

**THE NASDAQ STOCK MARKET LLC  
NOTICE OF ACCEPTANCE OF AWC**

**Certified, Return Receipt Requested**

**TO: Two Sigma Securities, LLC  
Mr. Simon Yates  
Chief Executive Officer  
101 Avenue of the Americas  
19th Floor  
New York, NY 10013**

**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: April 6, 2017**

**RE: Notice of Acceptance of Letter of Acceptance, Waiver and Consent No. 20130391658-05**

**Please be advised** that your above-referenced Letter of Acceptance, Waiver and Consent ("AWC") has been accepted on **April 5, 2017** 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.

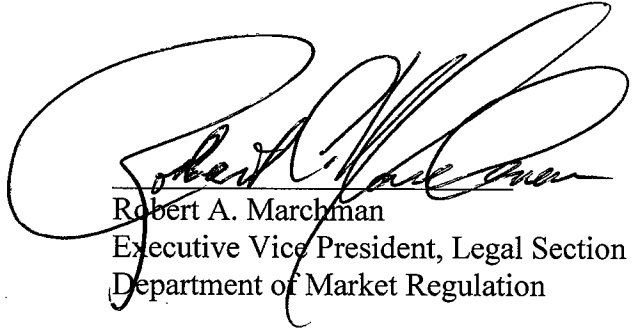
You are again reminded of your obligation, if currently registered, immediately to update your Uniform Application for Broker-Dealer Registration ("Form BD") to reflect the conclusion of this disciplinary action. Additionally, you must also notify FINRA (or NASDAQ if you are not a member of FINRA) in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

Two Sigma Securities, LLC  
Page 2

If you have any questions concerning this matter, please contact Dawn E. Faris, Senior Counsel,  
at (240) 386-6219.

A large, stylized handwritten signature in black ink, appearing to read "Robert A. Marchman".

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

Signed on behalf of NASDAQ

Enclosure

FINRA District 10 – New York  
Michael Solomon  
Senior Vice President and Regional Director  
(Via email)

Michael D. Wolk  
Counsel for Respondent  
Sidley Austin LLP  
1501 K Street, N.W.  
Washington, DC 20005

**THE NASDAQ STOCK MARKET LLC**  
**LETTER OF ACCEPTANCE, WAIVER AND CONSENT**  
**NO. 20130391658-05**

**TO:** The NASDAQ Stock Market LLC  
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 9216 of The NASDAQ Stock Market LLC ("Nasdaq") Code of Procedure, 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, 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**

The firm has been a member of Nasdaq since October 20, 2009, 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: Nasdaq, Bats EDGA Exchange, Inc. ("EDGA"), Bats EDGX Exchange, Inc. ("EDGX"), Bats BZX Exchange, Inc. ("BZX"), 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 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 symbol CIVBP (Civista Bancshares, Inc. preferred shares) on June 8, 2015 (the "June 2015 review period"). The review was prompted by the firm's filing of a clearly erroneous ("CE") event associated with its trading in the above symbol that resulted in the cancellation of certain trades on that date.

The CE event in CIVBP arose when the firm's market making desk routed to Nasdaq a principal order to sell 11,111 shares of CIVBP that represented the trading interest of another broker-dealer's order to participate in the re-opening auction of the stock on June 8, 2015 following a trading halt. The above sell order constituted about 80 times the average daily trading volume ("ADTV") in the stock in the preceding 30 days and led the exchange to cancel 29 trades involving five broker-dealers executed in CIVBP at the re-opening price.

As detailed further below, during the above review periods, 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, Nasdaq Rule 2010 (for conduct prior to Nov. 21, 2012), Nasdaq Rule 2010A (for conduct on or after Nov. 21, 2012), Nasdaq Rule 3010, and related requirements of the remaining Exchanges and FINRA pertaining to supervision and just and equitable conduct.

### **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

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

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 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.

In connection with Review No. 20150462036,

10. The firm's order size controls relative to a stock's ADTV for purposes of preventing erroneous orders pursuant to Rule 15c3-5(c)(1)(ii) failed to operate as designed during a trading halt insofar as its ADTV control failed to automatically block an order from being transmitted to the market when the firm's ADTV threshold was reached. Thus, firm orders that exceeded its ADTV thresholds could be entered and transmitted to the markets.
11. For the foregoing reasons, the firm's risk management controls and supervisory procedures 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).
12. Further, due to the aforementioned inadequacies, the firm violated Nasdaq Rule 2110 (for conduct prior to Nov. 21, 2012), Nasdaq Rule 2010A (for conduct on or after Nov. 21, 2012), and Nasdaq Rule 3010 (throughout the review periods).

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

1. A censure,
2. A total fine of \$90,000, consisting of \$65,000 specific to Review Nos. 20130391658 and 20140409338 (to be paid jointly to FINRA and the Exchanges, of which \$6,500 shall be paid to Nasdaq) and \$25,000 specific to Review No. 20150462036 to be paid to Nasdaq, 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.1-12 above to achieve compliance with Rule 15c3-5 of the Securities Exchange Act of 1934 and Nasdaq Rules 2010A and 3010. 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.1-12; and (3) the date(s) the revised controls and supervisory procedures were implemented. Upon written request showing good cause, FINRA staff, on behalf of Nasdaq, may extend any of the procedural dates set forth herein.

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

03/01/2017  
Date

Two Sigma Securities, LLC  
Respondent

By: S. Yates  
Name: SIMON YATES

Title: CEO

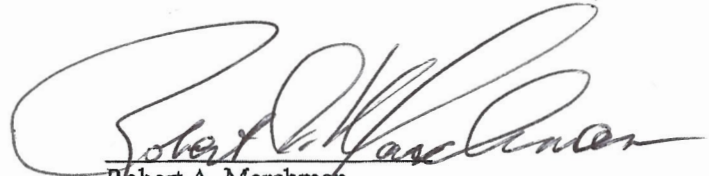
Reviewed by:



Counsel for Respondent A. David Wink  
Firm Name S. Yates Auto LLC  
Address  
City/State/Zip  
Phone Number

Accepted by Nasdaq:

4/5/17  
Date



Robert A. Marchman  
Executive Vice President  
Department of Market Regulation

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

### ELECTION OF PAYMENT FORM

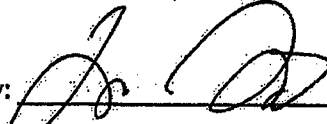
The firm intends to pay the fine proposed in the attached Letter of Acceptance, Waiver and Consent by the following method (check one):

- A firm check or bank check for the full amount;
- Wire transfer;
- The installment payment plan.<sup>2</sup>
  - Monthly
  - Quarterly

Respectfully submitted,

Respondent  
Two Sigma Securities, LLC

3/1/2017  
Date

By:   
Name: Jason Lubetsky  
Title: CFO

#### Billing and Payment Contact

Please enter the billing contact information below. Nasdaq MarketWatch will contact you with billing options and payment instructions. **Please DO NOT submit payment until Nasdaq has sent you an invoice.**

Billing Contact Name: TSS Accounting  
Billing Contact Address: tss-accounting@tsssecurities.com  
Billing Contact Email: 101 Ave of the Americas, 19th FL, NY 10013 ↓  
Billing Contact Phone Number: 212-274-2694

<sup>2</sup> The installment payment plan is only available for a fine of \$50,000 or more. Certain requirements apply.