

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20130391658-04**

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

RE: Two Sigma Securities, LLC, Respondent
Broker-Dealer
CRD No. 148960

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Two Sigma Securities, LLC (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 June 25, 2009, and its registration remains in effect. The firm has no relevant disciplinary history.

SUMMARY

In Review Nos. 20130391658 and 20140409338, FINRA's Department of Market Regulation ("Market Regulation") reviewed the firm's compliance with Rule 15c3-5 of the Securities Exchange Act of 1934 ("Rule 15c3-5") and related supervisory requirements during the period from August 9, 2012 through April 9, 2014 (the "2012-2014 review period"). The reviews were conducted on behalf of FINRA and the following exchanges: Bats EDGA Exchange, Inc. ("EDGA"), Bats EDGX Exchange, Inc. ("EDGX"), Bats BZX Exchange, Inc. ("BZX"), Nasdaq Stock Market LLC ("Nasdaq"), Nasdaq BX, Inc. ("BX"), Nasdaq PHLX LLC ("PHLX"), New York Stock Exchange LLC ("NYSE"), NYSE Arca, Inc. ("NYSE Arca") and NYSE MKT LLC ("NYSE MKT") (collectively, the "Exchanges").¹ The reviews were prompted by

¹ Related disciplinary actions on behalf of each of the above Exchanges concurrently are being taken in conjunction with this matter.

various alerts of potentially unusual trading activity to check for potentially manipulative behavior and/or erroneous/duplicative order entry.

In Review No. 20150462036, Market Regulation, on behalf of Nasdaq, reviewed the firm's compliance with Rule 15c3-5 and related Nasdaq supervisory requirements concerning the firm's trading in a stock symbol on June 8, 2015 when the firm submitted a clearly erroneous filing with Nasdaq in that symbol in connection with its trading on that market.

As detailed further below, in connection with Review Nos. 20130391658 and 20140409338, the firm had inadequate risk management controls and supervisory procedures pertaining to certain aspects of market access, contrary to the requirements of Rule 15c3-5, NASD Rule 3010 and FINRA Rule 2010, and related requirements of the Exchanges pertaining to supervision and just and equitable conduct.²

FACTS AND VIOLATIVE CONDUCT

1. Rule 15c3-5 is designed to reduce the risks faced by broker-dealers, as well as the markets and the financial system as a whole, as a result of various market access arrangements, by requiring effective financial and regulatory risk management controls reasonably designed to limit financial exposure and ensure compliance with applicable regulatory requirements to be implemented on a market-wide basis.
2. Rule 15c3-5(b) requires, among other things, a broker-dealer with market access, as defined by that rule, to "establish, document, and maintain a system of risk management controls and supervisory procedures reasonably designed to manage the financial, regulatory, and other risks" of its market access activity and to preserve a copy of such supervisory procedures and a written description of its risk management controls as part of its books and records.
3. Rule 15c3-5(c)(1) provides that the risk management controls and supervisory procedures required by Rule 15c3-5(b) must be reasonably designed to systematically limit the financial exposure of the broker or dealer that could arise as a result of market access, including being reasonably designed to prevent "the entry of erroneous orders, by rejecting orders that exceed appropriate price or size parameters, on an order-by-order basis or over a short period of time, or that indicate duplicative orders," as set forth in Rule 15c3-5(c)(1)(ii).
4. Rule 15c3-5(c)(2) further states that the risk management controls and supervisory procedures required by Rule 15c3-5(b) must "be reasonably designed to ensure compliance with all regulatory requirements"
5. Rule 15c3-5(e) further requires such brokers or dealers to "establish, document, and maintain a system for regularly reviewing the effectiveness of the risk management controls and supervisory procedures" and to, among other things, "review, no less

² Findings specific to Review No. 20150462036 are contained in the concurrent Nasdaq action related to this matter.

frequently than annually, the business activity of the broker or dealer in connection with market access to assure the overall effectiveness of such risk management controls and supervisory procedures.”

In connection with Review Nos. 20130391658 and 20140409338,

6. The firm’s risk management controls and supervisory procedures were not reasonably designed to manage certain aspects of the financial, regulatory and other risks associated with its business activity involving market access, as more specifically described below, and did not comply with Rule 15c3-5 in several respects during the 2012-2014 review period, including SEC Rule 15c3-5(b), 15c3-5(c)(1)(ii), 15c3-5(c)(2) and 15c3-5(e).
7. More specifically, the firm failed to adequately document its risk management controls and supervisory procedures under Rule 15c3-5, contrary to Rule 15c3-5(b). For example, the firm failed to sufficiently document certain risk controls it deployed in its written description of its risk management controls (or how they operated); lacked sufficient documentation of its basis for certain control limits; and failed to sufficiently detail its criteria for evaluating and establishing certain control limits and procedures. Furthermore, the firm made only generic reference to certain daily and quarterly reviews by certain personnel of particular changes to risk control limits and provided insufficient detail about what the firm’s reviews for assessing the overall effectiveness of its controls and procedures entailed.
8. The firm’s controls as required by Rule 15c3-5(c)(1)(ii) were also inadequate in that the firm: (a) lacked pre-order entry controls, based on the particular characteristics of the order, tailored to identify and prevent potential duplicative order entry, (b) lacked pre-order entry controls specifically tracking the number of cancel messages sent to an exchange to detect repeated cancellations within compressed time periods which could be indicative of erroneous activity, and (c) set certain order rate limits at levels too high to be reasonably expected to prevent potentially erroneous order activity.
9. Further, the firm’s controls and procedures for complying with regulatory requirements pursuant to Rule 15c3-5(c)(2) were inadequate. Specifically, the firm lacked any specific controls or surveillance to detect and prevent potentially manipulative activity in the form of spoofing, layering, and algorithmic gaming activity, and had insufficient surveillance for potential marking of the close activity during the 2012-2014 review period.
10. For the foregoing reasons, the firm’s risk management controls and supervisory procedures during the 2012-2014 review period were not reasonably designed to comply with Rule 15c3-5. Accordingly, the firm violated SEC Rule 15c3-5(b), 15c3-5(c)(1)(ii), 15c3-5(c)(2) and 15c3-5(e).
11. Further, due to the aforementioned inadequacies, the firm violated NASD Rule 3010 (now FINRA Rule 3110) and FINRA Rule 2010.

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

1. A censure,
2. A total fine specific to Review Nos. 20130391658 and 20140409338 of \$65,000 (to be paid jointly to FINRA and the Exchanges, of which \$6,500 shall be paid to FINRA),³ and
3. An undertaking to update the firm's system of risk management controls and supervisory procedures, including but not limited to, its written description of risk management controls and written supervisory procedures to address the deficiencies described in connection with paragraphs I.A.1-11 above to achieve compliance with Rule 15c3-5 of the Securities Exchange Act of 1934 and FINRA Rules 3110 and 2010. Within 30 business days of acceptance of this AWC by the National Adjudicatory Council ("NAC"), a registered principal of the firm 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 risk management controls and supervisory procedures to address the deficiencies described in connection with paragraphs I.A.1-11; and (3) the date(s) the revised controls and supervisory procedures were implemented. Upon written request showing good cause, FINRA staff may extend any of the procedural dates set forth herein.

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;

³ The concurrent Nasdaq action for this matter includes an additional fine of \$25,000 to be paid to Nasdaq specific to the findings in Review No. 20150462036.

- 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, 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 accordance with FINRA Rule 8313;
 - 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.

Date 03/01/2017

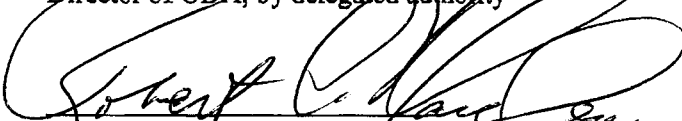
By: 8-7-

Name: SIMON YATES



Date 4/5/17

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



Robert A. Marchman
Executive Vice President
FINRA Department of Market Regulation