

**THE NASDAQ STOCK MARKET LLC  
NOTICE OF ACCEPTANCE OF AWC**

**Certified, Return Receipt Requested**

**TO: Ronin Capital, LLC  
Ms. Agnes Burda  
Chief Compliance Officer  
350 N. Orleans Street  
Suite 2N  
Chicago, IL 60654**

**FROM: The NASDAQ Stock Market LLC ("Nasdaq")  
c/o Financial Industry Regulatory Authority ("FINRA")  
Department of Enforcement  
9509 Key West Avenue  
Rockville, MD 20850**

**DATE: September 26, 2017**

**RE: Notice of Acceptance of Letter of Acceptance, Waiver and Consent No. 20140423775-01**

**Please be advised** that your above-referenced Letter of Acceptance, Waiver and Consent ("AWC") has been accepted on **September 26, 2017** by the Nasdaq Review Council's Review Subcommittee, or by the Office of Disciplinary Affairs on behalf of the Nasdaq Review Council, pursuant to Nasdaq Rule 9216. A copy of the AWC is enclosed herewith.

You are again reminded of your obligation, if currently registered, immediately to update your Uniform Application for Broker-Dealer Registration ("Form BD") to reflect the conclusion of this disciplinary action. Additionally, you must also notify FINRA (or NASDAQ if you are not a member of FINRA) in writing of any change of address or other changes required to be made to your Form BD.

You are reminded that Section I of the attached Letter of Acceptance, Waiver, and Consent includes an undertaking. In accordance with the terms of the AWC, a registered principal of the firm is required to notify the Compliance Assistant, Department of Enforcement, 9509 Key West Avenue, Rockville, MD 20850, of completion of the undertaking.

You will be notified by the Registration and Disclosure Department regarding sanctions if a suspension has been imposed and by NASDAQ's Finance Department regarding the payment of any fine if a fine has been imposed.

Ronin Capital, LLC  
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If you have any questions concerning this matter, please contact Michael W. Bautz, Senior Counsel, at (646) 430-7032.



Lara M. Posner  
Chief Counsel  
Department of Enforcement, FINRA

Signed on behalf of NASDAQ

Enclosure

FINRA District 8 – Chicago  
Edward Wegener  
Senior Vice President and Regional Director  
(Via email)

**THE NASDAQ STOCK MARKET LLC**  
**LETTER OF ACCEPTANCE, WAIVER AND CONSENT**  
**NO. 20140423775-01**

TO: The NASDAQ Stock Market LLC  
c/o Department of Market Regulation  
Financial Industry Regulatory Authority (“FINRA”)

RE: Ronin Capital, LLC Respondent  
Broker-Dealer  
CRD No. 118428

Pursuant to Rule 9216 of The NASDAQ Stock Market LLC (“Nasdaq”) Code of Procedure, Ronin Capital, LLC (the “firm”) submits this Letter of Acceptance, Waiver and Consent (“AWC”) for the purpose of proposing a settlement of the alleged rule violations described below. This AWC is submitted on the condition that, if accepted, Nasdaq will not bring any future actions against the firm alleging violations based on the same factual findings described herein.

**I.**

**ACCEPTANCE AND CONSENT**

- A. The firm hereby accepts and consents, without admitting or denying the findings, 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, prior to a hearing and without an adjudication of any issue of law or fact, to the entry of the following findings by Nasdaq:

**BACKGROUND**

The firm is a proprietary trading firm and has been registered with the United States Securities and Exchange Commission (the “Commission”) since January 18, 2002. The firm became a member of Nasdaq on November 7, 2012. The firm terminated its Nasdaq membership on October 28, 2016.

**RELEVANT PRIOR DISCIPLINARY HISTORY**

On June 23, 2014, a Letter of Acceptance Waiver and Consent was accepted by the International Securities Exchange, in which the firm consented to a finding that violated SEA Rules 15c3-5(b), (c)(1)(ii) and (c)(2)(1) and ISE Rule 401 by failing to have reasonable controls and procedures to detect and prevent excessive quoting. The firm stipulated to the imposition of a censure and a fine in the amount of \$55,000.

In Matter No. 20120315358, a Stipulation and Consent to Penalty was accepted by the NYSE MKT Hearing Board on August 28, 2014, in which the firm stipulated to a finding that it violated Rule 15c3-5(c)(1)(ii) of the Exchange Act and NYSE MKT Rule 320 in that it sent erroneous quotes to NYSE MKT that resulted in more than 31,000 executions across 450 symbols. The firm consented to the imposition of a censure and fine in the

amount of \$50,000. The erroneous quotes were the result from the firm's failure to supervise its market making activities while migrating its data systems to a new storage device.

### **SUMMARY**

1. In Matter 20140423775, the Trading Analysis section of FINRA's Department of Market Regulation reviewed excessive messaging activity by the firm on Nasdaq from August 22, 2014 through August 25, 2014 (the "Review Period") and the firm's compliance with Rule 15c3-5 of the Securities Exchange Act of 1934 ("SEA") (the "Market Access Rule").<sup>1</sup>
2. As a result of Market Regulation's investigations, it was determined that, during the Review Period, the firm violated SEA Rules 15c3-5(b) and (c) and Nasdaq Rules 3010 and 2010A by failing to establish, document, and maintain a system of risk management controls and supervisory procedures, including written supervisory procedures and an adequate system of follow-up and review, reasonably designed to manage the financial, regulatory, and other risks of its market access business.

### **FACTS AND VIOLATIVE CONDUCT**

#### **Applicable Rules**

3. During the Review Period, SEA Rules 15c3-5(b) and (c) required broker-dealers that provide market access 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 their market access business.<sup>2</sup>
4. During the Review Period, Nasdaq Rule 3010 required, among other things that each member firm establish, maintain and enforce written procedures to enable it to properly supervise the activities of associated persons to assure compliance with applicable securities laws and regulations and Nasdaq Rules.
5. During the Review Period, Nasdaq Rule 2010A provided that member firms, in the conduct of their business, shall observe high standards of commercial honor and just and equitable principles of trade.

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<sup>1</sup> The SEC adopted Rule 15c3-5 effective July 14, 2011. See 17 C.F.R. § 240.15c3-5, *Risk Management Controls for Brokers or Dealers with Market Access*, 75 Fed. Reg. 69792, 69792 (Nov. 15, 2010) (Final Rule Release).

<sup>2</sup> Rule 15c3-5 requires that, as gatekeepers to the financial markets, broker-dealers providing market access must "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." 17 C.F.R. § 240.15c3-5, 75 Fed. Reg. 69792, 69792 (Nov. 15, 2010).

### Excessive Messaging Activity

6. On five occasions between August 22, 2014 and August 25, 2014, the firm engaged in a pattern in which it entered a large number of cancellation-replace and modification messages related to odd-lot orders in a security at the same price with few executions. Each instance is depicted below:

Review Date	Review Time Period	Security <sup>3</sup>	Number of Messages	Number of Executions
8/22/2014	12:35:11-12:35:24	ABC	22,448	5
8/25/2014	14:19:56-14:20:16	DEF	104,696	0
8/25/2014	13:35:00-13:35:10	GHI	10,735	0
8/25/2014	11:11:08-11:11:18	JKL	14,687	0
8/25/2014	11:27:28-11:27:30	MNO	16,317	0

7. The excessive messages were initiated by an algorithm operated by the firm's Exchange Traded Funds market making group, which operated a trading strategy whereby it generated orders that are priced to execute against the best bid or offer and size displayed on Nasdaq. If the order is not executed, the strategy will reexamine the market data to determine the best bid or offer displayed by Nasdaq and either modify the order price to hit the displayed bid or offer or cancel the order.
8. In each instance, the relevant orders were "price-to-comply" orders, which is a non-routable order that is "price slid" to comply with the Regulation NMS Order Protection Rule and Locked and Crossed market rule.<sup>4</sup> Accordingly, buy orders will be priced at the inside offer and sell orders will be priced at the inside bid rather than being executed against National Best Bid and Offer ("NBBO") on an away market. If the market moves, the order will be re-priced to the new inside.
9. For example, at the time of the activity in DEF, the inside bid was \$26.99 on multiple exchanges and the inside ask was \$27.00 on one exchange. The resting offer on Nasdaq was \$27.01. However, the firm continuously changed the bid price to \$27.00, a price that would lock the market. As a result, the order was price slid to \$26.99, at which time the strategy saw that Nasdaq displayed a desirable offer so the price was modified, or the order was cancelled and a new order was sent to hit the bid or lift the offer. This created an unintentional "loop" in which the firm continuously canceled and replaced the same order on Nasdaq with the same parameters thousands of times per second.

<sup>3</sup> A generic modifier has been used in place of the name of these securities.

<sup>4</sup> Price sliding occurs on all NASDAQ OMX markets when an incoming, bookable order would lock or cross a protected quote at another market center. Price sliding allows orders submitted at impermissible prices to be booked in a sensible and convenient way on Nasdaq. See *Price Sliding on NASDAQ OMX Markets*, [https://www.nasdaqtrader.com/content/productservices/trading/PriceSliding\\_factsheet.pdf](https://www.nasdaqtrader.com/content/productservices/trading/PriceSliding_factsheet.pdf).

10. During the Review Period, the firm had financial risk management controls for its ETF market makers' strategy to prevent the entry of erroneous or duplicative orders by rejecting orders that exceeded predetermined price and/or size parameters and prevent the entry of an order if there were already an order in the same symbol/side "open" on the Exchange.
11. Because this control only applied to open orders, it could not detect the repetitive cancel/replace "looping" activity associated with the above activity. As a result, the activity went undetected by the firm's systemic controls.<sup>5</sup>
12. The acts, practices, and conduct described above in paragraphs 7 through 12 constituted violations of Rules 15c3-5(b) and (c) and Nasdaq Rules 3010 and 2010A.

#### **Written Supervisory Procedures**

13. During the Review Period, Ronin's written supervisory procedures failed to (i) have a process to document and confirm that all procedures had been followed regarding the approval and implementation of new algorithms; and (ii) failed to adequately describe its review of prohibited manipulative trading practices.
14. The acts, practices, and conduct described in paragraph 13 constituted violations of Rule 15c3-5(b) and Nasdaq Rules 3010 and 2010A.

B. The firm also consents to the imposition of the following sanctions:

Censure, a fine in the amount of \$72,500 and an undertaking to revise its controls and procedures to address the deficiencies described herein.

The firm agrees to pay the monetary sanction(s) in accordance with its executed Election of Payment Form.

The firm specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, the monetary sanction(s) imposed in this matter.

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

## **II.**

### **WAIVER OF PROCEDURAL RIGHTS**

The firm specifically and voluntarily waives the following rights granted under Nasdaq's Code of Procedure:

- A. To have a Formal Complaint issued specifying the allegations against the firm;

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<sup>5</sup> However, at approximately 2:20 PM on August 25, 2014, the firm's ETF market maker group noted an increase in the number of modification requests generated for symbol DEF and turned off the pairs strategy.

- B. To be notified of the Formal Complaint and have the opportunity to answer the allegations in writing;
- C. To defend against the allegations in a disciplinary hearing before a hearing panel, to have a written record of the hearing made and to have a written decision issued; and
- D. To appeal any such decision to the Nasdaq Review Council and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, the firm specifically and voluntarily waives any right to claim bias or prejudgment of the Chief Regulatory Officer, the Nasdaq Review Council, or any member of the Nasdaq Review Council, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including acceptance or rejection of this AWC.

The firm further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of Rule 9143 or the separation of functions prohibitions of Rule 9144, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

### **III.**

#### **OTHER MATTERS**

The firm understands that:

- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by FINRA's Department of Market Regulation and the Nasdaq Review Council, the Review Subcommittee, or the Office of Disciplinary Affairs ("ODA"), pursuant to Nasdaq Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against the firm; and
- C. If accepted:
  - 1. this AWC will become part of the firm's permanent disciplinary record and may be considered in any future actions brought by Nasdaq or any other regulator against the firm;
  - 2. Nasdaq may release this AWC or make a public announcement concerning this agreement and the subject matter thereof in accordance with Nasdaq Rule 8310 and IM-8310-3; and
  - 3. The firm may not take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or

indirectly, any finding in this AWC or create the impression that the AWC is without factual basis. The firm may not take any position in any proceeding brought by or on behalf of Nasdaq, or to which Nasdaq is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects the firm's right to take legal or factual positions in litigation or other legal proceedings in which Nasdaq is not a party.

- D. The firm may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. The firm understands that it may not deny the charges or make any statement that is inconsistent with the AWC in this Statement. This Statement does not constitute factual or legal findings by Nasdaq, nor does it reflect the views of Nasdaq or its staff.

The undersigned, on behalf of the firm, certifies that a person duly authorized to act on its behalf has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that it has agreed to the AWC's provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein and the prospect of avoiding the issuance of a Complaint, has been made to induce the firm to submit it.

9/12/17  
Date


Ronin Capital, LLC

Respondent

By:   
Name: Agnes Burda  
Title: Chief Compliance officer

Accepted by Nasdaq:

9/26/17  
Date

  
Lara M. Posner  
Chief Counsel  
Department of Market Regulation

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



## ELECTION OF PAYMENT FORM

The firm intends to pay the fine proposed in the attached Letter of Acceptance, Waiver and Consent by the following method (check one):

- A firm check or bank check for the full amount  
 Wire transfer

Respectfully submitted,

Respondent

Ronin Capital, LLC

9/12/17

Date

By: 

Name: Agnes Burda

Title: Chief Compliance officer

### Billing and Payment Contact

Please enter the billing contact information below. Nasdaq MarketWatch will contact you with billing options and payment instructions. **Please DO NOT submit payment until Nasdaq has sent you an invoice.**

Billing Contact Name: Jessica Brandis

Billing Contact Address: 350 N. Orleans St, Ste 2N, Chicago, IL 60654

Billing Contact Email: jessica.brandis@ronin-capital.com

Billing Contact Phone Number: 312-244-5797