

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2016051549205**

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

RE: GTS Securities LLC, Respondent
Member Firm
CRD No. 149224

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Respondent GTS Securities LLC (GTS) 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 April 23, 2014, and its registration remains in effect. GTS is a proprietary trading firm with no customer order flow. GTS accounts for approximately five percent of all U.S. equities trading volume each day. The firm has three branch offices, including its headquarters in New York, New York and approximately 120 registered representatives.

RELEVANT DISCIPLINARY HISTORY

Respondent does not have any relevant disciplinary history with the SEC, any state securities regulators, FINRA, or any other self-regulatory organization.

OVERVIEW

From April 23, 2014 through July 31, 2015, the firm failed to obtain a locate in connection with over 26,000 proprietary short sale transactions as required by Rule 203(b)(1) of Regulation SHO of the Securities Exchange Act of 1934 (Exchange Act

Rule 203(b)(1)).¹ The firm's failure was attributable to a system coding issue that went undetected. The firm's supervisory system, including its written supervisory procedures, was not reasonably designed to achieve compliance with Rule 203(b)(1) because it did not include a review to determine if the easy to borrow designation for equity securities was accurately captured into the firm's systems.

Based on the foregoing, the firm violated Exchange Act Rule 203(b)(1), FINRA Rule 2010, NASD Rule 3010 (for conduct before December 1, 2014), FINRA Rule 3110 (for conduct on or after December 1, 2014), and FINRA Rule 2010.

FACTS AND VIOLATIVE CONDUCT

GTS Failed to Comply with the Locate Requirement Because it Misidentified Certain Securities as Easy to Borrow

1. Exchange Act Rule 203(b)(1) provides that "a broker or dealer may not accept a short sale order in an equity security from another person, or effect a short sale in an equity security for its own account, unless the broker or dealer has: (i) Borrowed the security, or entered into a bona-fide arrangement to borrow the security; or (ii) Reasonable grounds to believe that the security can be borrowed so that it can be delivered on the date delivery is due; and (iii) Documented compliance with this paragraph (b)(1)."
2. Easy to borrow (ETB) lists generally may be used to satisfy the locate requirement of Exchange Act Rule 203(b)(1).²
3. From April 23, 2014 through July 31, 2015, GTS received ETB lists from two of its clearing firms.
4. One of the clearing firms modified an electronic tag on its ETB list without notifying GTS of the modification. GTS's system did not recognize the modified tag, coding certain securities as ETB when they were not on the ETB list. As a result, from April 23, 2014 through July 31, 2015, GTS failed to obtain a locate in connection with 26,727 proprietary short sale executions because it erroneously believed the securities were ETB. Those executions comprised a small fraction of all short sales that GTS executed during the period.
5. On July 31, 2015, GTS stopped using the clearing firm and, therefore, no longer relied on its ETB list for locates.

¹ Disciplinary action is being taken concurrently on behalf of Cboe BYX Exchange, Inc., Cboe BZX Exchange, Inc., Cboe EDGA Exchange, Inc., and Cboe EDGX Exchange, Inc. (collectively, Cboe). The firm was a member of certain Cboe exchanges during the entire review period.

² U.S. Securities and Exchange Commission (SEC) Division of Market Regulation: Responses to Frequently Asked Questions Concerning Regulation SHO (Question 4.2).

6. By virtue of the foregoing, GTS violated Exchange Act Rule 203(b)(1) and FINRA Rule 2010.³

GTS Failed to Have a Reasonable Supervisory System to Achieve Compliance with the Locate Requirement

7. NASD Rule 3010 (for conduct before December 1, 2014) and FINRA Rule 3110 (for conduct on or after December 1, 2014) require members to establish and maintain a system, including written supervisory procedures, to supervise the activities of associated persons that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA rules.
8. From April 23, 2014 through July 31, 2015, the firm had a supervisory system, including written supervisory procedures, that addressed Regulation SHO, including compliance with the locate requirement. The system, however, was not reasonably designed to achieve compliance with the locate requirement because it did not include any means by which to determine if the clearing firm's ETB lists were correctly recognized by GTS's systems and that its locate decisions were consistent with accurate ETB information. For this reason, the firm's systems were not reasonably designed to achieve compliance with Rule 203(b)(1).
9. By virtue of the foregoing, GTS violated NASD Rule 3010 (for conduct before December 1, 2014) and FINRA Rule 3110 (for conduct on or after December 1, 2014) and FINRA Rule 2010.

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

1. a censure; and
2. a total fine of \$70,000 to be paid jointly to FINRA and Cboe, of which \$30,000⁴ is allocated to FINRA.⁵

Respondent agrees to pay the monetary sanctions upon notice that this AWC has been accepted and that such payments are 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 an inability to pay, now or at any time hereafter, the monetary sanctions imposed in this matter.

³ FINRA Rule 2010 requires members to, in the conduct of business, observe high standards of commercial honor and just and equitable principles of trade. A violation of an SEC or FINRA rule also constitutes a violation of FINRA Rule 2010.

⁴ In determining the fine in this matter, Enforcement took into consideration the sanctions in the related disciplinary actions against the firm.

⁵ Because the firm addressed the deficiencies described in paragraph I.A.8, an undertaking is not required.

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 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 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 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 the subject matter thereof in accordance with FINRA Rule 8313; and
4. Respondents 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: (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. 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 or its staff.

The undersigned, on behalf of the Respondent 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 it to submit it.

GTS Securities LLC
Respondent

11/13/2020
Date

By: Patrick J Romanello

Print Name: Patrick J Romanello

Title: CCO

Reviewed by:

Eric A. Bensky

Eric A. Bensky, Esq.
Murphy & McGonigle
Counsel for Respondent

Accepted by FINRA:

November 24, 2020

Date

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

Rachel Browder

Rachel Browder
Principal Counsel
FINRA
Department of Enforcement
15200 Omega Drive, Suite 300
Rockville, MD 20850