

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 84759 / December 10, 2018

ADMINISTRATIVE PROCEEDING
File No. 3-18915

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 (“Citadel” or “Respondent”).

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (“Offer”) that the Commission has determined to accept. Respondent admits the facts set forth in Section III below, acknowledges that its conduct violated the federal securities laws, admits the Commission’s jurisdiction over it and the subject matter of these proceedings, and 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 that:

Summary

These proceedings arise out of Citadel’s failure to submit to the Commission complete and accurate data in response to Commission staff electronic blue sheets (“EBS”) requests, resulting in the reporting of EBS that was incomplete or deficient.

Commission staff routinely sends requests for securities trading records to market makers, brokers and/or clearing firms in order to identify buyers and sellers of securities, and firms provide the requested records in a universal electronic format known as the EBS format. It is a fundamental obligation of broker-dealers to provide complete and accurate EBS data when requested by representatives of the Commission to do so. The submission of complete and accurate blue sheet data is critical to many aspects of the Commission's operations and its ability to discharge its enforcement and regulatory mandates. The failure of a broker-dealer to provide complete and accurate EBS information in response to a Commission request can impact the Commission's ability to discharge its statutory obligations, undermine the integrity of its investigations and examinations, and ultimately interfere with the Commission's ability to protect investors.

From November 2012 to August 2016, Citadel submitted 2,774 EBS to the Commission, all of which contained deficient information, resulting in incorrect reporting of trade execution time data for approximately 80 million trades. As a result, Citadel violated the recordkeeping and reporting requirements of Section 17(a)(1) of the Exchange Act and Rules 17a-4(j) and 17a-25 thereunder.

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 and to protect investors. To ensure the continued effectiveness of the Commission's enforcement and regulatory programs, broker-dealers must comply with, among other things: Rule 17a-25, requiring that broker-dealers submit electronically securities transaction information upon request by the Commission; and Rule 17a-4(j), requiring broker-dealers to furnish promptly legible, true, complete, and current copies of required records upon request by a representative of the Commission. Citadel failed to comply with these requirements, as described below.

Respondent

1. **Citadel Securities LLC (“Citadel”)** is a Delaware limited liability company headquartered in Chicago, Illinois. Citadel has been registered with the Commission as a broker-dealer since 2002.

Facts

A. Citadel’s Deficient EBS Submissions

2. Citadel is one of the leading market makers in the world, trading products including equities, equity options, and interest rate swaps for retail and institutional clients. Out of 204 firms, Citadel is ranked as the third largest producer of EBS data.

3. From November 2012 through August 2016 (the “relevant period”), Citadel submitted 2,774 EBS to the Commission, all of which contained inaccurate trade execution times. These deficient submissions resulted in the reporting of incorrect trade execution data for approximately 80 million trades.

4. Citadel failed to adjust the reported execution times in its EBS systems to Eastern Time, as required. The firm reported inaccurate trade execution times during the relevant period because Citadel's proprietary EBS system contained an undetected coding error that prevented the system from applying the correct time zone conversion. Because of this coding error, Citadel's systems failed to upload certain data needed to complete the time zone conversion, and instead converted trades executed in Central Standard and Central Daylight Time to Greenwich Mean Time. As a result, the execution times were adjusted by subtracting four or five hours instead of adding one hour.

5. Citadel did not detect the errors in its EBS submissions because it did not have adequate processes to verify that the information it was reporting was accurate. For example, the firm did not employ a sampling-based quality assurance testing and analysis process or implement formal supervisory controls in order to ensure the completeness and accuracy of the data in its submissions.

6. Because Citadel lacked adequate processes for validating the accuracy of the information provided in its EBS submissions, no one at the firm recognized the systemic coding issues that led to the firm's regular submission of deficient EBS information.

7. During the relevant period, Citadel had additional errors in its EBS reporting, including missing or deficient fields related to information about the securities transactions. For instance, Citadel reported certain transactions with incorrect default times, short sales reported as long sales, incorrect default average price account values, and customer trades reported with Citadel's (versus the customer's) data. The deficient EBS submissions were caused by other undetected coding and software issues.

B. Citadel's Remedial Efforts

8. Upon learning of its deficient EBS execution time data, Citadel suspended submissions of the data. It engaged outside consultants that specialized in regulatory compliance to review its EBS system and, as a result, implemented modifications, both remedial and preventive, in an effort to eliminate any future errors. Specifically, Citadel examined all of its EBS systems and operating codes and conducted quality-assurance testing, regression analysis, and sample-based testing utilizing over 35 million trade records. Citadel then self-reported new issues that the firm identified during that process. It also built a new EBS reporting architecture, developed a new platform for its EBS system, designed and implemented a sampling-based quality assurance testing and analysis process to proactively uncover errors in its EBS submissions, and analyzed the records potentially affected by the issues uncovered during the remediation process. Further, Citadel developed and implemented formal EBS-related policies and procedures for the processing of EBS requests and the supervision of that process. Citadel resumed all EBS submissions after confirming that it had responded to all outstanding requests using its new EBS tools, and corrected all known issues that had caused its EBS deficiencies.

Violations of the Federal Securities Laws

9. Section 17(a)(1) of the Exchange Act requires, among other things, that broker-dealers make and keep for prescribed periods such records, furnish such copies thereof, and make and disseminate such reports as the Commission, by rule, prescribes as necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the securities laws. Exchange Act Rule 17a-4(j), promulgated thereunder, requires, in part, broker-dealers such as Citadel to furnish promptly legible, true, complete, and current copies of those records of the member, broker or dealer that are required to be preserved under Exchange Act Rule 17a-4 and any other records of the member, broker or dealer subject to examination under Section 17(b) of the Exchange Act that are requested by a representative of the Commission. Likewise, Exchange Act Rule 17a-25 requires that broker-dealers such as Citadel shall, upon request, electronically submit to the Commission the securities transaction information as required in the rule.

10. As described above, Citadel failed to furnish complete records to the Commission staff that were requested by the Commission in its EBS requests. Therefore, Citadel willfully violated the recordkeeping and reporting requirements of Section 17(a)(1) of the Exchange Act and Rule 17a-4(j) thereunder by failing to furnish promptly true and complete trading information as requested by Commission staff over a period of approximately four years. In addition, Citadel willfully violated Exchange Act Rule 17a-25 by failing to submit electronically certain securities transaction information to the Commission through the EBS system in response to requests made by the Commission.

Citadel's Remedial Efforts

11. In determining to accept the Offer, the Commission considered remedial acts undertaken by Respondent and cooperation afforded the Commission staff.

IV.

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

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

A. Respondent Citadel cease and desist from committing or causing any violations and any future violations of Section 17(a)(1) of the Exchange Act and Rules 17a-4(j) and 17a-25 promulgated thereunder.

B. Respondent Citadel is censured.

C. Respondent Citadel shall, within ten (10) days of the entry of this Order, pay a civil money penalty in the amount of \$3.5 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 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 G. Jeffrey Boujoukos, Regional Director, Philadelphia Regional Office, Securities and Exchange Commission, One Penn Center, 1617 John F. Kennedy Blvd., Suite 520, Philadelphia, Pennsylvania 19103-1844.

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.

By the Commission.

Brent J. Fields
Secretary