

**UNITED STATES OF AMERICA**  
**Before the**  
**SECURITIES AND EXCHANGE COMMISSION**

**SECURITIES EXCHANGE ACT OF 1934**  
**Release No. 71695 / March 12, 2014**

**ADMINISTRATIVE PROCEEDING**  
**File No. 3-15785**

**In the Matter of**

**JEFFERIES LLC**  
**(formerly known as**  
**JEFFERIES &**  
**COMPANY, INC.),**

**Respondent.**

**ORDER INSTITUTING**  
**ADMINISTRATIVE PROCEEDINGS**  
**PURSUANT TO SECTION 15(b)(4) OF THE**  
**SECURITIES EXCHANGE ACT OF 1934,**  
**MAKING FINDINGS, AND IMPOSING**  
**REMEDIAL SANCTIONS**

**I.**

The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest that public administrative proceedings be, and hereby are, instituted pursuant to Section 15(b)(4) of the Securities Exchange Act of 1934 (“Exchange Act”) against Jefferies LLC (formerly known as Jefferies & Company, Inc.) (“Jefferies” or “Respondent”).

**II.**

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the “Offer”) which the Commission has determined to accept. Respondent admits to the facts contained in paragraphs 5 to 8<sup>1</sup> and the Commission’s jurisdiction over it and the subject matter of these proceedings, and consents to the entry of this Order Instituting Administrative Proceedings Pursuant to Section 15(b)(4) of the Securities Exchange Act of 1934, Making Findings, and Imposing Remedial Sanctions (“Order”), as set forth below.

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<sup>1</sup> Respondent has entered into a Non-Prosecution Agreement with the United States Attorney’s Office for the District of Connecticut, in which Respondent has admitted to certain facts relating to the misconduct by representatives on its mortgage-backed securities desk.

### III.

On the basis of this Order and Respondent's Offer, the Commission finds<sup>2</sup> that:

#### **Summary**

1. Respondent failed reasonably to supervise Jesse C. Litvak ("Litvak") and certain other representatives on the Respondent's mortgage-backed securities ("MBS") desk with a view to preventing and detecting their violations of the federal securities laws during the time period from 2009 to 2011. Litvak was a managing director and senior trader of residential MBS ("RMBS"). Among Litvak's and the other representatives' job responsibilities during this time was to trade RMBS on a principal basis with counterparties. In doing so, Litvak and other representatives of Respondent would purchase RMBS from one customer and sell the same RMBS to another customer on the same day ("intra-day trades"). Litvak and others on the MBS desk would also purchase RMBS, hold them in inventory and sell them to another customer at a later date ("inventory trades"). From 2009 to 2011, Litvak and certain other representatives lied to, or otherwise misled, customers about the price at which Respondent had bought RMBS and consequently the amount of the firm's profit on the trades. This misconduct deceived customers about the price at which Respondent had recently acquired the RMBS. Respondent's implementation of its supervisory procedures relating to review of its MBS desk representatives' electronic communications with customers was inadequate to prevent and detect these misrepresentations to customers.

#### **Respondent**

2. Respondent is a Delaware limited liability company with its primary office in New York, New York. Respondent has been registered with the Commission as a broker-dealer since 1969. Respondent is a member of the Financial Industry Regulatory Authority ("FINRA").

#### **Other Relevant Person**

3. Litvak, age 39, was associated with Respondent from approximately April 2008 to December 2011, when he was terminated in connection with the matters discussed herein. While he was associated with Respondent, Litvak worked in its Stamford, Connecticut office and was supervised by personnel in its Stamford office.

#### **Prior Actions Against Litvak**

4. On January 25, 2013, in the United States District Court for the District of Connecticut, Litvak was indicted and charged with securities fraud, fraud against the United States (specifically the Troubled Asset Relief Program), and making false statements to the United States government. On January 28, 2013, also in the United States District Court for the District of Connecticut, the Commission charged Litvak with violating Section 17(a) of the Securities Act of 1933 by engaging in fraud in the offer or sale of securities, and with violating Section 10(b) of the Exchange Act by engaging in fraud in connection with the purchase or sale of securities.

#### **The Misconduct**

5. From 2009 to 2011, Litvak engaged in misconduct on at least 25 RMBS trades. In each instance, Litvak made misrepresentations to, or otherwise misled, customers about the

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<sup>2</sup>The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

price at which Respondent had purchased the RMBS before re-selling it to the customer and, consequently, about Respondent's trading profit.

6. Respondent's MBS desk executed intra-day and inventory trades with buyers and sellers of non-agency RMBS. The market for non-agency RMBS is opaque because there is no contemporaneous public dissemination of trade prices. Therefore, the buyer of a RMBS has no way to learn the price paid by the broker, unless the broker chooses to tell the customer. For intra-day trades, Respondent purchased RMBS from one customer and then sold the same security to another customer. Respondent's profits or losses in such intra-day trades were based on Respondent re-selling the RMBS and making or losing money based upon the spread (or difference) between the purchase price and the sale price. At times, when executing an intra-day trade, a representative from Respondent's MBS desk would negotiate the firm's profit spread. To negotiate that spread, a trader or sales person provided information to the customer about the purchase price and then the customer agreed to an amount "on top" of the purchase price the customer was willing to pay. Respondent's traders and their customers discussed the spread in terms of the number of "points" or "ticks" that Respondent would receive on a trade. One "tick" equals 1/32 of a point. For example, a price of 65-16, refers to 65 and 16 ticks or 65 16/32 (or 65.5). These negotiations often occurred in electronic communications, including Bloomberg group chats.

7. On at least 25 occasions, when Litvak resold RMBS in both intra-day and inventory trades, he lied to the customers about how much Respondent had paid for the securities. In order to negotiate a higher sale price to the customers, Litvak misled them into believing that Respondent had paid a higher price for the RMBS than it actually had. By misrepresenting the purchase price, Litvak misled customers about the amount of profit Respondent would receive on the transaction. For example, if Litvak told the customer that the purchase price was 80 and the sale price was 80 and 4 ticks, the customer understood that Respondent received 4 ticks in profit. However, if the purchase price was actually 79 and the sale price was 80 and 4 ticks, then Respondent received an extra undisclosed point in profit as a result of Litvak's misrepresentation. On some occasions, Litvak and the customer explicitly agreed on the amount of Respondent's profit based on the purchase price as represented by Litvak.

8. Some of Respondent's representatives on the MBS desk were aware of Litvak's misconduct. On a more limited basis, other representatives on Respondent's MBS desk also made misrepresentations to customers, similar to those made by Litvak, in connection with the negotiation of Respondent's trading profit. Litvak and the other representatives made these misrepresentations in electronic communications, including Bloomberg group chats.

#### **Respondent's Failure to Supervise**

9. Respondent failed reasonably to implement adequate procedures regarding its review of MBS traders' communications with their customers. During the relevant time period, the Respondent's policy regarding supervisory review of electronic communications provided that each employee's electronic communications were subject to review by a supervisor. Respondent used an automated system to select a sample of communications by each employee (on a daily basis) for review by his or her supervisor. The communications were selected both randomly and based on language-specific searches. The policy stated that the supervisor should review the selected communications "on a regular basis, preferably daily." The policy instructed

supervisors that “from time to time, the review of communications may require escalation to senior management and/or the Compliance Department,” and provided a list of the types of communications that “should be escalated for further review,” including communications containing an “[o]mission of material facts or presence of untrue, promissory, exaggerated or any other misleading statements.”

10. Respondent failed reasonably to implement this procedure for review of communications in a manner that would reasonably be expected to detect the misrepresentations about purchase price made by Litvak and other representatives on Respondent’s MBS desk. The market for RMBS is opaque because there is no public mechanism capturing bid and offer prices. Thus, because one of the compliance risks faced by a trading desk offering MBS is that representatives may make misrepresentations about pricing, Respondent needed to implement procedures reasonably designed to detect such misrepresentations in order to address the risks arising from its business. Respondent did not reasonably implement its procedures to guide supervisors on how to detect possible misrepresentations to customers in electronic correspondence which could then be elevated to management or compliance for further analysis.

11. In particular, although the firm’s procedures required that supervisors review samples of all forms of electronic communications, during the relevant time period, Respondent’s system for selecting electronic communications failed to include Bloomberg group chats. This systems failure caused certain types of communications with customers to be excluded from supervisory review. Included in these communications were misrepresentations made by Litvak and other representatives on the MBS desk to Respondent’s customers about the price that Respondent paid for securities it was re-selling.

12. In addition, Respondent failed to provide direction and/or tools to supervisors to meaningfully review its representatives’ communications with customers about the price that Respondent paid for the securities. A number of Litvak’s (and the other representatives’) electronic communications with customers contained direct misstatements about the price at which Respondent purchased the RMBS that were offered. Misrepresentations such as those made by Litvak and other representatives about RMBS pricing would have been difficult for supervisors to have detected without checking at least a sample of the representatives’ communications about RMBS pricing against actual pricing information.

13. If Respondent had reasonably implemented its procedures to include Bloomberg group chats and to provide the necessary direction and/or tools in supervisory review of customer correspondence, the supervisors of Litvak and the other representatives who misrepresented price information to customers would likely have determined that Litvak’s and the other Jeffries representatives’ communications contained “untrue ... exaggerated or [] other misleading statement[s].”

### **Conclusions**

14. Under Section 15(b)(4)(E) of the Exchange Act, broker-dealers are responsible for reasonably supervising, with a view to preventing and detecting violations of the federal securities laws, persons subject to their supervision. Respondent was responsible for supervising Litvak and other representatives on the MBS desk.

15. Litvak engaged in conduct that violated Section 17(a) of the Securities Act and Section 10(b) of the Exchange Act and Rule 10b-5 thereunder. Other representatives on Respondent’s MBS desk engaged in conduct that violated Section 17(a)(2) of the Securities Act.

Respondent failed reasonably to supervise Litvak and the other representatives on Respondent's MBS desk for purposes of Section 15(b)(4)(E) of the Exchange Act because Respondent failed to implement its procedures regarding review of customer correspondence in a manner that would reasonably be expected to prevent and detect the violations by Litvak and the other representatives.

### **Respondent's Remedial Efforts and Cooperation**

16. In determining to accept Respondent's Offer, the Commission considered the remedial acts undertaken by Respondent regarding its supervisory system, including, among other things, the implementation of targeted risk-based surveillance to supplement the previous procedures for reviewing electronic communications. According to Respondent, this surveillance includes sampling trades with specified pricing profiles and reviewing the relevant trade data against the related electronic communications with the goal of identifying any potential misrepresentations or inappropriate dealings in those transactions. The Commission also considered Respondent's voluntary disclosures concerning this matter and the cooperation afforded the Commission staff in its investigation of this matter.

### **Undertakings**

17. Respondent shall retain, within 30 days of the date of the issuance of this Order, the services of an Independent Compliance Consultant ("Consultant") not unacceptable to the staff of the Commission. The Consultant's compensation and expenses shall be borne exclusively by Respondent. Respondent shall require the Consultant to conduct a review of any and all policies and procedures deemed relevant by the Consultant to preventing and detecting fraud on the MBS desk (and any other fixed income desk the Consultant determines is susceptible to the same misconduct described in this Order) including, but not limited to, the policies and procedures relating to the supervisory review of employees' electronic communications.

18. At the end of the review, which in no event shall be more than four months after the date of the issuance of this Order, Respondent shall require the Consultant to submit an Initial Report to Respondent and to the Commission staff. The Initial Report shall describe the review performed, the conclusions reached, and shall include any recommendations deemed necessary to make the policies and procedures adequate. Respondent may suggest an alternative procedure designed to achieve the same objective or purpose as that of the recommendation of the Consultant. The Consultant shall evaluate any alternative procedure proposed by Respondent. If, upon evaluating Respondent's proposal, the Consultant determines that the suggested alternative is reasonably designed to accomplish the same objective as the recommendations in question, then the Consultant may approve the suggested alternative and make the recommendations. However, Respondent shall abide by the Consultant's final recommendation. Respondent shall require the Consultant to inform Respondent of the Consultant's final determination concerning any alternative recommendation within 14 days after the conclusion of the discussion and evaluation by Respondent and Consultant.

19. Within five months after the date of issuance of this Order, Respondent shall, in writing, advise the Consultant and the Commission staff of the recommendations it is adopting.

20. Within six months after the date of issuance of this Order, Respondent shall require the Consultant to complete its review and submit a written final report to Commission staff. The Final Report shall describe the review made of Respondent's policies and procedures relating to preventing and detecting fraud in the fixed income desks as selected by the

Consultant; set forth the conclusions reached and the recommendations made by the Consultant, as well as any proposals made by Respondent; and describe how Respondent is implementing the Consultant's final recommendations.

21. Respondent shall take all necessary and appropriate steps to adopt and implement all recommendations contained in the Consultant's Final Report.

22. No later than three months after the date of the Consultant's Final Report, Respondent shall submit to Commission staff an affidavit setting forth the details of its efforts to implement the Consultant's recommendations as set forth in the Final Report and its compliance with same.

23. Respondent shall require the Consultant to enter into an agreement providing that for the period of the engagement and for a period of two years from completion of the engagement, the Consultant shall not enter into any employment, consultant, attorney-client, auditing or other professional relationship with Respondent, or any of its present or former affiliates, directors, officers, employees, or agents acting in their capacity as such. The agreement will also provide that the Consultant will require that any firm with which he/she is affiliated or of which he/she is a member, and any person engaged to assist the Consultant in the performance of his or her duties under this Order shall not, without prior written consent of the Commission staff, enter into any employment, consultant, attorney-client, auditing or other professional relationship with Respondent, or any of its present or former affiliates, directors, officers, employees, or agents acting in their capacity as such for the period of the engagement and for a period of two years after the engagement.

24. Respondent shall certify, in writing, compliance with the undertakings set forth above. The certification shall identify the undertakings, provide written evidence of compliance in the form of a narrative, and be supported by exhibits sufficient to demonstrate compliance. The Commission's staff may make reasonable requests for further evidence of compliance, and Respondent agrees to provide such evidence. The certification and supporting material shall be submitted to Kevin M. Kelcourse, Assistant Director, Boston Regional Office, Securities and Exchange Commission, 33 Arch Street, Suite 2300, Boston, MA 02110, with a copy to the Office of the Chief Counsel of the Enforcement Division, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549, no later than sixty days from the date of completion of the undertakings.

25. Payments: Respondent also undertakes to make payments to customers in the aggregate amount of approximately \$11,000,000, representing the full amount of the profits that Respondent earned on affected intra-day trades, which satisfies the disgorgement and pre-judgment interest ordered below in Section IV.B ("Payments"). Within one year after the date of entry of this Order, Respondent shall submit to the Commission staff for its approval a final accounting and certification of the Payments made, which final accounting and certification shall be in a format to be provided by the Commission staff. The final accounting and certification shall include, but not be limited to, for each transaction: (i) total profit on the transaction; (ii) amount paid to the customer(s); (iii) the date of the payment(s); and (iv) the check number(s) or other identifier of money transferred. Respondent shall submit proof and supporting documentation of such Payments (whether in the form of fee credits, cancelled checks, or otherwise) in a form acceptable to the Commission staff and under a cover letter that identifies Jefferies as Respondent in these proceedings and the file number of these proceedings to Kevin Kelcourse, Assistant Regional Director, Boston Regional Office, Securities and Exchange

Commission, 33 Arch Street, Boston, MA 02110, or such other address the Commission staff may provide. Respondent shall provide any and all supporting documentation for the accounting and certification to the Commission staff upon its request and shall cooperate with any additional requests by the Commission staff in connection with the accounting and certification.

26. For good cause shown and upon timely application by the Consultant or Respondent, the Commission's staff may extend any of the deadlines set forth in these undertakings.

#### IV.

In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in Respondent's Offer.

Accordingly, it is hereby ORDERED that:

- A. Pursuant to Section 15(b)(4) of the Exchange Act, Respondent is hereby censured.
- B. Respondent shall pay disgorgement of \$4,200,402 and prejudgment interest of \$292,515 to the Securities and Exchange Commission. The foregoing amounts shall be deemed satisfied by Respondent's payments directly to customers as described in paragraph 25 above.
- C. Respondent shall, within 10 days of the entry of this Order, pay a civil money penalty in the amount of \$4,200,402 to the United States Treasury. If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. 3717. Payment must be made in one of the following ways:

- (1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;
- (2) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at <http://www.sec.gov/about/offices/ofm.htm>; or
- (3) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center  
Accounts Receivable Branch  
HQ Bldg., Room 181, AMZ-341  
6500 South MacArthur Boulevard  
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying Jefferies as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Kevin Kelcourse, Assistant

Director, Boston Regional Office, Securities and Exchange Commission, 33 Arch Street, Suite 2300, Boston, MA 02110.

D. Respondent shall comply with the undertakings enumerated in paragraphs 17 to 24 above.

By the Commission.

Jill M. Peterson  
Assistant Secretary