- Limit Up-Limit Down

As an ASP service, you will not have to develop or maintain internal systems to monitor compliance with the frequently changing rules.

### What are the requirements for using ECS?

ECS operates in a hosted and fully managed environment. Your firm uploads data to Jordan & Jordan via SFTP. A number of flat file formats are supported.

## The ECS Modules

### **Fraud-based Manipulative Activity**

The SEC and FINRA require broker-dealers to monitor trading activity occurring through their firms to identify any potential instances of fraudulent behavior. This includes manipulative trading such as spoofing/layering, wash sales, marking the close and manipulating the open.

#### **ECS Solution**

Our service can assist with identifying these types of behavior so that they can be addressed before appearing on FINRA's report cards. The following types of behavior are monitored daily:

- *Spoofing/layering* – using one or multiple orders to give the appearance of interest on one side of the market which facilitates execution of an order(s) on the opposite side of the market, followed by cancellation of remaining orders. Our service looks for this behavior with both general and specific criteria and includes criteria to identify any activity prohibited under FINRA Rule 5210.
- *Marking the close* – using one or multiple trades to artificially increase or decrease the closing price for a security. Our service takes into account varying liquidity levels and other market activity to highlight potential exceptions.
- *Manipulating the open* – entering one or multiple non-bona-fide orders on one marketplace to influence the market for a security, subsequently trading in an away market and then canceling the initial orders. Our service will highlight potential instances based upon a specific pattern of behavior occurring pre-open.
- *Wash sales* – buying and selling the same security at the same time, same price and for the same beneficial owner. Our service will highlight potential exceptions based upon the account identifying information provided by the firm.

### **Best Execution for Fixed Income Securities**

Partnering with a leading fixed income data vendor that provides continuous evaluated pricing of corporate and municipal bonds, ECS provides exception reporting to identify any transactions in such securities where the execution price is not within an acceptable range of the continuously evaluated price at the time of execution. Users of the systems will have the capability to define the parameters of the acceptable range for their firm. This will include corporate and municipal bonds.

The ECS reports will contain the following:

- A graphical summary of your firm's daily fixed income executions that resulted in exceptions and the number of exceptions in each category relative to a benchmark (sector, issuer, issue, etc.).
- The trade specific detail, including counterparty, as well as reference statistics regarding liquidity and transaction cost analysis (TCA).
- Ability to sort the data by asset class, CUSIP, side or counterparty.

### **Best Execution / NBBO – (FINRA Rule 5310)**

[FINRA Rule 5310](#) states: "In any transaction for or with a customer or a customer of another broker-dealer, a member and persons associated with a member shall use reasonable diligence to ascertain the best market for the subject security and buy or sell in such market so that the resultant price to the customer is as favorable as possible under prevailing market conditions."

#### **ECS Solution**

The ECS Best Execution/NBBO module will evaluate your daily executions, comparing them to the NBBO in force at the time and determine whether or not each transaction is "Inside," "At," "Outside (Improved)" or "Outside (Inferior)" to the identified NBB or NBO".

### **Trade-Through Compliance – Order Protection Rule (SEC Rule 611)**

Rule 611 requires any broker-dealer that internalizes trades, or acts as an OTC market maker or block positioner to establish, maintain, and enforce written policies and procedures to prevent trade-throughs of protected quotations.

#### **ECS Solution**

The ECS Trade-Through module will evaluate your daily executions by comparing them to the day's "Network Data" to determine whether or not each transaction is compliant with the Order Protection Rule. Transactions will be identified as either "Compliant," "Trade-Through (Non-Exempt)" or "Trade-Through (Exempt)".

**Key Questions Continued****What are the different types of ECS solutions available?**

J&J's ECS provides analysis and reports in support of:

- Amendments to Reg SHO (SEC Rule 201)
- Order Protection Rule (SEC Rule 611)
- Best Execution/NBBO (FINRA Rule 5310)
- ISO Order Routing (SEC Rule 611)
- Disclosure of Order Execution Information (SEC Rule 605)
- Disclosure of Order Routing Information (SEC Rule 606)
- Limit Up-Limit Down (SEC Rule 608)
- Spoofing/layering
- Marking the close
- Wash sales
- Manipulating the open

**Why choose Jordan & Jordan?**

Jordan & Jordan (J&J) offers securities industry domain expertise focused on the information, processes and technologies applied to this marketplace. Continually keeping pace with market practice and regulatory change, we provide business, regulatory and technical solutions to meet the challenges faced by our customers in an increasingly competitive market. For additional information please visit: <http://www.jandj.com>.

## The ECS Modules (continued)

### Short Sale Compliance – Amendments to Reg SHO (SEC Rule 201)

The SEC's short sale rule is designed to restrict the prices at which a stock can be sold short. If the price of that security decreases by 10 percent or more from the security's closing price (as determined by the listing market for the security as of the end of regular trading hours on the prior day), a circuit breaker is triggered for that security. Under amendments to the SEC's Short Sale rule, policies and procedures must be implemented to prevent placement or execution of an order that does not comply with the new short sale restriction.

#### **ECS Solution**

The ECS Short Sale compliance module provides an in-depth look at each Short Sale and reviews the state of the circuit breaker at the time for the stock in question. Short Sales not marked "Short Sale Exempt" will be flagged if the breaker was engaged at the time. Those marked exempt without a qualifying 201(d) reason will be flagged if the breaker was not engaged. Those marked exempt by the 201(c) Broker-Dealer Provision or no exemption reason will be subjected to the price test if the breaker was engaged, and flagged if the price did not exceed the National Best Bid at the time.

### ISO Order Routing and Quote Analysis (SEC Rule 611)

Rule 611 requires a broker-dealer to demonstrate that trades have been executed at non-trade-through prices or that the trades qualify for one of the exemptions from the Rule as documented within the [SEC's Responses to FAQs](#). To claim the Intermarket Sweep Order (ISO) Exemption, the broker-dealer is required to route, simultaneously with the execution of the block trade, an ISO to execute against the full displayed size of any protected quotation with a price superior to the block trade price. In either case, trade prices should be compared with protected quotations at the time of execution, as reliably documented, to affirm that such quotations were not traded through or that the ISOs were routed appropriately.

#### **ECS Solution**

The ECS ISO Order Routing and Quote Analysis module will evaluate your daily ISOs against your snapped quote data, and optionally compare your quotes with the relevant "Network Data" to determine compliance with Rule 611. ECS will provide a detailed report identifying each ISO as "Compliant," "ISO Invalid," "ISO Mispriiced," "ISO Misdirected," "Quotes Invalid," "Quotes Missing" or "Quotes Mismatched".

### Disclosure of Order Execution & Routing Information (SEC Rules 605 & 606)

Rules 605 and 606 required broker-dealers to make publicly available reports on execution and routing information. Rule 605 requires a report on a broker-dealers' execution quality on a monthly basis, while Rule 606 requires a report on a broker-dealers' routing of non-directed orders in NMS securities on a quarterly basis.

#### **ECS Solution**

The ECS 605 report provides a complete solution for compliance with the rule including the ability to search for orders using multiple criteria, including Date, OrderID and Ticker. The ECS 606 report provides a complete solution for compliance with the rule including a percentage breakdown, by venue, of all non-directed orders, and by market orders, limit orders, or other orders. ECS will also provide clients with a public URL to their 605 and 606 reports as well as private access to more detailed execution and routing information than required by the Rule.

## The ECS Modules (continued)

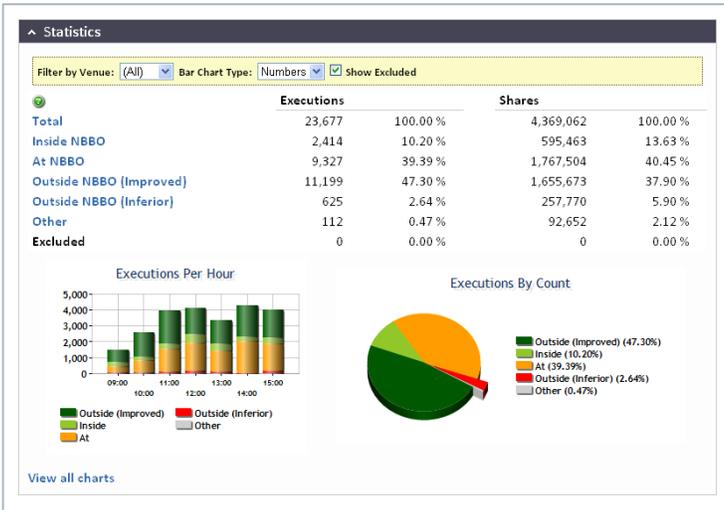
### **Limit Up-Limit Down (SEC Rule 608)**

Under the Limit Up-Limit Down rule, all market participants are required to "establish, maintain, and enforce written policies and procedures that are reasonably designed to prevent" trading outside the upper and lower limit bands, when such bands are in effect. Additionally, firms are not allowed to execute orders during any trading pauses in effect due to Limit Up-Limit Down.

### **ECS Solution**

The ECS LULD module will analyze what percentage of your firm's transactions occurred inside, at, and outside the upper and lower price-bands in effect at the time of the execution. Also, you will be able to see what the upper and lower price-bands were, if any, for a security at a given time in the trading day.

# Sample ECS Screenshots



Jordan & Jordan's ECS will generate a graphic report, within each selected module, that summarizes your firm's trading activity.

ECS provides users with access to details of each transaction including associated quotes and venues.

**SIP Quotes [-1000, +1000 ms]**

8 Protected Quotes Found

Window	Venue	Time	Symbol	Bid Price	Bid Shares	Ask Price	Ask Shares
Show	NASDAQ	11:13:35.889	FOE	12.2100	8	12.2400	5
Show	NYSE	11:13:35.882	FOE	12.2200	3	12.2400	7
Hide	NYSE Arca	11:13:35.832	FOE	12.2200	2	12.2400	3
	NYSE Arca	11:13:11.445	FOE	12.2200	2	12.2400	2
	NYSE Arca	11:13:35.902	FOE	12.2100	1	12.2300	2
	NYSE Arca	11:13:35.902	FOE	12.2100	1	12.2300	2
	NYSE Arca	11:13:35.909	FOE	12.2100	2	12.2300	1
	NYSE Arca	11:13:35.909	FOE	12.2100	2	12.2300	1
	NYSE Arca	11:13:35.915	FOE	12.2100	3	12.2300	1
Show	BATS	11:13:23.340	FOE	12.2100	1	12.2400	2
Show	NQBX	11:13:21.149	FOE	12.2100	1	12.2500	1
Show	CBSX	11:10:31.735	FOE	12.1600	6	12.3000	6
Show	NSX	11:13:35.981	FOE	12.2200	1	0.0000	0
Show	CHX	11:13:35.929	FOE	12.2000	6	0.0000	0

ECS allows the user to assign a case state to each exception noted as well as immediately view exceptions grouped by their particular case state.

**Daily NBBO Report 03/08/2017**

Summary | Charts | Records | Exports | Details

**Record**

Execution: NBBO-00009-1 Time: 11:02:19.481  
 Venue: BATS Symbol: TSLA  
 Order: NBBO-00009 Side: Buy  
 Price: \$249.4000 Delta: -0.0200  
 Shares: 25 Score: OutsideInferior  
 Trader: Trader\_E Client: Client\_E

**Case Audit Log**

Event Time	Case State	Comment	User
		Add an optional comment	

**SIP Quotes [-1000, +1000 ms]**

Time	Symbol	Bid Shares	Ask Venue	Ask Price	Ask Shares
11:02:18.469	TSLA	100	BZX	\$249.3800	100
11:02:18.676	TSLA	100	IFVG	\$249.3700	100