

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20120316473-01**

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

RE: TradeStation Securities, Inc., Respondent
Broker-Dealer
CRD No. 39473

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, TradeStation Securities, Inc. (the "firm" or "Respondent") 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

The firm has been a member of FINRA since January 31, 1996.

RELEVANT DISCIPLINARY HISTORY

The firm does not have any relevant disciplinary history.

SUMMARY

In connection with 20120316473, the Trading and Market Making Surveillance ("TMMS") staff of the Department of Market Regulation (the "staff") conducted the firm's 2012 TMMS examination wherein the staff reviewed the items set forth on Exhibit 1, which is attached hereto and incorporated herein by reference, primarily for the trade date of October 3, 2012 (the "review period").

FACTS AND VIOLATIVE CONDUCT

1. During the review period, the firm transmitted to the Order Audit Trail System ("OATS") 14 reports that contained inaccurate, incomplete, or improperly formatted data. Specifically, in four instances the firm submitted the incorrect Limit Price of an order, in five instances the firm submitted the incorrect Special Handling Code, in four instances the firm failed to submit order cancellation information, and in one instance the firm submitted an incorrect Stop Price of an order. The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rule 7450.
2. During the review period, in ten instances, the firm failed to adjust the price of stop market orders. The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rule 5330.
3. During the review period, the firm failed on ten occasions to provide written notification disclosing to its customer that the transaction was executed at an average price, and failed on three occasions to disclose its correct capacity in the transaction. The conduct described in this paragraph constitutes separate and distinct violations of SEC Rule 10b-10.
4. During the review period, the firm'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 and the SEC. At a minimum, adequate written supervisory procedures ("WSPs") addressing trading and market making 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 WSPs failed to provide for one or more of the four above-cited minimal requirements for adequate written supervisory procedures in the following subject areas:

- **Order Handling:** Disclosure of Order Routing Information [(a), (b), (d)];
- **Anti-Intimidation/Coordination** [(a), (b), (c), (d)];
- **Trade Reporting:** Accepting/Matching Trades in a Timely Manner [(a), (b), (c), (d)];
- **Sale Transactions:** Order Marking Requirements [(a), (b)]; Locate Requirements [(a), (b), (d)]; Prompt Delivery of Sale Transactions by Settlement Date [(a), (b), (c), (d)]; Pre-Borrow Requirements [(a), (b), (c), (d)]; Naked Short-Selling Antifraud Rule [(a), (b), (c), (d)];

- **Other Trading Rules:** Equipment Security and Access [(a), (b), (c), (d)]; Accuracy and Integrity of Orders Entered into FINRA systems [(a)]; FINRA Clearly Erroneous Transactions [(a), (d)]; Review and Detection of Potential TRF Entry Issues [(a)];
- **Soft Dollar Accounts and Trading** [(a)];
- **OATS:** Clock Synchronization [(d)]; Accuracy and Timeliness of Data [(a), (b)]; Review/Repair of OATS Rejections [(a), (b)]; Routing Order IDs for Matching [(a), (b)]; and
- **Other Rules:** Information Barriers and Breaches [(d)]

The conduct described in this paragraph constitutes a violation of NASD Rule 3010 and FINRA Rule 2010.

5. The firm failed to provide sufficient documentary evidence that during the review period, it performed the supervisory reviews set forth in its WSPs concerning:

- **Supervisory System, Procedures & Qualifications:** Registration of Traders and Supervisory Personnel;
- **Other Trading Rules:** Accuracy and Integrity of Orders Entered into FINRA systems; Review and Detection of Potential TRF Entry Issues;
- **Soft Dollar Accounts and Trading;** and
- **Other Rules:** Books and Records; Sub-Penny Rule – SEC Reg NMS Rule 612; Electronic Communication Reviews

The conduct described in this paragraph constitutes violations of NASD Rule 3010 and FINRA Rule 2010.

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

A censure; a fine of \$25,000 (comprised of \$7,500 for the OATS violations, \$5,000 for the FINRA Rule 5330 violations, \$2,500 for the customer confirmation violations, and \$10,000 for the supervision violations); and an undertaking to revise the firm's WSPs with respect to the areas described in paragraph (A)(4).

Within 30 business days of acceptance of this AWC by the National Adjudicatory Council ("NAC"), a registered principal of the Respondent shall submit to the **COMPLIANCE ASSISTANT, LEGAL SECTION, MARKET REGULATION DEPARTMENT, 9509 KEY WEST AVENUE, ROCKVILLE, MD 20850**, a signed, dated letter, or an e-mail from a work-related account of the registered principal to MarketRegulationComp@finra.org, providing the following information: (1) a reference to this matter; (2) a representation that the firm has revised its written supervisory procedures to address the deficiencies described in paragraph (A)(4); and, (3) the date the revised procedures were implemented.

Respondent 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.

Respondent 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

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 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, Respondent specifically and voluntarily waives any right to claim bias or prejudgment of the Chief Legal Officer, 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:

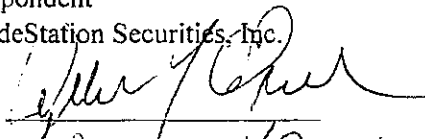
- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs ("ODA"), pursuant to FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against Respondent; and
- C. If accepted:
 - 1. this AWC will become part of 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. 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 the firm's: (i) testimonial obligations; or (ii) 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. 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.

Nov. 4, 2014
Date

Respondent

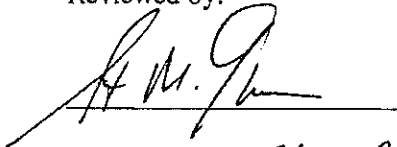
TradeStation Securities, Inc.

By: 

Name: William J. Cahill

Title: President & COO

Reviewed by:



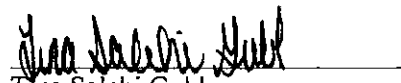
Attorney Name: Steven Greenbaum
Counsel for Respondent

Accepted by FINRA:

11/13/14
Date

Signed on behalf of the

Director of ODA, by delegated authority



Tina Salehi Gubb

Chief Counsel

Department of Market Regulation

2012 Market Regulation Examination Samples
TradeStation Securities, Inc.
Exam No. 20120316473
Sample Source/Period*: October 3, 2012

<u>Sample Size</u>	<u>Sample Description</u>
131	Sales reviewed for compliance with SEC Rule 200(g) long/short sale recording requirements
11	Short Sales reviewed for compliance with SEC Rule 203(b) security location requirements
0	Sales reviewed for compliance with SEC Rule 204 fail-to-deliver requirements
0	Sell trades reported to a TRF or OTCRF for compliance with sale indicator requirements, FINRA Rules 6182 or 6624
24	Sell orders entered into Nasdaq Exchange execution system for compliance with Nasdaq Rule 4755(a)(1)(A) long/short reporting requirements
26	Buy and Sell orders entered into Nasdaq Exchange execution system for compliance with Nasdaq Rule 4611 capacity reporting requirements
0	Sell orders entered into Nasdaq OMX BX execution system for compliance with Nasdaq OMX BX Rule 4755 long/short reporting requirements
0	Sell orders entered into Nasdaq OMX PHLX execution system for compliance with Nasdaq OMX PSX Rule 3305 long/short reporting requirements
40	Sell orders entered into DirectEdge Exchange execution systems for compliance with EDGA/EDGX Rule 11.15 long/short reporting requirements
40	Buy and Sell orders entered into DirectEdge Exchange execution systems for compliance with EDGA/EDGX Rule 11.22 capacity reporting requirements
40	Sell orders entered into NYSE-Arca execution system for compliance with NYSE-Arca Equities Rule 7.16 long/short reporting requirements
40	Buy and Sell orders entered into NYSE-Arca execution system for compliance with NYSE Arca Equities Rule 7.33 capacity reporting requirements
0	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
25	Orders for compliance with best execution requirements of FINRA Rule 5310: 0 Orders from the Order Protection Review 0 Order executed with a .PRP (Prior Reference Price) trade modifier 25 Customer orders in OTC equity securities
0	Orders for compliance with order protection requirements of FINRA Rule 5320
10	Open Limit orders to buy and/or open Stop orders to sell securities that traded ex-dividend for compliance with FINRA Rule 5330
0	Non-tape reports to a TRF or OTCRF for compliance with the Related Market Center Indicator requirements of FINRA Rules 7230A and 7330
0	Order memoranda and Net Trading agreements for compliance with FINRA Rule 2124 requirements
68	Orders in securities required to be submitted to OATS for compliance with FINRA Rules 7440 and 7450 requirements

2012 Market Regulation Examination Samples
TradeStation Securities, Inc.
Exam No. 20120316473
Sample Source/Period*: October 3, 2012

<u>Sample Size</u>	<u>Sample Description</u>
25	Customer confirmations prepared and maintained in connection with select samples for compliance with SEC Rule 10b-10
N/A	Orders for NMS securities in which the Firm acts as a market center for compliance with SEC Rule 605 order classification requirements
N/A	Data sets published for 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)
1	Quarterly Routing Report for compliance with SEC Rule 606 requirements
10	CRD registration records for persons conducting and/or supervising Firm's trading and/or market making activities for compliance with NASD Rule Series 1020-1040; Nasdaq Rule Series 1020-1040, Nasdaq OMX BX Rule Series 1020-1040; Nasdaq OMX PHLX Rule Series 600-604; EDGA/EDGX Rules 2.3, 2.5 and 11.4 and NYSE-Arca Rules 2.4, 6.18 and 7.21
25	Customer orders in OTC equity securities for compliance with FINRA Rule 5310, Supplementary Material .06: Securities with Limited Quotation or Pricing Information
1	Disclosures to customers relating to trading in the Extended Hours session for compliance with FINRA Rule 2265
202	Records prepared and maintained in connection with the above samples for compliance with SEC Rules 17a-3 and 17a-4
0	Trades reported to a TRF or OTCRF for compliance with FINRA Rules 6380A and 7230A or 6622 and 7330
N/A	Member's "Regular & Rigorous" review procedures regarding order execution quality for compliance with FINRA Rule 5310 and NASD Rule 3010
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 Rule 611
All Provided	Member's supervisory system, written supervisory procedures ("WSPs") and documentation evidencing execution of the WSPs for compliance with NASD Rule 3010, Nasdaq Rule 3010, Nasdaq OMX BX Rule 3010, Nasdaq OMX PHLX Rule 748, EDGA Rule 5.1, EDGX Rule 5.1 or NYSE-Arca Rule 6.18 requirements
All Provided	Member's risk management and supervisory system/procedures and documentation evidencing execution of the policies and procedures for compliance with SEC Rule 15c3-5 requirements
0	Trading Halts declared during the on-site portion of the examination for which FINRA Staff observed the operation of the ATS.
0	Trades reported to the ADF/TRACS for compliance with FINRA Rule 6282
0	ADF orders and quotes accessed by other market participants for compliance with FINRA Rule 6250 requirements to submit Order and Order Response reports