

BATS BZX EXCHANGE, INC.  
LETTER OF ACCEPTANCE, WAIVER AND CONSENT  
NO. 20140418701-02

TO: Bats BZX Exchange, Inc.  
c/o Department of Market Regulation  
Financial Industry Regulatory Authority ("FINRA")

RE: Automated Trading Desk Financial Services, LLC ("ATDF"), Respondent  
(n/k/a Citi Order Routing and Execution, LLC)  
Broker-Dealer  
CRD No. 103768

Pursuant to Rule 8.3 of the Rules of Bats BZX Exchange, Inc. ("BZX"), Automated Trading Desk Financial Services, LLC ("ATDF" or the "firm"),<sup>1</sup> 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, BZX will not bring any future actions against the firm alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. The firm 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 BZX, or to which BZX 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 BZX:

BACKGROUND

The firm became a member of BZX on August 18, 2008, was approved as a BZX Options Member on February 16, 2010, and became a member of FINRA on June 22, 2000. Its registrations remain in effect. The firm does not have a relevant disciplinary history.

SUMMARY

1. In connection with this matter, the Options Regulation staff of FINRA's Department of Market Regulation, on behalf of BZX, conducted a review of ATDF's order entry activities in its capacity as an Options Member during the period February 2012 through May 2014 (the "Review Period") for compliance with BZX rules and policies governing the use of origin codes.

---

<sup>1</sup> As of October 17, 2016, the name of this Firm changed to Citi Order Routing and Execution, LLC.

2. Applicable BZX rules and policies require that when accepting an order, an Options Member must obtain and record an appropriate account type or origin code in each order record and as an order detail when entering orders into the Exchange's systems to indicate the kind of account for which the order will be executed and cleared. Each options market has its own origin codes, but at a minimum, all have codes to indicate that an order is being executed for a customer, a firm, or a market maker. Origin codes are important because, among other things, they affect the accuracy of the Options Member's order records and the Exchange's audit trail. In addition, origin codes must be accurate as part of ensuring that trades are reported to The Options Clearing Corporation ("OCC") with accurate trade details.
3. As a result of the Options Regulation staff's investigation, and as a result of violations self-reported to the staff by ATDF, it was concluded that during the Review Period, as set forth below, ATDF improperly marked certain options orders in violation of BZX Rules 3.1, 3.2, 5.1, 5.2, 18.1, 18.2(a)(6), 20.7(b)(17), and 24.1(a), and Section 17(a)(1) of the Securities Exchange Act of 1934 ("Exchange Act") and Rule 17a-3(a)(6)(i) thereunder. Specifically, the firm improperly marked numerous options orders with the incorrect origin code of "Customer" rather than "Professional Customer"<sup>1</sup> and sent those orders to BZX through various order entry systems employed by the firm, resulting in the following: (i) an inaccurate audit trail and inaccurate order records; (ii) trades being reported to OCC with inaccurate trade details; and (iii) a potential impact on the Exchange's ability to surveil for and detect potential violations of its rules and of federal securities laws. Additionally, ATDF had supervisory deficiencies related to the marking of options orders with the correct origin codes.

#### FACTS AND VIOLATIVE CONDUCT

4. Pursuant to BZX Rule 20.7, Audit Trail, an Options Member must submit certain order information in a form prescribed by BZX.
5. During the Review Period, ATDF executed numerous transactions with incorrect origin codes across multiple markets, including BZX. ATDF's execution of orders with incorrect origin codes resulted from a number of different issues as follows: (i) the firm's failure to populate the "Professional Customer" origin code for two exchanges in its internal origin code routing table that caused orders to be routed with the "Customer" origin code; (ii) a failure to conduct proper testing and put into place appropriate production settings for three routing customers of the firm that caused orders to be sent to ATDF with a non-standard format and therefore the "Professional Customer" origin codes were not applied on child orders, which were

---

<sup>1</sup> The term "Professional Customer" means a person or entity that is not a broker or dealer in securities, but places more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s). To comply with exchange requirements, exchange members are required to review their customers' activity on at least a quarterly basis to determine whether orders that are not for the account of a broker or dealer should be represented as Professional Orders. Orders for any customer that had an average of more than 390 orders per day during any month of a calendar quarter must be represented as Professional Orders for the next calendar quarter.



routed as a "Customer" orders; and (iii) the firm failed to properly activate a configuration inserted in the origin code table for one exchange when the exchange went live with the "Professional Customer" code, and thus "Professional Customer" orders routed to the exchange were defaulted to a "Customer" origin code.

6. As a result of the above errors, during the Review Period, ATDF erroneously marked approximately 31,483 "Professional Customer" options contracts with the inaccurate origin code of "Customer" across multiple options exchanges, of which 15,040 were executed on BZX.
7. Each instance in which ATDF executed a "Professional Customer" order with the incorrect origin code of "Customer" could have had adverse consequences, such as creating inaccurate order records, creating an inaccurate audit trail, reporting trades to OCC with inaccurate trade details, and potentially impacting the Exchange's ability to surveil for and detect potential violations of its rules and of federal securities laws.
8. By marking orders with the wrong origin code, ATDF violated the following rules:
  - a. Section 17(a)(1) of the Exchange Act and Rule 17a-3(a)(6)(i) thereunder requiring Options Members to make and maintain a memorandum of each order, and any other instruction, that contains the complete terms and conditions of the order;
  - b. BZX Rule 18.1 requiring that Options Members refrain from engaging in conduct in violation of the Exchange Act and Rules thereunder, BZX Rules, and OCC Rules as they relate to reporting or clearing options transactions;
  - c. BZX Rule 18.2(a)(6) requiring an Options Member to ensure that accurate information is entered into the BZX system;
  - d. BZX Rule 20.7(b)(17) requiring that order records contain certain information;
  - e. BZX Rule 24.1(a) requiring an Options Member to make, keep current and preserve such books and records as prescribed by BZX and by the Exchange Act and rules and regulations thereunder; and
  - f. BZX Rule 3.1 requiring an Options Member to observe high standards of commercial honor and just and equitable principles of trade.

### Supervision

9. During the Review Period, ATDF failed to have supervisory systems and controls in place, including a separate system of follow-up and review, reasonably designed to achieve compliance with the Exchange's origin code requirements. In particular, ATDF failed to have in place adequate controls to ensure that the origin code it routed was the same one as it received or should have received from its clients, and failed to have adequate systems for identifying incorrect origin codes on orders and conducting reviews to ensure correct origin codes were placed on orders. The conduct set forth in this paragraph constitutes a violation of BZX Rules 3.1, 3.2, 5.1 and 5.2.

### OTHER CONSIDERATIONS

10. In determining to resolve this matter in the manner set forth herein, and in determining the appropriate monetary sanction, Market Regulation considered that the firm promptly and completely remediated the issue regarding the submission of inaccurate origin codes as soon as it became aware of the problem. The Firm also provided substantial assistance to Market Regulation staff, including self-reporting violations and providing the staff with data quantifying its violations, and implemented additional surveillances and controls prior to the completion of this matter.

B. The firm also consents to the imposition of the following sanctions:

1. A censure;
2. A total fine in the amount of \$625,000, of which \$30,000 is payable to BZX;<sup>1</sup> and
3. An undertaking requiring the firm to address the origin code deficiencies described above to ensure that the firm has implemented procedures that are reasonably designed to achieve compliance with the rules and regulations cited herein.
  - a. The firm shall submit to the COMPLIANCE ASSISTANT, LEGAL SECTION, MARKET REGULATION DEPARTMENT, 9509 KEY WEST AVENUE, ROCKVILLE, MD 20850, no later than 90 days after the AWC becomes final, a signed dated letter, or an e-mail from a work-related account of a registered principal to MarketRegulationComp@finra.org, providing the following information: (1) a reference to this matter; (2) a representation that the firm has revised its supervisory systems and procedures to address the deficiencies described above; and (3) the dates that this was completed.

---

<sup>1</sup> The balance of the sanction will be paid to the self-regulatory organizations listed in Paragraph B.4.

4. Acceptance of this AWC is conditioned upon acceptance of similar settlement agreements in related matters between the firm and each of the following self-regulatory organizations: BOX Options Exchange LLC; Chicago Board Options Exchange, Inc.; Miami International Securities Exchange, LLC; NASDAQ Options Market; NASDAQ PHLX LLC; and NYSE MKT LLC.

The firm agrees to pay the monetary sanction(s) upon notice that this AWC has been accepted and that such payment(s) are due and payable. It has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

The firm specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, the monetary sanction(s) imposed in this matter.

The sanctions imposed herein shall be effective on a date set by BZX.

## II.

### WAIVER OF PROCEDURAL RIGHTS

The firm specifically and voluntarily waives the following rights granted under BZX Rules:

- A. To have a Statement of Charges issued specifying the allegations against the firm;
- B. To be notified of the Statement of Charges 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 Appeals Committee of the BZX's Board of Directors and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, the firm specifically and voluntarily waives any right to claim bias or prejudgment of the Chief Regulatory Officer ("CRO"), in connection with her participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including acceptance or rejection of this AWC.

The firm further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of BZX Rule 8.16, 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

The firm 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 CRO, pursuant to BZX Rule 8.3;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against the firm; and
- C. If accepted:
  - 1. this AWC will become part of the firm's permanent disciplinary record and may be considered in any future actions brought by BZX or any other regulator against the firm;
  - 2. this AWC will be published on a website maintained by BZX in accordance with BZX Rule 8.11, *Interpretations and Policies .01*. In addition, this AWC will be made available through FINRA's public disclosure program in response to public inquiries about the firm's disciplinary record; and
  - 3. The firm 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. The firm may not take any position in any proceeding brought by or on behalf of BZX, or to which BZX is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects the firm's: (i) testimonial obligations; or (ii) right to take legal or factual positions in litigation or other legal proceedings in which BZX is not a party.
- D. The firm may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. The firm 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 BZX, nor does it reflect the views of BZX or its staff.

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

11/30/16  
Date

Automated Trading Desk Financial Services, LLC  
Respondent

By: [Signature]  
Charles Mogilevsky, Managing Director  
Citigroup Inc.

Reviewed by: [Signature]  
Counsel for Respondent  
Robert A. Buhlman, Partner  
Sidley Austin LLC  
60 State Street, 36<sup>th</sup> Floor  
Boston, Massachusetts 02109  
(617) 223.0333

\_\_\_\_\_  
Date

Tamara Schademann  
Tamara Schademann  
Chief Regulatory Officer  
Bats BZX Exchange, Inc. 12/15/16

### ELECTION OF PAYMENT FORM

The firm intends to pay the fine proposed in the attached Letter of Acceptance, Waiver and Consent by the following method (check one):

- ☐ A firm check or bank check for the full amount; or
- ☒ Wire transfer.

Respectfully submitted,

11/30/16

Date

Respondent

Automated Trading Desk Financial Services, LLC

By: 

Name: Charles Mogilevsky

Title: Managing Director