

**FINANCIAL INDUSTRY REGULATORY AUTHORITY  
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT  
NO. 2016051085001**

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

RE: Citadel Securities LLC (Respondent)  
Member Firm  
CRD No. 116797

Pursuant to FINRA Rule 9216, Respondent Citadel Securities LLC 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 in this AWC.

**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**

Citadel Securities became a FINRA member in February 2005, is headquartered in Chicago, Illinois and as of October 2020, has approximately 415 registered individuals. The firm primarily engages in market making and provides execution services in U.S. equities, options, government securities, and foreign exchange products to millions of customers through its broker-dealer clients. Citadel Securities does not have any relevant disciplinary history.

**OVERVIEW**

Between September 14, 2015 and July 21, 2016, Citadel Securities had a system issue that caused it to report approximately 6.5 million equity sale transactions to the FINRA/Nasdaq Trade Reporting Facility (TRF) with an inaccurate short sale indicator in violation of FINRA Rules 6182, 7230A(d), and 2010. The firm also failed to have a supervisory system, including written supervisory procedures (WSPs), that was reasonably designed to achieve compliance with FINRA rules requiring the use of short sale indicators in violation of FINRA Rules 3110 and 2010.

## **FACTS AND VIOLATIVE CONDUCT**

This matter originated from FINRA's 2015 cycle examination of Citadel Securities.

### **Trade Reporting Violations**

1. FINRA Rule 6182 requires members "to indicate on trade reports submitted to FINRA whether a transaction is a short sale or a short sale exempt transaction ('short sale reporting requirements'). The short sale reporting requirements apply to transactions in all NMS stocks, as defined in Rule 600(b)(47) of SEC Regulation NMS." All short sale transactions in NMS securities must be reported to FINRA with a "short sale" or "short sale exempt" indicator pursuant to Rule 201 of Regulation SHO.
2. FINRA Rule 7230A(d) requires the reporting member (unless the contra side has an opportunity to provide its own trader information) to provide complete and accurate submissions of information for both sides of a trade including, "[a] symbol indicating whether the transaction is a buy, sell or cross, and if applicable, a symbol indicating that the transaction is a sell short or sell short exempt trade from the Reporting Member perspective or contra side perspective, irrespective of whether the contra side is a member, except the sell short or sell short exempt indicator is not required on any clearing-only, non-regulatory report submitted pursuant to Rule 7230A(i)(4)."
3. FINRA Rule 2010 requires a member in the conduct of its business to "observe high standards of commercial honor and just and equitable principles of trade." A violation of a FINRA rule constitutes a violation of FINRA Rule 2010.
4. On September 14, 2015, Citadel Securities released a new system designed to implement the new order marking and trade reporting methodologies required pursuant to Regulation SHO FAQ 2.5 and FINRA Trade Reporting FAQ 407.13, respectively. However, the firm inadvertently omitted one of its execution systems as part of the release, and thus reported trades using the historical methodology. This omission caused Citadel Securities to report 6.5 million short sale equity transactions to the TRF without the short sale indicator. The firm remediated the issue on July 21, 2016 after FINRA notified the firm of the issue. The 6.5 million trade reporting violations represented approximately four to six percent of Citadel Securities' daily reported trades during the period September 14, 2015 through July 21, 2016.
5. Therefore, Citadel Securities violated FINRA Rules 6182 and 2010.
6. Between September 14, 2015 and July 21, 2016, Citadel Securities reported approximately 6,660 long sale trades to the TRF with a short sale indicator as a result of the issue described in paragraph 4.

7. Therefore, Citadel Securities violated FINRA Rules 7230A(d) and 2010.

Supervision Violation

8. FINRA Rule 3110(a) requires that each member “establish and maintain a system to supervise the activities of each associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA rules.” FINRA Rule 3110(b) requires that each member, “establish, maintain, and enforce written procedures to supervise the types of business in which it engages and the activities of its associated persons that are reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA rules.”
9. Citadel Securities’ supervisory system, including its WSPs, was not reasonably designed to achieve compliance with short sale indicator reporting pursuant to FINRA Rules 6182 and 7230A(d). Between September 14, 2015 and July 21, 2016, Citadel Securities conducted end of day reviews for the accuracy of short sale transaction reporting, but these reviews did not include trades effected through all of its execution systems. Even if Citadel Securities had included all execution systems in its supervisory reviews, it would not have reviewed the misreported transactions for short sale reporting requirements because the supervisory reviews only looked at order activity covered by Regulation SHO. Unlike FINRA’s trade reporting rules, Regulation SHO did not apply to the misreported transactions because Regulation SHO mandates the marking of sell orders and here the misreported transactions were limited to the execution of incoming orders rather than order entry or routing. Citadel Securities addressed the deficiencies in its WSPs in July 2016 after FINRA brought the issue to its attention. Consequently, between September 14, 2015 and July 21, 2016, Citadel Securities did not have in place a supervisory system, including WSPs, reasonably designed to achieve compliance with FINRA Rules 6182 and 7230A(d) in violation of FINRA Rules 3110(a) and (b) and 2010.

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

- a censure and
- a \$180,000 fine (comprised of \$140,000 for trade reporting violations and \$40,000 for the related supervisory violations).

The sanctions imposed in this AWC shall be effective on a date set by FINRA.

## 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 it;
- 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 its acceptance or rejection.

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 action brought by FINRA or any other regulator against Respondent;
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 its subject matter 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 testimonial obligations or 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 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.

10/27/20  
Date

Print Name: Stephen Bayore '16

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