

**UNITED STATES OF AMERICA**  
**Before the**  
**SECURITIES AND EXCHANGE COMMISSION**

**SECURITIES EXCHANGE ACT OF 1934**  
**Release No. 60540 / August 19, 2009**

**ADMINISTRATIVE PROCEEDING**  
**File No. 3-13589**

**In the Matter of**

**LIGHTSPEED TRADING LLC,**

**Respondent.**

**ORDER INSTITUTING ADMINISTRATIVE AND  
CEASE-AND-DESIST PROCEEDINGS PURSUANT  
TO SECTIONS 15(b) AND 21C 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 Sections 15(b) and 21C of the Securities Exchange Act of 1934 (“Exchange Act”), against Lightspeed Trading LLC (“Lightspeed” 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, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over it and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Sections 15(b) and 21C 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 finds:<sup>1</sup>

#### **Summary**

1. From September 19 through September 29, 2008, Lightspeed, a registered broker-dealer, conducted several hundred short sales of financial institution securities, on behalf of customers, in contravention of the Commission's emergency order of September 18, 2008 (the "Emergency Order").<sup>2</sup> By acting in contravention of the Emergency Order, Lightspeed violated Section 12(k)(4) of the Exchange Act, which requires that brokers and dealers comply with Commission orders.

#### **Respondent**

2. Lightspeed is a New York limited liability company with its principal place of business in New York City. Lightspeed is an agency broker that provides trading technology and tools that provide its customers with self-directed access to multiple trade execution venues, particularly for active traders and small to mid-size hedge funds. Lightspeed is an introducing broker, who introduces its customer accounts to its clearing firms on a fully-disclosed basis. These clearing firms also provide Lightspeed with daily lists of stocks that are available to be borrowed by Lightspeed's customers in connection with short sales. During the period that the Emergency Order was effective, there were an average of approximately 230,000 daily executions by customers through Lightspeed's proprietary trading platform (the "Lightspeed Platform").

#### **Background**

3. The Commission issued the Emergency Order on the night of Thursday, September 18, 2008. The Emergency Order provided, among other things, that "all persons are prohibited from short selling any publicly traded securities of any Included Financial Firm." An appendix to the Emergency Order specifically identified 799 financial firms as "Included Financial Firms." The Emergency Order was effective immediately.

4. The Commission posted the Emergency Order and an accompanying press release on its website at 1:42 am EST on Friday, September 19. The Commission's Office of Public Affairs also circulated the press release to numerous media outlets via email at 5:56 am EST on September 19.

---

<sup>1</sup> 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.

<sup>2</sup> See Exchange Act Rel. No. 58592, which, as amended by Exchange Act Rel. No. 58611, was effective from September 18 through October 8, 2008.

5. On Sunday, September 21, 2008, the Commission amended the Emergency Order. The amendment required each exchange to designate which of their listed securities were subject to the short selling ban. The New York Stock Exchange (“NYSE”) and Nasdaq Stock Market (“Nasdaq”) published their “no short-sale lists” (*i.e.*, lists of financial firms covered by the short selling ban) by posting them on their websites and emailing them to interested parties beginning the morning of September 22.

**Lightspeed Executes and Submits Customer Short Sell Orders  
in Securities Subject to the Emergency Order**

6. According to internal Lightspeed communications, by approximately 7:30 am EST on Friday, September 19, 2008, Lightspeed personnel had received the Included Financial Firms list, and knew the securities of the identified firms could not be sold short. After 7:30 am EST on September 19, Lightspeed executed short sales in Included Financial Firms and also submitted certain customer short sale orders to third-parties for execution.

7. At approximately 7:30 a.m. EST on the morning of Monday, September 22, 2008, Lightspeed received regulatory alerts, which were e-mailed to it by the NYSE and the Nasdaq, containing the updated no short-sale lists of financial firms. As the NYSE and Nasdaq added, and on limited occasions removed, financial firms from their no short-sale lists over the course of the Emergency Order period, Lightspeed was notified of the changes via email. After receiving regulatory alerts containing the updated no short-sale lists from the NYSE and Nasdaq, Lightspeed executed short sales in covered financial firms and also submitted certain customer short sale orders to third-parties for execution.

8. Lightspeed executed 690 short sales, on an agency basis, in securities covered by the Emergency Order from September 19, 2008 through September 24, 2008. Of the 690 sales, Lightspeed executed 554 on the Lightspeed Platform. These sales involved 29 issuers, and were executed on September 19, 22, 23 and 24.<sup>3</sup> Another 136 short sales were executed on the HUBB trading platform (the “HUBB Platform”), which is operated by Schonfeld Securities LLC, an entity under common control with Lightspeed. These short sales involved 18 issuers, and were executed on September 19, 22, and 24.

9. Lightspeed also submitted 34 customer short sale orders in securities covered by the Emergency Order to two third-parties for execution. Those orders resulted in 82 short sale executions, involved 12 issuers, and were executed on September 19, 22, 23, 24, 25, 26 and 29, with a substantial majority of these executions, like those on the Lightspeed Platform and the HUBB Platform, occurring on the first three trading days of the Emergency Order period.

---

<sup>3</sup> During this timeframe, in certain instances, Lightspeed received inaccurate or untimely information from its clearing firms regarding the availability of stocks to borrow for short selling.

10. Lightspeed received commissions of \$2,222 upon the short sales in securities covered by the Emergency Order.

### **Violations**

11. As a result of the conduct described above, Lightspeed willfully<sup>4</sup> violated Section 12(k)(4) of the Exchange Act.

### **Lightspeed's Remedial Efforts**

12. In determining to accept the Offer, the Commission considered remedial acts promptly undertaken by Respondent and cooperation afforded the Commission staff. In particular, Lightspeed implemented enhanced procedures to update its systems to prevent short sales in existing and newly-added stocks, and required all customers to enter into buy transactions to cover short positions in prohibited securities the same day they were executed.

## **IV.**

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

Accordingly, pursuant to Sections 15(b) and 21C of the Exchange Act, it is hereby ORDERED that:

A. Respondent Lightspeed cease and desist from committing or causing any violations and any future violations of Section 12(k)(4) of the Exchange Act resulting from Lightspeed's non-compliance with any Commission emergency order limiting, restricting, or prohibiting short selling in any security.

B. Respondent Lightspeed is censured.

C. Respondent Lightspeed shall, within 30 days of the entry of this Order, pay disgorgement of \$2,222 and \$38 in prejudgment interest to the United States Treasury. If timely payment is not made, additional interest shall accrue pursuant to SEC Rule of Practice 600. Payment shall be: (A) made by United States postal money order, certified check, bank cashier's check or bank money order; (B) made payable to the United States Treasury; (C) hand-delivered or mailed to the Office of Financial Management, Securities and Exchange Commission, Operations Center, 6432 General Green Way, Stop 0-3, Alexandria, VA 22312; and (D) submitted under cover letter that identifies Lightspeed Trading LLC as a Respondent in these proceedings, the file number

---

<sup>4</sup> A willful violation of the securities laws means merely "that the person charged with the duty knows what he is doing." *Wonsover v. SEC*, 205 F.3d 408, 414 (D.C. Cir. 2000) (quoting *Hughes v. SEC*, 174 F.2d 969, 977 (D.C. Cir. 1949)). There is no requirement that the actor "also be aware that he is violating one of the Rules or Acts." *Id.* (quoting *Gearhart & Otis, Inc. v. SEC*, 348 F.2d 798, 803 (D.C. Cir. 1965)).

of these proceedings, a copy of which cover letter and money order or check shall be sent to Stephen Korotash, Associate Regional Director (Enforcement), Fort Worth Regional Office, Securities and Exchange Commission, 801 Cherry Street, Suite 1900, Fort Worth, Texas 76109.

D. Respondent shall, within 30 days of the entry of this Order, pay a civil money penalty in the amount of \$75,000 to the United States Treasury. If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. 3717. Such payment shall be: (A) made by United States postal money order, certified check, bank cashier's check or bank money order; (B) made payable to the United States Treasury; (C) hand-delivered or mailed to the Office of Financial Management, Securities and Exchange Commission, Operations Center, 6432 General Green Way, Stop 0-3, Alexandria, VA 22312; and (D) submitted under cover letter that identifies Lightspeed Trading LLC as a Respondent in these proceedings, the file number of these proceedings, a copy of which cover letter and money order or check shall be sent to Stephen Korotash, Associate Regional Director (Enforcement), Fort Worth Regional Office, Securities and Exchange Commission, 801 Cherry Street, Suite 1900, Fort Worth, Texas 76109.

By the Commission.

Elizabeth M. Murphy  
Secretary