

**NEW YORK STOCK EXCHANGE LLC  
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT  
NO. 2018-01-00105**

TO: New York Stock Exchange LLC

RE: Citadel Securities LLC  
CRD No. 116797

**On August 11, 2017, Citadel Securities LLC (“Citadel Securities” or the “Firm”) violated NYSE Rule 36 when certain associated persons with the Firm’s Designated Market Maker Unit (“DMM” or “DMM Unit”) used unapproved cellular wireless devices from the NYSE Exchange Floor (the “NYSE Floor”). In addition, from August 2017 through March 2018 (the “Relevant Period”), Citadel Securities violated NYSE Rule 3110(a) for failing to establish and maintain a system to supervise the activities of each associated person that were reasonably designed to achieve compliance with NYSE Rule 36 (Supplementary Material .30 and .31). Citadel Securities consents to a censure and a \$65,000 fine.**

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Pursuant to NYSE Rule 9216 of the New York Stock Exchange LLC (the “NYSE” or the “Exchange”) Code of Procedure, Citadel Securities 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, the NYSE 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, solely for the purposes of this proceeding and any other proceeding brought by or on behalf of the NYSE, or to which the NYSE is a party, prior to a hearing and without an adjudication of any issue of law or fact, without admitting or denying the findings, to the entry of the following findings by the NYSE:

**BACKGROUND AND JURISDICTION**

1. Citadel Securities was founded in 2001 and became a member of the NYSE on December 1, 2008. Citadel Securities remains a member of the NYSE today and is one of five DMMs on the NYSE Floor.

**PROCEDURAL HISTORY**

2. In August 2017, NYSE Regulation Enforcement (“Enforcement”) opened an investigation into another member firm (not Citadel Securities). In connection with this other matter, Enforcement requested information from Citadel Securities’ DMM Unit. In doing so, Enforcement became aware that an associated person with Citadel

Securities' DMM Unit on one day may have used an unapproved cellular wireless device to send a limited number of text messages from the NYSE Floor potentially related to market events that occurred earlier that day.

3. Therefore, in January 2018, Enforcement notified Citadel Securities that it was investigating whether it violated NYSE Rules 36 and 3110.

## VIOLATIONS

### NYSE Rule 36 Violation

4. NYSE Rule 36 provides, *inter alia*: “No member or member organization shall establish or maintain any telephonic or electronic communication between the Floor and any other location without the approval of the Exchange.”
5. NYSE Rule 36, Supplementary Material .30 and .31, specifically addresses DMM Units and provides, *inter alia*: “With the approval of the Exchange, and subject to the conditions set forth in this Supplementary Material .31, a DMM unit may install and maintain a wired or wireless device capable of sending and receiving written electronic communications through an Exchange-approved connection (a ‘Permitted Communications Device’).”
6. On August 11, 2017, certain Citadel Securities DMM Unit associated persons used their personal cellular wireless devices from the NYSE Floor that were not approved by the Exchange.
7. The Citadel Securities DMM Unit associated persons used their cellular wireless devices to, among other things, send a limited number of text messages with each other.
8. One of the Citadel Securities DMM Unit associated persons also used his cellular wireless device to initiate communications with an employee at another DMM on the NYSE Floor – thereby prompting that employee to violate NYSE Rule 36 (Supplementary Material .30 and .31) as well.
9. The Citadel Securities DMM employees used their personal cellular devices despite the fact that earlier that day Citadel Securities compliance personnel held an in-person meeting with all DMM Unit employees counseling them on their communications.
10. Because Citadel Securities is responsible for the conduct of its associated persons, Citadel Securities violated NYSE Rule 36 (Supplementary Material .30 and .31).

### NYSE Rule 3110 Violation

11. NYSE Rule 3110(a) requires, *inter alia*: each member organization to “establish and maintain a system to supervise the activities of each associated person that is

reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable Exchange rules.”

12. Moreover, in January 2017, FINRA published its Annual Regulatory and Examination Priorities Letter, in which it highlighted that of particular focus is “firms’ compliance with their supervisory . . . obligations with respect to social media and other electronic communications in light of the increasingly important role they place in the securities business. We note that these obligations apply to business communications irrespective of the medium or device used to communicate.”<sup>1</sup>
13. During the Relevant Period, although Citadel Securities performed a monthly review of DMM Unit communications to ensure compliance with, among other rules, certain provisions of NYSE Rule 36, Citadel Securities’ monthly review did not include monitoring specifically to ensure associated persons in its DMM Unit were not using their cellular wireless devices from the NYSE Floor. In addition, Citadel Securities failed to require more regular or frequent confirmation or attestation either on a routine or spot-check basis from its associated persons that they are acting in accordance with Supplementary Material .30 and .31 provided under NYSE Rule 36.
14. Therefore, Citadel Securities violated NYSE Rule 3110(a).

#### **PRIOR RELEVANT DISCIPLINARY HISTORY**

15. Recent formal disciplinary history for Citadel Securities that included supervisory charges include the following:
  - a. *Citadel Securities LLC*, NYSE Arca, Inc. Matter No. 2016-07-1306 (October 13, 2017) (supervisory failures for failing to maintain continuous, two-sided trading interest in more than 200,000 instances; \$80,000).
  - b. *Citadel Securities LLC*, NYSE American LLC Matter No. 2016-09-00018 (January 26, 2017) (supervisory failures for failing to review for instances where the Options Market Making desk sent multiple request for responses to a Customer Best Execution, or CUBE, Auction that in the aggregate exceeded the CUBE order size; \$30,000).
  - c. *Citadel Securities LLC*, NYSE Arca, Inc. Matter No. 2010-02-23345 (June 25, 2014) (supervisory failures for failing to (i) check for order accuracy, (ii) reject orders that exceeded appropriate parameters, (iii) reject duplicative orders; and (iv) monitor for appropriate message level activity; \$160,000).
  - d. *Citadel Securities LLC*, NYSE LLC Matter No. 2012-03-30458-01 (January 7, 2014) (supervisory failures for failing to implement adequate controls and

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<sup>1</sup> See <http://www.finra.org/sites/default/files/2017-regulatory-and-examination-priorities-letter.pdf>.

systems that were reasonably designed to detect and prevent potentially violative supplemental liquidity provider wash trading activity; \$115,000).

### **OTHER FACTORS CONSIDERED**

16. In resolving this matter, Enforcement took into account Citadel Securities' timely cooperation and timely remediation. Part of the remedial efforts that Citadel Securities undertook was providing additional in-person training to employees regarding the Firm's policy for use of information technology systems, and in particular, the prohibition on the use of non-approved communications systems.

### **SANCTIONS**

- B. Citadel Securities consents to the imposition of the following sanctions:

**Censures and fine in the amount of \$65,000.**

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. 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(s) 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.

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

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

The Firm specifically and voluntarily waives the following rights granted under the NYSE 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 the NYSE; 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 employee; or any Regulatory Staff as defined in NYSE Rule 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 NYSE Rule 9143 or the separation of functions prohibitions of NYSE 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 by NYSE Regulation, and accepted by the Chief Regulatory Officer of the NYSE pursuant to NYSE 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. 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, 25 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 Rule 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. The NYSE shall publish a copy of the AWC on its website in accordance with NYSE Rule 8313;
  4. The NYSE may make a public announcement concerning this agreement and the subject matter thereof in accordance with NYSE Rule 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 documents in connection with this matter, the Firm made a diligent inquiry of all persons who reasonably had possession of responsive documents, and that those documents have been produced or identified in a privilege log. The Firm acknowledges that, in agreeing to the AWC, the Exchange has relied upon, among other things, the completeness of such 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.

August 22, 2018

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Date

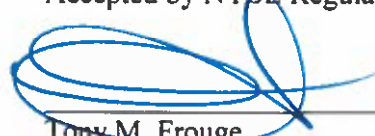
Citadel Securities LLC  
Respondent

By:

/s/ Stephen Luparello

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Stephen Luparello  
General Counsel  
Authorized Signatory, for and on behalf of  
Citadel Securities LLC

Accepted by NYSE Regulation:



\_\_\_\_\_  
Tony M. Frouge  
Senior Enforcement Counsel  
NYSE Regulation

August 22 2018

\_\_\_\_\_  
Date

Signed on behalf of the  
New York Stock Exchange LLC,  
by delegated authority from its  
Chief Regulatory Officer