

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND
CONSENT NO. 2019061038301**

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 LLC has been a member of FINRA since February 2005. Citadel Securities primarily engages in market making and provides execution services in U.S. equities, options, government securities, and foreign exchange products. Citadel Securities is headquartered in Chicago, Illinois. As of February 2021, Citadel Securities had seven branch offices with approximately 400 registered representatives.

The firm does not have relevant disciplinary history.

OVERVIEW

From July 2017 through October 2019, Citadel Securities had multiple issues with correctly reporting Treasury transactions to the Trade Reporting and Compliance Engine (TRACE) causing violations of FINRA Rules 6730 and 2010. These issues resulted in the following types of TRACE reporting violations: (i) incorrectly reporting internal transfers as Treasury transactions, when they were not reportable, (ii) failing to append the "No Remuneration" indicator to TRACE reports for certain Treasury transactions between affiliates, and (iii) failing to include the correct contra-party type in its TRACE reports for certain affiliate transactions. Citadel Securities also violated FINRA Rules 3110(a)

and (b) and 2010 because its supervisory system, including written supervisory procedures (WSPs), was not reasonably designed to achieve compliance with TRACE reporting rules because it could only detect violations that would generate automatic alerts. In all cases, the incorrect TRACE reports involved internal position transfers or transactions with affiliates, and did not involve transactions with clients.

FACTS AND VIOLATIVE CONDUCT

This matter originated from FINRA's Trading and Execution Group's 2019 exam of Citadel Securities.

Citadel Securities reported Treasury transactions to TRACE that it should not have reported.

FINRA Rule 6730(a)(5) provides that members have an obligation to report transaction information, promptly, accurately, and completely to TRACE. FINRA began requiring firms to report Treasury transactions to TRACE beginning on July 10, 2017, in response to a request from the Treasury Department and the Securities and Exchange Commission. At this time, the reported information is not publicly disseminated.¹ However, it is important that firms report accurate information to TRACE because inaccurate information, including reporting transactions that should not have been reported, affect the audit trail, and can result in either false alerts or the inability to detect problematic transactions.

From August 2, 2017, through December 8, 2018, Citadel Securities reported 452,451 Treasury transactions to TRACE that it was not required to report. These reports constituted over 14% of the total Treasury reports the firm made. The over-reporting occurred when the firm transferred Treasury securities within its internal accounts because the firm unintentionally removed the logic to prevent these internal transfers from being automatically reported. Therefore, Respondent violated FINRA Rule 6730(a)(5) and 2010.² The firm detected the issue prior to being contacted by FINRA and reinserted the logic on December 8, 2018.

Citadel Securities failed to include the "No Remuneration indicator" in certain TRACE reports.

FINRA Rule 6730(d)(4)(F) provides that when a trade report does not reflect either a commission, markup or markdown, the member should include the No Remuneration indicator. From July 10, 2017, through October 9, 2019, in 45,638 instances, Citadel Securities failed to append the No Remuneration indicator to TRACE reports for Treasury transactions with an affiliate that were at cost. The firm did not include the No

¹ Regulatory Notice 16-39 (Oct. 2016).

² 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. A violation of a FINRA rule constitutes a violation of Rule 2010.

Remuneration indicator because it did not have the necessary logic to automatically code these transactions to include it. Therefore, Respondent violated FINRA Rules 6730(d)(4)(F) and 2010. The firm discovered the issue in June 2019 prior to being contacted by FINRA and added the necessary logic to include the indicator in October 2019.

Citadel Securities reported the incorrect contra-party type to TRACE for transactions with its affiliate.

FINRA Rule 6730(c)(6) provides that each TRACE report shall include a contra-party indicator. From July 10, 2017, through November 15, 2018, in 11,989 instances, Citadel Securities reported that the contra-party in a transaction was a customer when the transaction was with an affiliate. The inaccurate reporting occurred because the firm's logic automatically marked any contra-party that was not a broker-dealer as a customer. Therefore, Respondent violated FINRA Rules 6730(c)(6) and 2010. The firm discovered the issue in August 2018 prior to being contacted by FINRA and fixed the issue on November 15, 2018.

Citadel Securities's supervisory system was not reasonably designed to achieve compliance with TRACE reporting rules.

FINRA Rule 3110(a) provides that each member shall 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 FINRA rules. FINRA Rule 3110(b) provides that each member shall establish, maintain and enforce written procedures to supervise the type of business in which it engages and the activities of its associated persons that are reasonably designed to achieve compliance and applicable securities laws and regulations, and with applicable FINRA rules.

Prior to November 2019, Citadel Securities did not have a supervisory system, including WSPs, reasonably designed to achieve compliance with TRACE reporting rules because its supervisory reviews for compliance with TRACE reporting were limited to alerts generated for reporting errors that were incorrect on their face, such as late reports or reports mismatched reports of broker-dealer contra-parties, such as those described in this AWC. Thus, if there was an issue that could not be detected through an automatic alert, the firm's supervisory system would not detect it. Therefore, Respondent violated FINRA Rules 3110(a) and (b) and 2010. The firm corrected this issue and added supervisory reviews to address the violations described above

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

- a censure and
- a \$275,000 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 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.

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.

March 25, 2021

Date

Scott Kloin

Citadel Securities LLC
Respondent

Print Name: Scott Kloin

Title: Chief Compliance Officer and Senior Deputy GC

Accepted by FINRA:

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

March 25, 2021

Date

Elisabeth Grippando

Elisabeth Grippando
Principal Counsel
FINRA
Department of Enforcement
15200 Omega Drive, Suite 300
Rockville, MD 20850-3241