

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2017053653101**

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

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

Pursuant to FINRA Rule 9216 of FINRA’s Code of Procedure, Respondent Citadel Securities LLC (the “Firm”) 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 in February 2005. The Firm is headquartered in Chicago, Illinois, maintains six branch offices, and employs approximately 386 registered representatives. It provides market-making services across a variety of fixed income and equity products.

RELEVANT DISCIPLINARY HISTORY

Respondent does not have any disciplinary history with the Securities and Exchange Commission, any state securities regulators, FINRA, or any other self-regulatory organization.

OVERVIEW

Between April 1, 2016, and May 30, 2017 (the “Review Period”), Citadel violated FINRA Rules 6432 (Supplementary Material .01) and 2010 by failing to demonstrate eligibility of the Exchange Act Rule 15c2-11(f)(2) exception by making a

contemporaneous record of the following information in connection with 15,445 quotations: (i) the identity of the person from whom information regarding the unsolicited customer order or indication of interest was received, if applicable; (ii) the date and time the unsolicited customer order or indication of interest was received by the member displaying the quotation; and (iii) the terms of the order that is the subject of the quotation.

During the Review Period, the Firm also failed to establish and maintain a system to supervise, including written supervisory procedures (“WSPs”), reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA rules, with respect to FINRA Rule 6432 (Supplementary Material .01). As a result, the Firm violated FINRA Rules 3110 and 2010.

FACTS AND VIOLATIVE CONDUCT

This matter resulted from routine surveillance by the Short Sales Section of the Department of Market Regulation.

Relevant Rules

1. Rule 15c2-11 of the Exchange Act governs the submission and publication of quotations by broker-dealers for OTC Equity securities and serves to prevent fraudulent, deceptive, or manipulative acts or practices by prohibiting broker-dealers from publishing quotes for securities in quotation mediums without: (i) having in its records certain documents and information¹ and (ii) having a reasonable basis under the circumstances for believing that the information is accurate in all material respects, and that the sources of the information are reliable.
2. Subsection (f) of Rule 15c2-11 sets forth exceptions where a firm is not required to have in its records the information specified in the rule, such as the unsolicited quotation exception that is set forth in subsection (f)(2). This particular exception allows a broker-dealer to publish or submit a quotation, solely on behalf of a customer, that represents the customer’s order and does not involve the solicitation of the customer’s interest.
3. FINRA Rule 6432 (Supplementary Material .01) requires any member initiating or resuming quotations in reliance on Exchange Act Rule 15c2-11(f)(2) to demonstrate eligibility for the exception by making a contemporaneous record of:

¹ Information required by Paragraph (a) of the rule includes a copy of the prospectus per Section 10(a) of the Securities Act of 1933 for an issuer, a copy of the offering circular provided for under Regulation A of the Securities Act of 1933, a copy of the issuer’s most recent annual report, information published by the issuer relating to requests for information in the proposed transactions, and various current information that shall be made available upon request (*e.g.*, exact name of issuer, address of principal executive offices, state of incorporation, title and class of security, etc.). Information required by Paragraph (b) of the rule includes, among other things, a record of the circumstances involved in the submission of publication of such quote, including the identity of the person(s) for whom the quote is being submitted/published and any information regarding the transactions provided to the broker-dealer by such person(s).

- (a) the identification of each associated person who receives the unsolicited customer order or indication of interest directly from the customer, if applicable;
- (b) the identity of the customer;
- (c) the date and time the unsolicited customer order or indication of interest was received; and
- (d) the terms of the unsolicited customer order or indication of interest that is the subject of the quotation (e.g., security name and symbol, size, side of the market, duration (if specified) and, if priced, the price).

Any member displaying a quote representing an unsolicited customer order or indication of interest that was received from another broker-dealer must contemporaneously record the identity of the person from whom information regarding the unsolicited customer order or indication of interest was received, if applicable; the date and time the unsolicited customer order or indication of interest was received by the member displaying the quotation; and the terms of the order that is the subject of the quotation.

4. FINRA Rule 3110(a) requires FINRA members to 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.
5. FINRA Rule 3110(b) requires FINRA members to 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.
6. FINRA Rule 2010 requires members, in the conduct of their business, to “observe high standards of commercial honor and just and equitable principles of trade.” Violations of FINRA rules, such as FINRA Rules 6432, 6432 (Supplementary Material .01) and 3110, are also violations of FINRA Rule 2010.

Violative Conduct

7. During the Review Period, Citadel Securities relied on the Exchange Act Rule 15c2-11(f)(2) unsolicited customer order exception. Citadel Securities required its broker-dealer clients to affirm on a blanket or order-by-order basis that relevant orders sent to the Firm were unsolicited in order to comply with the exception. To affirm on a blanket basis, Citadel Securities required each broker-dealer client to execute an Unsolicited Order Letter (“UOL”), kept on file, in which the client represented it would only send unsolicited orders to Citadel Securities. Broker-dealer clients that did not execute UOLs could affirm that orders sent to Citadel Securities were unsolicited on an order-by-order basis by marking an order’s Solicited Flag (“FIX Tag 377”) as “N” to indicate it as unsolicited.

8. The Firm's original client gateway (the "Original Gateway") allowed orders to be quoted when received from a broker-dealer client where the client: (i) had an executed UOL on file; or (ii) did not have a UOL, but had marked relevant orders with the FIX Tag 377 as "N" for unsolicited.
9. The Original Gateway also identified certain orders as "exceptions": (i) where a broker-dealer client did not have a UOL; and (ii) the broker-dealer client populated the FIX Tag 377 with a "Y" or left it blank. The Original Gateway's controls prohibited the Firm from automatically displaying the orders; flagged the orders as "exceptions"; and required a manual review to ensure they were unsolicited, which was documented on an Unsolicited Order Confirmation Log.
10. In 2015, the Firm began a transition to a new client gateway (the "New Gateway"), which was to be implemented in April 2016. The New Gateway continued to identify "exceptions" in instances where a broker-dealer client did not have a UOL and the client populated the Solicited Flag with a "Y." But, as a result of an inadvertent logic change, the New Gateway did not identify as "exceptions" where a broker-dealer client did not have a UOL and the client left the FIX Tag 377 field blank. During the Review Period, therefore, the New Gateway treated certain orders as unsolicited and eligible for display, resulting in approximately 15,443 quotations.
11. The coding flaw persisted from April 2016, when the New Gateway was fully implemented, through May 2017, when the Firm remediated the problem.
12. Additionally, in connection with one quotation, the Firm's broker-dealer client cancelled the order approximately 13 minutes prior to the entry of the quote. In connection with another quotation, the Firm's broker-dealer customer's order was an unsolicited sell order of 1,000 shares, but the posted quotation was for 3,410 shares. The Firm, therefore, did not have unsolicited customer orders, either in hand or for the full amount of the quotation, when it published the quotations.
13. During the Review Period, Citadel Securities relied on the unsolicited order exception in Exchange Act Rule 15c2-11(f)(2) and, therefore, was required to demonstrate eligibility for the exception by making contemporaneous records of certain information pursuant to FINRA Rule 6432 (Supplementary Material .01). The Firm, however, failed to make such contemporaneous records in connection with the orders representing the 15,445 quotations described above.
14. By virtue of the foregoing, the Firm violated FINRA Rules 6432 (Supplementary Material .01) and 2010.
15. During the Review Period, the Firm failed to establish and maintain a system to supervise, including WSPs, the activities of each associated person that was reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA rules. First, between the beginning of the Review Period and January 2017, the Firm failed to establish any supervisory system,

including WSPs, concerning its compliance with FINRA Rule 6432 (Supplementary Material .01). Second, between the beginning of the Review Period and January 2017, the process utilized by Citadel Securities to achieve compliance with the relevant rules was flawed: it did not flag as exceptions orders with blank FIX Tags 377. Third, between January 2017 and the end of the Review Period, the Firm implemented WSPs concerning its compliance with FINRA Rule 6432 (Supplementary Material .01) that were not reasonably designed. The WSPs required the Desk Supervisor (or designee) to ensure on a daily basis that there existed “adequate supporting documentation that [an] underlying order was unsolicited” when submitting quotations for publication on a quotation medium. The WSPs described “adequate supporting documentation” to include a UOL on file and marking the FIX Tag 377 with an “N. ” The WSPs also required the Desk Supervisor to “ensure that if a client does not send FIX Tag 377 populated to N or have an Unsolicited Letter on file, our systems reject the order back to the client.” The WSPs, however, did not provide any description as to what the actual supervisory review entailed or any steps to be taken by the designated individual to achieve compliance with FINRA Rule 6432 (Supplementary Material .01). For example, there is no guidance on how the Desk Supervisor must ensure that “adequate supporting documentation” exists; what sources of information must be consulted in conducting such a review; or how the Desk Supervisor ensures that the Firm’s systems reject orders received from clients with no UOLs on file and who failed to populate the FIX Tag 377 with an “N.”

16. By virtue of the foregoing, the Firm violated FINRA Rules 3110 and 2010.

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

1. A censure; and
2. A fine of \$30,000 (comprising a \$20,000 fine for violating FINRA Rules 6432 (Supplementary Material .01) and 2010; and a \$10,000 fine for violating FINRA Rules 3110 and 2010).

Respondent agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is 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 sanction 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 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;

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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 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.

August 26, 2020

Date



Citadel Securities LLC
Respondent

By: Steve Luparello

Print Name: Steve Luparello

Title: General Counsel

Reviewed by:

N/A

Attorney Name
Counsel for Respondent
Firm Name
Address
City/State/Zip

Accepted by FINRA:

September 3, 2020

Date

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



Manuel Yanez
Senior Counsel
FINRA
Department of Enforcement
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Rockville, MD 20850