

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20050036191-01**

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

RE: Citadel Securities LLC, Respondent
Broker-Dealer
CRD No. 116797

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Citadel Securities LLC (formerly Citadel Derivatives Group LLC) ("CDRG" or the "firm") 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

CDRG has been a member of FINRA since February 2, 2005 and its registration remains in effect. On July 13, 2009, CDRG changed its name from Citadel Derivatives Group, LLC to Citadel Securities LLC.

Between approximately November 16, 1989 and March 31, 2009, Citadel Trading Group L.L.C. or its predecessor (B/D No. 24514), ("CITG"), was a registered member of FINRA. At all relevant times, CITG was an affiliate of CDRG. On or about January 30, 2009, CITG merged its business and operations into CDRG. On January 30, 2009 CITG filed a Form BDW and its membership with FINRA was terminated on March 31, 2009.

RELEVANT DISCIPLINARY HISTORY

The firm has no relevant disciplinary history.

FACTS AND VIOLATIVE CONDUCT

In Market Regulation Review No. 20060043806, the staff conducted a review of CDRG's compliance with NASD Rules 6130(d)(6) and 6955 for the period October 1, 2005 through December 7, 2006.

In Market Regulation Review No. 20070092154, the staff conducted a review of CITG's compliance with NASD Rule 5100 for the period November 1, 2006 through May 15, 2007.

In Market Regulation Review No. 20080153653, the staff conducted a review of CDRG's trading and market making activities for trade dates December 1-5, 2008. A description of the areas reviewed by the staff is attached to this AWC as Exhibit 1.

20060043806 (October 1, 2005 through December 7, 2006)

1. CDRG effected 130 short sale transactions and failed to report each transaction with a short sale modifier. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rule 6130(d)(6).
2. CDRG's supervisory system did not provide for supervision reasonably designed to achieve compliance with respect to the applicable securities laws and regulations, and the Rules of NASD, concerning SEC Rule 203(b)(1) and NASD Rules 3350 and 6130(d)(6). Specifically, the firm's supervisory system did not include written supervisory procedures providing for: (1) the identification of the person(s) responsible for supervision with respect to the applicable rules; (2) a statement of the supervisory step(s) to be taken by the identified person(s); (3) a statement as to how often such person(s) should take such step(s); and (4) a statement as to how the completion of the step(s) included in the written supervisory procedures should be documented. The conduct described in this paragraph constitutes violations of NASD Rules 2110 and 3010.

20070092154 (November 1, 2006 through May 15, 2007)

3. Between January 11, 2007 and May 15, 2007, CITG improperly marked 1,019 short sale orders as short sale exempt and, as a result, caused the resulting short sale transactions to be reported incorrectly to the NASD/NASDAQ Trade Reporting Facility as short sale exempt. The conduct described in this paragraph constitutes separate and distinct violations of SEC Rule 200(g) of Regulation SHO and NASD Rule 6130(d)(6).

20080153653 (December 1-5, 2008)

4. CDRG effected 104 short sale transactions and failed to report each transaction with a short sale modifier. In addition, CDRG effected 14 long sale transactions and incorrectly reported each transaction with a short sale modifier. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rule 6130(d)(6).
5. CDRG's supervisory system did not provide for supervision reasonably designed to achieve compliance with respect to certain applicable securities laws and regulations, and/or the Rules of FINRA. At a minimum, adequate written supervisory procedures addressing quality of markets topics should describe the following:
 - (a) specific identification of the individual(s) responsible for supervision;
 - (b) the supervisory steps and reviews to be taken by the appropriate supervisor;
 - (c) the frequency of such reviews; and
 - (d) how such reviews shall be documented.

The firm's written supervisory procedures failed to provide for one or more of the four above-cited minimum requirements for adequate written supervisory procedures, in the following subject areas: Registration and Qualifications [item d]; Trades Reported on the Firm's Behalf [items a, b, c and d]; Order Marking Requirements [items b and d]; Proprietary Sales – Accurate Trade Reporting of Proprietary Short Sales [items a, b, c and d]. The conduct described in this paragraph constitutes violations of NASD Rules 2110 and 3010.

- B. The firm also consents to the imposition, at a maximum, of the following sanctions:

A censure and fine of \$45,000 (consisting of \$25,000 for violations of NASD Rule 6130(d)(6) and SEC Rule 200(g) of Regulation SHO, and \$20,000 for violations of NASD Rules 2110 and 3010).

The firm agrees to pay the monetary sanctions upon notice that this AWC has been accepted and that such payments 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 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

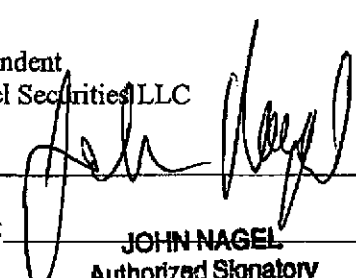
against the firm;

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.

The undersigned, on behalf of the firm, certifies that a person duly authorized to act on its behalf has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that it has agreed to the AWC's provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein and the prospect of avoiding the issuance of a Complaint, has been made to induce the firm to submit it.

July 29, 2010
Date

Respondent
Citadel Securities LLC

By: 

Name:

JOHN NAGEL

Title:

Authorized Signatory

Reviewed by:

Attorney Name
Counsel for Respondent
Firm Name
Address
City/State/Zip
Phone Number

Accepted by FINRA:

Date

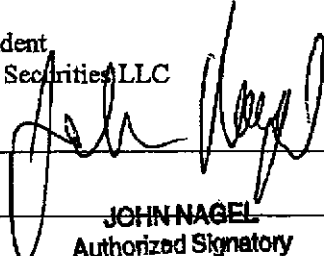
Signed on behalf of the
Director of ODA, by delegated authority

Thomas R. Gira
Executive Vice President
Department of Market Regulation

The undersigned, on behalf of the firm, certifies that a person duly authorized to act on its behalf has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that it has agreed to the AWC's provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein and the prospect of avoiding the issuance of a Complaint, has been made to induce the firm to submit it.

July 29, 2010
Date

Respondent
Citadel Securities LLC

By: 

Name:

JOHN NAGEL
Authorized Signatory

Title:

Reviewed by:



Attorney Name Paul R. Eckert
Counsel for Respondent

Firm Name Wilmer Cutler Dickering Hale and Dorr LLP

Address 1875 Pennsylvania Ave, NW

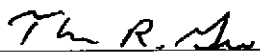
City/State/Zip Washington DC 20006

Phone Number 202 / 663-6000

Accepted by FINRA:

9/23/10
Date

Signed on behalf of the
Director of ODA, by delegated authority


Thomas R. Gira
Executive Vice President
Department of Market Regulation

<u>Sample</u>	<u>Size</u>	<u>Sample Description</u>
	52	Sales reviewed for compliance with SEC Rule 200(g) long/short sale recording requirements
	0	Short Sales reviewed for compliance with SEC Rule 203(b) security location requirements
	956	Trades reported to a TRF or OTCTRF for compliance with NASD Rule 6130
	420	for general trade reporting requirements
	0	for Institutional Market Order Review trade requirements
	39	for Cancellation of reported trade requirements
	347	for Principal, Riskless Principal, or Agency executions effected otherwise than on an exchange
	4	for compliance with the use of the .PRP (Prior Reference Price) trade modifier
	30	for compliance with the requirements of odd-lot trade reporting
	0	for compliance with the use of the .RA trade modifier (prices away from the market)
	0	for compliance with the use of the .RX trade modifier (exercise OTC options contract)
	N/A	for compliance with SEC '34 Act Section 28(e) guidelines relating to Soft Dollar Agreements
	536	for Sale Indicator requirements
	0	Disclosures to customers relating to trading in the Extended Hours session for compliance with Nasdaq Rule 4631
	46	Sell orders entered into Nasdaq Exchange execution systems for compliance with Nasdaq Rules 4755 and 2110
	25	Limit orders for NMS securities in which the member acts as an exchange market maker for compliance with the display requirements of SEC Rules 602 and 604 and Nasdaq Rule 3390
	25	Orders for compliance with best execution requirements of NASD Rule 2320
	25	Market orders executed as principal for compliance with NASD Rule 2320
	0	'Not Held' orders for compliance with NASD Rule 2320 and Nasdaq Rule 2320 best execution requirements
	0	orders executed with a .PRP (Prior Reference Price) trade modifier
	0	Customer orders in OTC equity securities for compliance with NASD Rules 2320 and 3110(b) requirements to ascertain and document best interdealer market related to execution of orders
	100	Orders for compliance with order protection requirements of NASD Rules 2110, IM-2110-2, 2111, 6541 and Nasdaq Rules 2110, IM-2110-2, and 2111
	10	Open Limit orders to buy and/or open Stop orders to sell securities that traded ex-dividend for compliance with NASD Rule 3220 and Nasdaq Rule 4761
	0	Order memoranda and Net Trading agreements for compliance with NASD Rule 2441 requirements

50	Orders in securities required to be submitted to OATS for compliance with NASD Rules 6954 and 6955 and Nasdaq Rules 6954 and 6955 requirements
0	Customer confirmations prepared and maintained in connection with select samples 0 for compliance with SEC Rule 10b-10 disclosure requirements 0 for compliance with SEC '34 Act Section 28(e) guidelines relating to Soft Dollar Agreements
25	Orders for NMS securities in which the Firm acts as a market center for compliance with SEC Rule 605 order classification requirements
5	Data sets published for July 2008 monthly order execution report for compliance with SEC Rule 605 requirement to publish accurate data (a 'data set' encompasses all required statistical data for single security and order type/size category as described in SEC Rule 605)
25	Orders underlying data sets reviewed for August 2008 for NMS securities in which the Firm acts as a market center for compliance with SEC Rule 605 order classification requirements
0	Quarterly Routing Report for compliance with SEC Rule 606 requirements
14	CRD registration records for persons conducting and/or supervising Firm's trading and/or market making activities for compliance with NASD Rule Series 1020, 1030, 1040 and Nasdaq Rule Series 1020, 1030, 1040
All Provided	Member's "Regular & Rigorous" review procedures regarding order execution quality for compliance with NASD Rules 2320 and 3010
All Provided	Member's supervisory system, written supervisory procedures ("WSPs") and documentation evidencing execution of the WSPs for compliance with NASD Rule 3010 requirements
All Provided	Member's supervisory and operational policies and procedures and documentation evidencing execution of the policies and procedures for compliance with SEC Regulation NMS Rules 610, 611, and 612
320	Records prepared and maintained in connection with the above samples for compliance with SEC Rules 17a-3 and 17a-4 and NASD Rule 3110
N/A	Trading Halts declared during the on-site portion of the examination for which FINRA Staff observed the operation of the ATS.
N/A	Trades reported to the ADF/TRACS for compliance with NASD Rule 4632A 0 for general trade reporting requirements

- 0 for Sale Indicator requirements
- 0 for Cancellation of reported trade requirements
- 0 for Principal and Riskless Principal executions effected otherwise than on an exchange
- 0 for compliance with the use of the .PRP (Prior Reference Price) trade modifier
- 0 for compliance with the use of the Transaction Fee odd-lot indicator
- 0 for compliance with the use of the .RA trade modifier (related to trades at prices away from the market)
- 0 for compliance with the use of the .RX (related to the exercise of OTC options contracts) trade modifier

N/A ADF orders and quotes accessed by other market participants for compliance with NASD Rule 4300A requirements to submit Order and Order Response reports

256	Sales reviewed for compliance with SEC Rule 200(g) long/short sale recording requirements
7	Short Sales reviewed for compliance with SEC Rule 203(b) security location requirements
50	Orders in securities required to be submitted to OATS for compliance with NASD Rules 6954 and 6955 and Nasdaq Rules 6954 and 6955 requirements (CEMM)
119	Orders entered into Nasdaq Exchange execution systems for compliance with Nasdaq Rules 4755 and 2110 from October 1, 2008 (CEMM)
75	Records prepared and maintained in connection with the above samples for compliance with SEC Rules 17a-3 and 17a-4 from October 1, 2008 (CEMM)
All Provided	Member's supervisory system, written supervisory procedures ("WSPs") and documentation evidencing execution of the WSPs for compliance with NASD Rule 3010 requirements from October 1, 2008 (CEMM)

0	OATS vs Trade Reporting Breaks from October 1, 2008 (Short Sale Sweep)
0	Market Making Registration Breaks from October 1, 2008 (Short Sale Sweep)
699	Orders entered into Nasdaq Exchange execution systems for compliance with Nasdaq Rules 4755 and 2110 from October 1, 2008 (Short Sale Sweep)
1070	Sales reviewed for compliance with SEC Rule 200(g) long/short sale recording requirements

0	Short Sales reviewed for compliance with SEC Rule 203(b) security location requirements
30	Records prepared and maintained in connection with the above samples for compliance with SEC Rules 17a-3 and 17a-4 and NASD Rule 3110 from October 1, 2008 (Short Sale Sweep)
All Provided	Member's supervisory system, written supervisory procedures ("WSPs") and documentation evidencing execution of the WSPs for compliance with NASD Rule 3010 requirements from October 1, 2008 (Short Sale Sweep)