

**NASDAQ PHLX LLC  
LETTER OF ACCEPTANCE, WAIVER AND CONSENT  
NO. 2019061053402**

TO: Nasdaq PHLX LLC  
c/o Department of Enforcement  
Financial Industry Regulatory Authority (FINRA)

RE: T3 Trading Group, LLC, Respondent  
Broker-Dealer  
CRD No. 154431

Pursuant to Rule 9216 of Nasdaq PHLX LLC (“Phlx”) Code of Procedure,<sup>1</sup> T3 Trading Group, LLC (“T3” 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, Phlx will not bring any future actions against the firm alleging violations based on the same factual findings described herein.

**I.**

**ACCEPTANCE AND CONSENT**

- A. Respondent 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 Phlx, or to which Phlx 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 Phlx:

**BACKGROUND**

T3 became a member of Phlx in June 2014. The firm ceased its registration with Phlx on October 18, 2019. From October 8, 2019 to the present, T3 has been registered as a FINRA member firm. Phlx retains jurisdiction over the firm pursuant to Phlx Rule General 5, Section 1(c).

T3 is a proprietary trading firm that provides market access in equities, futures, and options. The firm is headquartered in New York, New York, with four branch offices, and employs approximately 220 registered representatives. T3 has no relevant disciplinary history.

**SUMMARY**

From May 2016 to October 18, 2019 (the “Relevant Period”), T3 did not establish, maintain, and enforce a supervisory system, including written supervisory procedures (“WSPs”), reasonably designed to detect and prevent, insofar as practicable, potentially manipulative trading activity, including spoofing, layering, and similar activity, by T3’s proprietary traders. Because of its supervisory failures, T3 did not detect potentially manipulative

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<sup>1</sup> The Nasdaq Stock Market LLC Rules General 5 Section 9000 et al. are incorporated by reference into Phlx Rule General 5, Section 3, and are thus Phlx Rules and thereby applicable to Phlx members, member organizations, persons associated with member organizations, and other persons subject to Phlx’s jurisdiction.

trading activity by two of its proprietary traders during the Relevant Period. As a result, T3 violated Nasdaq PHLX Rules 748 and 707.

### **FACTS AND VIOLATIVE CONDUCT**

1. This matter arose from an investigation conducted by FINRA's Department of Market Regulation.
2. During the Relevant Period, Phlx Rule 748 provided that "[e]ach member or member organization shall establish, maintain, and enforce written supervisory procedures, and a system for applying such procedures, to supervise the types of business(es) in which the member or member organization engages in and to supervise the activities of all registered representatives, employees, and associated persons. The written supervisory procedures and the system for applying such procedures shall reasonably be designed to prevent and detect, insofar as practicable, violations of the applicable securities laws and regulations, including the By-Laws and Rules of the Exchange."
3. During the relevant period, Phlx Rule 707 provided that a member "shall not engage in conduct inconsistent with just and equitable principles of trade." A violation of Phlx Rule 748 constitutes a violation of Phlx Rule 707.

#### ***Two T3 traders engaged in manipulative or potentially manipulative trading.***

4. During the first half of 2017, T3 was contacted by its primary executing firm (the "executing firm") regarding potentially manipulative trading activity by a T3 proprietary trader, Trader 1. The executing firm notified T3 of concerns about potential manipulative trading activity indicative of spoofing in 14 unique ticker symbols. Specifically, Trader 1 engaged in a pattern of trading in which he placed small orders on one side of the market that may have narrowed the Protected Best Bid or Offer (PBBO) for a given security that he subsequently cancelled and placed and executed contra-side orders in those same securities within seconds of the cancellation of his original orders.
5. T3 investigated the trades and received an explanation from Trader 1, which the Firm accepted. T3 concluded that Trader 1's activity was not manipulative and did not place any immediate restrictions on Trader 1's activity but warned Trader 1 that if the pattern of trading continued, he would have his trading privileges revoked. Despite Trader 1 continuing to engage in similar trading activity, and T3 continuing to monitor his trades, it was not until October 2017, after FINRA initiated an investigation into Trader 1's activity, that T3 suspended Trader 1's trading privileges. Trader 1 resigned from the firm shortly thereafter.
6. Between May 2016 and October 2017, Trader 1 engaged in numerous instances of potential spoofing. T3 did not reasonably supervise Trader 1's activity.
7. From March 2018 to December 2018, another T3 proprietary trader, Trader 2, engaged in a trading strategy, on at least 50 occasions, whereby he entered non-bona fide orders for inclusion in closing auctions that would offset or flip the auction imbalance. Trader 2 would then execute trades outside of the closing auction process on the opposite side of his closing auction orders and cancel the vast majority of his closing auction orders

within seconds of market close, leaving active only those closing auction orders that generally matched the positions Trader 2 accumulated through his contra side orders. Trader 2's cancellations reduced the number of shares available to offset the auction imbalance, or in some instances caused the imbalance to switch sides, which allowed him to exit his accumulated positions at artificially advantageous prices. T3 failed to detect or meaningfully address Trader 2's activity.<sup>2</sup>

8. In or around December 2018, T3 was contacted by its primary executing firm regarding potentially manipulative trading activity by another T3 proprietary trader, Trader 2. At T3's request, the executing firm provided T3 with a sample of Trader 2's order and cancellation activity. Upon T3's review, T3 suspended the trader's routing privileges and shortly thereafter T3 filed a Uniform Application for Securities Industry Registration on January 2, 2019 disclosing that it had terminated Trader 2 because he had engaged in potentially manipulative activity, including by "placing orders and then cancelling them just seconds before the market close."

***T3 failed to establish, maintain, or enforce a supervisory system, including WSPs, reasonably designed to detect and prevent potential spoofing and layering.***

9. During the Relevant Period, T3 did not establish and maintain WSPs, and a system for applying such procedures, reasonably designed to detect and prevent, insofar as practicable, potential spoofing and layering activity by the firm's proprietary traders.<sup>3</sup>
10. Between May 2016 and August 2019, T3's WSPs did not reference spoofing, layering, or similar activity, and therefore failed to define the terms and explain why such activity was prohibited. T3 added these definitions to its WSPs in August 2019.
11. Moreover, while T3 relied on surveillance reports to monitor its proprietary traders' order flow and documented the reviews, T3's WSPs during the Relevant Period did not describe how the firm's surveillance reports should be reviewed to detect spoofing and layering, the frequency of reviews, how such reviews should be documented, or actions that should be taken when potentially manipulative trading activity is identified.
12. During the period of May 2016 to May 2019, T3 primarily relied on its own internal surveillance reports and its supervisors to monitor its proprietary traders' order flow.<sup>4</sup> However, these internal surveillance reports and parameters were not reasonably designed to detect or prevent spoofing, layering, or similar potentially manipulative activity, including Trader 1's and Trader 2's trading activity.

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<sup>2</sup> In December 2023, Trader 2 entered into an AWC with Phlx for violating Phlx Rule 707 in connection with his closing auction trading activity.

<sup>3</sup> Layering is a form of market manipulation in which multiple, baiting limit orders are entered on one side of the market at various price levels in order to create the appearance of a change in the levels of supply or demand, thereby artificially impacting the displayed interest. An order is then executed on the opposite side of the market, and the baiting orders are immediately cancelled. Similar to layering, spoofing is a form of market manipulation in which a market participant places non-bona fide orders, generally inside the existing national best bid or offer, with the intent of briefly triggering a response from another market participant, followed by cancellation of the non-bona fide orders and the entry of an order on the other side of the market. Layering, spoofing, and similar conduct may violate, among other things, federal securities laws and Phlx rules.

<sup>4</sup> In May 2019, T3 licensed software from its primary clearing firm that included surveillance capabilities specifically designed to detect and prevent spoofing, layering, and similar activities.

13. For example, T3's cancellation rate report failed to identify suspicious order cancellation rates on a per-symbol basis, relying instead on a trader's overall trading activity. The report also failed to identify patterns of cancellations that were indicative of layering and spoofing. Additionally, the threshold the firm employed for reviewing cancellation rate alerts was too high to reliably identify trading activity indicative of layering and spoofing.
14. T3's marking the close report also utilized parameters that were too narrow to reliably identify suspicious trading activity. Specifically, the firm applied time-based and volume-based thresholds to its marking the close report that prevented the firm from detecting potentially suspicious trading activity that occurred more than two minutes prior to the close and potentially suspicious trading activity in higher-volume securities.
15. Moreover, the firm's internal surveillance reports were not reasonably designed to prevent potential spoofing, layering, or similar activity because they were not designed to flag the placement and cancellation of non-bona fide orders.
16. T3's internal surveillance reports were therefore not reasonably designed to flag potential spoofing, layering, or the potentially manipulative activity by its proprietary traders, including Trader 1 and Trader 2. As a result, T3 did not prevent or detect potential spoofing, layering, or similar activity by Traders 1 and 2.
17. Accordingly, T3 violated Phlx Rules 748 and 707 during the Relevant Period.

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

1. a censure; and
2. a fine of \$300,000.

The firm agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. The firm has submitted a Payment Information form showing the method by which it proposes to pay the fine imposed.

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 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 Phlx's Code of Procedure:

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

- 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 Exchange 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 Exchange Review Council, or any member of the Exchange 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 Enforcement and the Exchange Review Council, the Review Subcommittee, or the Office of Disciplinary Affairs ("ODA"), pursuant to Phlx 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 Phlx or any other regulator against the firm;
  - 2. Phlx may release this AWC or make a public announcement concerning this agreement and the subject matter thereof in accordance with Phlx Rule 8310 and IM-8310-3;<sup>5</sup> 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

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<sup>5</sup> Series 8000 of Nasdaq Rules are incorporated by reference into Phlx General 5, Section 2, and are thus Phlx Rules and thereby applicable to Phlx members, member organizations, persons associated with member organizations, and other persons subject to Phlx's jurisdiction.

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 Phlx, or to which Phlx 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 Phlx 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 Phlx, nor does it reflect the views of Phlx 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 the firm 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.

February 13, 2025

Date

Garret Marquis  
T3 Trading Group, LLC  
Respondent

By: Garret Marquis  
Garret Marquis, CEO

Reviewed by:

Susan Light  
Susan Light, Esq.  
Counsel for Respondent  
Katten Muchin Rosenman LLP  
50 Rockefeller Plaza  
New York, NY 10020

Accepted by Phlx:

February 18, 2025

Date

Tricia Lyons  
Tricia Lyons, Counsel  
Department of Enforcement

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