



## **DISCIPLINARY DECISION**

**Cboe C2 Exchange, Inc.**

**Star No. 20180580176/File No. USRI-8731**

**Citadel Securities, LLC**

Pursuant to Exchange Rule 13.3, attached to and incorporated as part of this Decision is a Letter of Consent.

### **Applicable Rule(s)**

- C2 Rule 4.2 – Adherence to Law
- Regulation SHO Rule 204 – Close Out Requirement, promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)

### **Sanction**

A censure and a monetary fine of \$10,000

### **Effective Date**

February 28, 2020

/s/ Greg Hoogasian

Greg Hoogasian, CRO, SVP

**Cboe C2 Exchange, Inc.**  
**LETTER OF CONSENT**  
**Star No. 20180580176**  
**File No. USRI-8731**

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In the Matter of:

Citadel Securities, LLC  
131 S. Dearborn St.  
32nd Floor  
Chicago, IL 60603

Subject

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Pursuant to the provisions of Cboe C2 Exchange, Inc. (“C2” or the “Exchange”) Rule 13.3 – Expedited Proceeding, Citadel Securities, LLC (the “Firm”) submits this Letter of Consent for the purpose of proposing a settlement of the alleged rule violations described below.

The Firm neither admits nor denies that violations of Exchange Rules or the Securities Exchange Act of 1934, as amended (“Exchange Act”) have been committed, and the stipulation of facts and findings described herein do not constitute such an admission.

**BACKGROUND**

1. During all relevant periods herein, the Firm was acting as a registered Broker-Dealer and was an Exchange Trading Permit Holder (“TPH”) registered to conduct business on the Exchange as a Market Maker. The Firm’s registrations remain in effect.
2. This matter originated from a review of the Firm’s compliance with the requirements of Regulation SHO Rule 204.

**VIOLATIVE CONDUCT**

**Applicable Rules**

3. During all relevant periods herein, the following rules were in full force and effect: Exchange Rule 4.2 – Adherence to Law; and Regulation SHO Rule 204 – Close-Out Requirement, promulgated under the Exchange Act.<sup>1</sup>

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<sup>1</sup> Cboe amended and restructured its rulebook effective October 7, 2019. Because the conduct at issue in this matter occurred prior to October 7, 2019, this Letter of Consent will reference and cite the relevant Cboe rules in effect prior to that date.

4. Regulation SHO Rule 204(a) provides, in relevant part: “If a participant of a registered clearing agency has a fail to deliver position at a registered clearing agency in any equity security that is attributable to *bona fide* market making activities by a registered market maker, options market maker, or other market maker obligated to quote in the over-the-counter market, the participant shall, by no later than the beginning of regular trading hours on the third consecutive settlement day following the settlement date, immediately close out the fail to deliver position by purchasing or borrowing securities of like kind and quantity.”<sup>2</sup>
5. Regulation SHO Rule 204(b) provides, in relevant part: “If a participant of a registered clearing agency has a fail to deliver position in any equity security at a registered clearing agency and does not close out such fail to deliver position in accordance with the requirements of paragraph (a) of this section, the participant and any broker or dealer from which it receives trades for clearance and settlement, including any market maker that would otherwise be entitled to rely on the exception provided in §242.203(b)(2)(iii), may not accept a short sale order in the equity security from another person, or effect a short sale in the equity security for its own account, to the extent that the broker or dealer submits its short sales to that participant for clearance and settlement, without first borrowing the security, or entering into a *bona fide* arrangement to borrow the security, until the participant closes out the fail to deliver position by purchasing securities of like kind and quantity and that purchase has cleared and settled at a registered clearing agency...”
6. During all relevant time periods herein, in accordance with Regulation SHO Rule 204, a participant of a registered clearing agency reasonably allocated portions of fail to deliver positions to the Firm, placing the responsibility for closing out those allocated positions on the Firm.

#### **Regulation SHO Rule 204**

7. On or about December 21, 2017, the Firm failed to close out a fail to deliver position in one equity security within the prescribed time.<sup>3</sup>
8. On or about December 22, 2017, the Firm effected short sales in an equity security for which it had not closed out a fail to deliver position without first borrowing or entering into a *bona fide* arrangement to borrow the security.
9. The acts, practices and conduct described in Paragraph 7 constitute a violation of Regulation SHO Rule 204(a) and Exchange Rule 4.2 by the Firm, in that the Firm failed to close out a fail to deliver position in one equity security within the prescribed time.

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<sup>2</sup> On September 5, 2017, the SEC adopted an amendment to the Settlement Cycle Rule (Rule 15c6-1(a)) under the Exchange Act to shorten the standard settlement cycle for most broker-dealer transactions from three business days after the trade date (“T+3”) to two business days after the trade date (“T+2”).

<sup>3</sup> The fail at issue continued through December 22, 2017 and was closed out on December 26, 2017.

10. The acts, practices and conduct described in Paragraph 8 constitute violations of Regulation SHO Rule 204(b) and Exchange Rule 4.2 by the Firm, in that the Firm effected short sales in an equity security for which it had not closed out a fail to deliver position without first borrowing or entering into a *bona fide* arrangement to borrow the security.

### SANCTIONS

11. The Firm was previously censured and fined \$50,000 for: (i) failing to close out fail to deliver positions in 14 instances in violation of Regulation SHO Rule 204T(a); (ii) effecting a short sale in 49 instances without borrowing or entering into a *bona fide* arranged to borrow while the Firm had a fail position that had not been closed out in violation of Regulation SHO Rule 204T(b); and (iii) failing to implement associated WSPs reasonably designed to achieve compliance with Regulation SHO, in violation of FINRA Rule 2010 and NASD Rule 3010.<sup>4</sup>
12. In light of the alleged rule violations described above, the Firm consents to the imposition of the following sanctions:
  - a. A censure; and
  - b. A monetary fine in the amount of \$10,000.

If this Letter of Consent is accepted, the Firm acknowledges that it shall be bound by all terms, conditions, representations and acknowledgements of this Letter of Consent, and, in accordance with the provisions of Exchange Rule 13.3, waives the right to review or to defend against any of these allegations in a disciplinary hearing before a Hearing Panel. The Firm further waives the right to appeal any such decision to the Board of Directors, the U.S. Securities and Exchange Commission, a U.S. Federal District Court, or a U.S. Court of Appeals.

The Firm waives any right to claim bias or prejudgment of the Chief Regulatory Officer ("CRO") in connection with the CRO's participation in discussions regarding the terms and conditions of this Letter of Consent, or other consideration of this Letter of Consent, including acceptance or rejection of this Letter of Consent.

The Firm agrees to pay the monetary sanction(s) upon notice that this Letter of Consent has been accepted and that such payment(s) are due and payable. 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 Firm understands that submission of this Letter of Consent is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the CRO, pursuant to Exchange Rule 13.3. If the Letter of Consent is not accepted, it will not be used as evidence to prove any of the allegations against the Firm.

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<sup>4</sup> See FINRA Matter 20090182565 (May 28, 2013).

The Firm understands and acknowledges that acceptance of this Letter of Consent will become part of its disciplinary record and may be considered in any future actions brought by Cboe or any other regulator against the Firm.

The Firm understands that it may not deny the charges or make any statement that is inconsistent with the Letter of Consent. The Firm may attach a Corrective Action Statement to this Letter of Consent that is a statement of demonstrable corrective steps taken to prevent future misconduct. Any such statement does not constitute factual or legal findings by the Exchange, nor does it reflect the views of the Exchange 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 Letter of Consent and has been given a full opportunity to ask questions about it; that it has agreed to the Letter of Consent's provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein, has been made to induce the Firm to submit it.**

Date: 2/14/20

Citadel Securities, LLC

By: 

Name: ST He

Title: EC