

**BATS EDGA EXCHANGE, INC.**  
**LETTER OF ACCEPTANCE, WAIVER AND CONSENT**  
**NO. 20130391658-02**

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

**RE:** Two Sigma Securities, LLC, Respondent  
Broker-Dealer  
CRD No. 148960

Pursuant to Rule 8.3 of the Rules of Bats EDGA Exchange, Inc. ("EDGA"), Two Sigma 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, EDGA 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 EDGA, or to which EDGA 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 EDGA:

**BACKGROUND**

The firm has been a member of EDGA since May 27, 2010, and its registration remains in effect. The firm has no relevant disciplinary history.

**SUMMARY**

In Review Nos. 20130391658 and 20140409338, FINRA's Department of Market Regulation ("Market Regulation") reviewed the firm's compliance with Rule 15c3-5 of the Securities Exchange Act of 1934 ("Rule 15c3-5") and related supervisory requirements during the period from August 9, 2012 through April 9, 2014 (the "2012-2014 review period"). The reviews were conducted on behalf of FINRA and the following exchanges: EDGA, Bats EDGX Exchange, Inc. ("EDGX"), Bats BZX Exchange, Inc. ("BZX"), Nasdaq Stock Market LLC ("Nasdaq"), Nasdaq BX, Inc. ("BX"), Nasdaq PHLX LLC ("PHLX"), New York Stock Exchange LLC ("NYSE"), NYSE Arca, Inc. ("NYSE Arca") and NYSE MKT LLC ("NYSE MKT") (collectively, the "Exchanges").<sup>1</sup> The reviews were prompted by various alerts of potentially unusual

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<sup>1</sup> Related disciplinary actions on behalf of FINRA and each of the above other Exchanges in addition to EDGA concurrently are being taken in conjunction with this matter.

trading activity to check for potentially manipulative behavior and/or erroneous/duplicative order entry.

In Review No. 20150462036, Market Regulation, on behalf of Nasdaq, reviewed the firm's compliance with Rule 15c3-5 and related Nasdaq supervisory requirements concerning the firm's trading in a stock symbol on June 8, 2015 when the firm submitted a clearly erroneous filing with Nasdaq in that symbol in connection with its trading on that market.

As detailed further below, in connection with Review Nos. 20130391658 and 20140409338, the firm had inadequate risk management controls and supervisory procedures pertaining to certain aspects of market access, contrary to the requirements of Rule 15c3-5, EDGA Rules 5.1, 5.2, 5.4 and 3.1, and related requirements of the remaining Exchanges and FINRA pertaining to supervision and just and equitable conduct.<sup>2</sup>

### **FACTS AND VIOLATIVE CONDUCT**

1. Rule 15c3-5 is designed to reduce the risks faced by broker-dealers, as well as the markets and the financial system as a whole, as a result of various market access arrangements, by requiring effective financial and regulatory risk management controls reasonably designed to limit financial exposure and ensure compliance with applicable regulatory requirements to be implemented on a market-wide basis.
2. Rule 15c3-5(b) requires, among other things, a broker-dealer with market access, as defined by that rule, to "establish, document, and maintain a system of risk management controls and supervisory procedures reasonably designed to manage the financial, regulatory, and other risks" of its market access activity and to preserve a copy of such supervisory procedures and a written description of its risk management controls as part of its books and records.
3. Rule 15c3-5(c)(1) provides that the risk management controls and supervisory procedures required by Rule 15c3-5(b) must be reasonably designed to systematically limit the financial exposure of the broker or dealer that could arise as a result of market access, including being reasonably designed to prevent "the entry of erroneous orders, by rejecting orders that exceed appropriate price or size parameters, on an order-by-order basis or over a short period of time, or that indicate duplicative orders," as set forth in Rule 15c3-5(c)(1)(ii).
4. Rule 15c3-5(c)(2) further states that the risk management controls and supervisory procedures required by Rule 15c3-5(b) must "be reasonably designed to ensure compliance with all regulatory requirements ...."
5. Rule 15c3-5(e) further requires such brokers or dealers to "establish, document, and maintain a system for regularly reviewing the effectiveness of the risk management

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<sup>2</sup> Findings specific to Review No. 20150462036 are contained in the concurrent Nasdaq action related to this matter.

controls and supervisory procedures” and to, among other things, “review, no less frequently than annually, the business activity of the broker or dealer in connection with market access to assure the overall effectiveness of such risk management controls and supervisory procedures.”

In connection with Review Nos. 20130391658 and 20140409338

6. The firm’s risk management controls and supervisory procedures were not reasonably designed to manage certain aspects of the financial, regulatory and other risks associated with its business activity involving market access, as more specifically described below, and did not comply with Rule 15c3-5 in several respects during the 2012-2014 review period, including SEC Rule 15c3-5(b), 15c3-5(c)(1)(ii), 15c3-5(c)(2) and 15c3-5(e).
7. More specifically, the firm failed to adequately document its risk management controls and supervisory procedures under Rule 15c3-5, contrary to Rule 15c3-5(b). For example, the firm failed to sufficiently document certain risk controls it deployed in its written description of its risk management controls (or how they operated); lacked sufficient documentation of its basis for certain control limits; and failed to sufficiently detail its criteria for evaluating and establishing certain control limits and procedures. Furthermore, the firm made only generic reference to certain daily and quarterly reviews by certain personnel of particular changes to risk control limits and provided insufficient detail about what the firm’s reviews for assessing the overall effectiveness of its controls and procedures entailed.
8. The firm’s controls as required by Rule 15c3-5(c)(1)(ii) were also inadequate in that the firm: (a) lacked pre-order entry controls, based on the particular characteristics of the order, tailored to identify and prevent potential duplicative order entry, (b) lacked pre-order entry controls specifically tracking the number of cancel messages sent to an exchange to detect repeated cancellations within compressed time periods which could be indicative of erroneous activity, and (c) set certain order rate limits at levels too high to be reasonably expected to prevent potentially erroneous order activity.
9. Further, the firm’s controls and procedures for complying with regulatory requirements pursuant to Rule 15c3-5(c)(2) were inadequate. Specifically, the firm lacked any specific controls or surveillance to detect and prevent potentially manipulative activity in the form of spoofing, layering, and algorithmic gaming activity, and had insufficient surveillance for potential marking of the close activity during the 2012-2014 review period.
10. For the foregoing reasons, the firm’s risk management controls and supervisory procedures during the 2012-2014 review period were not reasonably designed to comply with Rule 15c3-5. Accordingly, the firm violated SEC Rule 15c3-5(b), 15c3-5(c)(1)(ii), 15c3-5(c)(2) and 15c3-5(e).

11. Further, due to the aforementioned inadequacies, the firm violated EDGA Rules 5.1, 5.2, 5.4 and 3.1.

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

1. A censure,
2. A total fine specific to Review Nos. 20130391658 and 20140409338 of \$65,000 (to be paid jointly to FINRA and the Exchanges, of which \$6,500 shall be paid to EDGA),<sup>3</sup> and
3. An undertaking to update the firm's system of risk management controls and supervisory procedures, including but not limited to, its written description of risk management controls and written supervisory procedures to address the deficiencies described in connection with paragraphs I.A.1-11 above to achieve compliance with Rule 15c3-5 of the Securities Exchange Act of 1934 and EDGA Rules 5.1, 5.2, 5.4 and 3.1. Within 30 business days of the date of the Notice of Acceptance of this AWC, a registered principal of the firm shall submit to the COMPLIANCE ASSISTANT, LEGAL SECTION, MARKET REGULATION DEPARTMENT, 9509 KEY WEST AVENUE, ROCKVILLE, MD 20850, a signed, dated letter, or an e-mail from a work-related account of the registered principal to [MarketRegulationComp@finra.org](mailto:MarketRegulationComp@finra.org), providing the following information: (1) a reference to this matter; (2) a representation that the firm has revised its risk management controls and supervisory procedures to address the deficiencies described in connection with paragraphs I.A.1-11; and (3) the date(s) the revised controls and supervisory procedures were implemented. Upon written request showing good cause, FINRA staff, on behalf of EDGA, may extend any of the procedural dates set forth herein.

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 EDGA.

## II.

### WAIVER OF PROCEDURAL RIGHTS

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

- A. To have a Statement of Charges issued specifying the allegations against the firm;

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<sup>3</sup> The concurrent Nasdaq action for this matter includes an additional fine of \$25,000 to be paid to Nasdaq specific to the findings in Review Nos. 20150462036.

- 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 EDGA'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 the CRO'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.

The firm further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of EDGA 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 EDGA 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 EDGA or any other regulator against the firm;
  - 2. This AWC will be published on a website maintained by EDGA in accordance with EDGA Rule 8.18. 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 EDGA, or to which EDGA 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 EDGA 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 EDGA, nor does it reflect the views of EDGA or its staff.

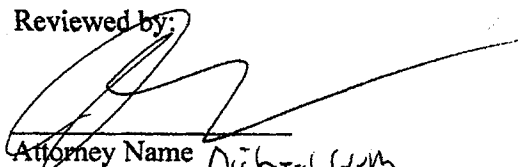
The undersigned, on behalf of the firm, certifies that a person duly authorized to act on its behalf has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that it has agreed to the AWC's provisions voluntarily; and that no offer, threat, 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.

MARCH 9<sup>th</sup>, 2017  
Date

Respondent  
Two Sigma Securities, LLC

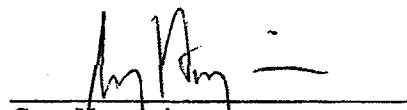
By: Simon  
Name: Simon Yates  
Title: CEO

Reviewed by:



Attorney Name Michael Wom  
Counsel for Respondent  
Firm Name S. J. Wom & Associates, LLC  
Address  
City/State/Zip  
Phone Number

4/5/2017  
Date

  
Greg Hoogasian  
Senior Vice President & Chief Regulatory Officer  
Bats EDGA Exchange, Inc.


**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;
- Wire transfer;

Respectfully submitted,  
Respondent  
Two Sigma Securities, LLC

3/1/2017  
Date

By:   
Name: Juan Lubetsky  
Title: CFU