

**NASDAQ BX, INC.**  
**NOTICE OF ACCEPTANCE OF AWC**

**Certified, Return Receipt Requested**

**TO: Lime Brokerage LLC  
Mr. Farid Naib  
Chief Executive Officer  
1001 Avenue of the Americas  
16th Floor  
New York, NY 10018**

**FROM: NASDAQ BX, Inc. (the "Exchange")  
c/o Financial Industry Regulatory Authority ("FINRA")  
Department of Enforcement  
15200 Omega Drive, Suite 300  
Rockville, MD 20850**

**DATE: August 15, 2019**

**RE: Notice of Acceptance of Letter of Acceptance, Waiver and Consent No. 2013037572603**

**Please be advised** that your above-referenced Letter of Acceptance, Waiver and Consent ("AWC") has been accepted on **August 15, 2019** by the Exchange Review Council's Review Subcommittee, or by the Office of Disciplinary Affairs on behalf of the Exchange Review Council, pursuant to NASDAQ BX 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 the Exchange 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, Department of Enforcement, 15200 Omega Drive, Suite 300, 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 the Nasdaq's Finance Department regarding the payment of any fine if a fine has been imposed.

Lime Brokerage LLC  
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If you have any questions concerning this matter, please contact me at (646) 430-7050.



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Elyse D. Kovar  
Senior Counsel  
Department of Enforcement, FINRA

Signed on behalf of NASDAQ BX, Inc.

Enclosure

FINRA District 10 – New York  
William St. Louis  
Senior Vice President and Regional Director  
(Via email)

James L. Kopecky  
Counsel for the Respondent  
Kopecky and Schumacher Rosenberg PC  
120 North LaSalle Street, Suite 2000  
Chicago, IL 60602

**NASDAQ BX, INC.**  
**LETTER OF ACCEPTANCE, WAIVER AND CONSENT**  
**NO. 2013037572603**

TO: NASDAQ BX, Inc.  
c/o Department of Enforcement  
Financial Industry Regulatory Authority (“FINRA”)

RE: Lime Brokerage LLC, Respondent  
Broker-Dealer  
CRD No. 104369

Pursuant to Rule 9216 of the NASDAQ BX, Inc. (“BX” or the “Exchange”) Code of Procedure, Lime Brokerage LLC (“Lime” 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, BX 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 BX, or to which BX 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 BX:

**BACKGROUND**

Lime is a broker-dealer based in New York, New York. The Firm currently has 41 registered persons and four branch offices. At all relevant times, Lime was an agency-only brokerage firm that provided its customers with technology and direct market access to a variety of different stock and options exchanges. Lime has been a BX member since April 27, 2009, and its registration remains in effect. The Firm does not have any relevant disciplinary history.

**SUMMARY**

In Matter No. 20150463435, FINRA’s Department of Market Regulation, Quality of Markets team, on behalf of BX and seven other self-regulatory organizations,<sup>1</sup> identified and reviewed potentially manipulative trading activity by multiple customers of Lime from December 1, 2014 through August 3, 2016 (the “Review Period”). During the

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<sup>1</sup> The seven other self-regulatory organizations are Cboe BZX Exchange, Inc., Cboe BYX Exchange, Inc., Cboe EDGA Exchange, Inc., Cboe EDGX Exchange, Inc., the Nasdaq Stock Market LLC, Nasdaq PHLX LLC, and FINRA.

Review Period, Lime offered foreign and domestic trading firms and other institutional clients (“direct market access customers”) the ability to trade directly on multiple securities exchanges under Lime’s exchange memberships. During the Review Period, trading activity by certain of Lime’s direct market access customers triggered thousands of alerts at Lime that raised red flags for potentially manipulative trading. But Lime failed to establish and maintain a supervisory system and written supervisory procedures (“WSPs”) reasonably designed to achieve compliance with applicable securities laws and regulations and with applicable Exchange rules in connection with its direct market access customers’ trading activity through the Firm. Lime’s supervisory system and WSPs did not provide guidance as to how the Firm should review alerts of potentially manipulative trading and how the Firm should supervise the disposition of any such alerts. Lime tasked a single analyst with conducting a manual review of its surveillance alerts but failed to reasonably supervise the analyst’s review and disposition of those alerts. As a result, during the Review Period, Lime failed to supervise to achieve compliance with applicable securities laws, rules, and regulations prohibiting layering, spoofing and other manipulation, and failed to observe high standards of commercial honor and just and equitable principles of trade. In addition, Lime failed to establish, maintain, and enforce a supervisory system and written procedures reasonably designed to achieve compliance with applicable securities laws and regulations and BX rules. The foregoing supervisory failures by Lime violated BX Rules 3010 and 2110.

## **FACTS AND VIOLATIVE CONDUCT**

### **Relevant Rules**

1. BX Rule 3010 requires member firms to establish, maintain, and enforce a supervisory system and written procedures to supervise the types of business in which it engages that are reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA and BX rules. BX Rule 3010 further provides that BX members are required to comply with NASD Rule 3010 as if NASD Rule 3010 were part of BX’s Rules.<sup>1</sup>
2. BX Rule 2110 requires a member, in the conduct of its business, to observe high standards of commercial honor and just and equitable principles of trade.

### **Lime’s Direct Market Access Customers**

3. During the Review Period, Lime offered its direct market access customers the ability to trade directly on multiple securities exchanges under Lime’s exchange memberships, using one of Lime’s unique four-letter codes, or market participant identifiers (“MPIDs”). Lime’s direct market access customers included foreign and domestic trading entities and other institutional clients. As the broker-dealer offering direct market access to customers, Lime had supervisory obligations with respect to trading activity by its direct

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<sup>1</sup> Like BX Rule 3010, NASD Rule 3010 (FINRA Rule 3110, as of December 1, 2014) requires members to establish and maintain a supervisory system, including WSPs, which is reasonably designed to achieve compliance with applicable securities laws and regulations, and the applicable SRO rules.

market access customers entered through the Firm.

#### **Types of Potentially Manipulative Trading in Direct Market Access Customer Accounts**

4. Lime's direct market access customers engaged in trading activity that raised red flags at Lime for potential manipulative trading, including a variety of practices, such as "layering," "spoofing," "ramping," and "marking."
5. Layering typically includes placement of multiple limit orders on one side of the market at various price levels that are intended to create the appearance of a change in the levels of supply and demand. In some instances, layering involves placing multiple limit orders at the same or varying prices across multiple exchanges or other trading venues. An order is then executed on the opposite side of the market and most, if not all, of the multiple limit orders are immediately cancelled. The purpose of the multiple limit orders that are subsequently cancelled is to induce, or trick, other market participants to enter orders due to the appearance of interest created by the orders such that the trader is able to receive a more favorable execution on the opposite side of the market.
6. Similar to layering, spoofing involves placement of non-bona fide orders, generally inside the existing national best bid or offer, with the intention of briefly triggering some type of response from another market participant, followed by cancellation of the non-bona fide order, and the entry of an order on the other side of the market.
7. Ramping includes trading practices designed to artificially increase or decrease the price of a security prior to the open or close for the benefit of resting order interest, i.e., placing unexecuted on-open or on-close orders in advance of an exchange's opening or closing cross.
8. Marking involves attempting to influence the opening or closing price of a security by effecting purchases or sales at or near the open or close of normal trading hours. Such activity can artificially inflate or depress the closing price for the security.

#### **Lime Failed to Reasonably Supervise for Potential Manipulative Trading by Its Direct Market Access Customers**

9. Lime failed to establish and maintain a supervisory system and WSPs reasonably designed to achieve compliance with rules prohibiting layering, spoofing, ramping, marking the open or close, and other potentially manipulative trading.
10. Throughout the Review Period, Lime's supervisory system for reviewing for potentially manipulative trading by direct market access customers was dependent on a commercial surveillance system that generated reports for various forms of violative trading activity (the "Surveillance System"). Lime determined the parameters for the Surveillance System to generate alerts for ramping, marking, layering, and spoofing.
11. Lime's WSPs identified the Surveillance System and described the exception reports that it generated for potentially manipulative trading by direct market access customers. The

WSPs stated how often Lime's Chief Compliance Officer ("CCO") or the CCO's designee should review exception reports and required that reviews be documented. But the WSPs did not describe how to conduct the reviews, the factors to consider in reviewing the exception reports for potentially manipulative trading activity, or how the reviews of exception reports were supervised by the Firm. Nor did the WSPs explain under what circumstances the reviewer should escalate concerns regarding any alert in an exception report for direct market access customers' trading activity or instead close an alert with no further action.

12. During the Review Period, Lime's practice was to place reviewed Surveillance System alerts in one of three categories: "watch," "investigation," or "no further action." The WSPs required that all "watch" alerts be "explained" in the Surveillance System's comment field. The WSPs, however, did not state any factors to consider when placing an alert under "watch" status, what the reviewer should explain about the "watch" alert in the comment field, or how the Firm should supervise such alerts. Moreover, the WSPs provided no guidance concerning alerts placed under "investigation" or those closed with "no further action." Lime's WSPs and its supervisory system failed to include factors to consider in determining when such determinations were appropriate or how such determinations would be supervised.
13. During the Review Period, Lime tasked a single analyst with manually reviewing the Surveillance System alerts. Lime delegated to the analyst authority to investigate and close out surveillance alerts, but did not provide the analyst with any written guidance or explanation of the factors to consider in reviewing the alerts and determining alert categories or dispositions. Before joining the Firm, the analyst had not used the Surveillance System or conducted surveillance for all the forms of potentially manipulative trading identified by the Surveillance System.
14. During the Review Period, Lime failed to reasonably respond to red flags of potentially manipulative trading by the Firm's direct market access customers. These red flags included thousands of Surveillance System alerts that were generated by two such customers, including the following:
  - a. Customer A, a foreign investment fund, generated over 900 Surveillance System alerts for potential layering or spoofing between March 2015 and July 2016. Each time that Lime's analyst questioned Customer A about an alert, the analyst accepted the customer's explanation of the trading and closed the alert with no further action.
  - b. Customer B, a domestic investment fund, generated over 1,000 Surveillance System alerts, including over 500 alerts for possible ramping and marking the close, between December 2014 and July 2016. Each time that Lime's analyst questioned Customer B about an alert, the analyst accepted the customer's explanation of the trading and closed the alert with no further action.
15. The acts, practices, and conduct described above constituted violations of BX Rules 3010 and 2110.

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

1. A censure;
2. A total fine of \$625,000, of which \$52,500 is payable to BX;<sup>1</sup> and
3. An undertaking to provide a written report to FINRA within 90 days after the date of the Notice of Acceptance of this AWC, concerning reasonable controls, procedures, and other measures taken by the Firm to remediate the violative conduct described herein regarding the Firm's supervision of direct market access customer activity with respect to potential manipulative trading by its customers. The written report shall be certified by a registered principal who is also a senior executive officer of the Firm and shall address, at a minimum, the implementation and performance of the Firm's controls, procedures, and other measures; the steps taken by supervisory personnel to achieve compliance with regard to supervision of direct market access customer trading and the results of such supervisory reviews; training; and modification or recommendations for improvements to the controls, procedures, and other measures and dates of the effectiveness of such modifications or planned implementation of such recommendations. Upon written request showing good cause, FINRA staff may extend any of the procedural dates set forth herein.
4. Acceptance of this AWC is conditioned upon acceptance of similar settlement agreements in related matters between the Firm and each of the following self-regulatory organizations: (i) FINRA; (ii) Cboe BZX Exchange, Inc.; (iii) Cboe EDGA Exchange, Inc.; (iv) Cboe EDGX Exchange, Inc.; (v) Cboe BYX Exchange, Inc.; (vi) the NASDAQ Stock Market LLC; and (vii) Nasdaq PHLX LLC.

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 a Payment Information 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 FINRA staff.

## II.

### WAIVER OF PROCEDURAL RIGHTS

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

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<sup>1</sup> The balance of the fine will be paid to the self-regulatory organizations referenced in paragraph I.B.4 below.

- 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 Exchange 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 Exchange Review Council, or any member of the Exchange 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:

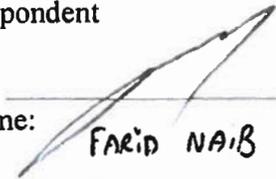
- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by FINRA's Department of Enforcement and the Exchange Review Council, the Review Subcommittee, or the Office of Disciplinary Affairs ("ODA"), pursuant to BX Rule 9216;
- B. If 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 BX or any other regulator against the Firm;
  - 2. BX may release this AWC or make a public announcement concerning this agreement and the subject matter thereof in accordance with BX 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 BX, or to which BX 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 BX 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 BX, 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 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.

7/23/15  
Date

Lime Brokerage LLC  
Respondent

By:   
Name: FARID NAIB  
Title: CEO

Reviewed by:

  
James L. Kopecky  
Kopecky Schumacher Rosenberg PC  
120 North LaSalle Street, Suite 2000  
Chicago, IL 60602  
Counsel for the Firm

Accepted by BX:

~~8/15/19~~  
Date

  
Elyse D. Kovar, Senior Counsel  
Department of Enforcement

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

**PAYMENT INFORMATION**

The fine amount will be reflected on an upcoming invoice and will be direct debited from the account for your firm that Nasdaq currently has on file. **Please DO NOT submit payment at this time.**

Please inform your finance or applicable department of this forthcoming debit.

If you would like to arrange for an alternative method of payment, please enter the billing contact information below and Nasdaq's Billing Department will contact you. **Otherwise, please leave the following information blank.**

Billing Contact Name: Brian Oliveira

Billing Contact Address: 1001 Ave of the Americas, 16<sup>th</sup> Floor NY, NY 10018

Billing Contact Email: Boliveira@limebrokerage.com

Billing Contact Phone Number: 212-824-5532

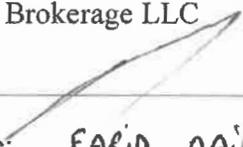
Respectfully submitted,

7/23/15

Date

Respondent

Lime Brokerage LLC

By: 

Name: FARID NAIB

Title: CEO