Notice of Disciplinary Action against Consolidated Trading LLC, a Member Organization

To: Members, Member Organizations, Participants and Participant Organizations

From: John C. Pickford, Assistant General Counsel, NASDAQ OMX PHLX[SM]

DATE: June 18, 2015

FINRA Matter No. 20120321863 (includes Matter Nos. 20100219318 and 20140399289)
Enforcement No. 2015-02

On June 8, 2015, the Business Conduct Committee (the "Committee") issued a disciplinary decision against Consolidated Trading LLC ("Consolidated" or the "Firm"), a member organization of the Exchange. In response to a Statement of Charges issued in this action, Consolidated submitted an Offer of Settlement, Stipulation to Findings and Consent to Sanctions ("Offer"). Solely to settle this proceeding, and without admitting or denying the charges, Consolidated stipulated to findings that during three examination review periods—March 2010 through May 2010 (the "2010 review period"), July 2012 through September 2012 (the "2012 review period"), and February 1–28, 2014 (the "2014 review period")— Consolidated violated certain federal securities laws and regulations and Exchange rules.

Specifically, during the 2010, 2012 and 2014 review periods, out of a sample of orders reviewed, Consolidated marked 44 long sale orders as short in violation of Rule 200(g) of Regulation SHO, 17 C.F.R. § 242.200(g), under the Securities Exchange Act of 1934 (the "Exchange Act"). Additionally, in the 2014 review period, Consolidated violated Exchange Act Rule 17a-3(a)(1) in four instances in which its trading blotter was inaccurate, as shown by inconsistencies between the blotter and end-of-day positions according to its clearing firm. Finally, during the 2010, 2012 and 2014 review periods, Consolidated violated Exchange rules 748(b) and (g), which was later re-designated as Rule 748(h), by generally failing to establish reasonable written supervisory procedures, in that the procedures failed to identify specific reviews to be conducted to ensure compliance with certain Exchange rules and federal securities laws. The Firm's procedures were deficient in multiple areas, including the following:

- Order marking requirements
- The "circuit breaker" rule
- Just and equitable principles of trade and acts detrimental to the Exchange
- The Insider Trading and Securities Fraud Enforcement Act and the prevention of the misuse of material nonpublic information
- Obligations of market makers and member organizations
- Position limits
- Exercise limits
- Liquidation of positions

- Limit on uncovered short positions
- Restrictions on Exchange options transactions and exercises
- On-floor trading and quoting obligations and restrictions applicable to Specialists and registered Options Traders
- Exercise of equity options contracts
- The filing of trade information
- Obvious and catastrophic errors

The Offer submitted by Consolidated was accepted by the Committee and was the basis of its Decision. The Committee found that Consolidated had violated Rule 200(g) of Regulation SHO, Exchange Act Rule 17a-3(a)(1), and PHLX Rule 748. The Committee concurred in the sanctions consented to by Consolidated, and ordered the imposition of the following sanctions: (i) a censure; (ii) a fine of $95,000, of which $20,000 shall be paid to the Exchange; and (iii) an undertaking to revise its written supervisory procedures with respect to the areas identified above. Consolidated will pay the balance of its fine to International Securities Exchange LLC and NYSE Regulation, Inc.

For more information, contact:

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