

**THE NASDAQ STOCK MARKET LLC
OFFICE OF HEARING OFFICERS**

Department of Market Regulation, on behalf of
The NASDAQ Stock Market LLC,

Complainant,

v.

Lightspeed Trading, LLC (CRD No. 35519),

Respondent.

Disciplinary Proceeding
No. 20130354682-02

**ORDER ACCEPTING OFFER
OF SETTLEMENT**

November 9, 2017

Hearing Officer – MC

INTRODUCTION

Disciplinary Proceeding No. 20130354682-02 was filed on February 28, 2017, by the Financial Industry Regulatory Authority's ("FINRA") Department of Market Regulation, on behalf of The NASDAQ Stock Market, LLC ("Nasdaq") ("Complainant"). Respondent Lightspeed Trading, LLC ("Respondent", "Lightspeed", or the "Firm") submitted an Offer of Settlement ("Offer") to the Complainant on October 11, 2017. Pursuant to Nasdaq Rule 9270(e), the Complainant and the Office of Disciplinary Affairs ("ODA") have accepted the uncontested Offer. Accordingly, this Order now is issued pursuant to Nasdaq Rule 9270(e)(3). The findings, conclusions and sanctions set forth in this Order are those stated in the Offer as accepted by the Complainant and approved by ODA.

Under the terms of the Offer, Respondent has consented, without admitting or denying the allegations of the Complaint, as amended by the Offer, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of Nasdaq, or to which Nasdaq is a party, to the entry of findings and violations consistent with the allegations of the Complaint, as amended by the Offer, and to the imposition of the sanctions set forth below, and fully

understands that this Order will become part of Respondent's permanent disciplinary record and may be considered in any future actions brought by Nasdaq.

BACKGROUND

Lightspeed has been registered with FINRA since June 23, 1994, and has been a member of Nasdaq since July 12, 2006. Its principal place of business is in New York, New York; the Firm also has a branch office in Chicago, Illinois. Nasdaq has jurisdiction over Lightspeed because it is currently registered as a Nasdaq member firm, and it committed the misconduct at issue while a Nasdaq member firm.

Lightspeed has the following relevant disciplinary history involving supervisory violations:

- On February 13, 2015, FINRA accepted an AWC in which the Firm was censured and fined \$250,000 for, during the period between June 2008 and June 2012: (i) aiding and abetting and causing unregistered entities to violate the Securities Exchange Act of 1934, as amended (the "Exchange Act") Rule 15(a)(1); (ii) violating NASD Rule 3011(a) and FINRA Rule 3310(a) by failing to fulfill its anti-money laundering obligations; (iii) violating NASD Rules 3010(a) and (b) for supervisory deficiencies; and (iv) NASD Rule 2110 and FINRA Rule 2010. (Matter No. 20100239350-05) (Feb. 13, 2015).
- In a related proceeding, on April 4, 2014, the Securities and Exchange Commission ("SEC") entered an Order Instituting Administrative and Cease-and-Desist Proceedings, in which the Firm was censured and ordered to pay disgorgement of \$330,000 plus interest, and a fine of \$100,000 plus interest, for: (i) willfully aiding and abetting, and causing violations of Exchange Act Rule 15(a)(1); and (ii) failing to reasonably supervise

within the meaning of Exchange Act Rule 15(b)(4)(E). [Exchange Act Rel. No. 34-71871, 2014 SEC LEXIS 1246 (April 4, 2014)].

FINDINGS AND CONCLUSIONS

It has been determined that the Offer be accepted and that findings be made as follows:

SUMMARY

1. From December 2010 through the present (the “relevant period”), Lightspeed failed to reasonably establish, document and maintain an adequate system of risk management controls and supervisory procedures, including certain post-trade risk controls, to ensure compliance with applicable federal securities laws and regulations and rules of FINRA and exchanges, including Nasdaq. As a result, the Firm also failed to properly supervise the activities of its market access customers.

2. As a market access provider, Lightspeed was responsible for monitoring and reviewing its market access customers’ orders to detect and report suspicious and potentially manipulative trades, and to ensure that orders entered via its registered market participant identifiers fully complied with applicable federal securities laws and regulations and the rules of Nasdaq.

3. Yet despite applicable rules and guidance, Lightspeed failed to adequately surveil for, and prevent, various forms of potentially manipulative trading activity by its market access customers on multiple markets, including Nasdaq.

4. By failing to establish adequate controls and procedures, and failing to properly monitor and supervise the activities of its market access customers, the Firm violated Rule 15c3-5 of the Exchange Act (the “Market Access Rule” or “Rule 15c3-5”) (for the period on and after

July 14, 2011) and Nasdaq Rules 2110 (for conduct prior to November 21, 2012), 2010A (for conduct on and after November 21, 2012), and 3010(a).

5. In connection with the opening and maintenance of customer accounts, Lightspeed also failed to use reasonable diligence to know the essential facts concerning a customer and the essential facts concerning who has the authority to act on behalf of the customer, violating Nasdaq Rules 2090A, 2010A, and 3010(a).

RESPONDENT AND JURISDICTION

6. Lightspeed has been registered with FINRA since June 23, 1994, and has been a member of Nasdaq since July 12, 2006. Its principal place of business is in New York, New York; the Firm also has a branch office in Chicago, Illinois. Nasdaq has jurisdiction over Lightspeed because it is currently registered as a Nasdaq member firm, and it committed the misconduct at issue while a Nasdaq member firm.

STATEMENT OF FACTS

7. During the relevant period, Lightspeed provided certain customers with direct access to numerous exchanges, including Nasdaq. As such, the Firm's customers were able to electronically route orders directly to the exchanges.

8. As a provider of market access, Lightspeed was responsible for establishing, implementing and maintaining adequate risk management controls and supervisory procedures, including written supervisory procedures ("WSPs"), and a system of follow-up and review reasonably designed to: (a) investigate red flags and monitor the trading activity of its market access customers; (b) detect and prevent suspicious and potentially manipulative trades; and (c) ensure that all trades entered under the Firm's market participant identifiers complied with

applicable federal securities laws and regulations and the rules of Nasdaq, other exchanges, and FINRA.

9. Through multiple industry-wide notices published during the relevant period, Lightspeed was on notice of its obligations and responsibilities to implement risk management controls and supervisory procedures reasonably designed to manage the financial, regulatory, and other risks of its market access business.

10. For example, in FINRA's 2011 Priorities Letter, dated February 8, 2011, FINRA explained that just as firms have a primary responsibility to supervise their associated persons and ensure that they are not involved in fraudulent schemes, firms must also be vigilant regarding their customers. The letter also advised firms that customer-initiated schemes can expose firms to regulatory, operational and reputational risk, and that FINRA expects firms to maintain robust supervisory systems that reasonably are designed to detect and report suspicious transactions.

11. In FINRA's 2012 Priorities Letter, dated January 31, 2012, FINRA emphasized the need for firms to comply with SEC Rule 15c3-5, and made clear that market access providers must have post-trade surveillance procedures reasonably designed to identify various potential trading violations such as wash sales, spoofing, layering, quote stuffing and manipulation related to the open and close of trading.

12. FINRA's 2013 Priorities Letter, dated January 11, 2013, highlighted FINRA's focus on trading abuses intended to bait other market participants into trading at artificially higher or lower prices.

13. Although throughout the relevant period Lightspeed added additional surveillance and improved its supervisory systems, Lightspeed failed reasonably to heed the concerns raised

in FINRA's Priorities Letters by disregarding its obligations regarding surveilling for potentially manipulative and suspicious transactions, even though FINRA staff had raised concerns about potentially manipulative momentum ignition trading activity by its market access customers in March 2015, and had sent requests for information to Lightspeed that should have put the Firm on notice that it did not have adequate surveillance procedures reasonably designed to identify various potential trading violations.

Lightspeed Failed to Monitor for Potentially Manipulative Trading

Lightspeed Failed to Monitor for Potential Manipulative Activity, Including Momentum Ignition Strategies

14. Lightspeed failed to have reasonable controls and procedures, including supervisory procedures to detect indicia of potential manipulative activity, including momentum ignition strategies. More specifically, the Firm failed to implement adequate surveillance to detect and review customer trading activity that accounted for a significant percentage of either the trading volume of a security within a short period of time, or, until September 2015, the daily trading volume of a security.

15. "Momentum ignition" strategies generally involve trading patterns where a market participant attempts to induce others to trade at artificially high or low prices. The essential purpose of momentum ignition strategies is to bait others to trade at higher or lower prices — a trader effects buy (or sell) transactions within a short period of time, which has the effect of raising (or lowering) the price of the stock, followed by transactions on the opposite side of the market, which have become more favorably priced as a result of the initial transactions.

16. Accordingly, momentum ignition strategies will often involve trading activity that accounts for either a high percentage of the security's intra-day trading over a short period of time, or a significant intra-day price change.

17. A tool used by the Firm for monitoring whether trading by its customers directly impacted the price of the security to a potentially manipulative degree was its Participation Report. That report was limited to surveilling for instances in which the Firm's customers in the aggregate had effected at least five percent of the daily volume of any security, *and* where there was more than a ten percent price change from the prior day's close.

18. Because the Participation Report required that the Firm's customers' trading meet both a daily volume and price change threshold, it failed to detect potential intra-day manipulative activity which occurred within a short period of time.

19. The Firm also utilized two Low Volume Reports; which report was utilized depended on the trading platform used by the customer. The Firm first began using a Low Volume Report generated by a third-party vendor that was supposed to detect trading activity where a customer accounted for at least 25 percent of the volume in a security whenever the total daily trading volume was below 100,000 shares. The Firm subsequently began using an internally-generated Low Volume Percentage Report that was designed to detect instances in which a Firm customer had effected at least 15 percent of the daily volume in any security (as of November 2012, this threshold was raised to 25 percent, and the Firm's current parameter is a daily volume fewer than 1,000,000 shares). However, the surveillances were not used across all of the trading platforms used by the Firm's customers during all of the relevant period.

20. Moreover, the Firm did not maintain a layering or spoofing surveillance across all trading platforms until September 2015. "Spoofing" is a form of market manipulation that

generally involves, but is not limited to, the manipulator entering certain non-bona fide orders, with the intention of cancelling those orders once they trigger some type of market movement and/or response from other market participants, from which the market manipulator might benefit by trading certain other orders. “Layering” generally involves, but is not limited to, a pattern in which multiple, non-bona fide limit orders are entered on one side of the market in a stock at various price levels, which creates the appearance of a change in the supply and demand of the security, thereby moving the price. At or around the same time, the trader enters one or more orders for execution on the opposite side of the market; upon execution of some or all of those orders (in full or in part), any open non-bona fide orders are immediately cancelled.

21. Additionally, the Firm did not at all times maintain an adequate system to detect pre-arranged trades, where one or more participants effect a trade that is agreed upon in advance.

22. The Firm’s market access customers engaged in suspicious and potentially manipulative trading activity during the relevant period. However, Lightspeed’s procedures and controls were not reasonably designed to detect and prevent such activity.

Trading by Firm Customers KR and DA

23. During the relevant period, suspicious trading occurred in the accounts of two market access customers of the Firm, KR and DA, both of which were based in Estonia.

24. The owner of KR was a friend of DA and had referred DA to the Firm.

25. On December 27, 2010, during an 18-second window, from approximately 9:38:57 to 9:39:15, KR sold short a total of 6,500 shares of Fresh Del Monte Produce Inc. (“FDP”). Immediately thereafter, at approximately 9:39:15, KR started purchasing FDP, while DA started selling 5,200 shares of FDP short. As a result, KR purchased 1,900 shares of FDP from DA.

26. Within 55 seconds from 9:38:57 to 9:39:52, the trading activity of KR and DA accounted for 38.9 percent of the volume of FDP during that period, and the price of the security declined from \$24.60 to as low as \$24.23.

27. The Firm, however, did not have an adequate surveillance to detect situations in which its customers' transactions constituted a significant percentage of intra-day trading activity during short periods of time.

28. Lightspeed failed to detect that, during the 55-second window, KR's and DA's short sales had accounted for approximately 38.9 percent of the trading volume in FDP or that there was a potential pre-arranged trade between KR and DA.

29. Moreover, it was not until March 2012 that the Firm implemented a surveillance that would detect potential pre-arranged trades between different accounts.

Trading by Firm Customer AS

30. On March 23, 2011, AS, another market access customer of the Firm, effected transactions in shares of BSD Medical Corp. ("BSDM"), in which over the course of approximately 11 seconds, AS purchased 14,400 shares at an average price of approximately \$4.1018. During this time, a total of 17,850 BSDM shares, including the shares purchased by AS, traded, and the price moved from \$4.07 to \$4.12.

31. Over the next 14 seconds, AS liquidated his position, resulting in a profit of approximately \$698 in a less than 30-second trading window.

32. Customer AS repeated this short-term trading pattern in BSDM several times throughout the day, such that his trading represented approximately 23 percent of the total volume in the stock that day. This trading, however, was not detected by the Firm's Low

Volume Percentage Report, which should have identified any account that traded 15 percent or more of a symbol's daily volume.

33. Moreover, on March 23, 2011, AS effected a wash transaction in BSDM in that he purchased and sold 1,000 shares at the same price and at the same time.

34. Although this wash transaction, as well as other wash transactions by AS on March 21, March 24, and March 25, 2011, had been reviewed by the Firm, the Firm did not contact AS to inquire about this potential wash trading.

Trading by Firm Customer RQ

35. On January 10, 2012, within an 11-minute window, market access customer RQ's trading activity in AeroCentury Corp. ("ACY") accounted for approximately 53 percent of the total daily volume in ACY, and the closing price of ACY was greater than ten percent from the prior day's close.

36. Even though RQ's trading was within the purported parameters of the Firm's Participation Report, the report did not capture RQ's trading in ACY.

37. RQ's trading activity was also not detected by the Firm's Low Volume Percentage Report, which was supposed to identify any account that traded 15 percent or more of a symbol's daily volume.

38. Other instances where the Firm's Low Volume Percentage Report failed to detect RQ's activity are: (a) on March 8, 2012, RQ's trading in AMREP Corporation ("AXR") totaled approximately 5,200 shares (approximately 27 percent of the total daily volume); and (b) on September 13, 2012, RQ's trading in American Spectrum Realty Inc. ("AQQ") totaled approximately 3,400 shares (approximately 25 percent of the total daily volume).

39. RQ's potentially manipulative trading activity in ACY, AXR, and AQQ was neither detected nor reviewed by the Firm.

Trading by Firm Customer JT

40. On January 17, 2012, JT, a market access customer of Lightspeed, entered both large purchase and sell orders in shares of Apollo Global Management, LLC ("APO"), which caused a move in the price of the stock; he thereafter liquidated his position at beneficial prices.

41. Among the orders entered by JT, at 14:07:16 he entered a buy order for 80,000 shares at \$14.00, and 73,686 shares executed against an existing order entered by another firm's customer to sell 98,846 shares at \$14.00.

42. In response to JT's purchase, and at the same second as JT's purchase, shares of APO traded as high as \$14.10, the price at which JT sold 3,100 shares of a previously entered 33,000 share sell order.

43. JT then cancelled the 29,900 share balance of the 33,000 sell order and began to liquidate his long position at higher prices; within a minute, JT sold shares at prices as high as \$14.30, an increase of 2.1 percent.

44. Thereafter, JT continued buying and selling shares of APO throughout the day.

45. JT's trading in APO represented approximately 34 percent of the security's total volume for the day. The percentage of daily volume of JT's trades alone should have been a red flag to the Firm that further review of JT's trading was required. But, because the closing price of APO was not ten percent or more from the prior day's close, JT's trading activity did not appear on the Firm's Participation Report.

46. Additionally, JT's trading activity was not detected by the Firm's Low Volume Percentage Report, which should have identified any account that traded 15 percent or more of a symbol's daily volume. JT's trading activity was neither detected nor reviewed by the Firm.

Lightspeed Failed to Adequately Review For Duplicative, Erroneous and Excessive Orders or Quotations

47. From July 2013 through the summer of 2014, the Firm failed to adopt and maintain, on a pre-order basis or otherwise, an adequate system of risk management controls and supervisory procedures, including a system of follow-up and review, reasonably designed to prevent the transmission, and to supervise the use, of algorithms by customers to ensure that they did not transmit, duplicative, erroneous, or an excessive number of orders or quotations.

48. For example, the Firm's system to detect duplicative orders failed to identify orders that were cancelled and replaced with a new order identification number. Accordingly, if subsequent orders were entered in error, they would not be flagged by the system if they had a new order number.

49. In addition, although the Firm had implemented a "Trader Volume Report," the report was not used to detect when duplicate, erroneous, or an excessive number orders or quotations were transmitted by customers. The Trader Volume Report was also ineffective for identifying duplicative or erroneous orders in that it failed to identify orders by security or flag situations where an excessive number orders were entered during a short period of time.

50. Furthermore, the Firm's WSPs did not reference any pre-trade risk controls or post-trade surveillance designed to prevent or detect duplicative orders or excessive orders or quotations.

51. It was not until the summer of 2014 that the Firm implemented a system that would block the entry of more than 50 identical orders within a second.

52. As a result, the Firm had inadequate controls and procedures to detect and prevent erroneous or duplicative orders. For example, during a two-minute window from 9:39:46 to 9:41:48, on July 30, 2013, market access customer KT utilized an algorithm that resulted in more than 60,000 orders being sent to Nasdaq, each to buy ten shares of USG Corp. (“USG”) at a price of \$24.92. After each order was entered, it was cancelled, and replaced by a new order with a new order identification number.

53. Due to its inadequate systems, controls and procedures, however, Lightspeed failed to detect and prevent the repeated entry and cancellation of orders in USG.

Lightspeed Failed to Exercise Reasonable Diligence Concerning KT's Account (Know Your Customer)

54. The Firm’s WSPs require that, when opening an account, the Firm perform due diligence and obtain certain documentation, including, as applicable, the certificate of incorporation, business licenses, partnership agreements, corporate resolutions, or the identity of beneficial owners. Nevertheless, the Firm failed to obtain any of this information from KT, a privately-held proprietary trading firm. Thus, the Firm failed to exercise due diligence in connection with the opening and maintenance of KT’s account, and failed to obtain essential facts concerning KT, such as KT’s taxpayer identification number, the identity of beneficial owners, and the identities of persons authorized to trade for KT.

Lightspeed Failed to Establish Adequate Supervisory Procedures, Including Written Supervisory Procedures

55. Nasdaq members are required to establish, maintain, and enforce supervisory systems and procedures, as evidenced by its WSPs, which are reasonably designed to achieve compliance with applicable securities laws, regulations, and exchange rules.

56. At a minimum, adequate supervisory procedures should include: (i) the identification of the individual(s) responsible for supervision; (ii) the supervisory steps and reviews to be taken by the appropriate supervisory personnel; (iii) the frequency of such reviews; and (iv) how such reviews are documented.

57. During the relevant period, although the Firm added surveillance and improved its processes, the Firm's supervisory procedures failed to adequately provide for the surveillance of potentially manipulative trading activity, including momentum ignition strategies by its market access customers.

58. Furthermore, the Firm's WSPs did not reference any pre-trade risk controls or post-trade surveillance designed to prevent or detect duplicative, erroneous, or an excessive number of orders or quotations. Moreover, until the summer of 2014, the Firm failed to adopt and maintain, on a pre-order basis or otherwise, an adequate system of risk management controls and supervisory procedures, including a system of follow-up and review, reasonably designed to prevent the transmission, and to supervise the use, of algorithms by customers to ensure that they did not transmit duplicative, erroneous, or an excessive number of orders or quotations.

59. Additionally, prior to March 2012 the Firm did not maintain any surveillance to detect potentially pre-arranged trades between different accounts. Moreover, during the period between July 2012 and September 2012, the Firm's system, provided by a third-party vendor, to surveil for potentially pre-arranged trades was not functioning properly due to a system malfunction.

60. In addition, prior to March 2012, the Firm did not have any surveillance that related to trading activity by its direct market access customers that involved large orders that are

entered and cancelled prior to the opening of the market. The Firm also failed to have any WSPs relating to the cancellation of large orders prior to the opening of the market until January 2013.

61. The Firm's WSPs failed to address any surveillance to detect potential instances of spoofing by customers during the trading day until January 2013. It was not until September 2015 that the Firm implemented an electronic surveillance that was designed to detect potential instances of spoofing across all of the trading platforms used by its market access customers.

62. The Firm also failed to implement any surveillance to detect potential instances of layering by customers until September 2015.

63. By failing to have such surveillances and WSPs, the Firm also failed to ensure, as required by Rule 15c3-5, that it had in place appropriate regulatory risk management controls and supervisory procedures to assure that appropriate surveillance personnel received immediate post-trade execution reports concerning market access activity.

64. Additionally, for certain surveillances maintained by Lightspeed, the Firm's WSPs did not identify: (i) the identity of the individual(s) responsible for supervision; (ii) the supervisory steps and reviews to be taken; (iii) the frequency of such reviews; and (iv) how such reviews are documented. For example:

- a. Although the Firm utilized the "Tspool Small Size Report" and "Executor Small Size Report," which surveil for market access customer orders of fewer than five shares,¹ the Firm's WSPs did not make any reference to the reports, and did not specify who reviews the reports, or any of the steps for the review and use of these reports.
- b. Although the Firm maintained a surveillance titled "Oversells Report," which reports when a customer sells a security for an amount larger than

¹ "Tspool" and "Executor" surveil activity on different trading platforms.

the customer's position, the WSPs did not specify any steps for the review of this report or how the reviews are documented.

- c. During 2011 and 2012, although the Firm's WSPs stated that a Compliance Analyst is required to review reports on a daily basis, including two reports designed to detect wash orders, a "Wash Sale Order Based Report" and "Wash Sale Execution Based Report," and a "MOC/LOC Report" designed to ensure that Market-on-Close and Limit-on-Close orders are not entered after the applicable cut-off times, it was not until January 2013 that the Firm's WSPs specified the supervisory steps to be taken to review these reports and how the reviews are documented.

65. As a result of these supervisory deficiencies, the orders entered by customers of Lightspeed had the potential to adversely impact the integrity of the market and cause potential harm to other market participants.

**Market Access Rule Violations
(Violations of Section 15(c)(3) of Exchange Act
and Rule 15c3-5 thereunder, and violations of
Nasdaq Rules 2010A, 2110, and 3010(a))**

66. On November 3, 2010, the SEC announced the adoption of Rule 15c3-5 — the Market Access Rule — to require that broker-dealers with market access "appropriately control the risks associated with market access, so as not to jeopardize their own financial condition, that of other market participants, the integrity of trading on the securities markets, and the stability of the financial system."

67. Rule 15c3-5(b) established specific requirements for broker-dealers with market access, including that such firms “establish, document, and maintain a system of risk management controls and supervisory procedures reasonably designed to manage the financial, regulatory, or other risks” of its business.

68. Rule 15c3-5(c)(1)(ii) requires, among other things, that the Firm’s risk management controls and supervisory procedures be reasonably designed to prevent the entry of erroneous or duplicative orders.

69. Despite applicable rules and guidance, Lightspeed failed to establish, document, and maintain a system of risk management controls and supervisory procedures reasonably designed to manage the financial, regulatory, and other risks of providing market access, as required by Rule 15c3-5(b), in that:

- i. prior to March 2012, the Firm did not have any surveillance that related to trading activity by its direct market access customers that involved large orders that are entered and then cancelled prior to the opening of the market, and it did not have any WSPs for this until January 2013;
- ii. the Firm did not maintain an adequate system to detect spoofing or layering during the trading day until September 2015;
- iii. prior to March 2012, the Firm did not maintain any surveillance to detect potentially pre-arranged trades between different accounts;
- iv. the system utilized by the Firm through a third-party vendor to detect pre-arranged trading did not function as intended during the period between July 2012 and September 2012;

- v. the Firm did not maintain an adequate system to detect potential instances of momentum ignition;
- vi. the systems that the Firm did have to detect potentially manipulative activity did not detect the activity that they were designed to detect, in that they failed to detect activity that should have appeared on the Low Volume Reports; and
- vii. when wash sales were detected by the Firm, it failed to take appropriate follow-up and review.

70. Lightspeed also failed to ensure, as required by Rule 15c3-5(c), that it had in place: (i) a system to detect the transmission of duplicative, erroneous, or an excessive number of orders or quotations; and (ii) appropriate regulatory risk management controls and supervisory procedures so as to: (a) prevent the entry of orders unless there was compliance with all regulatory requirements; and (b) assure appropriate surveillance personnel receive immediate post-trade execution reports that result from market access activity.

71. By failing to establish, document and maintain a system of risk management controls and supervisory procedures reasonably designed to systematically manage the regulatory and other risks of providing market access, Lightspeed violated Section 15(c)(3) of the Exchange Act and Rule 15c3-5 thereunder (for misconduct beginning July 14, 2011), and violated Nasdaq Rules 2110 (for conduct prior to November 21, 2012), 2010A (for conduct on and after November 21, 2012), and 3010(a).

**Supervisory Deficiencies and Failures
(Violations of Nasdaq Rules 2010A, 2110, and 3010(a))**

72. Nasdaq Rule 3010(a) required each member firm to establish, maintain, and enforce a supervisory system, including WSPs, which is reasonably designed to supervise the

types of business in which it was engaged and the activities of each registered representative and other associated person so as to achieve compliance with applicable securities laws and regulations.

73. Nasdaq Rules 2110 and 2010A require that members, in the conduct of their business, shall observe high standards of commercial honor and just and equitable principles of trade.

74. The Firm failed to establish supervisory systems, including WSPs, reasonably designed to provide for sufficient reviews of trading activity by its market access customers for potentially manipulative or suspicious trading activity, and to achieve compliance with Rule 15c3-5, as well as other applicable rules and regulations prohibiting manipulative and abusive trading.

75. As a result of the foregoing conduct, Lightspeed violated Nasdaq Rules 2110 (for conduct prior to November 21, 2012), 2010A (for conduct on and after November 21, 2012), and 3010(a).

**Know Your Customer Rule Violations
(Violations of Nasdaq Rules 2090A, 2010A, and 3010(a))**

76. Nasdaq Rule 2090A requires members to use to reasonable diligence, in regard to the opening and maintenance of every account, to know (and retain) the essential facts concerning every customer and concerning the authority of each person acting on behalf of such customer.

77. As alleged above, Lightspeed failed to use reasonable diligence to know essential facts concerning, and the authority of, its customer KT.

78. As a result of the foregoing conduct, Lightspeed violated Nasdaq Rules 2090A, 2010A, and 3010(a).

Based on these considerations, the sanctions hereby imposed by the acceptance of the Offer are in the public interest, are sufficiently remedial to deter Respondent from any future misconduct, and represent a proper discharge by Nasdaq, of its regulatory responsibility under the Securities Exchange Act of 1934.

SANCTIONS

It is ordered that Respondent be censured, fined in the total amount of **\$290,000** (to be paid collectively to Nasdaq, FINRA, Bats BZX Exchange, Inc., Bats EDGA Exchange, Inc., Bats EDGX Exchange, Inc., The New York Stock Exchange LLC, and NYSE Arca Equities, Inc.), of which **\$41,428.57** shall be paid to Nasdaq. Lightspeed shall also comply with the undertaking in accordance with the terms of the Offer, pursuant to which at intervals of 90, 180, and 360 days after acceptance of the Offer, Lightspeed shall make a written submission to FINRA, concerning the Firm's implementation and effectiveness of the Firm's policies, systems and procedures (written and otherwise) (collectively, the "Controls") relating to the specific areas described above and/or listed below to ensure:

- a. That the Firm is in compliance with any and all Sponsored Access and/or Direct Market Access Rules of FINRA and all Exchanges to which the Firm grants customers market access;
- b. That the Firm is in compliance with Rule 15c3-5 of the Exchange Act; and

- c. That the Firm adequately supervises trading of its market access customers and associated persons in areas including, but not limited to:
 - i. Trading surveillances and/or exception reports; and
 - ii. Procedures and systems of follow-up and review of potentially violative trading activity.

The written reports shall be certified by the Chief Executive Officer or General Counsel of the Firm, and shall address, at a minimum, the implementation and performance of the Firm's Controls; the steps taken by supervisory personnel to ensure compliance in the aforementioned areas and the results of such supervisory reviews; and modifications or recommendations for improvements to the Controls and the dates of the effectiveness of such modifications or planned implementation of such recommendations. Upon written request showing good cause, FINRA Staff may extend any of the procedural dates set forth herein.

Respondent has submitted an Installment Plan Sanctions Addendum showing the method by which it proposes to pay the fine imposed by Nasdaq.²

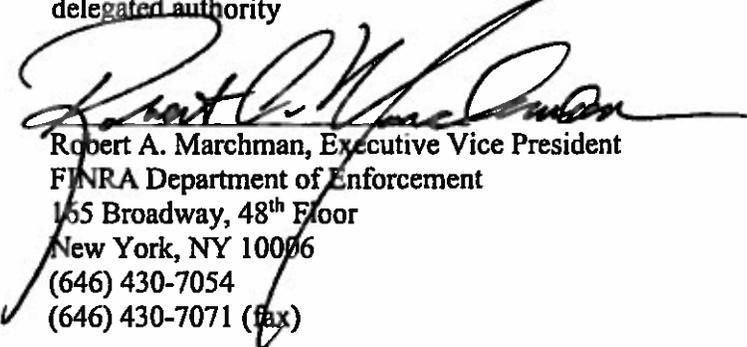
² Respondent's Installment Plan Sanctions Addendum is dated October 11, 2017.

The sanctions imposed herein shall be effective on a date set by FINRA staff.

SO ORDERED.

The NASDAQ Stock Market LLC

Signed on behalf of the Director of ODA, by
delegated authority



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