

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 102192 / January 14, 2025

ADMINISTRATIVE PROCEEDING
File No. 3-22415

In the Matter of

GTS 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 GTS Securities, LLC (“Respondent” or “GTS”).

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (“Offer”) which 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 finds¹ that:

Summary

This matter concerns GTS's practices relating to its filing of Suspicious Activity Reports ("SARs"), as required by Section 17(a) of the Exchange Act and Rule 17a-8 thereunder, in connection with its over-the-counter ("OTC") market making business from May 2019 through July 2020 (the "Relevant Period").

GTS began serving as a market maker in OTC securities in May 2019 when it launched its Wholesale Market Making ("WMM") business unit. By early 2020, GTS was one of the largest broker-dealers in the OTC market in terms of notional value of shares traded. Most of this trading activity involved penny stocks valued at less than \$1 per share. As a registered broker-dealer, GTS is required to file SARs with the U.S. Department of the Treasury's Financial Crimes Enforcement Network ("FinCEN") when it knows, suspects, or has reason to suspect that any transaction occurring by, at, or through GTS involves, among other things, fraud or other illegal activity. During the Relevant Period, GTS failed to maintain an anti-money laundering ("AML") surveillance program that was reasonably designed to detect, investigate, and report suspicious activity within its WMM business unit. Its AML surveillance at the time relied primarily on reviews of an AML exception report and other limited trade reviews by a WMM supervisor. GTS's AML Chief Compliance Officer ("AML CCO")—then the only individual at GTS responsible for SAR filings—was not actively involved in these reviews, and no trading activity was escalated to the AML CCO for SAR consideration until GTS implemented enhancements to its SAR-reporting procedures starting in June 2020 and started filing SARs in August 2020. As a result, GTS failed to file certain SARs during the Relevant Period when it was required to do so.

Respondent

GTS is a broker-dealer headquartered in New York City. It has been registered with the Commission since 2009.

Background

A. The Bank Secrecy Act ("BSA")

1. The BSA and implementing regulations promulgated by FinCEN require that broker-dealers file SARs to report any transaction (or pattern of transactions of which the transaction is a part) conducted or attempted by, at, or through the broker-dealer involving or aggregating to at least \$5,000 in funds or other assets that the broker-dealer knows, suspects, or has reason to suspect: (1) involves funds derived from illegal activity or is intended or conducted to

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

hide or disguise funds or assets derived from illegal activity as part of a plan to violate or evade any Federal law or regulation or to avoid any transaction reporting requirement; (2) is designed to evade any requirements of the BSA or its implementing regulations; (3) has no business or apparent lawful purpose and the broker-dealer knows of no reasonable explanation for the transaction after examining the available facts; or (4) involves use of the broker-dealer to facilitate criminal activity. 31 C.F.R. § 1023.320(a)(2) (“SAR Rule”).

2. To be liable for failing to file a SAR, a broker-dealer must know, suspect, or have reason to suspect that a transaction falls into one of the four categories of suspicious activity in the SAR Rule. The Financial Industry Regulatory Authority (“FINRA”) and FinCEN have longstanding regulatory guidance highlighting red flags related to penny stock transactions, and FINRA has cautioned firms that its examples of red flags are “merely illustrative” and that other situations may arise that require further investigation. *See* FinCEN’s The SAR Activity Review Trends Tips & Issues, Issue 15, “In Focus: The Securities and Futures Industry”; FINRA’s Updated Small Firm Template Anti-Money Laundering (AML) Program (updated Jan. 2010). In May 2019, FINRA issued Regulatory Notice 19-18, which included a compilation of previously identified red flags and provided additional examples of red flags potentially indicative of suspicious activity, including examples of manipulative trading of microcap and penny stock securities. FINRA Regulatory Notice 19-18 (May 2019).

3. The BSA and its implementing regulations require the filing of a SAR no later than 30 calendar days after the date of the broker-dealer’s initial detection of facts that may constitute a basis for filing a SAR. If no suspect is identified on the date of such initial detection, a broker-dealer may delay filing a SAR for an additional 30 calendar days to identify a suspect, but in no case shall reporting be delayed more than 60 calendar days after the date of such initial detection. 31 C.F.R. § 1023.320(b).

4. Exchange Act Rule 17a-8 requires broker-dealers registered with the Commission to comply with the reporting, recordkeeping, and record retention requirements of the BSA. The failure to file SARs as required by the SAR Rule is a violation of Section 17(a) of the Exchange Act and Rule 17a-8 thereunder. *See SEC v. Alpine Sec. Corp.*, 308 F. Supp. 3d 775, 798–800 (S.D.N.Y. 2018), *aff’d*, 982 F.3d 68 (2d Cir. 2020).

B. GTS’s OTC Trading Activity

5. The WMM trading desk, along with approximately 20 traders and other personnel, was acquired by GTS from another broker-dealer and launched with GTS on May 20, 2019. GTS was not a market maker in OTC securities prior to this acquisition.

6. GTS’s OTC market making counterparties are all retail broker-dealers. At the time the business unit was launched, the WMM desk serviced six broker-dealers. That number grew to 25 in 2020. GTS’s OTC trading volume also grew steadily after launch, from approximately 50,000 daily trades in August 2019 to 100,000 in January 2020 and 200,000 in August 2020. During this period, GTS was the second-ranked broker-dealer by notional value of OTC shares

traded. Most of the OTC securities traded by GTS during the Relevant Period were penny stocks valued at less than \$1 per share.

C. GTS's AML Program

7. During the Relevant Period, GTS failed to adopt and implement reasonably designed AML policies and procedures to surveil OTC transactions within its WMM unit and, as a result, failed to file certain SARs when required to do so by the SAR Rule.

8. GTS had an existing AML compliance program—covering compliance with the BSA—at the time of its WMM business unit acquisition, headed by the AML CCO. This program included an AML Policies and Procedures Manual (“AML Policies and Procedures”) applicable to the firm as a whole. Pursuant to the AML Policies and Procedures, it was the responsibility of GTS’s AML CCO to “ensure that the firm keeps and maintains all of the required AML records and ... ensure that [SARs] are filed with [FinCEN] when appropriate.” The AML Policies and Procedures went on to state that the AML CCO was “vested with full responsibility and authority to enforce the firm’s AML program.”

9. GTS also implemented AML-related surveillance systems and processes specific to the OTC trading conducted by its WMM business. GTS’s AML trade surveillance for OTC securities during the Relevant Period consisted primarily of reviews of trading activity flagged by the Low-Priced Securities Report (“LPS Report”), a daily WMM exception report designed to monitor OTC trading for AML purposes. The LPS Report flagged instances of high trading volume by a GTS broker-dealer counterparty in a particular OTC security, although it captured order flow only in securities classified by OTC Markets Group as Caveat Emptor, Pink No Information, or High Risk. While the responsibility to file SARs remained with the AML CCO, from May 2019 until the last months of the Relevant Period, responsibility for reviewing the LPS Report and conducting other AML-related OTC trade reviews was delegated to a WMM supervisor who did not report to the AML CCO and whose primary responsibilities were unrelated to GTS’s AML program. This WMM supervisor did not have any experience analyzing suspicious trading activity for the purpose of determining whether a SAR should be filed and had never filed a SAR.

10. During the Relevant Period, the WMM supervisor’s reviews of activity flagged in the LPS Report were manually noted in a spreadsheet log known as the MC6 Report. These reviews could also originate from the OTC trading desk directly or through referrals from GTS’s clearing firm but, during the Relevant Period, most were the result of activity flagged by the LPS Report.

11. Until the end of the Relevant Period, the Written Supervisory Procedures (“WSPs”) that were implemented to guide GTS’s OTC trade reviews did not provide any instructions beyond stating that the WMM supervisor was to “[l]ook at trading to determine whether there are requirements to follow up with clients on further explanations or whether to shut off client and/or report on a SAR.” The WSPs did not include any criteria or guidance specific to OTC AML trade surveillance.

12. The AML Policies and Procedures included a set of “red flags” that pertained to penny stock issuers themselves, *e.g.*, whether an issuer “has been the subject of a prior trading suspension.” However, GTS did not provide any written guidance on how these issuer-specific red flags should be considered in trade reviews, and the LPS Report did not account for these factors.

13. GTS documented 173 reviews of potentially suspicious OTC trading activity on the MC6 Report during the Relevant Period. None of these instances were escalated to the AML CCO for SAR consideration during the Relevant Period and, as a result, GTS filed no SARs during this time.

14. During the Relevant Period, GTS failed to timely detect, investigate, or report the following types of potentially suspicious transactions by its broker-dealer counterparties:

- a. Trading activity that comprised a significant proportion of the daily trading volume in a thinly traded or low-priced security;
- b. Trading activity involving sudden spikes in demand for, coupled with sudden price changes in, a thinly traded or low-priced security, including instances of such trading coupled with suspicious stock promotion activity; and
- c. Significant trading in a thinly traded or low-priced security previously subject to a Commission trading suspension.

15. In June 2020, GTS began implementing enhancements to its WMM AML reviews and SAR-reporting procedures. Among other improvements, GTS updated the AML Policies and Procedures and WSPs to include broader trade review criteria to address specific risks associated with OTC trading. GTS also hired additional personnel responsible for AML compliance and trade monitoring for the WMM unit, added automated surveillance tools, and implemented an electronic case management system for organizing and documenting its investigations into potentially suspicious OTC trading activity. In June 2020, GTS also established an AML Committee consisting of senior business and compliance personnel. The AML Committee meets on a weekly basis to discuss and analyze GTS’s AML and trade monitoring programs and review potentially suspicious activity for purposes of determining whether SAR filings are warranted.

16. Under its enhanced AML procedures, GTS filed its first SAR relating to its WMM business in August 2020, and has regularly filed WMM-related SARs since then. Certain of these SAR filings pertained to trading activity previously documented in the MC6 Report but not escalated to the AML CCO for SAR consideration during the Relevant Period.

Violations

17. As a result of the conduct described above, GTS willfully² violated Section 17(a) of the Exchange Act and Rule 17a-8 thereunder.

Remedial Efforts

18. In determining to accept the Offer, the Commission considered the remedial acts undertaken by GTS as described in Paragraphs 15 and 16 above.

IV.

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

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

A. Respondent cease and desist from committing or causing any violations and any future violations of Section 17(a) of the Exchange Act and Rule 17a-8 thereunder.

B. Respondent is censured.

C. Respondent shall, within 14 days of the entry of this Order, pay a civil money penalty in the amount of \$350,000 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

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).

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 GTS as a Respondent in these proceedings and identifying the file number of these proceedings. A copy of the cover letter and check or money order must be sent to Tejal Shah, Associate Regional Director, Division of Enforcement, Securities and Exchange Commission, New York Regional Office, 100 Pearl Street, Suite 20-100, New York, NY 10004.

D. The amount ordered to be paid as a civil money penalty pursuant to this Order shall be treated as a penalty 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 (a "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.

By the Commission.

Vanessa A. Countryman
Secretary