

**NYSE ARCA, INC.**  
**LETTER OF ACCEPTANCE, WAIVER, AND CONSENT**  
**NO. 2015046278303**

TO: NYSE Arca, Inc.

RE: Citadel Securities LLC, Respondent  
CRD No. 116797

**Citadel Securities LLC violated Rules 15c3-5(b) and (c)(1)(ii) of the Securities Exchange Act of 1934 (the “Exchange Act”) and NYSE Arca Rule 11.18 by failing to establish and maintain certain reasonably designed 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. Specifically, certain pre-trade erroneous order controls that Exchange Traded Product (“ETP”) order flow were subjected to were soft blocks that were not reasonably designed to prevent the entry of erroneous orders.**

**Citadel Securities LLC consents to a censure, a \$15,000 fine, and an undertaking.**

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Pursuant to Rule 10.9216 of the NYSE Arca, Inc. (“NYSE Arca” or the “Exchange”) 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, NYSE Arca will not bring any future actions against the Firm alleging violations based on the same factual findings described herein.

**I. ACCEPTANCE AND CONSENT**

- A. Citadel Securities 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 NYSE Arca, or to which NYSE Arca 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 NYSE Arca:

**BACKGROUND AND JURISDICTION**

1. Citadel Securities is a U.S. broker-dealer and a market maker in equity securities and U.S.-listed options. It became registered as an Equities Trading Permit (“ETP”) holder with NYSE Arca in November 2004. The Firm, which employs approximately 450 registered individuals, maintains its headquarters in Chicago, IL and has seven other branch offices.

## **PROCEDURAL HISTORY**

2. This matter arises from a referral by NYSE Regulation to the Market Regulation Department of the Financial Industry Regulatory Authority, Inc. (“FINRA”). FINRA staff reviewed the Firm’s compliance with Exchange Act Rules 15c3-5(b) and (c)(1)(ii) and NYSE Arca Rule 11.18 during the period October 2019 (the “review period”).

## **VIOLATIONS**

3. Exchange Act Rule 15c3-5(b) of the Exchange Act 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.”
4. Exchange Act Rule 15c3-5(c)(1)(ii) of the Exchange Act 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.”
5. NYSE Arca Rule 11.18 requires ETP Holders to “establish and maintain a system to supervise the activities of its associated persons and the operations of its business. Such system must be reasonably designed to ensure compliance with applicable federal securities laws and regulations and NYSE Arca Rules.”

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

6. 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.
7. During the review period, Citadel Securities had in place soft blocks that were triggered when the parameters of the applicable 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.
8. In October 2019, the Firm’s procedures for ETP trading failed to provide sufficient detail concerning how Firm personnel were to review soft block alerts. The Firm’s procedures did not 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, 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.

9. Because the Firm did not implement reasonably designed procedures that required a reasonable review of the orders that triggered soft block alerts, or require the persons reviewing soft block alerts to contemporaneously document the rationale for their resolution of a soft block alert, the pre-trade erroneous order controls to which these soft blocks were applied were not reasonably designed. This issue did not result in any Clearly Erroneous Execution filings.
10. 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 NYSE Arca Rule 11.18.

### **RELEVANT PRIOR DISCIPLINARY HISTORY**

11. On October 23, 2015, the Cboe Exchange, Inc. ("Cboe") Business Conduct Committee issued a decision sanctioning Citadel Securities \$100,000 for violations of Exchange Act Rule 15c3-5(c) 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 exceed appropriate price or size parameters or that assured appropriate surveillance personnel received immediate post-trade execution reports.
12. On June 16, 2014, FINRA, Cboe BYX Exchange, Inc., Cboe BZX Exchange, Inc., The Nasdaq Stock Market LLC, 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 duplicative orders, and monitor appropriate message level activity.

### **SANCTIONS**

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

1. **Censure and fine in the amount of \$15,000<sup>1</sup>**

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<sup>1</sup> Citadel Securities consents to a fine payable to NYSE Arca, Cboe BZX Exchange, Inc., Cboe BYX Exchange, Inc., Cboe EDGA Exchange, Inc., Cboe EDGX Exchange, Inc., The Nasdaq Stock Market LLC, Nasdaq BX, Inc., Nasdaq GEMX, Inc., Nasdaq ISE, LLC, Nasdaq MRX, LLC, The Nasdaq Options Market LLC, Nasdaq PHLX LLC, and New York Stock Exchange LLC, totaling \$225,000.

The Firm agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. The Firm has submitted a Method of Payment Confirmation form showing the method by which it will 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 imposed in this matter.

The Firm agrees that it shall not seek or accept, directly or indirectly, reimbursement or indemnification from any source, including but not limited to payment made pursuant to any insurance policy, with regard to any fine amounts that the Firm pays pursuant to this AWC, regardless of the use of the fine amounts. The Firm further agrees that it shall not claim, assert, or apply for a tax deduction or tax credit with regard to any federal, state, or local tax for any fine amounts that the Firm pays pursuant to this AWC, regardless of the use of the fine amounts.

## **2. Undertaking**

Within 90 days of the execution of this AWC, the Firm agrees to provide (1) a certification that the Firm has revised its risk management controls and supervisory procedures to address the deficiencies described in the paragraphs above; and (2) the date the revised controls procedures were implemented.

The sanctions imposed herein shall be effective on a date set by NYSE Regulation staff.

## **II. WAIVER OF PROCEDURAL RIGHTS**

The Firm specifically and voluntarily waives the following rights granted under the NYSE Arca 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 Exchange's Board of Directors 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 of NYSE Arca; the Exchange's Board of Directors, Disciplinary Action Committee ("DAC"), and Committee for Review ("CFR"); any Director, DAC member, or CFR member; Counsel to the Exchange Board of Directors or CFR; any other NYSE Arca employee; or any Regulatory Staff as defined in Rule 10.9120 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 communication prohibitions of Rule 10.9143 or the separation of functions prohibitions of Rule 10.9144, 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 by NYSE Regulation, and accepted by the Chief Regulatory Officer of NYSE Arca pursuant to NYSE Arca Rule 10.9216;
- 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. The AWC shall be sent to each Director and each member of the Committee for Review via courier, express delivery or electronic means, and shall be deemed final and shall constitute the complaint, answer, and decision in the matter, 10 days after it is sent to each Director and each member of the Committee for Review, unless review by the Exchange Board of Directors is requested pursuant to NYSE Arca Rule 10.9310(a)(1)(B);
  - 2. This AWC will become part of the Firm's permanent disciplinary record and may be considered in any future actions brought by the Exchange, or any other regulator against the Firm;
  - 3. NYSE Arca shall publish a copy of the AWC on its website in accordance with NYSE Arca Rule 10.8313;
  - 4. NYSE Arca may make a public announcement concerning this agreement and the subject matter thereof in accordance with NYSE Arca Rule 10.8313; and
  - 5. 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 the Exchange, or to which the Exchange is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects the Firm's (i) testimonial obligations; or (ii) right to take legal or factual positions in litigation or other legal proceedings in which the Exchange is not a party.

- D. A signed copy of this AWC and the accompanying Method of Payment Confirmation form delivered by email, facsimile or other means of electronic transmission shall be deemed to have the same legal effect as delivery of an original signed copy.
- E. 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. Any such statement does not constitute factual or legal findings by the Exchange, nor does it reflect the views of NYSE Regulation or its staff.

The Firm certifies that, in connection with each of the Exchange's requests for information in connection with this matter, the Firm made a diligent inquiry of all persons and systems that reasonably had possession of responsive documents and that all responsive documents have been produced. In agreeing to the AWC, the Exchange has relied upon, among other things, the completeness of the document productions.

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 13, 2021

\_\_\_\_\_  
Date

Citadel Securities LLC,  
Respondent

*Scott Kloin*

By: \_\_\_\_\_

Scott Kloin  
Chief Compliance Officer & Senior Deputy  
General Counsel

Reviewed by:

*Paul R. Eckert*

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Paul R. Eckert, Esq.  
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(202) 663-6537

Accepted by FINRA

December 13, 2021

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Date

*Carly M. Kostakos*

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Carly M. Kostakos  
Senior Counsel  
FINRA, Department of Enforcement

Signed on behalf of NYSE Arca, Inc., by  
delegated authority from its Chief  
Regulatory Officer