

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

Certified, Return Receipt Requested

**TO: Virtu Financial BD LLC
Ms. Jaclyn L. Butler
Chief Compliance Officer
900 Third Avenue
29th Floor
New York, NY 10022**

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

DATE: October 9, 2015

RE: Notice of Acceptance of Letter of Acceptance, Waiver and Consent No. 20120334122-01

Please be advised that your above-referenced Letter of Acceptance, Waiver and Consent ("AWC") has been accepted on **October 8, 2015** 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.

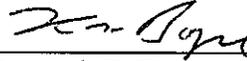
You are again reminded of your obligation, if currently registered, immediately to update your Uniform Application for Broker-Dealer Registration ("Form BD") to reflect the conclusion of this disciplinary action. Additionally, you must also notify FINRA (or Nasdaq if you are not a member of FINRA) in 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, Legal Section, Market Regulation Department, 9509 Key West Avenue, Rockville, MD 20850, of completion of the undertaking.

You will be notified by the Registration and Disclosure Department regarding sanctions, and Nasdaq's Finance Department will send you an invoice regarding the payment of any fine.

Virtu Financial BD LLC
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If you have any questions concerning this matter, please contact Jason Harman, Senior Counsel, at 646-430-7046.



Kenneth R. Bozza
Chief Counsel, Legal Section
Department of Market Regulation

Signed on behalf of Nasdaq

Enclosure

FINRA District 10 – New York
Michael Solomon
Senior Vice President and Regional Director
(Via email)

Julian Rainero
Bracewell & Giuliani LLP
1251 Avenue of the Americas, 49th Floor
New York, NY 10020
Counsel for Respondent

THE NASDAQ OPTIONS MARKET LLC
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20120334122 - 01

TO: The NASDAQ Options Market LLC
c/o Department of Market Regulation
Financial Industry Regulatory Authority ("FINRA")

RE: Virtu Financial BD LLC, Respondent
Broker-Dealer
CRD No. 148390

Pursuant to Rule 9216 of The NASDAQ Stock Market LLC¹ ("Nasdaq") Code of Procedure, Virtu Financial BD LLC ("VRTU" or 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

VRTU is a Delaware limited liability corporation with its principal place of business located in New York, New York. At all times relevant to this matter, the Firm was a member of the Nasdaq Options Market ("NOM"), having registered on March 15, 2010. The Firm does not have any relevant prior disciplinary history.

SUMMARY

After receiving a referral from NOM concerning Obvious Error filings submitted by VRTU to bust or adjust certain trades effected by the Firm in ABCD Inc.² options (symbol: ABCD) on July 25, 2012, between 9:30 and 9:45 a.m., the Options Regulation

¹ All Nasdaq Options Market LLC ("NOM") disciplinary matters are governed by the Nasdaq Code of Procedure.

² A generic identifier has been used in place of this symbol.

staff of FINRA's Department of Market Regulation conducted a review of the Firm's pre-trade risk management controls and supervisory procedures related to preventing the entry of erroneous orders.

OVERVIEW

Based on a review of the Firm's trading in ABCD options on July 25, 2012, VRTU violated: (i) Rule 15c3-5(c)(1)(ii) of the Securities and Exchange Act of 1934 ("SEA") by failing to establish, document and maintain a system of risk management controls and supervisory procedures reasonably designed to prevent the entry of erroneous orders; and (ii) Chapter III, Section 2(a)(i) of NOM Rules, and Nasdaq Rules 3010 and 2110, by failing to establish, implement and maintain adequate supervisory procedures and/or a system of follow-up and review, including written supervisory procedures, reasonably designed to ensure compliance with SEA Rule 15c3-5.

FACTS AND VIOLATIVE CONDUCT

1. On or around March 19, 2012, ABCD declared a \$2.65 per share dividend that would be payable sometime during the fourth quarter. At that time, the Options Clearing Corporation ("OCC") issued a memo indicating that, in accordance with its By-Laws, it would not adjust ABCD options strike prices to accommodate what it deemed to be an ordinary dividend. Subsequently, during an earnings call after the close of trading on July 24, 2012, ABCD reported its third quarter results and declared that the \$2.65 dividend would be payable August 16, 2012. This announcement by ABCD of the dividend payment was not included in VRTU's nightly dividend download from Bloomberg on July 24, 2012.
2. Because the dividend was not properly accounted for by VRTU in its trading and pricing systems, when the Firm's trading models commenced trading on the morning of July 25, 2012, they mispriced any ABCD options with an expiration date on or after August 16, 2012.³
3. Between the open of trading at 9:30:00 a.m. and 9:41:38 a.m., when the Firm halted trading, VRTU sent approximately 1.45 million orders in ABCD options with an August 2012 expiration date to multiple exchanges, resulting in almost 16,400 executions for ABCD options. Of these, a total of 3,777 contracts were executed on NOM.
4. While each order placed and executed was subjected to the Firm's pre-trade risk controls, due to the failure to adjust for the expected dividend, almost all of the ABCD options contracts with August 2012 expiration dates were executed at unfavorable prices, resulting in a loss to the Firm of almost \$3.7 million.

³ When a dividend is declared on a stock, the market typically discounts the market price of the stock by the amount of the dividend, resulting in a lower stock price after the ex-dividend date. Correspondingly, options in the stock with expiration dates after the ex-dividend date typically have lower call premiums and higher put premiums.

5. VRTU requested obvious error rulings for any mispriced ABCD executions across all exchanges. However, while VRTU's executions were at prices away from the NBBO, the vast majority of executions did not meet the obvious error requirements and only a very small number of trades were broken, adjusted or otherwise unwound by the exchanges.
6. The Firm's Registered Options Principal ("ROP"), AB,⁴ was also the trading supervisor responsible for the strategies placing the specific ABCD orders at issue. Between 9:30 a.m. and 9:40 a.m., when AB noticed that certain trading strategies⁵ were "locking down" (i.e., prevented from placing additional orders until unlocked by an authorized risk manager) due to the Firm's pre-trade risk controls, he believed that those lockdowns were related to market-data issues and thus began manually resetting the strategies, thereby permitting the relevant strategy to continue placing orders subject to the Firm's Maximum Distance from the NBBO pre-trade risk control, which was set to \$1.00 at the time.⁶
7. Because AB manually reset a total of 72 lockdowns (without disabling the Maximum Distance from the NBBO pre-trade risk control), the Firm's strategies continued to submit orders in ABCD that, while still subject to the Firm's pre-trade risk controls, were mispriced and were also disadvantageous to the Firm.
8. On the date at issue in this matter, AB was the principal with primary responsibility for monitoring and supervising the Firm's automated options market making. At certain thresholds, AB had the ability, without additional review and/or approval, to manually reset trading strategies (without disabling any Firm-wide pre-trade risk controls) after a pre-trade risk control was triggered.
9. In addition, because the Firm's pre-trade risk controls were applied to each options series individually rather than the Firm's aggregate position in the underlying security, many of the Firm's other pre-trade risk controls were not triggered, thereby contributing to the Firm's failure to detect and prevent the entry of erroneous orders.
10. As a result of the conduct described in paragraphs one through nine above, the Firm's risk management and supervisory controls were not reasonably designed to prevent the entry of erroneous orders, in violation of SEA Rule 15c3-5(c)(1)(ii) and Chapter III, Section 2(a)(i) of NOM Rules, and Nasdaq Rules 3010 and 2110.

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

A censure, a joint and several fine in the amount of \$60,000, of which \$20,000 shall be paid to NOM and the balance will be paid to NYSE Arca, Inc. and NYSE MKT LLC, and

⁴ A generic identifier has been used in place of the name of this individual.

⁵ VRTU refers to "strategies" as trades in both the calls and puts of an option at the same strike price.

⁶ This control was subsequently made more restrictive.

an undertaking requiring the Firm to revise its policies and procedures, including its written supervisory procedures, to establish and maintain adequate supervisory procedures:

- (i) related to the use of pre-trade controls with more restrictive parameters than the Firm-wide pre-trade risk controls, including the manual resetting of trading strategies restricted by such controls; and
- (ii) to ensure sufficient oversight and review of the reset of trading strategies that are restricted by one or more Firm-wide pre-trade risk controls.

Within 90 business days of the acceptance of this AWC, a registered principal of the Firm shall submit to the COMPLIANCE ASSISTANT, LEGAL SECTION, MARKET REGULATION DEPARTMENT, 9509 KEY WEST AVENUE, ROCKVILLE, MD 20850, a signed, dated letter, or an e-mail from a work-related account of the registered principal, to MarketRegulationComp@finra.org providing the following information: (i) a reference to this matter; (ii) a representation that the Firm has revised its policies and procedures, including its written supervisory procedures, to address the deficiencies described above; and (iii) the date the revised procedures were implemented.

Acceptance of this AWC is conditioned upon acceptance of equivalent settlement agreements in related matters between the Firm and NYSE Regulation, Inc., on behalf of NYSE Arca, Inc. and NYSE MKT LLC.

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 it;
- 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 prejudice 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 FTNRA'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.

9/11/2015
Date

Virtu Financial BD LLC, Respondent

By: Jachyn L. Butler
Name: Jachyn L. Butler
Title: CCO

Reviewed by:

Julian Rainero
Counsel for Respondent
Julian Rainero
Bracewell & Giuliani LLP
1251 Avenue of the Americas, 49th Floor
New York, NY 10020
212.508.6142

Accepted by Nasdaq:

10/8/15
Date

Kenneth R. Bozza
Kenneth R. Bozza, 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;
- The installment payment plan.⁷
 - Monthly
 - Quarterly

Respectfully submitted,
Respondent Virtu Financial BD LLC

9/9/15
Date

By: Jaclyn L Butler
Name: Jaclyn L Butler
Title: CCO

⁷ The installment payment plan is only available for a fine of \$50,000 or more. Certain requirements apply.