Press Release

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NYDFS ANNOUNCES BARCLAYS TO PAY ADDITIONAL $150 MILLION PENALTY, TERMINATE EMPLOYEE FOR AUTOMATED, ELECTRONIC FOREIGN EXCHANGE TRADING MISCONDUCT

Barclays Used "Last Look" System to Automatically Reject Client Orders that Would Be Unprofitable Because of Subsequent Price Swings during Milliseconds-long Latency ("Hold") Periods

Additional Fine Brings Overall Barclays Foreign Exchange NYDFS Penalty to $635 Million

Anthony J. Albanese, Acting Superintendent of Financial Services, announced today that Barclays will pay an additional $150 million penalty to the New York State Department of Financial Services (NYDFS) and is terminating its Global Head of Electronic Fixed Income, Currencies, and Commodities ("eFICC") Automated Flow Trading for misconduct related to automated, electronic foreign exchange (FX) trading through its "Last Look" system.

In certain instances, Barclays used this Last Look system to automatically reject client orders that would be unprofitable for the bank because of subsequent price swings during milliseconds-long latency ("hold") periods. Furthermore, when clients questioned Barclays about these rejected trades, Barclays failed to disclose the reason that the trades were being rejected, instead citing technical issues or providing vague responses. Together with a previous May 2015 enforcement action related to manipulation in the spot FX trading market, today's action brings the overall penalty Barclays has paid in NYDFS FX enforcement actions to $635 million.

Acting Superintendent Albanese said: "We are pleased that Barclays worked with us to resolve this matter. This case highlights the need for greater oversight and action to help prevent the misuse of automated, electronic trading platforms on Wall Street, which is a wider industry issue that requires serious additional scrutiny."

Barclays's Last Look System

Barclays operates an electronic trading platform for the foreign exchange market, called BARX, which allows traders to execute FX trades with Barclays; Barclays's FX electronic trading clients fall into two broad categories: (1) clients that trade using a Barclays graphical user interface ("GUI"); and (2) clients that trade using a Barclays financial information exchange application program interface ("FIX/API").

The ever-increasing power of sophisticated automated electronic trading systems and technologies creates opportunities for investment entities, which might be able to exploit latencies in the flow of information by requesting trades at prices informed by information that Barclays and other market makers might not yet have. Orders of this kind, which seek to outflank and exploit a market maker's less nimble trading systems, are known as "toxic order flow" or "toxic flow." For example, a sophisticated electronic trading business might detect market movement some milliseconds (1/1,000sth of a second) before Barclays's systems have, and therefore benefit by trading with Barclays before Barclays's systems have properly adjusted their prices.

In order to protect Barclays from toxic flow, Barclays designed Last Look, which imposed a hold period between its receipt of a customer order and its acceptance and execution of the same. During this interval, Barclays would compare the BARX price of the customer's order at the start of the hold time against the BARX price at the end of the hold time; where the price at the end of the hold time had moved against Barclays (and in favor of the client) beyond the threshold set by Barclays in the tens and hundreds of milliseconds following the order, Barclays would reject the trade.

Barclays's Rejection of Client Orders

Barclays did not seek to distinguish toxic order flow from instances in which prices merely happened to move in favor of the customer and against Barclays after the customer's order was entered on Barclays's systems. Barclays instead applied Last Look to all FIX/API trades, as well as a handful of GUI customers.

Whenever prices within this holding period moved against Barclays and in favor of the customer beyond a certain undisclosed loss threshold, Barclays treated the trade as toxic flow. Barclays thereby evaluated and applied its Last Look rejection protocols almost entirely in reference to the profit or loss the trade would bring to the Bank. **Thus, instead of employing Last Look as a purely defensive measure, Barclays instead used it as a general filter to reject customer orders that Barclays predicted, based on price movements during the hold period, would be unprofitable to the Bank.**

After the commencement of the Department's FX trading investigation, Barclays revised Last Look, in September and October 2014, so that its rejection filters would operate symmetrically. That is, rather than reject only those orders that became sufficiently unprofitable to the Bank, trade requests sufficiently unprofitable to customers (but profitable to the Bank) would also be rejected. In executing these revisions to make Last Look symmetrical, Barclays neglected to update one of its trading platforms, causing 7% of its trading volume to continue under the asymmetrical paradigm until August 2015. Barclays has since updated all trading platforms.

Barclays's Communications to Clients Regarding Last Look

On certain occasions, from at least 2009 to 2014, certain Barclays employees provided insufficient and/or incomplete information to its customers about its use of Last Look. Barclays did not disclose the reasons for not accepting trades in its post-trade reporting to clients. Instead, the client would receive a simple rejection message: "NACK," which stood for "Not Acknowledged."

In certain instances, when clients received a NACK message and questioned Barclays about it, Barclays failed to disclose the reason that trades were rejected, instead citing technical issues or providing vague responses:

On October 10, 2008, a New York Barclays Client Services employee announced the release of Last Look, emphasizing that it "gives traders the ability to configure a profit check." The employee continued, "GUI clients will get a pop up for any of the[] rejects stating 'trade rejected due to latency.' FIX clients will get a FIX reject message. IF any client does call up about a rejected trade . . . **it is important that you state in any communication 'THE TRADE WAS REJECTED BECAUSE OF LATENCY.' . . . DO NOT talk about P&L on trades."**

- On December 15, 2010, a Barclays client wrote, "[w]e have noticed that there were over 300 rejected orders with you today and the reason is 'NACK', could you pls have a look at them and advise what's causing it?" After failing to receive a substantive response, the client followed up two days later, writing, "[w]e have not heard anything back with regards to the rejections. And this has become quite a serious matter. . . . We kept receiving top of the book rates from you and hitting your rate, but we got rejected by you 9 times out of 10 where we could have been well filled by other liquidity providers who have been providing competitive rates. . . .Could someone from your side shed some lights on the rejections? Whether they are due to technical difficulties or business decisions?" There is no evidence that Barclays ever responded to these queries.
- On September 28, 2011, after several days had passed since a Barclays client had asked whether a trade rejection was due to Barclays's "price engine experienc[ing] delays or is it the result of an extreme market event/movement," Barclays staff directed a Sales employee, "**because the client didn't chase us for an answer on the below last look rejection since Monday we have decided to park it for now and in case the client comes back, [another Barclays employee] will explain that the rejection was due to the market [sic] large volatility."**
- On February 25, 2013, after inadvertently providing a Barclays client with the rejection message "AntEconomic failed by failing check," a Barclays Sales employee directed that "We should revert to naming ALL REJECTS the same NACK urgently . . . **Clients are gonna come asking."**
- On August 27, 2013, a support employee of an ECN noted "Barclays is frequently rejecting executions on the last available quote or sending rejection messages without a clear reason." In the same email chain, Barclays employees suggested explaining to the ECN "what last look is."
- On October 10, 2013, after a Barclays client questioned the reason for an "unusual amount of rejected orders" caused by Last Look, a BARX support employee familiar with Last Look wrote to the relevant Sales employee, **"Would you like to go back to [the client] and tactfully explain? [BARX Support] cannot confirm or deny the**

existence of last look."

- On September 4, 2014, when a Barclays Sales employee emailed a BARX Support employee, the employee responded by describing Last Look as a "pricing check setup against BARX clients" to "ensure profitability of a trade for Barclays," but emphasized that **"Our Team generally does not share this info with the client, and just say it was a business reject."**

Some sophisticated customers monitored their rejection rates and turnaround times at Barclays and other banks. **On certain occasions, some of these sophisticated customers raised concerns about their high rejection rates at Barclays. Upon such complaints, Barclays engaged in discussions with customers concerning their rejection rates, and sometimes adjusted hold times and thresholds to decrease rejection rates.**

Certain senior Barclays employees instructed traders and IT employees not to inform the Barclays Sales team about the existence of Last Look:

- On June 6, 2011, in an email discussion about Last Look, a Barclays Managing Director and Head of Automated Electronic FX Trading wrote: "Do not involve Sales in anyway [sic] whatsoever. **In fact avoid mentioning the existence of the whole BATS Last Look functionality. If you get enquiries just obfuscate and stonewall."**
- On August 4, 2011, a Barclays employee wrote to a trader: "for the future, sales absolutely 100% do not know about the existence of last look and it shouldn't be a concern for them."
- On November 7, 2011, the Barclays Managing Director and Head of Automated Electronic FX Trading wrote: **"Do not discuss Last Look with Sales. If there has been a spurt [in rejected trades] just blame it on the weekend IT release and say it's being fixed."**

Employee Discipline

A Barclays Managing Director and Global Head of Electronic Fixed Income, Currencies, and Commodities ("eFICC") Automated Flow Trading has been suspended but remains employed by the Bank. The Department orders the Bank to take all steps necessary to terminate this individual, who played a role in the misconduct discussed in this Consent Order. Additionally, after the commencement of the Department's FX trading investigation, the Global Head of eFICC Trading was terminated.

To view a copy of today's order regarding Barclays, please visit, **link**.

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