

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20070094666**

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REGISTRATION & DISCLOSURE

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

RE: TradeStation Securities, Inc.
FINRA Member Firm
CRD No. 39473

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, TradeStation Securities, Inc. ("TradeStation" 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

TradeStation has been a member of FINRA since 1996 and maintains its principal place of business in Plantation, Florida. The Firm is also a registered futures commission merchant, and a member of several regional and options exchanges. TradeStation has three active branches (Florida, Texas, and Illinois), employs approximately 109 registered personnel and 98 associated personnel.

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OVERVIEW

Prior to January 2007, the Firm did not have an adequate supervisory system and written procedures for detecting whether individuals were statutorily disqualified or for complying with the reporting of disclosable events as required by NASD Rule 3070. As a result, from June 2006 through January 2007 (the "Relevant Period"), a non-registered individual who was subject to statutory disqualification both became associated and remained employed at the Firm for a period of six months. The Firm also failed, on at least one occasion, to report to FINRA its association with a person subject to statutory disqualification as required by NASD Rule 3070.

Accordingly, the Firm violated NASD Rules 3010 and 2110 in that it failed to establish and maintain a supervisory system and written procedures reasonably designed to achieve compliance with NASD Rules and the federal securities laws relating to: (a) the employment of statutorily disqualified individuals; (b) the reporting of disclosable events as required by NASD Rule 3070. In addition, the Firm violated NASD Rule 3070 by not reporting to FINRA that it was associated with a person subject to statutory disqualification.

FACTS AND VIOLATIVE CONDUCT

On June 2, 2006, JP sought employment in a non-registered capacity and completed an employment application with the Firm. Earlier on December 20, 2004, however, JP was convicted of 3rd Degree Driving While License Suspended, Revoked, Canceled, or Disqualified/Habitual Offender, a felony in violation of Florida Statute 322.34(5). As a result, JP became statutorily disqualified at the time of his conviction. The Firm's employment application contained two questions pertaining to his criminal background. The first question asked "[h]ave you ever pled 'guilty' or 'no contest' to, or been convicted of a crime?" In response to this question, JP answered "Yes." The second question asked "[i]f yes, please provide date(s) and details." In response to this question, JP indicated "[d]riving with a suspended license 11/29/04."

Thereafter JP interviewed with the Firm. On June 7, 2006, the Firm's Human Resources department conducted an online background check using a third-party security and information services provider. The background report indicated that JP was the subject of various traffic violations. The Firm extended an offer of employment to JP and hired him on June 19, 2006. Subsequently, JP completed and signed a Compliance Agreement and Annual Disclosure Document on June 19, 2006. Question VI of this document asked "[d]o you have any new disclosures (i.e. bankruptcy, any arrest, disclosure events, or civil judicial actions involving investment related activities) since you last filed Form U4 (initial) or amended Form U4?" In response to this question, JP answered "No.". However, even if JP had new criminal disclosures, the question was not designed to capture them because the question inartfully presumed a previous Form U-4 filing, which JP did not have. Therefore, the question was technically inapplicable to an

unregistered person such as JP. No other questions on the Compliance Agreement and Annual Disclosure Document captured criminal history information. The compliance department fingerprinted JP at the time he was hired and the fingerprints were then forwarded to Central Registration Depository ("CRD") for processing. The Firm only discovered that JP had a felony conviction, and was subject to statutory disqualification, after being informed by NYSE Regulation, Inc. on August 1, 2006. Based upon this information, the Firm terminated JP's employment on January 2, 2007. During JP's employment at the Firm and subsequent to the Firm's discovery that it employed an individual that was subject to statutory disqualification, the Firm was required to report this 3070 disclosable event to FINRA and did not do so.

Although the Firm did capture some of the information required for detecting whether an applicant was subject to statutory disqualification on its Annual Disclosure Document and employment application, the Firm did not have an adequate supervisory system or written procedures relating to hiring and detecting applicants' statutory disqualifications. For example, the Firm's annual questionnaire only asked employees for criminal disclosures since the applicant's last Form U4 filing. If the employee never completed a Form U4 -- as was the case with JP -- then this question would not have been technically applicable to the employee. Nor did the employment application inquire concerning pending arrests or criminal charges. Moreover, the Firm had no written procedures prior to January 2007 that documented the hiring and fingerprinting process, or the process designed to detect persons subject to statutory disqualification.

Additionally, the Firm's supervisory system and written procedures were inadequate to achieve compliance with NASD Rule 3070. While the Firm's written supervisory procedures during the Relevant Period referenced a responsibility to inform the compliance department of specified events, there was no language providing any specific guidance for that policy. FINRA Regulatory Notice 99-45 requires that a member set forth in writing those persons responsible for implementing a supervisory system, and each individual's specific responsibilities, so as "to allow personnel at the Firm, as well as regulators, to easily determine who is responsible for supervising a particular area and the time period for which the person was assigned the supervisory responsibility." No such designations were made in the Firm's procedures relating to the reporting of disclosable events.

As a result, TradeStation failed to establish, maintain and enforce an adequate supervisory system and written procedures to detect individuals subject to statutory disqualification and to ensure the reporting of disclosable events as required by NASD Rule 3070 thereby allowing an employee such as JP, whose felony record was evident on his DOJ Report, to become associated with the Firm.

Based on the foregoing, the Firm violated NASD Rules 2110, 3010 and 3070.

- B. The Firm also consents to the imposition of the following sanctions: a censure and \$15,000 fine.

The Firm agrees to pay the monetary sanctions upon notice that this AWC has been accepted and that such payments are due and payable. The Firm 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 sanctions 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.

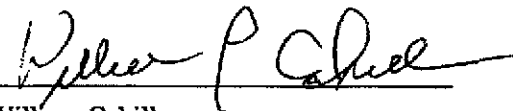
The undersigned, on behalf of the Firm, certifies that a person duly authorized to act on its behalf has read and understands all of the provisions of this AWC and have been given a full opportunity to ask questions about it; that the Firm has agreed to its provisions voluntarily; and that no offer, 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.

March 10, 2009

Date

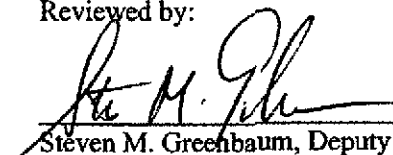
TradeStation Securities, Inc.

By:



William Cahill
President & Chief Operating Officer

Reviewed by:



Steven M. Greenbaum, Deputy General Counsel
Counsel for Respondent
TradeStation Securities, Inc.
8050 SW 10th Street, Suite 2000
Plantation, FL 33324
(954) 652-7000

Accepted by FINRA:

3/12/2009
Date

4/1/2009
Chun Li

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



Chun Li, Senior Attorney
Scott Andersen, Director
Suzanne Elovic, Chief Counsel
FINRA Department of Enforcement
14 Wall Street
New York, New York 10005
(646) 315-7360

STATEMENT OF CORRECTIVE ACTION OF TRADESTATION SECURITIES, INC.
NO. 20070094666

This Corrective Action Statement is submitted by Respondent, TradeStation Securities, Inc. ("TradeStation" or the "Firm"). It does not constitute factual or legal findings by FINRA nor does it reflect the views of FINRA or its staff.

TradeStation requests that this Corrective Action Statement be attached to the Acceptance Waiver and Consent ("AWC"). TradeStation has accepted and consented to the AWC, without admitting or denying its findings.

Background

The AWC summarizes certain policy and supervisory deficiencies with regard to TradeStation's 2006 hiring of one unregistered employee who, it turned out, had been convicted in 2004 of a habitual offender/traffic-related felony. The felony conviction caused the new employee to be subject to a statutory disqualification requiring TradeStation to either not hire the employee or report the disclosable event pursuant to NASD Rule 3070. Had TradeStation been aware of the employee's felony conviction, the employee would not have been hired, since it is Firm policy not to hire persons who are subject to a statutory disqualification.

Changes in the Firm's Policies and Procedures

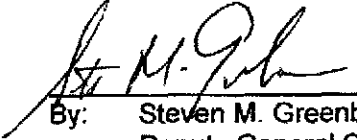
While the underlying FINRA investigation was ongoing, TradeStation conducted an extensive review of its written supervisory procedures in order to better detect reportable events, including statutory disqualifications, both at the pre-hire stage as well as for current employees. The review caused TradeStation to make an extensive rewrite of its procedures regarding the pre-hire process and a current employee's obligation to report certain events.

This review culminated in the issuance in December 2008 of three Compliance Alerts informing employees of two policy updates designed to serve as a guide for supervisors and non-supervisors to better detect and disclose reportable activities including but not limited to: criminal events, administrative actions, customer complaints, bankruptcies, judgments and liens. TradeStation also conducted extensive training on the subject at its December 2008 Annual Compliance Meeting that was attended by all registered and unregistered employees.

TradeStation believes that the updated policies and procedures, combined with robust training, will reduce the likelihood of a similar incident arising in the future.

TradeStation Securities, Inc.

March 10, 2009
Date


By: Steven M. Greenbaum
Deputy General Counsel