

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO: 20050006865-01**

RECEIVED
2009 FEB 11 A 6:41
REGISTRATION & DISCLOSURE

TO: Department of Market Regulation
Financial Industry Regulatory Authority ("FINRA")

RE: **Schonfeld Securities, LLC**, Respondent
Broker-Dealer
CRD No: 23304

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Schonfeld Securities, LLC (the "firm" or "SHON") submits this Letter of Acceptance, Waiver and Consent ("AWC") for the purpose of proposing a settlement of the alleged rule violations described below. This AWC is submitted on the condition that, if accepted, FINRA will not bring any future actions against the firm alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. The firm hereby accepts and consents, without admitting or denying the findings, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of FINRA, or to which FINRA is a party, prior to a hearing and without an adjudication of any issue of law or fact, to the entry of the following findings by FINRA:

BACKGROUND

The firm has been a member of FINRA since November 21, 1988. The firm's registration remains in effect.

RELEVANT DISCIPLINARY HISTORY

On August 2, 2005 an AWC became final wherein SHON was censured and fined \$15,000 for Order Audit Trail System ("OATS") reporting and supervision violations. On January 2, 2002, an AWC became final wherein SHON was censured and fined \$15,000 for affirmative determination, ACT reporting and supervision violations.

SUMMARY

This matter arose out of the following reviews:

- 20050006865, a review by the staff of the Department of Market Regulation (the "staff") of the firm's compliance with short sale requirements during the period June 14, 2004 through October 27, 2004 and on January 13, 2005 and February 25, 2005 (the "short sales review period"). The staff also reviewed the firm's written supervisory procedures regarding short sales.
- 20060046105, a review by the staff of the firm's compliance with OATS reporting requirements during the period October 1, 2005 through December 31, 2005 (the "2005 OATS review period").
- 20060057750, a review by the staff of the firm's compliance with OATS reporting requirements during the period May 1, 2006 through June 30, 2006 (the "2006 OATS review period").

FACTS AND VIOLATIVE CONDUCT

20050006865

1. During the period August 4, 2004 through October 27, 2004, the firm accepted 309 customer short sale orders in certain securities and, for each order, failed to make/annotate an affirmative determination that the firm would receive delivery of the security on behalf of the customer or that the firm could borrow the security on behalf of the customer for delivery by settlement date. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rule 3370.
2. During the period August 4, 2004 through October 27, 2004, the firm, in connection with three orders, effected short sales in certain securities for the firm's proprietary account(s) and failed to make/annotate an affirmative determination that the firm could borrow the securities or otherwise provide for delivery of the securities by settlement date. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rule 3370.
3. On January 13, 2005 and February 25, 2005, the firm, on 71 occasions, accepted a short sale order in an equity security from another person, or effected a short sale in an equity security for its own account, without (1) borrowing the security, or entering into a bona-fide arrangement to borrow

the security; or (2) having reasonable grounds to believe that the security could be borrowed so that it could be delivered on the date delivery is due; and (3) documenting compliance with SEC Rule 203(b)(1) of Regulation SHO. The conduct described in this paragraph constitutes separate and distinct violations of SEC Rule 203(b)(1) of Regulation SHO.

4. The firm failed to provide documentary evidence that during the short sales review period it performed the supervisory reviews set forth in its written supervisory procedures concerning NASD Rule 3370 and SEC Rule 203(b)(1). The conduct described in this paragraph constitutes a violation of NASD Rules 2110 and 3010.

20060046105

5. During the 2005 OATS review period, the firm failed to timely report to OATS 38,554,780 Reportable Order Events ("ROEs"). These late ROEs represented 7.6 percent of all ROEs (508,529,523) that the firm transmitted to OATS during the review period. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rule 6955(a).

20060057750

6. During the 2006 OATS review period, the firm failed to timely report to OATS 41,192,411 Reportable Order Events ("ROEs"). These late ROEs represented 9.4 percent of all ROEs (438,435,809) that the firm transmitted to OATS during the review period. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rule 6955(a).

- B. The firm also consents to the imposition of the following sanctions: a censure and a fine of \$47,500 (composed of a \$20,000 fine for the affirmative determination / Regulation SHO violations; a \$7,500 fine for the supervision violation; a \$10,000 fine for the OATS violations in 20060046105; and a \$10,000 fine for the OATS violations in 20060057750).

The firm agrees to pay the monetary sanction(s) upon notice that this AWC has been accepted and that such payment(s) are due and payable. It has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

The firm specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, the monetary sanction(s) imposed in this matter.

The sanctions imposed herein shall be effective on a date set by FINRA staff.

II.

WAIVER OF PROCEDURAL RIGHTS

The firm specifically and voluntarily waives the following rights granted under FINRA's Code of Procedure:

- A. To have a Complaint issued specifying the allegations against the firm;
- B. To be notified of the Complaint and have the opportunity to answer the allegations in writing;
- C. To defend against the allegations in a disciplinary hearing before a hearing panel, to have a written record of the hearing made and to have a written decision issued; and
- D. To appeal any such decision to the National Adjudicatory Council ("NAC") and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, the firm specifically and voluntarily waives any right to claim bias or prejudgment of the General Counsel, the NAC, or any member of the NAC, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including acceptance or rejection of this AWC.

The firm further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of FINRA Rule 9143 or the separation of functions prohibitions of FINRA Rule 9144, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

III.

OTHER MATTERS

The firm understands that:

- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs ("ODA"), pursuant to FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against the firm; and
- C. If accepted:
 - 1. this AWC will become part of the firm's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against the firm;
 - 2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about the firm's disciplinary record;
 - 3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and
 - 4. The firm may not take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or indirectly, any finding in this AWC or create the impression that the AWC is without factual basis. The firm may not take any position in any proceeding brought by or on behalf of FINRA, or to which FINRA is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects the firm's right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.
- D. The firm may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. The firm understands that it may not deny the charges or make any statement that is inconsistent with the AWC in this Statement. This Statement does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA or its staff.

Date May 21, 2008

By: [Signature]

Name: Margaret Caffrey

2/16/09
Date

Thomas R. Gira
Thomas R. Gira
Executive Vice President
Department of Market Regulation

Corrective Action Statement

Re: 20060046105 and 20060057750 - OATS Reporting

This will serve as the Schonfeld Securities, LLC ("Schonfeld", the "Firm") corrective action statement dated January 21, 2009 regarding the Order Audit Trail System ("OATS") reporting during the periods of October 1, 2005 through December 31, 2005 and May 1, 2006 through June 30, 2006, respectively (the "review periods").

In both cases, the Reportable Order Events ("ROEs") were reported to FINRA OATS after the deadline due to periods of increased trading volume. The higher trading volume caused delays in processing and transmitting the files before the 4 AM deadline.

The Firm has taken the following steps to ensure that the OATS ROEs are processed and transmitted before the deadline:

1. The Firm commenced using the IFT method for transmitting the OATS Fore Files, effective June 1, 2006. The Firm's transmissions had previously been made through FTP across a dedicated circuit, which had been exceeding the available bandwidth causing connections to be lost or timed out and random files not being sent to OATS, resulting in late reporting during the review periods.
2. To further enhance OATS reporting, the Firm completed significant development changes relating to the creation of OATS files in January, 2008. The Firm changed the OATS file processing from end of day to real time, which streamlined the OATS process, ensuring the timely filing of OATS data prior to the 4 AM deadline.

We believe that these corrective action steps exhibit the Firm's seriousness and commitment to comply with the OATS reporting requirements.

This Corrective Action Statement is submitted by the Respondent. It does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA, or its staff.

Corrective Action Statement

Re: 20050006865 - Short Sales / Affirmative Determination

This will serve as the Schonfeld Securities, LLC ("Schonfeld", the "Firm") corrective action statement dated January 21, 2009 regarding the Firm's compliance with short sale requirements during the period of June 14, 2004 through October 27, 2004 and on January 13, 2005 and February 25, 2005 (the "review periods").

The Firm has taken the following steps to ensure that all short sale orders are accepted and effected with an affirmative determination that the Firm would receive delivery of the security on behalf of the customer or that the Firm could borrow the security on behalf of the customer for delivery by settlement date, as per NASD Rule 3370 and SEC Rule 203(b)(1) / Regulation SHO ("Reg SHO"):

1. During the review periods, the Firm had been self-clearing and evidencing its affirmative determination process through its proprietary securities lending department. The Firm ceased its security lending activities in June 2007, in conjunction with the sale of its clearing business to Penson Financial Services ("Penson"), which closed in May 2007. The Firm currently receives its affirmative determination for all short sales through its clearing agents, Penson and Goldman Sachs Execution and Clearing. In the case of the Firm's institutional prime brokerage business, the affirmative determination is received from the respective clients Prime Broker and documented by the Firms Institutional Principal if the Firms clearing agents are unable to locate shares to borrow.

The Firm has taken the following steps to ensure that the supervisory reviews set forth in its Written Supervisory Procedures concerning NASD Rule 3370 and SEC Rule 203(b)(1) are documented under NASD Rules 2110 and 3010.

1. The Firm conducts periodic reviews, at a minimum biannually, to ensure compliance with affirmative determination requirements. The results of the reviews are documented in writing and issued to the Firm's Executive Management Committee, Chief Executive Officer, Chief Compliance Officer and General Counsel. The Chief Compliance Officer is responsible to ensure that any deficiencies noted are promptly corrected.

We believe that these corrective action steps exhibit the Firm's seriousness and commitment to comply with the short sale, affirmative determination, and Reg SHO requirements.

This Corrective Action Statement is submitted by the Respondent. It does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA, or its staff.