UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 98482 / September 22, 2023

ADMINISTRATIVE PROCEEDING
File No. 3-21703

In the Matter of **CITADEL SECURITIES, LLC,** **Respondent.**	**ORDER INSTITUTING ADMINISTRATIVE AND CEASE-AND-DESIST PROCEEDINGS, PURSUANT TO SECTIONS 15(b) AND 21C OF THE SECURITIES EXCHANGE ACT OF 1934, MAKING FINDINGS, AND IMPOSING REMEDIAL SANCTIONS AND A CEASE-AND-DESIST ORDER**

I.

The Securities and Exchange Commission ("Commission") deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Sections 15(b) and 21C of the Securities Exchange Act of 1934 ("Exchange Act") against Citadel Securities, LLC ("Respondent" or "Citadel Securities").

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the "Offer") that the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission's jurisdiction over it and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings, Pursuant to Sections 15(b) and 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order ("Order"), as set forth below.

III.

On the basis of this Order and Respondent's Offer, the Commission finds[1] that

Summary

1. This matter involves violations of the order-marking requirements of Regulation SHO by Citadel Securities in connection with its activities as a registered broker-dealer. Regulation SHO requires broker-dealers, such as Citadel Securities, to accurately mark all sell orders of equity securities as long, short, or short exempt. Under Regulation SHO, sell orders may only be marked as long when the seller has a net long position in the particular security. During a five-year period from September 2015 through September 2020 (the "Relevant Period"), Citadel Securities inadvertently marked certain short sale orders as long sales, and long sales as short sales, while handling orders on behalf of its broker-dealer clients. As a result, an estimated millions of sell orders were mismarked.

2. The mismarking violations occurred as a result of a coding error in the logic used to compute Citadel Securities's position calculated for Regulation SHO purposes when handling certain schedule-based not-held client orders filled on a riskless principal basis. To fill client orders on a riskless principal basis, Citadel Securities entered into two back-to-back trades—routing a principal order to the market (the "Street-Side Leg") and entering into a contemporaneous offsetting trade with the client at the same price and size (the "Client-Side Leg"). Citadel Securities filled certain not-held client orders on a riskless principal basis by placing multiple smaller orders ("child orders"). As each Street-Side Leg of a child order was executed on the market, the firm executed with the client a corresponding and offsetting Client-Side Leg. A limited set of clients requested that Citadel Securities defer transmitting execution reports to the client until, for instance, completion of the entire order had occurred, rather than report to the client each Client-Side Leg in real time. With respect to this set of orders, Citadel Securities updated its internal position for the Street-Side Leg and reported the executions of this Leg to FINRA immediately. However, as a result of a coding error in the system used for order marking, Citadel Securities delayed updating its position to account for the offsetting Client-Side Leg executions until the execution report was sent to the client. This delay in updating the firm's position created temporary inaccuracies in the firm's calculation of its net position in affected securities for purposes of order marking. This in turn resulted in inaccuracy in the marking of certain orders for the sale of securities in the same symbol as the affected security that the firm placed in the market during the period before the firm's position was properly updated. During the Relevant Period, the delay in updating the firm's position in certain symbols lasted for minutes, and in some cases, up to several hours.

3. Although the coding error did not impact Citadel Securities's handling of client orders, it resulted in an intra-day inaccuracy in the firm's proprietary position in the affected symbols that affected the marking of certain orders. The coding error went undetected by the firm's

[1] The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

existing order-marking policies and procedures for at least five years, until September 2020, when Citadel Securities discovered the error in connection with an internal regulatory compliance review and promptly corrected the relevant coding logic. Because the delay caused by the coding error had the ability to affect the marking of orders placed in the impacted symbol during the time windows at issue, the coding error resulted in Citadel Securities mismarking numerous orders. Although representing only a small fraction of the principal orders the firm placed in the market prior to correction of the coding error, there are estimated to have been millions of erroneously marked orders.

4. As a result of this conduct, Citadel Securities violated Rule 200(g) of Regulation SHO.

<u>**Respondent**</u>

5. Citadel Securities LLC ("Citadel Securities") is a Delaware limited liability company headquartered in Miami, Florida. Citadel Securities has been registered with the Commission as a broker-dealer since 2002. Citadel Securities is one of the largest broker-dealers in the U.S. equities markets—as of May 2023, Citadel Securities executed approximately 35% of all U.S.-listed retail volume and 22% of U.S. equities volume, across more than 11,000 U.S.-listed securities.

<u>**Facts**</u>

Background

6. Citadel Securities receives order flow from other broker-dealer clients, who may be acting on behalf of underlying institutional and retail customers. Citadel Securities, in turn, employs proprietary trading algorithms to determine whether to internalize an order in whole or in part (known as a "principal fill") or whether to seek liquidity to fill the order in the market on a riskless principal basis. A riskless principal trade is one where a broker-dealer, after receiving a customer order to buy (or sell) a security, buys (or sells) the security at the same price, as principal, to satisfy the order. To that end, if Citadel Securities determines to fill an order received from a broker-dealer client on a riskless principal basis, it will first route to a market center one or multiple orders that collectively represent the terms of the underlying client order (the Street-Side Leg), and, upon each execution, will enter into an offsetting trade with its broker-dealer client at the same price and size (the Client-Side Leg).

7. Citadel Securities handles a range of broker-dealer order flow, including (as is relevant here) not-held orders. Unlike a held order, a not-held order grants discretion to the broker-dealer as to the time and price of execution. In handling not-held order flow from its broker-dealer clients, Citadel Securities had and did exercise its discretion as to when to fill a particular order, and the time to fill a single order could range from minutes to hours over the course of a single trading day.

8. In handling larger orders, Citadel Securities typically divided the larger not-held "parent order" into smaller "child orders," and then filled those child orders over the course of the trading day. A single parent not-held order handled on a riskless principal basis might take tens or even hundreds of individual child fills to fully execute. Because a single not-held order might involve the use of multiple child orders and therefore take up to several hours to execute, some of Citadel Securities's broker-dealer clients instructed the firm to provide an execution report only when the transaction reached a preselected intra-day time interval or event, such as a single report when the entire not-held order had been completely filled. These broker-dealer clients requested such deferred reporting primarily to reduce the amount of electronic messaging traffic received from Citadel Securities. Citadel Securities referred internally to its not-held order flow where the client had requested a deferred execution report, as opposed to fill reports for each child order, as "roll-up" transactions.

9. During the Relevant Period, Citadel Securities relied on several components of its automated trading systems to ensure that the firm properly marked orders consistent with the requirements of Regulation SHO. These various systems worked in tandem with one another to execute orders, calculate the firm's position in each symbol, and mark orders consistent with Regulation SHO.

Citadel Securities Erroneously Programmed its Position Calculation Systems Resulting in the Mismarking of Orders

10. During the Relevant Period, Citadel Securities's trading systems contained a coding error that resulted in Citadel Securities's failure to timely calculate its aggregate firm-wide position when handling roll-up transactions on a riskless principal basis (the "Roll-up Issue"). The coding error specifically arose in the context of the Client-Side Legs of such transactions. When conducting roll-up transactions, the firm's systems executed both the Street-Side and Client-Side Legs of each transaction. In connection with the Street-Side Leg, the position calculation was updated without delay.

11. However, to accommodate client requests for roll-up transactions, Citadel Securities programmed its systems to handle the individual child fills from the Client-Side Leg of these transactions differently. Citadel Securities continued to execute and report to FINRA the Client-Side Legs immediately, but rather than transmit the execution data from each individual child fill to the firm's position calculation system immediately upon its execution, Citadel Securities instead programmed its trading system to defer the transmission of the child fills, until the time or event interval requested by the client. The purpose behind this programming was to avoid triggering the issuance of an execution report to a client prior to the client's requested time or event interval.

12. Once the client's requested interval was reached, the trading system was programmed to release the child fill executions to the firm's position calculation system and the child fill executions were incorporated into the firm's position. The execution data was also transmitted to the client.

13. As a result of this coding error, minutes, and in some cases several hours, elapsed between the time the Client-Side Leg child fills were executed and the time that the executions reached Citadel Securities's position calculation system. While this delay did not benefit Citadel Securities or its trading strategies, it impacted Citadel Securities's calculation of its position in its system used for purposes of marking orders.

14. In instances where the firm's inventory in an impacted symbol approached zero, Citadel Securities mismarked orders that, if executed, would have caused its position to cross zero. The mismarks were not biased to cause short sales to be mismarked more than long sales and thus affected both long and short sale orders. Although representing only a small fraction of the principal orders the firm placed in the market prior to correction of the coding error, there are estimated to have been millions of erroneously marked orders across the firm's trading strategies, some of which were executed at market centers.

Citadel Securities Did Not Detect the Coding Error and Resulting Order Mismarking for a Period of at Least Five Years

15. During the Relevant Period, Citadel Securities had policies and procedures concerning compliance with Regulation SHO, including its order marking requirements. For instance, as part of the firm's written supervisory procedures, Citadel Securities was required to conduct an annual review of its order-marking system—including its programming logic and implementation—to ensure its overall effectiveness and compliance with Regulation SHO. In addition, on a daily basis, Citadel Securities relied on, among other things, two automated surveillance tools—an end-of-day order marking report and an intraday order marking monitor. Both tools allowed Citadel Securities to identify mismatches between the real time order marks against an independently created marking position based on the firm's official start of day position.

16. Nevertheless, Citadel Securities's application of policies and procedures did not detect either the coding error or the firm's mismarking of orders as a result of the coding error.

Citadel Securities Discovered the Coding Error and Order Mismarking in September 2020

17. During the course of an internal regulatory compliance review, Citadel Securities employees discovered the coding error. Three business days later, Citadel Securities employees implemented a fix to the error by reprogramming the firm's systems to release Client-Side Leg child fills to its position calculation system immediately upon execution, while continuing to delay the release of execution reports in accordance with client requests. Citadel Securities employees determined that the coding error potentially impacted the accuracy of certain of the firm's order marks.

Impact on Citadel Securities's Submission of Electronic Bluesheet Data

18. Section 17 of the Exchange Act imposes on broker-dealers recordkeeping and reporting requirements that are essential to the Commission's ability to enforce the federal

securities laws. Among other things, Rule 17a-25 requires that broker-dealers submit securities transaction information electronically upon request by the Commission and other self-regulatory organizations ("SROs"), such as FINRA.

19. During the Relevant Period, Citadel Securities submitted records of EBS Data in response to requests from the Commission and SROs. In submitting data in response to such requests, Citadel Securities incorporated trade data that included order markings impacted by the above-mentioned conduct.

Violations

20. Rule 200(g) of Regulation SHO requires a broker or dealer to differentiate and mark orders in all securities "long," "short," or "short exempt." The broker or dealer may mark the sell order "long" only if the seller is deemed to own the security being sold, among other requirements. As a result of the conduct described above, Citadel Securities willfully violated Rule 200(g) of Regulation SHO.[2]

Citadel Securities's Remedial Efforts and Cooperation

21. In determining to accept the Offer, the Commission considered the remedial acts undertaken by Citadel Securities, which included provision to the Commission, in a manner the Staff deemed appropriate under the facts and circumstances of this matter, of order marking data previously submitted pursuant to Exchange Act Section 17(a)(1) and Rule 17a-25 thereunder for the securities transactions the Staff considers to have been impacted by the Roll-up Issue. In addition, the Staff credited Citadel Securities for its cooperation during the investigation.

Undertakings

Respondent Citadel Securities has undertaken to do the following:

1. **Remediation of Citadel Securities's Misprogramming:** No later than the date of the filing of the order, Citadel Securities shall certify in writing that it has remediated the Roll-Up Issue.

2. **Review of Citadel Securities's Trading Systems and Supervisory Policies and Procedures**

   (a) Citadel Securities shall conduct a review of the firm's order marking as it relates to the processing of roll-up orders ("the Review"). Specifically, the Review will involve an assessment of the computer programming and coding

[2] "Willfully," for purposes of imposing relief under Section 15(b) of the Exchange Act, "'means no more than that the person charged with the duty knows what he is doing.'" *Wonsover v. SEC*, 205 F.3d 408, 414 (D.C. Cir. 2000) (quoting *Hughes v. SEC*, 174 F.2d 969, 977 (D.C. Cir. 1949)). There is no requirement that the actor "also be aware that he is violating one of the Rules or Acts." *Tager v. SEC*, 344 F.2d 5, 8 (2d Cir. 1965).

logic involved in the processing of roll-up orders for order-marking purposes, including whether they operate as designed, to ensure compliance with Rule 200(g) of Regulation SHO. Citadel Securities shall complete the Review within 180 days of the entry of the Order.

(b) Within 90 days of the completion of the Review, Citadel Securities shall submit to the Commission Staff a written report that describes the Review and documents how the firm's order marking policies and procedures with respect to the processing of roll-up orders are reasonably designed to achieve compliance with Rule 200(g) (the "Roll-Up Report"). The Roll-Up Report shall identify changes made in connection with the Review, if any.

3. **Additional Requirements**

(a) When Citadel Securities's Chief Compliance Officer concludes that, to the best of his or her knowledge based on reasonable inquiry, Citadel Securities has achieved all of the undertakings set forth in this Order, he or she shall certify in writing compliance with the undertakings set forth in Paragraphs 2(a) and (b) above. The certification shall identify the undertakings, provide written evidence of compliance in the form of a narrative, and be supported by exhibits sufficient to demonstrate compliance. The certification and supporting material shall be submitted to D. Mark Cave, Associate Director, Division of Enforcement, Securities and Exchange Commission, 100 F Street, N.E., Washington, D.C. 20549, with a copy to the Office of Chief Counsel of the Enforcement Division, no later than sixty (60) days from the date of the completion of the undertakings.

(b) For good cause shown, the Commission's Staff may extend any of the procedural dates set forth above. Deadlines for procedural dates shall be counted in calendar days, except that if the last day falls on a weekend or federal holiday, the next business day shall be considered to be the last day.

(c) The periodic reviews and reports submitted by Citadel Securities will likely include confidential financial, proprietary, competitive business or commercial information. Public disclosure of the reports could discourage cooperation, impede pending or potential government investigations or undermine the objectives of the reporting requirement. For these reasons, among others, the reports and the contents thereof are intended to remain and shall remain non-public, except (i) pursuant to court order, (ii) as agreed to by the parties in writing, (iii) to the extent that the Commission determines in its sole discretion that disclosure would be in furtherance of the Commission's discharge of its duties and responsibilities, or (iv) as otherwise required by law.

IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in Respondent Citadel Securities's Offer.

Accordingly, pursuant to Sections 15(b) and 21C of the Exchange Act, it is hereby ORDERED that:

A. Respondent Citadel Securities cease and desist from committing or causing any violations and any future violations of Rule 200(g) of Regulation SHO.

B. Respondent Citadel Securities is censured.

C. Respondent Citadel Securities shall, within 10 days of the entry of this Order, pay a civil money penalty in the amount of $7 million to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3). If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. § 3717.

Payment must be made in one of the following ways:

(1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;

(2) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at http://www.sec.gov/about/offices/ofm.htm; or

(3) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch HQ Bldg., Room 181, AMZ-341
6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying Citadel Securities as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to D. Mark Cave, Associate Director, Division of Enforcement, Securities and Exchange Commission, 100 F St., NE, Washington, DC 20549.

D. Amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondent agrees that in any Related Investor Action, it shall not argue that it is entitled to, nor shall it benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondent's payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondent agrees that it shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the Securities and Exchange Commission. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action" means a private damages action brought against Respondent by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

E. Respondent Citadel Securities shall comply with the undertakings enumerated above.

By the Commission.

Vanessa A. Countryman
Secretary