

NYSE ARCA, INC.

NYSE REGULATION,

Complainant,

v.

LIGHTSPEED TRADING, LLC,

Respondent.

FINRA Proceeding No. 20130354682-03

November 13, 2017

Respondent violated:

Section 15(c)(3) of the Exchange Act and Rule 15c3-5 thereunder (for misconduct beginning July 14, 2011), and violated NYSE Arca Equities Rules 6.1(b), 6.2(b), 6.18, 9.2(b), and 2010 (for conduct on and after June 30, 2011), and NYSE Arca Equities Rules 6.1(b), 6.2(b), 6.18, 9.2(b), and 2010 (for conduct on and after June 30, 2011), by failing to establish, document and maintain a system of risk management controls and supervisory procedures reasonably designed to systematically manage the regulatory and other risks of providing market access.

NYSE Arca Equities Rules 6.1(b), 6.2(b), 6.18, 9.2(b), and 2010 (for conduct on and after June 30, 2011) by failing to establish supervisory systems, including written supervisory procedures, reasonably designed to provide for sufficient reviews of trading activity by its market access customers for potentially manipulative or suspicious trading activity, and to achieve compliance with Rule 15c3-5, as well as other applicable rules and regulations prohibiting manipulative and abusive trading.

Consent to censure, a \$41,428.57 fine, and an undertaking.

Appearances

For the Complainant: Steven M. Tanner, Esq., Eric S. Brown, Esq., James J. Nixon, Esq., and Robert A. Marchman, Esq., FINRA Department of Enforcement.¹

For the Respondent: James L. Kopecky, Esq., Kopecky Schumacher Rosenberg, PC, for Lightspeed Trading, LLC.

¹ On July 27, 2017, the Legal Section of FINRA's Department of Market Regulation became part of the Department of Enforcement.

DECISION

Lightspeed Trading, LLC (“Lightspeed” or the “Firm”) and NYSE Arca, Inc. entered into an Offer of Settlement and Consent for the sole purpose of settling this disciplinary proceeding, without adjudication of any issues of law or fact, and without admitting or denying any allegations or findings referred to in the offer of settlement.² The Hearing Officer accepts the Offer of Settlement and Consent and issues this Decision in accordance with NYSE Arca Rules.³

FINDINGS OF FACTS AND VIOLATIONS

Background and Jurisdiction

1. Lightspeed has been registered with FINRA since June 23, 1994, and has been an NYSE Arca Equities Trading Permit (“ETP”) Holder since November 3, 2005. Its principal place of business is in New York, New York; the Firm also has a branch office in Chicago, Illinois. NYSE Arca has jurisdiction over Lightspeed because it is currently registered as a NYSE Arca ETP Holder, and it committed the misconduct at issue while an NYSE Arca ETP Holder.

Overview

2. From December 2010 through the present (the “Relevant Period”), Lightspeed failed reasonably to establish, document and maintain an adequate system of risk management controls and supervisory procedures, including certain post-trade risk controls, to ensure compliance with applicable federal securities laws and regulations and rules of FINRA and exchanges, including NYSE Arca. As a result, the Firm also failed to properly supervise the activities of its market access customers.
3. As a market access provider, Lightspeed was responsible for monitoring and reviewing its market access customers’ orders to detect and report suspicious and potentially manipulative trades, and to ensure that orders entered via its registered market participant identifiers fully complied with applicable federal securities laws and regulations and the rules of NYSE Arca.
4. Despite applicable rules and guidance, Lightspeed failed to adequately surveil for, and prevent, various forms of potentially manipulative trading activity by its market access customers on multiple markets, including NYSE Arca.

² FINRA’s Office of Hearing Officers reviewed the Offer of Settlement and Consent under the terms of a Regulatory Services Agreement (as amended) among NYSE Group, Inc., New York Stock Exchange LLC, NYSE Arca, Inc., NYSE American LLC, and FINRA.

³ The facts, allegations, and conclusions contained in this Decision were taken from the executed Offer of Settlement and Consent. Prior to August 17, 2017, the rules involved in this matter were called NYSE Arca Equities rules.

5. By failing to establish adequate controls and procedures, and failing to properly monitor and supervise the activities of its market access customers, the Firm violated Rule 15c3-5 of the Securities Exchange Act of 1934, as amended (the “Market Access Rule” or “Rule 15c3-5”) (for the period on and after July 14, 2011) and NYSE Arca Equities Rules 6.18, 6.1(b), 6.2(b), 9.2(b), and 2010 (for conduct on and after June 30, 2011).

Statement of Facts

6. At all times relevant to this Complaint, Lightspeed provided certain customers with direct access to numerous exchanges, including NYSE Arca. As such, the Firm’s customers were able to electronically route orders directly to the exchanges.
7. As a provider of market access, Lightspeed was responsible for establishing, implementing, and maintaining adequate risk management controls and supervisory procedures, including written supervisory procedures (“WSPs”), and a system of follow-up and review reasonably designed to: (a) investigate red flags and monitor the trading activity of its market access customers; (b) detect and prevent suspicious and potentially manipulative trades; and (c) ensure that all trades entered under the Firm’s market participant identifiers complied with applicable federal securities laws and regulations and the rules of NYSE Arca, other exchanges, and FINRA.
8. Through multiple industry-wide notices published during the Relevant Period, Lightspeed was on notice of its obligations and responsibilities to implement risk management controls and supervisory procedures reasonably designed to manage the financial, regulatory, and other risks of its market access business.
9. For example, in FINRA’s 2011 Priorities Letter, dated February 8, 2011, FINRA explained that just as firms have a primary responsibility to supervise their associated persons and ensure that they are not involved in fraudulent schemes, firms must also be vigilant regarding their customers. The letter also advised firms that customer-initiated schemes can expose firms to regulatory, operational, and reputational risk, and that FINRA expects firms to maintain robust supervisory systems that are reasonably designed to detect and report suspicious transactions.
10. In FINRA’s 2012 Priorities Letter, dated January 31, 2012, FINRA emphasized the need for firms to comply with SEC Rule 15c3-5, and made clear that market access providers must have post-trade surveillance procedures reasonably designed to identify various potential trading violations such as wash sales, spoofing, layering, quote stuffing, and manipulation related to the open and close of trading.
11. FINRA’s 2013 Priorities Letter, dated January 11, 2013, highlighted FINRA’s focus on trading abuses intended to bait other market participants into trading at artificially higher or lower prices.

12. Although throughout the Relevant Period Lightspeed added additional surveillance and improved its supervisory systems, the Firm failed to reasonably heed the concerns raised in FINRA's Priorities Letters by disregarding its obligations regarding surveilling for potentially manipulative and suspicious transactions, even though FINRA staff had raised concerns about potentially manipulative momentum ignition trading activity by its market access customers in March 2015, and had sent requests for information to Lightspeed that should have put the Firm on notice that it did not have adequate surveillance procedures reasonably designed to identify various potential trading violations.

Lightspeed Failed to Monitor for Potential Manipulative Activity, Including Momentum Ignition Strategies

13. Lightspeed failed to have reasonable controls and procedures, including supervisory procedures to detect indicia of potential manipulative activity, including momentum ignition strategies. More specifically, the Firm failed to implement adequate surveillance to detect and review customer trading activity that accounted for a significant percentage of either the trading volume of a security within a short period of time, or until September 2015, the daily trading volume of a security.
14. "Momentum ignition" strategies generally involve trading patterns where a market participant attempts to induce others to trade at artificially high or low prices. The purpose of momentum ignition strategies is to bait others to trade at higher or lower prices—a trader effects buy (or sell) transactions within a short period of time, which has the effect of raising (or lowering) the price of the stock, followed by transactions on the opposite side of the market, which have become more favorably priced as a result of the initial transactions.
15. Accordingly, momentum ignition strategies will often involve trading activity that accounts for either a high percentage of the security's intra-day trading over a short period, or a significant intra-day price change.
16. Lightspeed used its Participation Report to monitor whether customer trading directly impacted the price of a security to a potentially manipulative degree. That report was limited to surveilling for instances in which the Firm's customers in the aggregate had effected at least five percent of the daily volume of any security, and where there was more than a ten percent price change from the prior day's close.
17. Because the Participation Report required that the Firm's customers' trading meet both a daily volume and price change threshold, it failed to detect potential intra-day manipulative activity which occurred within a short period of time.
18. Lightspeed also utilized one of two Low Volume Reports depending on which trading platform the customer used. One was a third-party vendor-generated Low Volume Report a third-party vendor designed to detect trading activity when a customer accounted for at

least 25 percent of the volume in a security whenever the total daily trading volume was below 100,000 shares. The other was an internally-generated Low Volume Percentage Report designed to detect instances in which a Firm customer had effected at least 15 percent of the daily volume in any security.⁴ the Firm did not surveil all of the trading platforms used by the Firm's customers during all of the Relevant Period.

19. Lightspeed did not maintain a layering or spoofing surveillance across all trading platforms until September 2015. "Spoofing" is a form of market manipulation by a manipulator entering certain non-bona fide orders with the intention of cancelling those orders once they trigger some type of market movement and/or response from other market participants from which the manipulator might benefit by trading certain other orders. Layering generally involves a trader entering multiple non-bona fide limit orders on one side of the market in a stock at various price levels, giving the appearance of a change in the supply and demand of the security, thereby moving the price. At or around the same time, the trader enters one or more orders for execution on the opposite side of the market; upon execution of some or all of those orders, any open non-bona fide orders are immediately cancelled.
20. Lightspeed did not at all times maintain an adequate system to detect pre-arranged trades, where one or more participants effect a trade that is agreed upon in advance.
21. Lightspeed's market access customers engaged in suspicious and potentially manipulative trading activity during the Relevant Period. However, the Firm's procedures and controls were not reasonably designed to detect and prevent such activity.

Trading by Firm Customers KR and DA

22. During the Relevant Period, suspicious trading occurred in the accounts of two market access customers of the Firm, KR and DA, both based in Estonia.
23. The owner of KR was a friend of DA and had referred DA to the Firm.
24. On December 27, 2010, during an 18-second window, from approximately 9:38:57 to 9:39:15, KR sold short 6,500 shares of AAA. Immediately thereafter, at approximately 9:39:15, KR started purchasing AAA, while DA started selling 5,200 shares of AAA short. As a result, KR purchased 1,900 shares of AAA from DA.
25. Within 55 seconds, from 9:38:57 to 9:39:52, KR and DA accounted for 38.9 percent of the volume of AAA traded, and the price of the security declined from \$24.60 to as low as \$24.23.

⁴ As of November 2012, this threshold was raised to 25 percent, and the Firm's current parameter is a daily volume of fewer than 1,000,000 shares.

26. Lightspeed, however, did not have adequate surveillance to detect situations in which its customers' transactions constituted a significant percentage of intra-day trading activity during short periods of time.
27. Lightspeed failed to detect that, during the 55-second window, KR's and DA's short sales had accounted for approximately 38.9 percent of the trading volume in AAA or that there was a potential pre-arranged trade between KR and DA.
28. Moreover, it was not until March 2012 that Lightspeed implemented surveillance that would detect potential pre-arranged trades between different accounts.

Trading by Firm Customer AS

29. On March 23, 2011, AS, another market access customer of the Firm, effected transactions in shares of BBB, in which over the course of approximately 11 seconds, AS purchased 14,400 shares at an average price of approximately \$4.1018. During this time, 17,850 BBB shares traded, including the shares purchased by AS, and the price moved from \$4.07 to \$4.12.
30. Over the next 14 seconds, AS liquidated his position, resulting in a profit of approximately \$698 in a less than 30-second trading window.
31. Customer AS repeated this short-term trading pattern in BBB several times throughout the day, such that his trading represented approximately 23 percent of the total volume in the stock. However, the Firm's Low Volume Percentage Report, which should have identified any account that traded 15 percent or more of a symbol's daily volume, did not detect this trading.
32. On March 23, 2011, AS effected a wash transaction in BBB when he purchased and sold 1,000 shares at the same price and at the same time.
33. Although Lightspeed reviewed this wash transaction, as well as other wash transactions by AS on March 21, March 24, and March 25, 2011, the Firm did not contact AS to inquire about it.

Trading by Firm Customer RQ

34. On January 10, 2012, within an 11-minute window, market access customer RQ's trading activity in CCC accounted for approximately 53 percent of the total daily volume in CCC, and the closing price of CCC was greater than ten percent from the prior day's close.
35. Even though RQ's trading was within the purported parameters of the Firm's Participation Report, the report did not capture RQ's trading in CCC.

36. Lightspeed's Low Volume Percentage Report, which was supposed to identify any account that traded 15 percent or more of a symbol's daily volume, did not detect RQ's trading activity.
37. Other instances where the Firm's Low Volume Percentage Report failed to detect RQ's activity are: (a) on March 8, 2012, RQ's trading in DDD totaled approximately 5,200 shares (approximately 27 percent of the total daily volume); and (b) on September 13, 2012, RQ's trading in EEE totaled approximately 3,400 shares (approximately 25 percent of the total daily volume).
38. Lightspeed neither detected nor reviewed RQ's potentially manipulative trading activity in CCC, DDD, and EEE.

Trading by Firm Customer JT

39. On January 17, 2012, JT, a market access customer of Lightspeed, entered both large purchase and sell orders in shares of FFF, which caused a move in the price of the stock. He thereafter liquidated his position at beneficial prices.
40. Among the orders JT entered, at 14:07:16 he entered a buy order for 80,000 shares at \$14.00, and 73,686 shares executed against an existing order another firm's customer entered to sell 98,846 shares at \$14.00.
41. In response to JT's purchase, and at the same second as JT's purchase, shares of FFF traded as high as \$14.10, the price at which JT sold 3,100 shares of a previously entered 33,000 share sell order.
42. JT then cancelled the 29,900 share balance of the 33,000 sell order and began to liquidate his long position at higher prices; within a minute, JT sold shares at prices as high as \$14.30, an increase of 2.1 percent.
43. Thereafter, JT continued buying and selling shares of FFF throughout the day.
44. JT's trading in FFF represented approximately 34 percent of the security's total volume for the day. The percentage of daily volume of JT's trades alone should have been a red flag to Lightspeed that further review of JT's trading was required. But, because the closing price of FFF was not ten percent or more from the prior day's close, JT's trading activity did not appear on the Firm's Participation Report.
45. The Firm's Low Volume Percentage Report, which should have identified any account that traded 15 percent or more of a symbol's daily volume, did not detect JT's trading activity. The Firm neither detected nor reviewed JT's trading activity.

Lightspeed Failed to Monitor for Potential Manipulative Activity, Including Pre-Arranged Trading

46. Lightspeed did not reasonably monitor for, and had no automated exception reports designed to detect, instances of potential pre-arranged trading between different accounts until March 2012.
47. Thus, Lightspeed's systems did not detect that on December 27, 2010 KR purchased 1,900 shares of AAA from DA.
48. During the period between July 2012 and September 2012, Lightspeed failed to maintain a system reasonably designed to detect pre-arranged trades.
49. For example, in four instances in July 2012, two customers of the Firm, OHF and EH, appeared to engage in pre-arranged trades as reflected in the chart below.

Date	Symbol	Side	Account	Total Executed Volume In Security	Volume Executed Between OHF and EOS	Stock Total Daily Volume	Percent of Total Daily Volume
7/6/2012	GGG	buy	OHF	55,000	49,400	90,874	60.52%
7/6/2012	GGG	sell	EH	50,901			56.01%
7/12/2012	GGG	buy	OHF	97,687	95,183	117,662	83.02%
7/12/2012	GGG	sell	EH	97,387			82.77%
7/12/2012	HHH	buy	OHF	26,000	25,046	145,998	17.81%
7/12/2012	HHH	sell	EH	25,046			17.16%
7/19/2012	III	buy	OHF	99,700	98,400	233,181	42.76%
7/19/2012	III	sell	EH	98,415			42.20%

50. Lightspeed was aware that OHF and EH were under common control. Although the Firm utilized an exception report provided by an outside vendor to detect potential pre-arranged trading, because of a system malfunction that began in July 2012, the Firm did not detect the potential pre-arranged trades of OHF and EH. The system malfunction was not corrected until September 2012.

Lightspeed Failed to Establish Adequate Supervisory Procedures, Including Written Supervisory Procedures

51. NYSE Arca ETP Holders are required to establish, maintain, and enforce supervisory systems and procedures, as evidenced by its WSPs, which are reasonably designed to achieve compliance with applicable securities laws, regulations, and exchange rules.
52. At a minimum, adequate supervisory procedures should include: (i) the identification of the individual(s) responsible for supervision; (ii) the supervisory steps and reviews to be taken by the appropriate supervisory personnel; (iii) the frequency of such reviews; and (iv) how such reviews are documented.
53. During the Relevant Period, although Lightspeed added surveillance and improved its processes, the Firm's supervisory procedures failed to adequately provide for the surveillance of potentially manipulative trading activity, including momentum ignition strategies by its market access customers.
54. Lightspeed's WSPs did not refer to any pre-trade risk controls or post-trade surveillance designed to prevent or detect duplicative, erroneous, or an excessive number of orders or quotations. Moreover, until the summer of 2014, the Firm failed to adopt and maintain, on a pre-order basis or otherwise, an adequate system of risk management controls and supervisory procedures, including a system of follow-up and review, reasonably designed to prevent the transmission and supervise the use of algorithms by customers to ensure that they did not transmit duplicative, erroneous, or an excessive number of orders or quotations.
55. Lightspeed did not maintain any surveillance to detect potentially pre-arranged trades between different accounts prior to March 2012. During the period between July 2012 and September 2012, the Firm's system, provided by a third party vendor to surveil for potentially pre-arranged trades, was not functioning properly because of a system malfunction.
56. Lightspeed, prior to March 2012, did not have any surveillance related to trading activity by its direct market access customers involving large orders entered and cancelled prior to the opening of the market. The Firm also failed to have any WSPs relating to the cancellation of large orders prior to the opening of the market until January 2013.
57. Lightspeed's WSPs did not refer to any surveillance to detect potential instances of spoofing by customers during the trading day until January 2013. It was not until

September 2015 that the Firm implemented electronic surveillance designed to detect potential instances of spoofing across all of the trading platforms its market access customers used.

58. Lightspeed also failed to implement any surveillance to detect potential instances of layering by customers until September 2015.
59. Without such surveillances and WSPs, Lightspeed also failed to ensure, as required by Rule 15c3-5, that it maintained sufficient regulatory risk management controls and supervisory procedures to ensure that appropriate surveillance personnel received immediate post-trade execution reports concerning market access activity.
60. For certain of Lightspeed's surveillances, the Firm's WSPs did not identify: (i) the identity of the individual(s) responsible for supervision; (ii) the supervisory steps and reviews to be taken; (iii) the frequency of such reviews; and (iv) how such reviews are documented. For example:
 - a. Although the Firm utilized the "Tspool Small Size Report" and "Executor Small Size Report," which surveil for market access customer orders of fewer than five shares,⁵ the Firm's WSPs did not make any reference to the reports, and did not specify who reviewed the reports, or any of the steps for the review and use of these reports.
 - b. Although the Firm maintained a surveillance titled "Oversells Report," which reports when a customer sells a security for an amount larger than the customer's position, the WSPs did not specify any steps for the review of this report or how the reviews were to be documented.
 - c. During 2011 and 2012, although the Firm's WSPs stated that a Compliance Analyst was required to review reports on a daily basis—including two reports designed to detect wash orders and a report designed to ensure that Market-on-Close and Limit-on-Close orders were not entered after the applicable cut-off times—it was not until January 2013 that the Firm's WSPs specified the supervisory steps to be taken to review these reports and how the reviews are documented.
61. As a result of these supervisory deficiencies, the orders customers of Lightspeed entered had the potential to adversely impact the integrity of the market and cause potential harm to other market participants.

⁵ "Tspool" and "Executor" surveil activity on different trading platforms.

FIRST CAUSE OF ACTION
Market Access Rule Violations
(Violations of Section 15(c)(3) of Exchange Act and Rule 15c3-5 thereunder, and violations of NYSE Arca Equities Rules 6.1(b), 6.2(b), 6.18, 9.2(b), and 2010)

62. The Department of Market Regulation realleges and incorporates by reference all preceding paragraphs.
63. On November 3, 2010, the Securities and Exchange Commission (“SEC”) announced the adoption of Rule 15c3-5—the Market Access Rule—to require that broker-dealers with market access “appropriately control the risks associated with market access, so as not to jeopardize their own financial condition, that of other market participants, the integrity of trading on the securities markets, and the stability of the financial system.”
64. Rule 15c3-5(b) established specific requirements for broker-dealers with market access, including that such firms “establish, document, and maintain a system of risk management controls and supervisory procedures reasonably designed to manage the financial, regulatory, or other risks” of its business.
65. Rule 15c3-5(c)(1)(ii) requires, among other things, that the Firm’s risk management controls and supervisory procedures be reasonably designed to prevent the entry of erroneous or duplicative orders.
66. Despite applicable rules and guidance, Lightspeed failed 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 providing market access, as required by Rule 15c3-5(b), in that:
 - i. prior to March 2012, the Firm did not have any surveillance that related to trading activity by its direct market access customers involving large orders that are entered and then cancelled prior to the opening of the market, and it did not have any WSPs for this until January 2013;
 - ii. the Firm did not maintain an adequate system to detect spoofing or layering during the trading day;
 - iii. prior to March 2012, the Firm did not maintain any surveillance to detect potentially pre-arranged trades between different accounts;
 - iv. the system utilized by the Firm through a third-party vendor to detect pre-arranged trading did not function as intended during the period between July 2012 and September 2012;
 - v. the Firm did not maintain an adequate system to detect potential instances of momentum ignition;

- vi. the systems that the Firm did have to detect potentially manipulative activity did not detect the activity that they were designed to detect, in that they failed to detect activity that should have appeared on the Low Volume Reports; and
 - vii. when the Firm detected wash sales were detected, it failed to take appropriate follow-up and review.
67. Lightspeed also failed to ensure, as required by Rule 15c3-5(c), that it had in place: (i) a system to detect the transmission of duplicative, erroneous, or an excessive number of orders or quotations; and (ii) appropriate regulatory risk management controls and supervisory procedures so as to: (a) prevent the entry of orders unless there was compliance with all regulatory requirements; and (b) ensure appropriate surveillance personnel receive immediate post-trade execution reports resulting from market access activity.
68. By failing to establish, document and maintain a system of risk management controls and supervisory procedures reasonably designed to systematically manage the regulatory and other risks of providing market access, Lightspeed violated Section 15(c)(3) of the Exchange Act and Rule 15c3-5 thereunder (for misconduct beginning July 14, 2011), and violated NYSE Arca Equities Rules 6.1(b), 6.2(b), 6.18, 9.2(b), and 2010 (for conduct on and after June 30, 2011).

SECOND CAUSE OF ACTION

Supervisory Deficiencies and Failures

(Violations of NYSE Arca Equities Rules 6.1(b), 6.2(b), 6.18, 9.2(b), and 2010)

69. The Department of Market Regulation realleges and incorporates by reference all preceding paragraphs.
70. NYSE Arca Equities Rule 6.18(b) requires ETP Holders to establish and maintain a system to supervise the operation of its business. The system “must be reasonably designed to ensure compliance with applicable federal securities laws and regulations and NYSE Arca Equities Rules.” NYSE Equities Rule 6.18(c) requires each ETP Holder to “establish, maintain, and enforce written procedures to supervise the business in which it engages and to supervise the activities of its associated persons that are reasonably designed to achieve compliance with applicable federal securities laws and regulations, and with the NYSE Arca Equities Rules.” Furthermore, NYSE Arca Equities Rule 9.2(b) requires ETP Holders to “supervise diligently” all accounts accepted or carried by the firm, and to adopt appropriate procedures for opening and maintaining accounts, and to periodically review accounts for “any irregularities or abuses.”
71. NYSE Arca Equities Rule 6.1(b) requires that ETP Holders shall adhere to the principles of good business practice in the conduct of their business affairs.

72. NYSE Arca Equities Rule 6.2(b) prohibits conduct or proceeding inconsistent with just and equitable principles of trade, and further states that the willful violation of any provision of the federal securities laws, the regulations of the SEC, and the Bylaws, Rules, and procedures of the Exchange are considered conduct or proceedings inconsistent with just and equitable principles of trade.
73. NYSE Arca Equities Rule 2010 requires that ETP Holders, in the conduct of their business, shall observe high standards of commercial honor and just and equitable principles of trade.
74. Lightspeed failed to establish supervisory systems, including WSPs, reasonably designed to provide for sufficient reviews of trading activity by its market access customers for potentially manipulative or suspicious trading activity, and to achieve compliance with Rule 15c3-5, as well as other applicable rules and regulations prohibiting manipulative and abusive trading.
75. As a result of the foregoing conduct, Lightspeed violated NYSE Arca Equities Rules 6.1(b), 6.2(b), 6.18, 9.2(b), and 2010 (for conduct on and after June 30, 2011).

Other Factors

76. On February 28, 2017, FINRA also brought disciplinary proceedings on behalf of FINRA and certain exchanges, as follows: (1) Disciplinary Proceeding No. 20130354682-01 on behalf of FINRA; (2) Disciplinary Proceeding No. 20130354682-02 on behalf of The NASDAQ Stock Market LLC; (3) Disciplinary Proceeding No. 20130354682-04 on behalf of The New York Stock Exchange LLC; (4) Disciplinary Proceeding No. 20130354682-05 on behalf of Bats BZX Exchange, Inc.; (5) Disciplinary Proceeding No. 20130354682-06 on behalf of Bats EDGA Exchange, Inc.; and (6) Disciplinary Proceeding No. 20130354682-07 on behalf of Bats EDGX Exchange, Inc.

ORDER

Lightspeed Trading, LLC violated:

Section 15(c)(3) of the Exchange Act and Rule 15c3-5 thereunder (for misconduct beginning July 14, 2011), and violated NYSE Arca Equities Rules 6.1(b), 6.2(b), 6.18, 9.2(b), and 2010 (for conduct on and after June 30, 2011), and NYSE Arca Equities Rules 6.1(b), 6.2(b), 6.18, 9.2(b), and 2010 (for conduct on and after June 30, 2011), by failing to establish, document, and maintain a system of risk management controls and supervisory procedures reasonably designed to systematically manage the regulatory and other risks of providing market access.

NYSE Arca Equities Rules 6.1(b), 6.2(b), 6.18, 9.2(b), and 2010 (for conduct on and after June 30, 2011) by failing to establish supervisory systems, including WSPs, reasonably designed to provide for sufficient reviews of trading activity by its market access customers for potentially manipulative or suspicious trading activity, and to achieve compliance with Rule 15c3-5, as well

as other applicable rules and regulations prohibiting manipulative and abusive trading.

SANCTIONS


Lightspeed Trading, LLC is censured and fined \$41,428.57.⁶

Lightspeed shall make a written submission to FINRA, at intervals of 90, 180, and 360 days, concerning the Firm's implementation and effectiveness of the Firm's policies, systems and procedures (written and otherwise) (collectively, the "Controls") relating to the specific areas described above and/or listed below to ensure:

- a. That the Firm is in compliance with any and all Sponsored Access and/or Direct Market Access Rules of FINRA and all Exchanges to which the Firm grants customers market access;
- b. That the Firm is in compliance with Rule 15c3-5 of the Securities Exchange Act of 1934; and
- c. That the Firm adequately supervises trading of its market access customers and associated persons in areas including, but not limited to:
 - i. Trading surveillances and/or exception reports; and
 - ii. Procedures and systems of follow-up and review of potentially violative trading activity.

The written reports shall be certified by the Chief Executive Officer or General Counsel of the Firm, and shall address, at a minimum: the implementation and performance of the Firm's Controls; the steps taken by supervisory personnel to ensure compliance in the aforementioned areas and the results of such supervisory reviews; the modifications or recommendations for improvements to the Controls; and the actual or planned implementation dates of such recommendations. Upon written request showing good cause, FINRA Staff may extend any of the procedural dates set forth herein.

These sanctions are effective immediately.


Matthew Campbell
Hearing Officer

⁶ Under the Offer of Settlement and Consent, the Firm agreed to pay a total fine of \$290,000, of which \$41,428.57 shall be paid to NYSE Arca, Inc., and the remaining amount shall be paid to The NASDAQ Stock Market LLC, The New York Stock Exchange LLC, Bats BZX Exchange, Inc., Bats EDGA Exchange, Inc., Bats EDGX Exchange, Inc., and FINRA, in accordance with the terms of parallel settlement agreements in related matters between the Firm and each of these SROs.

Copies to:

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