

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20140399429-04**

TO: Department of Enforcement
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. ("FILL", 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 became a member of FINRA on January 31, 1996, and its registration remains in effect. The Firm has no relevant disciplinary history.

SUMMARY AND OVERVIEW

1. In connection with Matter No. 20140399429, the staff of the Trading and Financial Compliance Examination ("TFCE") group, formerly TMMS, of the Department of Market Regulation, on behalf of FINRA and several equity exchanges, reviewed various trading activity of FILL, as well as FILL's written supervisory procedures in several areas, during August 2014 (the "review period"). As a result of this review, TFCE found the trading violations and violations related to FILL's written supervisory procedures set forth below.

FACTS AND VIOLATIVE CONDUCT

Trading Activity

2. During the review period, the firm failed on 14 occasions to provide written notification disclosing to its customer that the transaction was executed at an average price. The conduct described in this paragraph constitutes separate and distinct violations of SEA Rule 10b-10.
3. During the review period, in six instances, the firm failed to provide an extended hours risk disclosure to a customer prior to accepting and executing an order outside of normal market hours. The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rule 2265.

Supervision

4. During the review period, SEA Rule 15c3-5(b) required broker-dealers that provide market access 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 their market access business, and also required broker-dealers to preserve a copy of such supervisory procedures and a written description of its risk management controls as part of its books and records.
5. SEA Rule 15c3-5(c)(1) provides that the risk management controls and supervisory procedures required by paragraph (b) of the rule shall include financial risk management controls and supervisory procedures that are reasonably designed to, among other things, (i) prevent the entry of orders that exceed appropriate pre-set credit or capital thresholds in the aggregate for each customer and the broker or dealer, and (ii) 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.
6. SEA Rule 15c3-5(c)(2) provides that the risk management controls and supervisory procedures required by paragraph (b) of the rule shall include regulatory risk management controls and supervisory procedures that are reasonably designed to, among other things, (i) prevent the entry of orders unless there has been compliance with all regulatory requirements that must be satisfied on a pre-order entry basis, (ii) prevent the entry of orders for securities for a broker or dealer, customer, or other person if such person is restricted from trading those securities; (iii) restrict access to trading systems and technology that provide market access to persons and accounts pre-approved and authorized by the broker or dealer, and (iv) assure that appropriate surveillance personnel receive immediate post-trade execution reports that result from market access.

7. SEA Rule 15c3-5(d) provides that the financial and regulatory risk management controls required by paragraph (c) of the rule are required to be under the direct and exclusive control of the broker or dealer that is subject to paragraph (b) of the rule.
8. During the review period, NASD Rule 3010 required, among other things, each member to establish and maintain a supervisory system that is reasonably designed to achieve compliance with applicable securities laws and regulations, NASD rules, and FINRA rules, and NASD Rule 3010(b) required each member to establish written supervisory procedures ("WSPs") that were reasonably designed to ensure compliance with applicable securities laws and regulations, NASD rules and FINRA rules.
9. During the review period, FINRA Rule 2010 provided that a member, in the conduct of its business, shall observe high standards of commercial honor and just and equitable principles of trade.
10. Based upon a review of the Firm's WSPs 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 Securities and Exchange Commission. At a minimum, 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 are documented.

The Firm's WSPs failed to provide for one or more of the four above-cited minimal requirements for adequate WSPs in the following subject areas:

- Order Handling: Disclosure of Order Routing Information Rule [(a), (b), (c), (d)];
- Best Execution: Execution of block-sized orders, "not held" orders and orders with special pricing terms/conditions [(a), (b), (c), (d)]; Execution of multiple orders subject to time/price trading discretion [(a), (b), (c), (d)]; Execution of orders as agent, based on order by order routing decisions [(a), (b), (c), (d)]; Execution of orders as agent, based on aggregate routing decisions by firm [(a), (b), (c), (d)]; 3 Quote Rule [(c), (d)];
- Trade Reporting: Requirements to report trades accurately and timely [(a)]; ACT Compliance with TRF requirements [(a)]; 3rd Party Trade Reporting [(a)];
- Sale Transactions: Order Marking [(c), (d)]; Locate Requirements [(a), (c), (d)]; Delivery Requirements [(a), (b), (c), (d)]; Short Sale Pre-borrow requirements [(a), (b), (c), (d)]; Naked Short Selling Antifraud Rule [(a), (b), (c), (d)]; Short Sale Trade Reporting [(a)];
- Other Trading Rules: Prohibitions on trading or quoting during trading halt [(a), (b), (c), (d)]; Physical security of equipment [(a)]; Clearly Erroneous - Technological Controls [(a)];
- Soft Dollar Accounts and Trading: Preparing of records with executed trades [(a), (b), (c), (d)]; Operating outside the SEC-established safe harbor [(a), (b), (c), (d)];

- Preparing records regarding cost/value of research [(a), (b), (c), (d)]; Monitoring research to ensure items are with "Safe Harbor" [(a), (d)];
- Order Audit Trail System ("OATS"): Clock Synchronization [(a), (b), (c), (d)]; and
- Other Rules: Improper sharing of material, non-public information [(a), (d)]; Information Barrier breaches [(d)]; Written consent for employees associated with another member organization [(a), (b), (c), (d)]; Books and Records [(b), (c), (d)]; Sub-penny increments [(a), (b), (c), (d)]; Electronic Communications [(a)].

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

11. During the review period, the Firm failed to provide sufficient documentary evidence that it performed the supervisory reviews set forth in its WSPs in the following subject areas:

- Supervisory System, Procedures & Qualifications: Proper registration of personnel;
- Sale Transactions: Order Marking; Locate Requirements;
- Other Trading Rules: Physical security of equipment; OATS: Accurate and timely reporting of OATS data; Re-submission of data initially rejected by OATS; Data consistency between OATS and TRF; Reporting of Routed order identification numbers; and
- Other Rules: Improper sharing of material, non-public information; Information barrier breaches; Trade confirmations and statements of associated persons; Electronic Communications.

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

12. During the review period, based upon a review of the Firm's WSPs containing a description of its risk management controls and supervisory procedures pursuant to SEA Rule 15c3-5, it was determined that the Firm failed to provide for one or more of the four minimal requirements for adequate WSPs in the following subject areas:

- Direct Market and/or Sponsored Access pursuant to SEA Rule 15c3-5(b) [(a), (b), (c), (d)];
- Financial Risk Management Controls and Credit Limits pursuant to SEA Rule 15c3-5(c)(1)(i) [(b), (c), (d)];
- Erroneous Orders, Duplicative Orders pursuant to SEA Rule 15c3-5(c)(1)(ii) [(b), (c), (d)];
- Regulatory Risk Management Controls and Supervisory Procedures pursuant to SEA Rule 15c3-5(c)(2)(i) [(b), (c), (d)];
- Restricting Trading of Unapproved Securities pursuant to SEA Rule 15c3-5(c)(2)(ii) [(b), (c), (d)];

- Restricting Access to Systems and Technology pursuant to SEA Rule 15c3-5(c)(2)(iii) [(a), (b), (c), (d)];
- Post Trade Execution Reports pursuant to SEA Rule 15c3-5(c)(2)(iv) [(a), (b), (c), (d)]; and
- Direct and Exclusive Control of Systems pursuant to SEA Rule 15c3-5(d) [(a), (b), (c), (d)].

The conduct described in this paragraph constitutes a violation of SEA Rules 15c3-5(b); (c)(1)(i); (c)(1)(ii); (c)(2)(i); (c)(2)(ii); (c)(2)(iii); (c)(2)(iv); and (d).

13. During the review period, the Firm failed to provide sufficient documentary evidence that it performed the supervisory reviews set forth in its SEA Rule 15c3-5 WSPs in the following subject areas:

- Direct Market and/or Sponsored Access;
- Financial Risk Management Controls and Credit Limits;
- Erroneous Orders;
- Duplicative Orders;
- Regulatory Risk Management Controls and Supervisory Procedures;
- Restricting Trading of Unapproved Securities;
- Restricting Access to Systems and Technology;
- Post Trade Execution Reports;
- Direct and Exclusive Control of Systems;
- Annual Review of Systems and Technology; and
- Chief Executive Officer Certification.

The conduct described in this paragraph constitutes a violation of SEA Rule 15c3-5.

B. The Firm also consents to the imposition of the following sanctions:

1. A censure; and
2. A fine in the amount of \$125,000, of which \$32,500 is payable to FINRA (consisting of a fine of \$5,000 for the violations of SEA Rule 10b-10; a fine of \$5,000 for the violations of FINRA Rule 2265; a fine of \$15,000 for the violations of NASD Rule 3010 and FINRA Rule 2010; and a fine of \$7,500 for the violations of SEA Rule 15c3-5¹).²
3. Acceptance of this AWC is conditioned upon acceptance of similar settlement agreements in related matters between FILL and each of the following self-regulatory organizations: Cboe BYX Exchange, Inc., Cboe BZX Exchange, Inc.,

¹ An additional fine is being imposed against the Firm for violations of SEA Rule 15c3-5 in a related EDGA AWC under STAR Nos. 20140399429, 20160500099 and 20170529501.

² The balance of the sanction will be paid to the self-regulatory organizations listed in Paragraph B.3.

Cboe EDGA Exchange, Inc., Cboe EDGX Exchange Inc., The NASDAQ Stock Market LLC, the New York Stock Exchange LLC, NYSE American LLC, and NYSE Arca Inc.

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 prejudice 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: (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.

November 6, 2017
Date

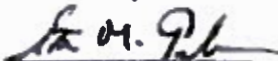
Respondent
TradeStation Securities, Inc.

By: 

Name: Peter Korotkiy

Title: President + COO

Reviewed by



Attorney Name

Counsel for Respondent

Firm Name

Address

City/State/Zip

Phone Number

Accepted by FINRA:

11/29/17
Date

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


Kenneth R. Bozza, Chief Counsel
FINRA, Department of Enforcement