

**THE NASDAQ STOCK MARKET LLC  
LETTER OF ACCEPTANCE, WAIVER AND CONSENT  
NO. 2015046278305**

TO: The Nasdaq Stock Market LLC  
c/o Department of Enforcement  
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 (“Citadel Securities” 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**

Citadel Securities is a U.S. broker-dealer and market maker in equity securities and U.S.-listed options. It became a member of Nasdaq in July 2006 and its registration remains in effect. The firm, which employs approximately 450 registered individuals, maintains its headquarters in Chicago, IL and has seven other branch offices.

**RELEVANT PRIOR DISCIPLINARY HISTORY**

On October 23, 2015, the Cboe Exchange, Inc. (“Cboe”) Business Conduct Committee issued a decision sanctioning Citadel Securities \$100,000 for violations of Rule 15c3-5(c) of the Securities Exchange Act of 1934 (the “Exchange Act”) and Cboe Rule 4.2 as the firm failed to establish appropriate pre-set credit thresholds and failed to have in place a system of risk management controls and supervisory procedures reasonably designed to prevent the entry of erroneous orders by rejecting orders that exceeded appropriate price or size parameters or that assured appropriate surveillance personnel received immediate post-trade execution reports.

On June 16, 2014, FINRA, Cboe BYX Exchange, Inc., Cboe BZX Exchange, Inc., Nasdaq, and NYSE Arca, Inc. sanctioned the firm \$800,000 and imposed an undertaking

for violations of Exchange Act Rule 15c3-5 and relevant supervision rules as Citadel Securities failed to establish, maintain, and enforce supervisory procedures and risk management controls reasonably designed to check for order accuracy, reject orders that exceeded appropriate price and/or size parameters, reject duplicate orders, and monitor appropriate message level activity.

### **SUMMARY**

This matter arose from reviews conducted by FINRA's Department of Market Regulation, on behalf of Nasdaq and other self-regulatory organizations ("SROs").<sup>1</sup> The conduct described herein occurred between August 15, 2014 and May 2, 2018 (the "review period"), or more specific time periods within the review period as described below.

During the review period, Citadel Securities had market access, as defined in Exchange Act Rule 15c3-5. As such, the firm was required 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 this business activity. In certain scenarios, however, Citadel Securities's risk management controls and supervisory procedures were not reasonably designed to prevent the entry of erroneous orders, in violation of Exchange Act Rule 15c3-5 and Nasdaq Rules 3010 and 2010A, as detailed below.

### **FACTS AND VIOLATIVE CONDUCT**

1. Exchange Act Rule 15c3-5(b) requires broker-dealers with 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 this business activity."
2. Exchange Act Rule 15c3-5(c)(1)(ii) requires broker-dealers with market access to establish written supervisory procedures ("WSPs") and financial risk management controls that are reasonably designed to "[p]revent 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."
3. Nasdaq Rule 3010 requires members to "establish and maintain a system to supervise the activities of each registered representative and associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable Nasdaq rules."
4. Nasdaq Rule 2010A requires members, in the conduct of their business, to observe high standards of commercial honor and just and equitable principles of trade.

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<sup>1</sup> The other SROs include Cboe BYX Exchange, Inc., Cboe BZX Exchange, Inc., Cboe EDGA Exchange, Inc., Cboe EDGX Exchange, Inc., Nasdaq BX, Inc., Nasdaq GEMX, Inc., Nasdaq ISE, LLC, Nasdaq MRX LLC, The Nasdaq Options Market LLC, Nasdaq PHLX LLC, The New York Stock Exchange LLC, and NYSE Arca Inc.

The Firm Did Not Apply Certain Pre-Trade Erroneous Order Controls to Certain Equity Limit Orders

5. During the review period, the firm's pre-trade erroneous order controls applicable to both equity limit orders included price controls that would reject limit orders that were priced at certain percentages away from the National Best Bid or Offer ("NBBO").<sup>2</sup> However, from August 15, 2014 through November 2017, when an equity limit order was canceled and replaced, a price control was not applied to the replaced order.
6. For example, on August 9, 2017, at 9:03:24 a.m., the firm received an order from another broker-dealer to buy 3,850 shares of security ABCD with a limit price of \$53.81.<sup>3</sup> At the time of receipt, the order was priced within the firm's price control threshold, as the NBBO was \$53.84 x \$53.87. The order did not trigger the firm's price control. At 9:23:46 a.m., the broker-dealer canceled and replaced the order, changing the limit price to \$5,393.00, which was an error. The NBBO was \$53.99 x \$54.03. Because Citadel Securities did not apply its price controls to replaced orders, the erroneously replaced order with a limit price of \$5,393.00 was routed to an exchange at a price that was over 9,880% through the NBO. This issue did not result in any Clearly Erroneous Filings.
7. Moreover, for the review period, the firm's price controls did not apply when its order routing systems did not have NBBO or pricing data. This resulted in the submission of equity orders to various markets with prices that were not reasonably related to the current NBBO. This issue did not result in any Clearly Erroneous Filings.

Certain Pre-Trade Price and Size Controls Were Not Reasonably Designed Because the Accompanying Procedures Were Not Sufficiently Detailed

8. During the review period, the firm applied certain pre-trade erroneous order controls that incorporated soft blocks. In contrast to a hard block, which generally prevents an order from being submitted by automatically rejecting it, a soft block prevents an order from being routed to a market center until it is either overridden or confirmed by a person.
9. During the review period, Citadel Securities had in place soft blocks that were triggered when the parameters of the applicable price or size controls were met. Once triggered, the subject orders were required to be manually reviewed by certain firm personnel dedicated to this task to determine whether the order should be rejected or submitted to a market center.
10. From August 15, 2014 through November 2016, the firm's procedures failed to provide sufficient detail concerning how firm personnel were to review soft block

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<sup>2</sup> A limit order is an order to purchase or sell a security at, or better than, a stated price.

<sup>3</sup> A generic symbol is used in place of the name of the referenced security.

alerts. The firm's procedures did not sufficiently detail the steps firm personnel were to take when reviewing a subject order or the circumstances under which a soft block should be overridden or confirmed. Furthermore, from August 15, 2014 through May 2018, the firm failed to require that those persons responsible for reviewing soft block alerts contemporaneously document their review of orders that triggered a soft block, including documenting the rationale for releasing the subject orders into the market after completing the manual review.

11. Because the firm's procedures did not require a reasonable review of the orders that triggered soft block alerts, or require the person reviewing soft block alerts to contemporaneously document the rationale for resolving such alerts, the applicable pre-trade erroneous order controls were not reasonably designed. This issue did not result in any Clearly Erroneous Filings.
12. As a result of the firm's failure to establish and maintain reasonable risk management controls and supervisory procedures reasonably designed to prevent the entry of erroneous orders, by rejecting orders that exceed appropriate price or size parameters, the firm, during the review period, violated Section 15(c)(3) of the Exchange Act and Rules 15c3-5(b) and (c)(1)(ii) thereunder and Nasdaq Rules 3010 and 2010A.

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

1. A censure;
2. A fine of \$15,000;<sup>4</sup> and
3. An undertaking to revise the firm's risk management controls and supervisory procedures with respect to the areas of deficiencies described in this AWC and to ensure that it has implemented controls and procedures that are reasonably designed to achieve compliance with the rules and regulations herein. Within 90 business days of acceptance of this AWC, a registered principal of the Firm shall submit to Carly Kostakos, Senior Counsel a signed, dated letter, or an email from a work-related account of the registered principal to Carly.Kostakos@finra.org, providing the following information: (a) a reference to this matter; (b) a representation that the Firm has addressed and corrected the deficiencies described above, including the specific measures or enhancements taken to address those deficiencies; and (c) the date the deficient controls and procedures were addressed and corrected by the Firm.

The firm agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. It has submitted a Payment Information form showing the method by which it proposes to pay the fine imposed.

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<sup>4</sup> Citadel Securities consents to a fine payable to Nasdaq and the SROs referenced in footnote 1 above, totaling \$225,000.

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 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 Enforcement 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.

December 23, 2021

\_\_\_\_\_  
Date

Citadel Securities LLC  
Respondent

By: Scott Kloin

scott kloin  
Name: \_\_\_\_\_

Chief Compliance Officer and Senior Deputy GC  
Title: \_\_\_\_\_

Reviewed by:

Paul R. Eckert

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Paul R. Eckert, Esq.  
Counsel for Respondent  
Wilmer Cutler Pickering Hale and Dorr LLP  
1875 Pennsylvania Avenue, NW  
Washington, DC 20006

Accepted by Nasdaq:

December 27, 2021

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Date

Carly M. Kostakos

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Carly M. Kostakos  
Senior Counsel  
Department of Enforcement

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