

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2010023934201**

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

RE: TradeStation Securities, Inc., Respondent
CRD No. 39473

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, TradeStation Securities, Inc. ("Respondent," "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 Respondent alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. Respondent 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 FINRA member since 1996. The Firm is a wholly owned subsidiary of TradeStation Group, Inc. The Firm is headquartered in Plantation, Florida and operates out of four branch offices. The Firm employs 142 registered persons and 68 non-registered fingerprinted persons. As of December 31, 2010, the Firm held customer assets of \$2.4 billion and annual revenues of \$129 million. Most of the Firm's equities and equity options business is self-cleared with the exception of some institutional business which is cleared through J.P. Morgan Clearing Corp. The Firm processes all orders through its electronic trading platform. The Firm has no relevant disciplinary history.

OVERVIEW

From January 1, 2008 to August 31, 2011 (the "relevant period"), TradeStation violated NASD Rules 3011 and 2110 and FINRA Rules 3310 and 2010 by failing to implement an Anti-Money Laundering ("AML") Compliance Program reasonably designed to achieve compliance with the Bank Secrecy Act (31 U.S.C. 5311, *et seq.*) and implementing regulations. During the relevant

period, the Firm failed to implement an adequate system for the review of suspicious activity in customer accounts, failed to implement adequate independent testing of the Firm's AML program and failed to provide adequate AML training to registered and nonregistered person entrusted with implementing the Firm's AML program.

VIOLATIVE CONDUCT

1. The Firm Failed to Implement an Adequate System for Monitoring Customer Accounts for Suspicious Activity

The Firm violated NASD Rules 3011(a) and 2110 and FINRA Rules 3310(a) and 2010 by failing to implement policies and procedures reasonably designed to detect and cause the reporting of suspicious activity in customer accounts as required by 31 U.S.C. 5318(g) and the implementing regulations thereunder. In particular, the Firm failed to tailor its AML Compliance Program to its business, which is to provide direct market access to equities, futures and forex customers using a proprietary online trading platform.¹ The Firm maintains over 45,000 customer accounts and processes over 73,000 trades per day and 2,100 wires per month. Despite this high-volume, high-frequency account activity, the Firm failed to implement an adequate system for monitoring trading activity and flow of funds for suspicious transactions.

The Firm's written AML procedures did not contain adequate provisions for the monitoring of trades to detect suspicious activity. In practice, the Firm's automated surveillance of trades was limited to two exception reports, a wash sales report and an odd/partial round lot report, both generated daily. The Firm did not use the wash sales report until May 2009. Apart from these two exception reports, the Firm did not utilize other automated surveillance modules to monitor trades for suspicious activity. Accordingly, the Firm may have failed to detect and report red flags concerning irregular patterns of trading activity, including evidence of market manipulation and other suspicious transactions.

For monitoring flow of funds, the Firm relied on a manual, transaction-by-transaction approach, conducted by the Firm's cashiers. Each cashier was assigned a specific type of money movement to monitor (e.g., one would review outgoing wires and another would review incoming wires). The cashiers were instructed to notify the Firm's AMLCO by email when the flow of funds in an account looked suspicious. Additionally, the AMLCO selected one day a month at random and reviewed all wires for that particular day. The AMLCO recorded this information on a "Wire Transfer Monthly Review Log," but did not begin recording this information until January 2011. The Firm's approach to monitoring flow of funds made it difficult to detect patterns of suspicious activity over time.

As early as 2008, the Firm sought to implement an automated surveillance system, so it engaged a third party vendor to develop such a system. The Firm, however, failed to implement this automated AML surveillance system until October 2011 even though the Firm's independent AML consultants recommended its implementation in 2009 and 2010.

¹ The Firm is also a Futures Commission Merchant and its futures business is regulated by the National Futures Association. On or about April 11, 2011, the Firm's forex business was transferred to its affiliated company, TradeStation Forex, Inc., a Retail Foreign Exchange Dealer also regulated by the National Futures Association.

2. The Firm Failed to Implement Adequate AML Testing of its AML Compliance Program

The Firm violated NASD Rule 3011(c) and FINRA Rule 3310(c) by failing to provide for adequate independent testing of the Firm's AML program. In 2009 and 2010, the Firm's independent consultants both limited their tests to a review of the Firm's AML procedures and interviews of individuals responsible for AML compliance, an approach which lead to superficial findings presented in boilerplate language. For example, neither of the independent consultants noticed that the Firm did not conduct automated trade surveillance and neither of the audit reports prepared by the independent consultants mentioned trade surveillance. Additionally, with respect to monitoring flow of funds, the independent consultants noted that the Firm was developing the automated surveillance tool, but failed to fault the Firm for its failure to timely implement this system.

3. The Firm Failed to Provide Adequate AML Training

The Firm violated NASD Rule 3011(e) and FINRA Rule 3310(e) by failing to provide adequate AML training to personnel entrusted with implementing its AML Compliance Program. The Firm's AML training consisted primarily of a 45-minute annual compliance seminar, only a segment of which was devoted to AML.

The Firm's AML deficiencies constitute separate and distinct violations of NASD Rules 3011(a, c and e) and 2110 and FINRA Rules 3310 (a, c and e) and 2010.

B. Respondent also consents to the imposition of the following sanctions:

1. A censure; and
2. A fine in the amount of \$200,000.

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

Respondent agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. Respondent has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed. Respondent specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, the monetary sanction imposed in this matter.

II.

WAIVER OF PROCEDURAL RIGHTS

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

- A. To have a Complaint issued specifying the allegations against Respondent;
- 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, Respondent 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.

Respondent 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

Respondent 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 Respondent; and
- C. If accepted:
 - 1. This AWC will become part of Respondent's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against Respondent;
 - 2. This AWC will be made available through FINRA's public disclosure program in response to public inquiries about Respondent'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. Respondent 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. Respondent 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 Respondent's right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.
- D. Respondent may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondent understands that Respondent 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 Respondent 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.

12/1/11
Date

[Signature]
TradeStation Securities, Inc., Respondent

Reviewed by:

[Signature]
Steven M. Greenbaum
General Counsel
TradeStation Securities, Inc.
8050 SW 10th Street
Suite 2000
Plantation, Florida 33324

Accepted by FINRA:

12/1/2011
Date

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

[Signature]
James M. Day
Associate Vice President and Chief Counsel
FINRA Department of Enforcement
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Washington, DC 20006
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