

CBOE EDGA EXCHANGE, INC.
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20140399429-06

TO: Cboe EDGA Exchange, Inc.
c/o Department of Enforcement
Financial Industry Regulatory Authority ("FINRA")

RE: TradeStation Securities, Inc., Respondent
Broker-Dealer
CRD No. 39473

Pursuant to Rule 8.3 of the Rules of Cboe EDGA Exchange, Inc. ("EDGA"), TradeStation Securities, Inc. ("FILL" or 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

FILL has been a member of EDGA since May 25, 2010, and FINRA since January 31, 1996, and the firm's registrations remain in effect. The firm does not have a relevant disciplinary history.

SUMMARY

1. In connection with Matter No. 20140399429, the staff of the Trading and Financial Compliance Examinations ("TFCE") group of the Department of Market Regulation, on behalf of FINRA and several equity exchanges, reviewed various trading activity of FILL, as well as FILL's written supervisory procedures in several areas, during August 2014.
2. In connection with Matter No. 20160500099, the staff of the Market Analysis Section ("Market Analysis") of the Department of Market Regulation conducted reviews of 10 potentially erroneous order events that occurred on EDGA between February 3,

2015 and May 27, 2015, and the firm's compliance with Rule 15c3-5 of the Securities Exchange Act of 1934 ("SEA") (the "Market Access Rule").¹

3. In connection with Matter No. 20170529501, Market Analysis conducted reviews of two potentially erroneous order events that occurred on EDGA on January 5, 2016 and January 11, 2016, and the firm's compliance with the Market Access Rule.
4. As a result of TFCE's review of the firm, it was determined that, during August 2014 (the "TFCE Review Period") based upon a review of the firm's written supervisory procedures, the firm's supervisory system did not provide for supervision reasonably designed to achieve compliance with respect to certain applicable securities laws and regulations, and/or the Rules of EDGA and the Securities and Exchange Commission ("SEC") in violation of EDGA Rules 3.1, 5.1 and 5.5.
5. As a result of the investigations conducted by Market Analysis, it was determined that during the period of February 3, 2015 through at least January 11, 2016 (the "Market Analysis Review Period"), FILL failed to establish, document, and maintain a system of risk management controls and supervisory procedures, including written supervisory procedures and an adequate system of follow-up and review, reasonably designed to manage the financial, regulatory, and other risks of its market access business.
6. Specifically, during the Market Analysis Review Period, the firm failed to establish, document, and maintain a system of risk management controls and supervisory procedures reasonably designed to prevent the entry of erroneous equities orders by rejecting orders that exceed appropriate price or size parameters, or that indicate duplicative orders, in violation of SEA Rules 15c3-5(b) and (c)(1)(ii), and EDGA Rules 5.1, 5.2, 5.3, and 3.1.

FACTS AND VIOLATIVE CONDUCT

Applicable Rules

7. During the Market Analysis Review Period, SEA Rule 15c3-5(b) required broker-dealers that provide market access 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 their market access business.²
8. During the Market Analysis Review Period, SEA Rule 15c3-5(c)(1)(ii) required market access broker-dealers to have financial risk management controls and supervisory procedures reasonably designed to prevent the entry of erroneous orders.

¹ The SEC adopted Rule 15c3-5 effective July 14, 2011. See 17 C.F.R. § 240.15c3-5. *Risk Management Controls for Brokers or Dealers with Market Access*, 75 Fed. Reg. 69792, 69792 (Nov. 15, 2010) (Final Rule Release).

² Rule 15c3-5 requires that broker-dealers providing market access must "appropriately control the risks associated with market access so as not to jeopardize their own financial condition, that of other market participants, the integrity of trading on the securities markets, and the stability of the financial system." 17 C.F.R. § 240.15c3-5. 75 Fed. Reg. 69792, 69792 (Nov. 15, 2010).

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.

9. SEA Rule 15c3-5 requires, among other things, that a broker-dealer with market access document its system of risk management controls and supervisory procedures that are designed to manage the financial, regulatory, and other risks of market access. The broker-dealer must preserve a copy of its supervisory procedures and “a written description of its risk management controls” as part of its books and records for the time period required by SEC Rule 17a-4(e)(7).³ The required written description is intended, among other things, to assist SEC and SRO staff to assess the broker-dealer’s compliance with the rule. Exchange Act Release No. 34-63241, 75 Fed. Reg. 69792, 69812 (Nov. 15, 2010).
10. During all relevant review periods, EDGA Rules 5.1, 5.2 and 5.3 required, among other things, that each member firm establish, maintain and enforce written procedures to enable it to properly supervise the activities of associated persons to ensure compliance with applicable securities laws and regulations and EDGA Rules.
11. During all relevant review periods, EDGA Rule 5.5 (Prevention of the Misuse of Material, Non-Public Information) required that each EDGA Member establish, maintain and enforce written policies and procedures reasonably designed, taking into consideration the nature of such Member’s business, to prevent the misuse of material, non-public information by the Member or persons associated with the Member.
12. During all relevant review periods, EDGA Rule 3.1 provided that member firms, in the conduct of their business, shall observe high standards of commercial honor and just and equitable principles of trade

Matter No. 20140399429

13. During the TFCE Review Period, the firm’s supervisory system did not provide for supervision reasonably designed to achieve compliance with respect to certain applicable securities laws and regulations, and/or the Rules of EDGA and the SEC. At a minimum, written supervisory procedures (“WSPs”) addressing trading and market making topics should describe the following: (a) specific identification of the individual(s) responsible for supervision; (b) the supervisory steps and reviews to be taken by the appropriate supervisor; (c) the frequency of such reviews; and (d) how such reviews are documented.

³ See 17 C.F.R. § 240.15c3-5(b), which by virtue of a cross-reference to Rule 17a-4(e)(7), requires a broker-dealer to maintain and preserve such description “until three years after the termination of the use of” the document. See 17 C.F.R. § 240.17a-4(e)(7).

The firm's WSPs failed to provide for one or more of the four above-cited minimal requirements for adequate WSPs in the following subject areas:

- Supervisory System, Procedures & Qualifications: List of Authorized Traders [(a)]
- EDGA Trading Practice Rules: Prohibited trading practices [(a), (b), (c), (d)]
- Trade Reporting: Entering the correct capacity into EDGA [(b), (c), (d)]
- Other Trading Rules: Clearly Erroneous -Technological Controls [(a)]
- Other Trading Rules: Long/Short Sell Order Entry into EDGA [(c), (d)].

The conduct described in this paragraph constitutes a violation of EDGA Rules 3.1 and 5.1.

14. During the TFCE Review Period, the firm failed to provide sufficient documentary evidence that it performed the supervisory reviews set forth in its WSPs in the following subject areas:

- Supervisory System, Procedures & Qualifications: List of Authorized Traders;
- Trade Reporting: Entering the correct capacity into EDGA;
- Other Trading Rules: Long/Short Sell Order Entry into EDGA.

The conduct described in this paragraph constitutes a violation of EDGA Rules 3.1 and 5.1.

15. During the TFCE Review Period, the firm's WSPs were deficient for compliance with EDGA Rule 5.5 in the following subject areas:

- Other Rules: Improper sharing of material, non-public information [(d)], Advisement of associated persons regarding misuse of material, non-public information [(d)], Attestation by associated persons [(d)], Disclosure of Associated persons that have direct or indirect financial interest in a publicly traded company [(a), (b), (c), (d)].

The conduct described in this paragraph constitutes a violation of EDGA Rule 5.5.

16. During the TFCE Review Period, the firm failed to provide sufficient documentary evidence that it performed the supervisory reviews set forth in its WSPs in the following subject areas:

- Other Rules: Improper sharing of material, non-public information, Advisement of associated persons regarding misuse of material, non-public information, Attestation by associated persons, Quarterly Review of Trade confirmations and statements of associated persons.

The conduct described in this paragraph constitutes a violation of EDGA Rule 5.5.

Matter Nos. 20160500099 and 20170529501

17. During the Market Analysis Review Period, FILL was an agency only broker-dealer, and provided market access and execution services to market participants (“Market Access Clients”).
18. During the Market Analysis Review Period, FILL used an electronic trading platform to offer direct order entry and execution to its Market Access Clients that enabled its clients to design, test, monitor and automate their own custom trading strategies.
19. FILL failed to implement reasonably designed pre-trade risk management controls applicable to orders submitted by its Market Access Clients during the Market Analysis Review Period, and failed to establish and implement supervisory procedures reasonably designed to prevent the entry of certain erroneous orders as set forth below.
20. Because FILL’s pre-trade controls were not reasonably designed as applied to its Market Access Clients, FILL did not prevent the transmission of 9 “hyper-marketable”⁴ erroneous orders on EDGA ranging in size from a low of 100 shares to a high of 550 shares, five of which were in February 2015, and four of which were in May 2015, which had limit prices between 31% to 1,157% through the National Best Bid or Offer (“NBBO”) that were ultimately executed at the NBBO. Moreover, FILL did not prevent the entry of an additional erroneous order for 91,268 shares in February 2015, which was approximately 33% of the prior thirty-day Average Daily Volume (“ADV”) of the particular security, which was ultimately cancelled by EDGA before execution.
21. Further, FILL did not prevent the transmission of an erroneous order on January 5, 2016, which represented 36% of the security’s ADV and resulted in an execution that was 21% away from the NBBO, and did not prevent the transmission of an erroneous order on January 11, 2016, which represented 6.7% of the security’s ADV and resulted in an execution that was 8% away from the NBBO.
22. There were several primary deficiencies in FILL’s pre-trade price and size controls that resulted in the submission of the orders that caused the above mentioned erroneous order events. For example, the firm employed a pre-trade price control that operated to reject orders over a certain fixed dollar amount, but the price control was set at a level too high to be effective. The firm also employed a size (*i.e.*, quantity) control during the Market Analysis Review Period that rejected orders priced over a certain fixed share limit, but the control failed to take into account the different trading volumes and liquidity of different securities.
23. In addition to the above, the firm’s electronic trading platform only employed a soft-block that resulted in a warning to a Market Access Client if the price of an order was

⁴ A “hyper-marketable” order is a limit order whose limit price to buy (sell) is significantly higher (lower) than the National Best Offer (National Best Bid).

a certain fixed percentage away from the last price, or was more than a fixed amount of shares. However, these soft-block warnings could easily be overridden by the client, causing them to be ineffective without additional reasonable controls. Further, the fixed percentage did not take into account the difference between higher and lower priced securities.

24. Lastly, during the Market Analysis Review Period, the firm failed to document, maintain and preserve in its WSPs a written description of the parameters of the above-referenced Market Access client soft-blocks.
25. The acts, practices, and conduct described above in paragraphs 17 through 24 constitute violations of SEA Rules 15c3-5(b) and (c)(1)(ii), and EDGA Rules 5.1, 5.2, 5.3, and 3.1.

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

1. A censure; and
2. A fine in the amount of \$125,000, of which \$46,500 is payable to EDGA (consisting of a fine of \$5,500 for the violations of EDGA Rules 3.1, 5.1 and 5.5 during the TFCE Review Period; and a fine of \$41,000 for the violations of SEA Rules 15c3-5(b) and (c)(1)(ii),⁵ and EDGA Rules 5.1, 5.2, 5.3, and 3.1 during the Market Analysis Review Period)⁶, and
3. Acceptance of this AWC is conditioned upon acceptance of similar settlement agreements in related matters between FILL and each of the following self-regulatory organizations: Cboe BYX Exchange, Inc., Cboe BZX Exchange, Inc., Cboe EDGX Exchange, Inc., FINRA, The NASDAQ Stock Market LLC, the New York Stock Exchange LLC, NYSE American LLC, and NYSE Arca, Inc.

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.

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.

⁵ An additional fine is being imposed against the Firm for violations of SEA Rule 15c3-5 in a related FINRA AWC under STAR No. 20140399429.

⁶ The balance of the sanction will be paid to the self-regulatory organizations listed in Paragraph B.3.

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;
- 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.

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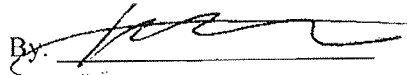
The undersigned, on behalf of the firm, certifies that a person duly authorized to act on its behalf has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that it has agreed to the AWC's provisions voluntarily; and that no offer, threat,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

November 6, 2017

Date

Respondent

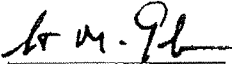
TradeStation Securities, Inc.

By: 

Name: Peter Korotkiy

Title: President + COO

Reviewed by:



Attorney Name

Counsel for Respondent

Firm Name

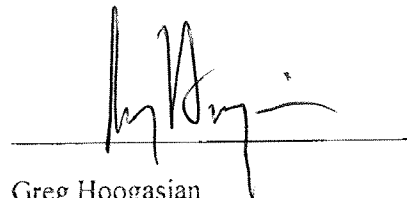
Address

City/State/Zip

Phone Number

11/20/2017

Date



Greg Hoogasian
Senior Vice President & Chief Regulatory
Officer
Cboe 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;

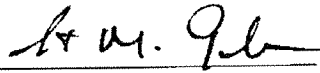
Respectfully submitted,

Respondent

TradeStation Securities, Inc.

November 6, 2017

Date

By: 

Name: Steven M. Greenbaum

Title: General Counsel