

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES ACT OF 1933
Release No. 11314 / September 30, 2024

SECURITIES EXCHANGE ACT OF 1934
Release No. 101221 / September 30, 2024

ADMINISTRATIVE PROCEEDING
File No. 3-22223

In the Matter of

TD SECURITIES (USA) LLC

Respondent.

**ORDER INSTITUTING
ADMINISTRATIVE AND CEASE-AND-
DESIST PROCEEDINGS PURSUANT
TO SECTION 8A OF THE SECURITIES
ACT OF 1933 AND SECTION 15(b) 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 Section 8A of the Securities Act of 1933 (“Securities Act”) and Section 15(b) of the Securities Exchange Act of 1934 (“Exchange Act”) against TD Securities (USA) LLC (“TDS” or “Respondent”).

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the “Offer”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, Respondent 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 Section 8A of the Securities Act of 1933 and Section 15(b) 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 finds¹ that:

Summary

1. From April 2018 to May 2019 (the "Relevant Period"), a trader employed by TDS in its U.S. Treasury trading desk (the "Trader") engaged in hundreds of instances of "spoofing" in the U.S. Treasury cash market. This entailed creating the false appearance of buy or sell interest by entering orders on one side of the market, which the Trader had no intention of executing, to obtain more favorable execution prices on bona fide orders on the other side of the market. To mask his true intentions, the Trader employed so called "iceberg" orders, which hid from the market the true size of the bona fide orders. Once these iceberg orders were successfully filled, in whole or in part, the Trader would cancel the non-bona fide buys or sells.

2. During the Relevant Period, Respondent lacked a pre-trade, order-based surveillance system or other meaningful control to detect or prevent spoofing in the U.S. Treasury cash market. TDS did receive warnings – internally and externally – of potentially irregular and improper trading activity by the Trader in the U.S. Treasury cash market, as well as other markets. TDS failed to take reasonable steps to scrutinize the Trader's trading activity more closely thereafter.

Respondent

3. TDS is a Delaware Limited Liability Company headquartered in New York, New York. TDS is a broker-dealer registered with the Commission pursuant to Section 15(b) of the Exchange Act.

Facts

4. TDS maintains a desk that trades in U.S. Treasury cash securities and futures contracts (the "Desk"). The Trader became head of the Desk in November 2017 and remained in that position throughout the Relevant Period. The Trader traded on behalf of TDS in the firm's proprietary trading account, and thus the profits of those trades inured to TDS until the Trader was terminated by TDS in June 2019.

5. During the Relevant Period, TDS's policies and procedures prohibited market manipulation, including spoofing. TDS also conducted annual compliance training, which included information about and a prohibition on spoofing, as well as periodic updates on regulatory actions involving spoofing.

6. TDS did not have a U.S. Treasury cash spoofing surveillance system or other meaningful control in place to detect or surveil spoofing in the U.S. Treasury cash market during the Relevant Period.

¹ The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

7. Beginning in mid-2018, TDS received warnings that the Trader might be engaged in improper trading activity, including spoofing in the U.S. Treasury cash market and another market.

8. In August 2018, a TDS in-house surveillance system in a market other than the U.S. Treasury cash market generated a “Stage 2” alert for potential spoofing by the Trader.² This was the only Stage 2 spoofing alert generated by the surveillance system during the Relevant Period and required review by the Trader’s supervisor as well as TDS compliance. However, TDS did not conduct the investigation required under its internal procedures, and the Trader continued to trade without further supervision.

9. In October 2018, a third-party trading platform identified for TDS a pattern of potential spoofing in the Trader’s trading activity in the U.S. Treasury cash market. In response, TDS solicited an explanation from the Trader and provided the explanation to the trading platform. TDS did not perform any additional review of the trading, and the Trader continued to trade without heightened supervision by TDS.

10. On May 14, 2019, a different trading platform contacted TDS regarding a pattern of rapid order placements and cancellations by the Trader in U.S. Treasury cash securities. The platform also provided TDS with the supporting data that prompted the outreach. TDS suspended the trader the next day and commenced an investigation.

11. TDS’s review of the data relating to the May 14, 2019, inquiry showed that the Trader had placed iceberg buy orders in U.S. Treasury cash securities prior to placing larger, fully displayed sell orders in the same security. After a portion of each iceberg buy order had been executed, the Trader canceled the orders on both sides of the market. The sequence of orders and executions occurred in less than one minute and was then repeated with further executions of iceberg buy orders.

² A “Stage 2” alert arises where the initial Global Trade Surveillance team member assigned to an alert is unable to determine whether the alert is a false positive based upon the available evidence.

12. The following is an actual and representative trade in 10-year Treasury notes that the platform identified for TDS:

<i>Bona Fide Buy (at "Best Bid")</i>	<i>Time at Second Mark (at 8:43AM)</i>	<i>Spoofing Sale (at "Best Ask")</i>
Iceberg order for \$400 million	21.311	
	23.267	First fully displayed order: \$800 million
\$101 million of the buy order is filled	23.285 – 24.528	
	26.384	Second fully displayed order: \$800 million (\$1.6 billion in spoof orders)
\$38 million more of the buy order is filled (\$139 million total)	26.396 – 26.414	
	28.829	Third fully displayed order: \$600 million (\$2.2 billion in spoof orders)
\$37 million more of the buy order is filled (\$176 million total)	28.842 – 28.855	
	31.333 – 31.343	All three sales (spoofs) cancelled
Balance of buy order is cancelled	34.115	

13. The trade above reflects a bona fide \$400 million iceberg buy order, offset by substantially larger, fully displayed spoofing sale orders, which had the effect of artificially lowering the execution price of the bona fide buy order.

14. The Trader executed a similar sequence roughly eight seconds later.

15. TDS also identified similar spoofing loops by the Trader from March and May 2019.

16. By engaging in the activity described above during the Relevant Period, the Trader violated Section 9(a)(2) of the Exchange Act.

17. On June 4, 2019, TDS terminated the Trader's employment, after concluding that the Trader's activities violated TDS's Compliance Manual, which contains a series of "Prohibited Practices," including "spoofing." "Spoofing" is defined as a series of events in which a trader "places and immediately cancels a quote in an attempt to trigger a market movement that the [trader] then takes advantage of to establish or liquidate a position."

18. On June 28, 2019, TDS filed a Form U5 and a report pursuant to FINRA Rule 4530, which described the Trader's conduct and termination as follows: "The individual's activities violated [TDS]'s Compliance Manual which in accordance with industry standards of conduct prohibits the placement and subsequent cancellation of a quote in an attempt to trigger market movement to the advantage of the market participant."

19. TDS profited from the above-described conduct by executing buy orders for Treasury securities at lower prices, or sell orders for Treasury securities at higher prices, than it otherwise would have secured absent the Trader's manipulative trading. TDS earned profits of at least \$400,000 from the Trader's activity during the Relevant Period.

20. After terminating the Trader, TDS developed an in-house cash Treasuries spoofing surveillance model, implemented a third-party trade surveillance system, and conducted additional training related to spoofing.

Violations

21. As a result of the conduct described above, TDS willfully violated Section 17(a)(3) of the Securities Act, which makes it unlawful for “any person in the offer or sale of securities . . . to engage in any transaction, practice or course of business which operates or would operate as a fraud or deceit upon the purchaser.” A violation of the foregoing provision does not require scienter and may rest on a finding of negligence. *See Aaron v. S.E.C.*, 446 U.S. 680, 685 & 701-02 (1980).

22. As a result of the conduct described above, TDS failed reasonably to supervise the Trader within the meaning of Section 15(b)(4)(E) of the Exchange Act with a view to preventing and detecting his violations of Section 9(a)(2) of the Exchange Act.

Disgorgement

23. The disgorgement and prejudgment interest ordered in paragraph IV.C. is consistent with equitable principles, does not exceed Respondent’s net profits from its violations, and returning the money to Respondent would be inconsistent with equitable principles. Therefore, in these circumstances, distributing disgorged funds to the U.S. Treasury is the most equitable alternative. The disgorgement and prejudgment interest ordered in paragraph IV.C. shall be transferred to the general fund of the U.S. Treasury, subject to Section 21F(g)(3) of the Exchange Act.

IV.

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

Accordingly, pursuant to Section 8A of the Securities Act and Section 15(b) of the Exchange Act, it is hereby ORDERED that:

A. Respondent TDS cease and desist from committing or causing any violations and any future violations of Section 17(a)(3) of the Securities Act.

B. Respondent TDS is censured.

C. Respondent TDS shall, within thirty (30) days of the entry of this Order, pay disgorgement of \$400,000 and prejudgment interest of \$135,700 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 of disgorgement is not made, additional interest shall accrue pursuant to SEC Rule of Practice 600.

D. Respondent TDS shall, within thirty (30) days of the entry of this Order, pay a civil money penalty in the amount of \$6.5 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 TD Securities (USA) LLC as the 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 D. Mark Cave, Associate Director, Division of Enforcement, Securities and Exchange Commission, 100 F St., NE, Washington, DC 20549.

E. 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.

Vanessa A. Countryman
Secretary