

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2018059279201**

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

RE: TD Securities (USA) LLC (Respondent)
Member Firm
CRD No. 18476

Pursuant to FINRA Rule 9216, Respondent TD Securities (USA) 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 accepts and consents to the following findings by FINRA without admitting or denying them:

BACKGROUND

TD Securities (USA) has been a FINRA member since July 1987. The firm is a multi-service broker-dealer that provides, among other things, corporate and investment banking, global market sales and trading, and research services. TD Securities (USA) is headquartered in New York, New York, maintains ten branches, and employs more than 1,400 registered representatives.¹

OVERVIEW

From July 2017 through May 2019, TD Securities (USA), through a former trader who worked on, and later became the head of, the firm's U.S. Treasury trading desk, engaged in 813 instances of "spoofing" in U.S. Treasury securities markets. Spoofing is a type of fraudulent trading activity that involves placing non-bona fide orders to create the false appearance of market activity on one side of the market to induce other market participants to execute against bona fide orders entered on the opposite side of the market in the same security or a correlated product. As a result, TD Securities (USA) violated FINRA Rule 2010.

¹ For more information about the firm, including prior regulatory events, visit BrokerCheck® at www.finra.org/brokercheck.

Additionally, from at least July 2017 through June 2021, TD Securities (USA) failed to establish and maintain a supervisory system, including written supervisory procedures, reasonably designed to detect spoofing in U.S. Treasury securities. TD Securities (USA) also failed to reasonably investigate the trader's activity after receiving an internal surveillance alert and an inquiry from an external electronic trading platform regarding the trader's potential spoofing. As a result, TD Securities (USA) violated FINRA Rules 3110 and 2010.

FACTS AND VIOLATIVE CONDUCT

This matter originated from surveillance conducted by FINRA.

A. TD Securities (USA), through a former trader, engaged in spoofing in the U.S. Treasury markets in violation of FINRA Rule 2010.

1. Spoofing violates FINRA Rule 2010.

FINRA Rule 2010 provides that “[a] member, in the conduct of its business, shall observe high standards of commercial honor and just and equitable principles of trade.” Spoofing is a type of fraudulent trading that involves displaying a non-bona fide order (*i.e.*, an order that the trader does not intend to have executed) in a security to induce other market participants to execute against an order on the opposite side of the market in the same security or a correlated product. Spoofing may deceive other market participants into trading at a time, price, or quantity that they otherwise would not have. Spoofing is inconsistent with high standards of commercial honor and just and equitable principles of trade and therefore violates FINRA Rule 2010.

2. Trading in the U.S. Treasury markets.

U.S. Treasury securities are debt instruments issued by the U.S. government through public auctions and subsequently traded in the secondary, or “cash,” market. As of August 2024, outstanding U.S. Treasury securities were valued at \$27.6 trillion. U.S. Treasury securities range in maturity from U.S. Treasury Bills (as short as four weeks) to U.S. Treasury Bonds (up to 30 years).

U.S. Treasury futures contracts allow a buyer and seller to agree upon a price for future delivery of a U.S. Treasury security. For example, the Ultra Treasury Bond futures contract (Ultra T-Bond) requires delivery of a U.S. Treasury Bond with a remaining maturity of at least 25 years. Accordingly, prices in the U.S. Treasury futures markets are closely correlated with prices in the U.S. Treasury markets.

The U.S. Treasury securities and U.S. Treasury futures markets were highly liquid during the relevant period. For example, in 2018, the daily notional value of U.S. Treasury securities traded was \$547 billion and U.S. Treasury futures traded was \$477 billion.

Both U.S. Treasury securities and U.S. Treasury futures trade in very narrow bid-offer spreads on electronic trading platforms, usually less than a few cents separating the top bid and offer prices. Electronic trading platforms maintain “order books” viewable to market participants that incorporate open buy and sell orders. Each order book displays to market participants the total quantities available on its platform at the best prices on both the buy and sell side for each security and several price points below. The highest price for buy orders and the lowest price for sell orders are known as the “top of the book” for bids and offers, respectively.

The displayed quantity is often referred to as the “stack.” A stack can either be balanced (*i.e.*, a similar displayed quantity at both the bid and offer prices) or imbalanced (*i.e.*, more displayed quantity at either the bid or offer price). Market participants regularly incorporate the “stack” and any apparent imbalance into their trading decisions. Market participants may consider liquidity and market depth in the stack to determine whether there is generally more interest to buy or to sell, and thus whether the next transaction will occur at the bid price, the offer price, or if a corresponding price change is likely.

For example, market participants may conclude that the market may move to the sell side if the stack is displaying more quantity on the buy side. If the stack is heavily skewed on the sell side, market participants may reasonably believe that there is more interest to buy. In such a scenario, market participants would place aggressive buy orders (*i.e.*, at a higher price than the currently resting buy orders in the market), making execution of resting sell orders more likely. Accordingly, market participants generally pay close attention to changes in the stack’s balance.

U.S. Treasury market participants can choose to fully display the quantity of their orders or enter them as “iceberg” orders with only a portion of the quantity displayed. For example, a market participant with a \$25 million sell order of Three-Year Treasury Notes may choose to display only \$1 million in quantity, leaving the remaining \$24 million hidden from the market. Market participants frequently use iceberg orders to manage order exposure and mitigate potential price impact. Iceberg orders are permissible, but if used improperly, can facilitate fraudulent trading by concealing the participant’s true trading interest. For example, in a spoofing scheme, a trader may place an iceberg order on one side of the market and a large, fully displayed order on the opposite side to create the appearance of an imbalanced stack, thereby pushing the market into the side where the iceberg order is pending.

3. TD Securities (USA), through a former trader, engaged in spoofing in U.S. Treasury securities.

From July 2017 through May 2019, TD Securities (USA), through a former trader who worked on, and later became the head of, the firm’s U.S. Treasury trading desk, engaged in 813 instances of spoofing in U.S. Treasury securities. This trading activity occurred on the secondary market, where institutional and other market participants trade U.S. Treasury securities and U.S. Treasury futures through electronic trading platforms. The trader placed orders using the firm’s trading systems under the firm’s account and traded

for the benefit of the firm's proprietary and customer accounts. The trader placed non-bona fide orders in the U.S. Treasury securities market to induce executions in the same U.S. Treasury security benchmark, other U.S. Treasury security benchmarks, and/or U.S. Treasury futures contracts.

The 813 instances of spoofing are comprised of: (1) 744 instances of spoofing in a U.S. Treasury security to induce opposite-side executions in a U.S. Treasury security; and (2) 69 instances of spoofing in a U.S. Treasury security to induce opposite-side executions in a U.S. Treasury futures contract.

The trader's spoofing generally followed the same pattern:

- The trader entered a bona fide order to buy or sell a U.S. Treasury security (or U.S. Treasury futures contract), usually at the top of book price and as an iceberg order with only the minimum size displayed, typically \$1 million par value of a U.S. Treasury security.²
- The trader contemporaneously entered one or more fully displayed, non-bona fide orders on the opposite side of the market, often at different price levels, in the same or a correlated U.S. Treasury security. The fully displayed, non-bona fide orders created a false appearance of market depth and interest on the side of the market where the non-bona fide order was placed.
- By increasing the size of the market on the side where the trader placed the fully displayed, non-bona fide order, the trader created an imbalance in the market that caused other market participants to react by executing on the opposite side of the market, where the trader's iceberg order was waiting.
- At or around the time the trader received executions on the iceberg order, the trader canceled the fully displayed, non-bona fide order, usually before it received any executions. In fact, approximately 99 percent of the trader's fully displayed, non-bona fide orders were canceled before receiving executions.

4. Examples of spoofing

a. Same Product Spoofing

On April 11, 2019, over the course of approximately one-and-a-half minutes, the trader placed one iceberg buy order followed by six fully displayed, non-bona fide sell orders totaling \$233 million par value in the same U.S. Treasury security. After receiving executions on the entirety of the iceberg order, the trader canceled the fully displayed, non-bona fide sell orders before receiving any executions on them. Specifically:

² In several instances, the trader entered one or more fully displayed, non-bona fide orders before entering the bona fide iceberg order.

- At 10:46:19.883 on April 11, 2019, the trader entered an iceberg order to buy \$15 million par value of 10-Year Treasury Notes at the best bid price of \$101.109375, with \$1 million displayed. The firm's internal router sent the order to an electronic trading platform for execution.
- Two seconds later, and over the course of the next 7.495 seconds, the trader entered six separate, fully displayed, non-bona fide orders to sell 10-Year Treasury Notes at four different price points: (1) a \$100 million fully displayed sell order at one price point behind the top of the book; (2) a \$44 million fully displayed sell order two price points behind the top of the book; (3) a \$2 million fully displayed sell order three price points behind the top of the book; and (4) three fully displayed sell orders each at the top of the book for \$12 million, \$20 million, and \$55 million, respectively.
- Before the trader entered the three top of book non-bona fide sell orders, the top of book volume on the buy side was \$51 million par value, while the top of book volume on the sell side was \$89 million par value. After the trader placed the three fully displayed, non-bona fide orders, the top of book volume on the buy side was \$41 million par value, while the top of book volume on the sell side was \$176 million par value. The trader's final \$55 million non-bona fide order created an imbalance of 329 percent between the buy and sell sides.
- Before the trader entered the non-bona fide orders, the price spread was \$101.109375 by \$101.125. After the trader entered the sixth non-bona fide order, the spread moved down to \$101.09375 by \$101.109375, where it remained through the cancellation of the six non-bona fide orders.
- The entirety of the trader's iceberg order (\$15 million par value) was filled within 0.003 seconds of the trader placing the sixth fully displayed, non-bona fide sell order of \$55 million. Within the next 21 seconds, the trader canceled the fully displayed, non-bona fide orders, none of which received any executions.

b. *Cross-Product Spoofing*

On April 10, 2019, at 15:18:12.999, the trader entered a bona fide iceberg order to buy 100 contracts of the 30-Year Ultra Bond U.S. Treasury future, with one contract displayed, and received executions on six contracts. Thereafter, the trader entered three fully displayed non-bona fide orders of \$50 million, \$30 million, and \$44 million in the 30-Year Treasury Bond (cash market), causing his iceberg order to be fully executed. To take advantage of the market reaction his fully displayed, non-bona fide orders caused, the trader entered several bona fide iceberg orders in the 30-Year Ultra Bond futures market and received executions. The trader then canceled the non-bona fide orders in the 30-Year Treasury Bonds before receiving executions on them. Specifically:

- On April 10, 2019, at 15:18:12.999, the trader entered a bona fide iceberg order to buy 100 contracts of 30-Year Ultra Bond U.S. Treasury futures, with one contract displayed, and received executions on six contracts.

- Less than six seconds after placing the bona fide iceberg order, the trader entered a fully displayed, non-bona fide order to sell \$50 million par value in the correlated 30-Year Treasury Bond cash market above the best ask price. The firm's internal router sent \$26 million of the order to one of the electronic trading platforms for execution. Within the same second of placing the non-bona fide order, the trader received additional executions on four contracts on the 30-Year Ultra Bond iceberg order.
- Over the course of the next five seconds, the trader did not receive any additional executions on the 30-Year Ultra Bond iceberg order. The trader then entered two more fully displayed, non-bona fide sell orders in the 30-Year Treasury Bond cash market within one second of each other: one for \$30 million par value (\$16 million routed to a single electronic trading platform for execution) priced away from the top of book, followed by another for \$44 million par value (\$22 million routed to a single electronic trading platform for execution) at the top of the book.
- Within the same second of placing the \$44 million fully displayed, non-bona fide sell order in the 30-Year Treasury Bond cash market, the trader began receiving additional executions on the 30-Year Ultra Bond contracts. Between 15:18:24.472 and 15:18:30.313 (six seconds), the trader received executions on the remaining 90 Ultra Bond contracts, filling the entirety of the trader's original iceberg order.
- Between 15:18:30.313 and 15:18:56.011, the trader, taking advantage of the market reaction and price movement caused by the fully displayed, non-bona fide orders in the 30-Year Treasury Bond cash market, entered various iceberg and aggressive buy orders in the 30-Year Ultra Bond and a related 30-Year Z-Bond U.S. Treasury futures contract, receiving executions on those orders.
- At 15:18:57.835, the trader canceled the \$44 million fully displayed, non-bona fide order, which had moved to the top of the book and was therefore the order most at risk of execution.
- Between 15:19.01 and 15:19.05, the trader entered an additional bona fide iceberg order to buy 25 contracts in the 30-Year Z-Bond and received executions on 19 contracts.
- As the 30-Year Treasury Bond cash market continued to move, the trader's original \$50 million fully displayed, non-bona fide order reached the top of book and became at risk of execution. The trader canceled that order one second later, at 15:19.07, and then canceled the remaining \$30 million fully displayed, non-bona fide order at 15:19:18.866.

By engaging in spoofing in the U.S. Treasury securities markets, TD Securities (USA), through the trader, violated FINRA Rule 2010.

B. TD Securities (USA) failed to establish, maintain, and enforce a supervisory system reasonably designed to detect and prevent spoofing in U.S. Treasury securities.

FINRA Rule 3110(a) requires a member firm 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. The duty to supervise under Rule 3110 also includes the responsibility to reasonably investigate red flags that suggest that misconduct may be occurring and to act upon the results of such investigation.

FINRA Rule 3110(b) requires a member firm 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.

A violation of FINRA Rule 3110 also constitutes a violation of FINRA Rule 2010.

From at least July 2017 to June 2021, TD Securities (USA) failed to establish and maintain a supervisory system, including written supervisory procedures, reasonably designed to achieve compliance with securities laws and regulations and FINRA rules prohibiting spoofing.

During the relevant period, TD Securities (USA) prohibited market manipulation, including spoofing. Although the firm prohibited spoofing, before July 2020, TD Securities (USA) had no written supervisory procedures addressing, and no systems or surveillance in place to detect, whether its traders were engaged in spoofing in U.S. Treasury securities. The firm was aware, as of January 2018, that it was not capturing any order data for U.S. Treasury securities, and that it needed order data to effectively supervise the firm's U.S. Treasury securities activity. TD Securities (USA) also did not require business line supervisors, like the trader's direct supervisor, to review for spoofing. In fact, neither the firm nor the trader's supervisor could access or review orders that the trader entered and canceled before execution—an indicator of potential spoofing. Additionally, prior to February 2021, the firm did not conduct any surveillance or supervisory reviews for potential cross-product spoofing in the U.S. Treasury markets.

TD Securities (USA) also did not take reasonable steps to investigate whether the trader may have been engaging in potential spoofing after the trader's conduct triggered an internal surveillance alert and after an external electronic trading platform made an inquiry about the trader's activity. On August 24, 2018, the trader's trading activity generated an alert for potential spoofing activity from the firm's in-house U.S. Treasury futures spoofing surveillance. The alert related to the cancellation of seven orders and was escalated to TD Securities (USA) compliance for further review.³ The firm's written procedures required that the trader's supervisor as well as TD Securities (USA) compliance review the alert. However, TD Securities (USA) did not close out the alert or

³ The firm referred to alerts that required further review as "stage 2" alerts.

complete its review of the underlying trading activity as required by the firm's procedures.

Additionally, on October 12, 2018, TD Securities (USA) received an inquiry from an electronic trading platform regarding a pattern of potential spoofing in the trader's September 5, 2018, trading activity in the 30-Year Treasury Bond market. TD Securities (USA), which had no surveillance for potential spoofing in U.S. Treasury securities at the time, did not independently detect the trader's activity. Specifically, over the course of approximately 18 seconds on September 5, 2018, the trader contemporaneously entered 20 buy orders at five different prices (totaling \$77 million and representing 74 percent of the buy side volume on the electronic trading platform) and four sell orders in the same security. The trader subsequently canceled the open buy orders after receiving executions on the sell orders.

The firm's investigation of the trader's September 5, 2018, activity was not reasonable. In response to the inquiry it received about this trading, TD Securities (USA) inquired with the trader about the purpose of the trading. However, TD Securities (USA) did not take any steps to verify the trader's explanation or perform any additional review of the trader's trading activity, including activity that occurred on the same date on other platforms. Therefore, the firm did not identify that the trader had also routed an additional 21 buy orders in the same security, representing \$260 million par value, to a different electronic trading platform at the same time, bringing the total of the trader's buy orders on two electronic trading platforms to more than \$330 million, while the trader had open orders on the opposite side of the market on the same platforms.

After the October 2018 inquiry, the trader continued to engage in spoofing in U.S. Treasury securities. The trader engaged in over 400 instances of spoofing between October 12, 2018, and May 14, 2019, when the firm received an inquiry from a second electronic trading platform about potential spoofing by the trader.

Following the May 2019 inquiry, the firm suspended the trader, conducted an internal investigation, and subsequently terminated the trader.⁴

TD Securities (USA) began remediating the supervisory deficiencies in June 2019. The firm's remediation included: (a) introducing in-house surveillance to detect certain indicia of potential same-product spoofing in U.S. Treasury securities in July 2020;

⁴ On June 28, 2019, TD Securities (USA) filed a Form 4530 Disclosure with FINRA, disclosing that the firm had received an inquiry from an electronic trading platform on May 14, 2019, concerning the trader's trading in U.S. Treasury securities. The Form 4530 further disclosed that the firm suspended the trader, reviewed the flagged orders in addition to other transactions, and terminated the trader on June 4, 2019. On the same day, TD Securities (USA) also filed a Uniform Termination Notice for Securities Industry Registration (Form U5), disclosing that the firm had terminated the trader after determining that the trader's activity violated the firm's policies, "which in accordance with industry standards of conduct, prohibits the placement and subsequent cancellation of a quote in an attempt to trigger market movement to the advantage of the market participant." The Form U5 further disclosed that the firm had concluded "that the [trader] had placed displayed orders in U.S. Treasury securities on one side of the market (e.g., offers to sell) which could stimulate the execution of undisplayed orders on the other side of the market (e.g., bids to buy) also placed by the [trader]."

(b) introducing surveillance for certain indicia of potential cross-product spoofing in February 2021; (c) implementing U.S. Treasury securities spoofing surveillance provided by a third-party vendor in June 2021, which the firm uses alongside its in-house spoofing surveillance to surveil for additional indicia of potential spoofing; (d) conducting additional market manipulation training with an emphasis on spoofing; and (e) enhancing its processes for tracking and resolving surveillance alerts.

Therefore, TD Securities (USA) violated FINRA Rules 3110 and 2010.

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

- a censure and
- a \$6 million fine.

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 after the execution of this AWC, the monetary sanction imposed in this matter.

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 right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party. Nothing in this provision affects Respondent's testimonial obligations in any litigation or other legal proceedings.

- 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.

The undersigned, on behalf of Respondent, certifies that a person duly authorized to act on Respondent's 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 Respondent 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 in this AWC and the prospect of avoiding the issuance of a complaint, has been made to induce Respondent to submit this AWC.

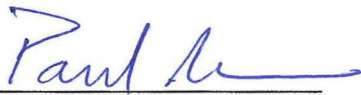
September 25, 2024
Date


TD Securities (USA) LLC
Respondent

Print Name: RIAZ AHMED

Title: PRES & CEO, TD SECURITIES &
GROUP HEAD, WHOLESALE BANKING
TD BANK GROUP

Reviewed by:


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Mr. Paul Mishkin
Mr. Fuad Rana
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Accepted by FINRA:

September 30, 2024

Date

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



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September 30, 2024

Date



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