THE NASDAQ STOCK MARKET LLC
NOTICE OF ACCEPTANCE OF AWC

Certified, Return Receipt Requested

TO: **Citadel Securities LLC**
Mr. Michael Weiner
General Counsel
131 South Dearborn Street
32nd Floor
Chicago, IL 60603

FROM: The NASDAQ Stock Market LLC ("Nasdaq")
c/o Financial Industry Regulatory Authority ("FINRA")
Department of Market Regulation
9509 Key West Avenue
Rockville, MD 20850

DATE: June 16, 2014

RE: Notice of Acceptance of Letter of Acceptance, Waiver and Consent No. **20100223345-02**

Please be advised that your above-referenced Letter of Acceptance, Waiver and Consent ("AWC") has been accepted on **June 12, 2014** by the Nasdaq Review Council's Review Subcommittee, or by the Office of Disciplinary Affairs on behalf of the Nasdaq Review Council, pursuant to Nasdaq Rule 9216. A copy of the AWC is enclosed herewith.

You are again reminded of your obligation, if currently registered, immediately to update your Uniform Application for Broker-Dealer Registration ("Form BD") to reflect the conclusion of this disciplinary action. Additionally, you must also notify FINRA (or NASDAQ if you are not a member of FINRA) in writing of any change of address or other changes required to be made to your Form BD.

You are reminded that Section I of the attached Letter of Acceptance, Waiver, and Consent includes an undertaking. In accordance with the terms of the AWC, a registered principal of the firm is required to notify the Compliance Assistant, Legal Section, Market Regulation Department, 9509 Key West Avenue, Rockville, MD 20850, of completion of the undertaking

You will be notified by the Registration and Disclosure Department regarding sanctions if a suspension has been imposed and by NASDAQ's Finance Department regarding the payment of any fine if a fine has been imposed.

If you have any questions concerning this matter, please contact Laurie Doherty, Senior Counsel, at (240) 386-5006.

Robert A. Marchman
Executive Vice President, Legal Section
Department of Market Regulation, FINRA

Signed on behalf of NASDAQ

Enclosure

FINRA District 8 – Chicago
Carla A. Romano
Regional Director
(Via email)

Paul Eckert, Esq.
Wilmer Cutler Pickering Hale and Dorr LLP
1875 Pennsylvania Avenue, NW
Washington, D.C. 20006

THE NASDAQ STOCK MARKET LLC
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20100223345-02

TO: The NASDAQ Stock Market LLC
c/o Department of Market Regulation ("Market Regulation")
Financial Industry Regulatory Authority ("FINRA")

RE: Citadel Securities LLC, Respondent
Broker-Dealer
CRD No. 116797

Pursuant to Rule 9216 of The NASDAQ Stock Market LLC ("Nasdaq") Code of Procedure, Citadel Securities LLC ("CDRG" 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, Nasdaq 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 Nasdaq, or to which Nasdaq 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 Nasdaq:

BACKGROUND

CDRG has been a member of FINRA since 2005 and a member of Nasdaq since 2006, and both registrations remain in effect. As a retail equity market maker in the United States, CDRG provides execution services to millions of retail investors through the firm's broker dealer clients. CDRG also engages in proprietary trading for its own account.

RELEVANT PRIOR DISCIPLINARY HISTORY

On June 29, 2010, Nasdaq censured and fined CDRG $10,000 for violations of Nasdaq Rules 2110 and 3010 for deficiencies in the firm's supervisory system and written supervisory procedures concerning the prevention of erroneous orders and transactions and frivolous clearly erroneous transaction complaints during the period January 1, 2008 through June 30, 2008.

SUMMARY

This matter involves CDRG's failure to reasonably prevent the transmission of erroneous orders to Nasdaq, BATS Exchange, Inc. ("BZX"), BATS Y-Exchange, Inc. ("BYX"), and NYSE Arca, Inc. ("NYSE Arca") (the "exchanges") during the period March 18, 2010 through February 28, 2014 ("review period").

- On 24 occasions between March 18, 2010 and January 8, 2013, CDRG used the exchanges' clearly erroneous petition processes to obtain cancellations of erroneous customer orders that the firm's supervisory procedures and risk controls failed to reasonably detect and prevent.

- Separately, in April 2010, while implementing a software upgrade, CDRG released a test version of a previously abandoned software update, causing a quoting system to send aggressively priced marketable sell limit orders to the exchanges. This release caused CDRG to erroneously sell short 2.75 million shares of PC Group, Inc. during an eleven minute period.

- In August 2011, CDRG released an updated version of its order sizing software for one of the firm's proprietary trading strategies. The release caused the trading strategy to enter into an order sending and cancellation loop.

- On December 13, 2012, CDRG applied inaccurate market data to the firm's order book when a CDRG data server dedicated to handling NYSE Arca market data failed to start up properly. This failure caused CDRG's proprietary trading desk to send, during a two minute period, erroneous hyper-marketable limit orders in 16 different stock symbols to the exchanges.

- In connection with a code rearrangement project completed in January 2014, CDRG misconfigured certain software code and caused the de-activation of a control designed to prevent a trading strategy in use by CDRG from entering orders in excess of 200 orders per second in a given security symbol. Due to this misconfiguration, the control failed to activate when the rearranged code was introduced into a production environment. As a result, CDRG failed to prevent the strategy from sending millions of orders to the exchanges with few or no executions.

By failing to establish, maintain and enforce a supervisory system, including supervisory procedures and risk management controls reasonably designed to: (1) check for order accuracy; (2) reject orders that exceeded appropriate price and/or size parameters; (3) reject duplicative orders; and (4) monitor appropriate message level activity, including message activity at the desk, firm and market level, CDRG violated Nasdaq Rules 2110 (for conduct occurring prior to November 21, 2012), 2010A (for conduct occurring on or after November 21, 2012), and 3010 (throughout the review period), and Rule 15c3-5 of the Securities Exchange Act of 1934 ("Rule 15c3-5") (for conduct occurring on or after July 14, 2011).

FACTS AND VIOLATIVE CONDUCT

1. CDRG conducts its business through fully-automated electronic trading desks, three of which are the subject of this review.

2. CDRG's equity market making desk experienced two different types of erroneous order events during the review period: (1) erroneous orders submitted by CDRG's broker dealer clients on behalf of retail customers; and (2) erroneous orders generated by CDRG's proprietary trading activity.

Customer Error Events involving CDRG's Equity Market Making Desk

3. In 24 instances during the review period, CDRG's equity market making desk failed to prevent the transmission of erroneous customer orders to the exchanges. Transactions resulting from the 24 erroneous customer orders affected the price of each security, in some cases, dramatically. As one example, on September 23, 2010, CDRG failed to block an erroneously entered customer market order for 45,000 shares. CDRG's transmission of this erroneous order to the exchanges was followed by an immediate increase in the price of the security of 132 per cent.

4. In each instance cited above in paragraph three, CDRG petitioned the exchanges to cancel the resulting executions on the ground that the orders were clearly erroneous. 17 of the 24 petitions were submitted on the ground that the customer mistakenly entered a market order or stop order instead of a limit order or stop limit order. In most instances, the exchanges granted CDRG's petitions, in whole or in part, and cancelled the transactions resulting from the erroneous orders. CDRG relied primarily on post-trade notifications from the exchanges, or in a few instances, from its customers, to identify the erroneous customer orders and the executions resulting therefrom.

5. At the beginning of the review period in April 2010 and continuing through June 2010, CDRG had no specific pre-trade risk control on the equity market making desk for preventing erroneous customer orders other than a general requirement that the order size not exceed 999,999 shares. None of the subject customer orders triggered this order size control because none exceeded 999,999 shares.

6. In June 2010, prior to the effective date of Rule 15c3-5, CDRG added a pre-trade risk control to the equity market making desk which compared the size of the customer order to the average daily trading volume in the security. Between June 2010 and January 2013, CDRG modified this size/volume control on multiple occasions, narrowing its parameters and adding new parameters to detect a broader range of potentially erroneous orders. Notwithstanding these changes, erroneous customer orders continued to pass through this control because the orders did not exceed the size and volume parameters or, the security or order type was excluded from this pre-trade control's review. For example, in February 2012, CDRG failed to prevent an erroneous customer order of 105,257 shares because the size/volume control did not apply to not-held orders.

7. In addition to the deficiencies described above, beginning in November 2010 and continuing through the end of the review period, CDRG's risk control parameters on the equity market making desk were inadequate because they excluded from review whole categories of securities symbols, including Nasdaq 100, S&P 100, and high-volume ETF symbols.

PC Group, Inc. ("PCGR")

8. On April 7, 2010, the equity market making desk erroneously sold short, on a proprietary basis, 2.75 million shares of PCGR, causing the share price of PCGR to fall by 77 percent during an eleven minute period. The 2.75 million shares sold short equaled 567 percent of the average daily volume of 485,686 for the month of April 2010.

9. CDRG's profit and loss server, a monitor that provides a real time view of CDRG's positions and profit and losses, reflected the large short position accumulating in PCGR, which alerted the CDRG desk and IT Support personnel. Upon discovery of this activity, CDRG disabled the desk's ability to send quotes in PCGR.

10. The erroneous executions in PCGR were triggered by an update to part of CDRG's trading system. While implementing a software upgrade, the firm released an unrelated test version of a previously abandoned software update. This software update caused the firm to transmit to the exchanges aggressive, marketable sell limit orders for 100 shares at an average of 25 orders per second. Because the size of each order was less than 999,999 shares, CDRG's order size control, which was the primary pre-trade risk control for preventing erroneous orders in place on the equity market making desk at that time, did not block the orders.

11. CDRG had no formal written policies, procedures or controls in place to address modifications to the firm's trading systems, quoting systems, or algorithms at the time of the PCGR event. Nor did CDRG assign an employee to continuously monitor the system involved in this event.

Excessive Messaging Activity

12. On August 23, 2011, CDRG's options market making desk released an updated version of its order sizing software for one of the firm's proprietary trading strategies. The strategy was first released to an electronic trading desk quoter ("quoter") with a small number of symbols. The quoter, however, did not have a properly configured wait timer. That fact, combined with the new order sizing logic, resulted in an unintended "loop" in the strategy's order send and cancel logic.

13. As a result, between August 23, 2011 and August 31, 2011, CDRG sent multiple, periodic bursts of order messages, at 10,000 orders per second, to the exchanges. This excessive messaging activity, which involved hundreds of thousands of orders for more than 19 million shares, occurred two to three times per day. For

example, on August 25, 2011, in one second, CDRG sent 13,917 order messages to the exchanges in one security totaling 2,410,700 shares. Each order was displayed and cancelled before execution.

14. None of the risk controls in force on the options market making desk were triggered by the message burst events due to the brief duration, and small size, of each order.

15. After receiving an inquiry about the firm's order activity from FINRA on August 31, 2011, CDRG modified its trading software on the options market making desk to prevent recurrence of this activity.

16. In connection with a code rearrangement project completed in January 2014, CDRG misconfigured certain software code and caused the de-activation of a control designed to prevent a trading strategy in use by CDRG's equity market making desk from entering orders in excess of 200 orders per second in a given security symbol (the "thrashing control"). Due to this misconfiguration, the control failed to activate when the rearranged code was introduced into a production environment. As a result, CDRG failed to prevent the strategy from sending millions of orders to the exchanges with few or no executions. For example, on February 13, 2014 between 13:32:53:029 and 13:33:00:998 CDRG transmitted to Nasdaq approximately 8-9 orders to buy 100 shares of Penn National Gaming, Inc. ("PENN") every microsecond for a total of 65,000 orders with zero executions. After receiving an inquiry from Nasdaq concerning an increase in order messaging activity in PENN, CDRG disabled the trading strategy, modified its software code to address the issue, and implemented an additional thrashing control to prevent its recurrence.

December 13, 2012 Data Server Failure on CDRG's Proprietary Trading Desk

17. On December 13, 2012, a CDRG data server dedicated to handling NYSE Arca market data used by CDRG's proprietary trading desk failed to start up properly. This failure caused a CDRG data server dedicated to handling NYSE Stock Exchange LLC market data to connect and disseminate NYSE Stock Exchange LLC market data in its place. The software used by the firm at the time did not separately record or denote the specific exchange from which it uploaded market data, so a trading strategy intended for NYSE Arca downloaded an image of the NYSE Stock Exchange LLC market data. The transposition of the market data caused CDRG's proprietary trading desk to send, during a two minute period, erroneous hyper-marketable limit orders in 16 different stock symbols to the exchanges. CDRG incurred a loss of approximately $1.4 million on the resulting erroneous executions. The exchanges granted, in part, CDRG's petition to cancel the executions, reducing CDRG's loss to $400,000.

18. As reflected in paragraphs one through 17 above, during the review period CDRG failed to have risk management controls and supervisory procedures reasonably designed to detect and prevent the entry of erroneous orders. By failing to establish, maintain and enforce a supervisory system, including supervisory procedures and risk management controls reasonably designed to: (1) check for

order accuracy; (2) reject orders that exceeded appropriate price and/or size parameters; (3) reject duplicative orders; and (4) monitor appropriate message level activity, including message activity at the desk, firm and market level, CDRG violated Nasdaq Rules 2110 (for conduct occurring prior to November 21, 2012), 2010A (for conduct occurring on or after November 21, 2012), and 3010 (throughout the review period), and Rule 15c3-5 (for conduct occurring on or after July 14, 2011).

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

A censure, a total fine of $800,000 (of which $420,000 shall be paid to Nasdaq, $160,000 to NYSE Arca, $100,000 to BZX, $70,000 to BYX, and $50,000 to FINRA), and an undertaking to revise the firm's written supervisory procedures and risk management controls to address the deficiencies described herein. Within 60 business days of acceptance of this AWC by Nasdaq, a registered principal of the Respondent 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, providing the following information: (1) a reference to this matter; (2) a representation that the firm has revised its written supervisory procedures and risk management controls to address the deficiencies described herein; (3) the date the revised written supervisory procedures and risk management controls were implemented; and (4) copies of the revised written supervisory procedures and risk management controls.

The firm agrees to pay the monetary sanction(s) in accordance with its executed Election of Payment Form.

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 FINRA staff.

II.

WAIVER OF PROCEDURAL RIGHTS

The firm specifically and voluntarily waives the following rights granted under Nasdaq's Code of Procedure:

A. To have a Formal Complaint issued specifying the allegations against the firm;

B. To be notified of the Formal Complaint 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 Nasdaq Review Council 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, the Nasdaq Review Council, or any member of the Nasdaq Review Council, 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 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 Rule 9143 or the separation of functions prohibitions of Rule 9144, 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 FINRA's Department of Market Regulation and the Nasdaq Review Council, the Review Subcommittee, or the Office of Disciplinary Affairs ("ODA"), pursuant to Nasdaq Rule 9216;

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 Nasdaq or any other regulator against the firm;

2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about the firm's disciplinary record;

3. Nasdaq may make a public announcement concerning this agreement and the subject matter thereof in accordance with Nasdaq Rule 8310 and IM-8310-3; and

4. 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 Nasdaq, or to which Nasdaq is a

party, that is inconsistent with any part of this AWC. Nothing in this provision affects the firm's right to take legal or factual positions in litigation or other legal proceedings in which Nasdaq is not a party.

5. 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 Nasdaq, nor does it reflect the views of Nasdaq 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.

June 2, 2014
Date

Citadel Securities LLC
Respondent

By: ____________________
Name: MICHAEL WEINER
Title: Authorized Signatory

Reviewed by:

____
Name: Paul R. Eckert
Counsel for Respondent

Accepted by Nasdaq:

6/12/14
Date

Robert A. Marchman
Executive Vice President
Department of Market Regulation

Signed on behalf of Nasdaq, by delegated authority from the Director of ODA

JCN

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;
- ☐ The installment payment plan.[1]
  - o Monthly
  - o Quarterly

Respectfully submitted,

Respondent
Citadel Securities LLC

June 2, 2014
Date

By: ______________________

Name: MICHAEL WEINER
Authorized Signatory

Title: ______________________

[1] The installment payment plan is only available for a fine of $50,000 or more. Certain requirements apply.

This Corrective Action Statement is submitted by the Respondent, Citadel Securities LLC ("CDRG"). It does not constitute factual or legal findings by Nasdaq, nor does it reflect the views of Nasdaq, or its staff.

STATEMENT OF CORRECTIVE ACTION BY CITADEL SECURITIES LLC

CDRG submits this Statement of Corrective Action in connection with the foregoing Letter of Acceptance, Waiver, and Consent ("AWC") to describe the steps it has taken both throughout the review period and since to correct and substantially reduce the risk of recurrence of the issues addressed by the AWC.

The overwhelming majority of the reviews that are the subject of the AWC occurred on CDRG's equity market making and options routing desk, which during the review period adopted safeguards and a suite of pre-trade controls. The main pre-trade control suite was first implemented prior to the adoption of SEC Rule 15c3-5 and enhanced on the firm's own initiative on approximately a dozen instances both before and after the effective date of the rule. These enhancements addressed CDRG's observations about the orders that led to clearly erroneous filings and trends. CDRG has continued to monitor and refine its controls and procedures over time and, specifically as to its suite of pre-trade controls, has made additional enhancements since the review period to address the staff's concerns and further reduce the risk that erroneous customer orders will be executed.

The remaining reviews concern either short-lived issues experienced by CDRG's trading systems or unforeseen market conditions that caused existing controls not to function as intended for brief periods. As soon as the activity that was the subject of these reviews was identified, CDRG took prompt action to stop the activity. Following each event, CDRG adopted corrective measures and enhanced existing safeguards and practices in a manner designed to prevent the recurrence of the same or similar events.

CDRG also intends to continue to evaluate the effectiveness of its safeguards and controls both in connection with its undertaking and on an ongoing basis to ensure they remain appropriate to its operations and fully consistent with applicable regulatory requirements.