



DISCIPLINARY DECISION
Cboe BZX Exchange, Inc.
Star No. 20170532102-07/File No. USRI-7671-05/URE-9-05
Sagetrader, LLC

Pursuant to Exchange Rule 8.3, attached to and incorporated as part of this Decision is a Letter of Consent.

Applicable Rule

- BZX Rule 5.1 – Written Procedures.

Sanctions

A censure, a monetary fine in the amount of \$83,333.34, and an undertaking to review and revise Sagetrader, LLC's supervisory system, including its written supervisory procedures (WSPs), with respect to the findings described in the attached Letter of Consent.

Effective Date

June 24, 2022

/s/ Greg Hoogasian

Greg Hoogasian, CRO, EVP

Cboe BZX Exchange, Inc.
LETTER OF CONSENT
Star No. 2017053210207/File No. USRI-7671-05/URE-9-05

In the Matter of:

Sagetrader, LLC
465 California Street, Suite 838
San Francisco, CA 94104

Subject

Pursuant to the provisions of Cboe BZX Exchange, Inc. (“Cboe” or the “Exchange”) Rule 8.3 – Expedited Proceeding, Sagetrader, LLC (“Sagetrader” or the “Firm”) submits this Letter of Consent for the purposes of proposing a settlement of the alleged rule violations described below.

The Firm neither admits nor denies that violations of Exchange Rules 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, Sagetrader, LLC was acting as a registered Broker-Dealer and was an Exchange Member. The Firm’s registrations remain in effect.
2. The Firm is headquartered in San Francisco, CA, maintains one other branch office, and employs eight registered persons.
3. This matter originated from surveillance conducted by FINRA on behalf of the Exchange.

VIOLATIVE CONDUCT

Applicable Rules

4. During all relevant periods herein, the following rule was in full force and effect: Exchange Rule 5.1 – Written Procedures.
5. During all relevant periods herein, Exchange Rule 5.1 provided that: “Each Member shall establish, maintain and enforce written procedures which will enable it to supervise properly the activities of associated persons of the Member and to assure their compliance with applicable securities laws, rules, regulations and statements of policy promulgated thereunder, with the rules of the designated self-regulatory organization, where appropriate, and with Exchange Rules.”

Overview

6. Sagetrader failed to reasonably supervise for potentially manipulative trading on its platforms. From April 1, 2016 through December 31, 2019 (the “Relevant Period”), Sagetrader provided routing and execution services to domestic and foreign entities, which were comprised of hundreds to thousands of individual day traders. The automated surveillance system that the Firm used to detect potentially manipulative trading such as layering, spoofing, wash trades and marking the close did not capture 70 traders of a client for five months. Further, the Firm did not surveil for marking the open until October 2018. In addition, the Firm’s review of the surveillance alerts was unreasonable. Sagetrader had limited staff and other resources to sufficiently review and resolve alerts for potentially manipulative trading, which, by 2018, totaled more than 500,000 alerts per year. Further, the Firm’s guidance to and supervision of the assigned reviewers was unreasonable. The Firm also disclosed to clients certain trading parameters the Firm’s surveillance system used to generate alerts for potentially manipulative trading.

Sagetrader’s Business Model

7. During the Relevant Period, Sagetrader provided routing and execution services to domestic and foreign customers, which were comprised of hundreds to thousands of day traders. The Firm’s customers used Sagetrader’s market participant identifiers (MPIDs) to route orders to an alternative trading system and to exchanges.

Sagetrader Onboarded New Customers that Generated Red Flags for Potentially Manipulative Trading

8. From 2013 through 2017, Sagetrader onboarded an increasing number of customers, which caused a corresponding increase in trading activity through the Firm. Trading on the Firm’s platform increased from more than 67 million orders per year in 2015 to more than 200 million orders per year in 2017. The number of shares traded by the Firm’s customers increased from roughly 3.7 billion shares per year in 2015 to more than 18.9 billion shares per year in 2017.
9. The trading activity conducted by some of these customers generated “red flags” for potentially manipulative trading. More specifically, the Firm’s automated surveillance of customers’ trading generated hundreds of thousands of surveillance alerts for potentially manipulative trading. Since April 2016, approximately 70 percent of those alerts were generated by four Firm customers that each included hundreds of foreign-based day traders. The Firm classified two of these customers as “high risk.” One of these high-risk customers generated more than 197,000 surveillance alerts for potentially manipulative trading from March 2016 until mid-May 2018, when it stopped using the Firm for routing and

execution services. The other high-risk customer generated more than 55,000 alerts between March 2016 and October 2016, when Sagetrader terminated the customer's account because the Firm's executing broker would not accept the customer's order flow.

Sagetrader Failed to Reasonably Supervise for Potentially Manipulative Trading

10. Sagetrader's supervisory system, including written supervisory procedures ("WSPs"), for potential manipulative trading on its platforms was not reasonable in several respects.
11. First, the Firm's automated surveillance generated post-trade alerts for potential spoofing, layering, wash trades, and marking the close throughout the Relevant Period, but its automated surveillance did not surveil for marking the open until October 2018. Also, from May 2016 through September 2016, due to a coding error, the system did not capture the trading activity of approximately 70 individual traders of one of the Firm's high-risk customers.¹
12. Second, Sagetrader's review of the alerts was not reasonable during the Relevant Period. For example, the Firm had limited staff and other resources to sufficiently conduct the initial review and analysis of the alerts, which, by 2018, totaled more than 500,000 alerts per year.
13. Further, the Firm's reviewers were permitted to close surveillance alerts for potentially manipulative trading without any oversight or supervision by a Firm principal. One of these assigned reviewers, who was responsible for reviewing approximately 75 percent of the Firm's alerts from May 2016 through June 2018, and 100 percent of the alerts thereafter, did not have sufficient experience or training in identifying potentially manipulative trading when he was hired.
14. Third, Sagetrader's WSPs failed to provide reasonable guidance on how to review for potentially manipulative trading. Prior to September 2016, the Firm's WSPs required reviewers to escalate "significant" alerts to an alert review committee. The Firm's procedures, however, did not explain what qualified as a "significant" alert. Nor was it clear what additional steps the reviewers should take when reviewing alerts.

¹ Even excluding these 70 traders, this customer generated more than 34,000 internal surveillance alerts for potentially manipulative trading during this period.

15. By September 2016, the Firm's WSPs directed reviewers to seek customer explanations for alerts "of concern." Based on their analysis, the reviewers could close the alert if it did not "appear to be egregious," but were supposed to escalate "significant alerts" to the alert review committee. There was still no guidance as to what constituted a "significant" alert that required escalation. Nor was there any guidance as to what rendered alerts "of concern" or how to determine whether an alert appeared to be egregious.
16. Fourth, the Firm's supervisory system was unreasonable, because while the Firm focused on resolving individual alerts generated by each separate trader at each customer, and terminated some individual traders, the Firm did not have a system in place to consider the total alerts generated by multiple traders at the same customer in order to evaluate the aggregate regulatory risk presented by a customer's overall trading activity.
17. Fifth, the Firm identified two customers as "high risk," which, according to the Firm, required "enhanced" surveillance. But the Firm had no system or procedures for conducting "enhanced" surveillance and, in fact, did not do so.
18. Sixth, the Firm disclosed to clients the Firm's surveillance parameters used to generate alerts for potentially manipulative trading. These parameters could be used to circumvent the Firm's surveillance.
19. Finally, the Firm did not routinely document the alert reviews it conducted, and for the alert reviews that it did document, the documentation was not always sufficient.
20. The acts, practices, and conduct described in Paragraphs 10 through 19 constitute violations of Exchange Rule 5.1 by Sagetrader, in that Sagetrader failed to establish, maintain and enforce WSPs which enabled it to assure compliance with securities laws, rules, regulations and Exchange rules prohibiting manipulative trading.

SANCTIONS

21. The Firm does not have any prior relevant disciplinary history related to supervision for potentially manipulative trading.
22. In light of the alleged rule violations described above, the Firm consents to the imposition of the following sanctions:
 - a. A censure;

- b. A monetary fine in the amount of \$83,333.34;² and
- c. An undertaking to review and revise the Firm's supervisory system, including its WSPs, with respect to the findings described above concerning the Firm's supervision for potentially manipulative trading by customers. Within 90 business days of acceptance of this Letter of Consent by the Chief Regulatory Officer ("CRO") of the Exchange, a registered principal of the Firm shall submit to Compliance Assistant, FINRA Department of Enforcement, 15200 Omega Drive, Third Floor, Rockville, MD 20850, a signed, dated letter, or an e-mail from a work-related account of the registered principal to EnforcementNotice@FINRA.org, providing the following information: (i) a reference to this Matter No; (ii) a representation that the Firm has revised its supervisory system, including WSPs, to address the above findings in this matter concerning the Firm's supervision for potentially manipulative trading by customers; and, (iii) the date(s) the updates to the Firm's supervisory system and WSPs were implemented.

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 8.3, 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 prejudice of the 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 further waives any claim that a person violated the ex parte prohibitions of Exchange Rule 8.16, in connection with such person's participation in discussions regarding the terms and conditions of this Letter of Consent, or other consideration of this Letter of Consent, including its acceptance or rejection.

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.

² This settlement relates to other settlements the Firm reached with Cboe BYX Exchange, Inc; Cboe EDGA Exchange, Inc.; Cboe EDGX Exchange, Inc.; FINRA; The Nasdaq Stock Market LLC; Nasdaq BX, Inc.; Nasdaq Phlx LLC; and NYSE Arca, Inc.

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 8.3. If the Letter of Consent is not accepted, it will not be used as evidence to prove any of the allegations against the Firm.

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 Letter of Consent will be published on a website maintained by the Exchange in accordance with Exchange Rule 8.18.

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: June 23, 2022

Sagetrader, LLC

By:  _____

Name: Doug Engmann

Title: Principal Executive Officer