

**CBOE EDGX EXCHANGE, INC.**  
**LETTER OF ACCEPTANCE, WAIVER AND CONSENT**  
**NO. 20140414439-04**

TO: Cboe EDGX Exchange, Inc.  
c/o Department of Enforcement  
Financial Industry Regulatory Authority (“FINRA”)

RE: Wolverine Trading, LLC, Respondent  
Broker-Dealer  
CRD No. 36848

Pursuant to Rule 8.3 of the Rules of Cboe EDGX Exchange, Inc. (“EDGX”)<sup>1</sup>, Wolverine Trading, LLC (“Wolverine” 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, EDGX 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 EDGX, or to which EDGX 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 EDGX:

**BACKGROUND**

Wolverine is a registered broker-dealer that was approved for EDGX membership on October 1, 2015. Its registration remains in effect. The firm does not have any relevant formal disciplinary history.

**SUMMARY**

1. FINRA’s Department of Market Regulation (the “Staff”), on behalf of EDGX and various other options exchanges, conducted a review of the firm’s compliance with Rule 15c3-5 promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and related supervision rules of various exchanges, including EDGX, during the period between October 2015 and the present (the “Review Period”).
2. As detailed further below, the firm failed to establish and maintain an adequate system of risk management controls and supervisory procedures, including written supervisory procedures (“WSPs”), and an adequate system of follow-up and review,

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<sup>1</sup> Effective October 17, 2017, Bats EDGX Exchange, Inc. was renamed to Cboe EDGX Exchange, Inc.

reasonably designed to manage the financial, regulatory, and other risks of providing market access, including, but limited to, risk management controls and supervisory procedures reasonably designed to: (i) prevent the entry of erroneous orders by rejecting orders that exceed appropriate price or size parameters or that indicate duplicative orders; (ii) prevent the entry of orders that do not comply with regulatory requirements that must be satisfied on a pre-order entry basis; (iii) manage the risk of unintended or inadvertent quotations generated by a malfunctioning system; (iv) address or otherwise codify the Firm's obligation to prevent the entry of excessive messages on a pre-trade basis, or document changes to pre-defined quoting parameters set by users of the Firm's real-time quote-monitoring and alert application; and (v) codify and address material malfunctions to its automated trading systems and/or algorithms.

3. On November 3, 2010, the SEC adopted SEC Rule 15c3-5 (sometimes referred as the "Market Access Rule") under the Exchange Act to address concerns relating to the practice of broker-dealers affording direct market access to customers. SEC Rule 15c3-5 requires, among other things, that a broker-dealer with market access establish risk management controls and supervisory procedures that are reasonably designed to limit the financial exposure of the broker-dealer and ensure compliance with all regulatory requirements applicable to market access. The rule became effective on July 14, 2011.
4. Rule 15c3-5(b) requires brokers and dealers with 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 this business activity."
5. Rule 15c3-5(c) requires, among other things, broker-dealers with market access to have risk management controls and supervisory procedures that are reasonably designed to prevent the entry of erroneous or duplicative orders and ensure compliance with all pre-trade regulatory requirements.
6. EDGX Rule 3.1 requires a member, in the conduct of its business, to observe high standards of commercial honor and just and equitable principles of trade.
7. EDGX Rule 3.2 prohibits members from engaging in conduct in violation of the Exchange Act, the rules and regulations promulgated thereunder, the By-Laws, Exchange Rules and any policy or written interpretation of the By-Laws or Exchange Rules of the EDGX. EDGX Rule 3.2 further requires every member to supervise persons associated with the member to assure compliance with those requirements.
8. EDGX Rule 5.1 requires, in pertinent part, that a member establish, maintain, and enforce written procedures which will enable it to supervise properly the activities of the firm and to assure its compliance with applicable securities laws, rules and regulations.

9. EDGX Rule 5.2 specifies that final responsibility for proper supervision shall rest with the Member, which shall designate a partner, officer, or manager to carry out the Member's WSPs.

### **FACTS AND VIOLATIVE CONDUCT**

10. During the Review Period, Wolverine's risk management system and supervisory procedures were not reasonably designed to monitor, regulate, detect and prevent the dissemination of excessive, erroneous, and duplicative orders, quotations and/or cancellations, or otherwise ensure compliance with SEC Rule 15c3-5 promulgated under the Exchange Act.
11. Specifically, during the Review Period, the firm's risk management controls and supervisory procedures were not adequate, in that they did not: (i) prevent the rapid and repeated entry and deletion of five-dollar wide bids and offers between two distinct alternating limit prices, or at increasing and then decreasing limit prices; (ii) codify the firm's obligation to prevent the entry of excessive messages on a pre-trade basis, or to document changes and reviews to the pre-defined parameters set by users of its real-time automated alert system; (iii) have pre-trade controls to prevent the entry of orders that exceeded appropriate price parameters on an order-by-order basis; (iv) have controls to prevent the inadvertent entry of messages that exceeded configurable thresholds; (v) specify how the firm manages access to its trading systems or regulate the possible overriding of system restrictions; (vi) outline the steps to taken or identify the individual(s) responsible for taking such steps, to address major system-related problems, including how and by whom manual shut-offs, kill switches, or other means of disabling malfunctioning systems and/or algorithms are to be deployed; and (vii) specify the frequency at which shut-offs, kill switches, or other automated or manual means of disabling malfunctioning systems and algorithms are to be tested, and the results of such test documented, in order to ensure proper implementation and functioning of such shut-offs, kill switches and other disabling mechanisms.
12. The conduct described in paragraphs 10 and 11 constitutes a violation of Rules 15c3-5(b) and 15c3-5(c) promulgated under the Exchange Act, and EDGX Rules 3.1, 3.2, 5.1 and 5.2.

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

1. a censure;
2. a total fine of \$450,000, of which \$60,000 shall be paid to EDGX;<sup>1</sup> and

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<sup>1</sup> The balance of the fine shall be paid to Cboe BZX Exchange, Inc. (f/k/a Bats BZX Exchange, Inc.), Boston Options Exchange LLC, NASDAQ BX, Inc., NASDAQ Options Market LLC, NASDAQ PHLX LLC, NYSE Arca, Inc., and NYSE American LLC (f/k/a NYSE MKT LLC).

3. an undertaking requiring Respondent to codify the supervisory deficiencies described in this AWC and to ensure that it has implemented controls and procedures that are reasonably designed to achieve compliance with the rules and regulations cited herein. Within 60 days after this AWC becomes final, Respondent shall submit to the COMPLIANCE ASSISTANT, LEGAL SECTION, MARKET REGULATION DEPARTMENT, 9509 KEY WEST AVENUE, ROCKVILLE, MD 20850, a written representation from a senior management firm executive, to [MarketRegulationComp@finra.org](mailto:MarketRegulationComp@finra.org) that provides the following information:
  - i. a reference to this matter;
  - ii. a representation that Respondent has revised its written supervisory procedures as indicated above; and
  - iii. the date(s) this was completed.

Acceptance of this AWC is conditioned upon acceptance of similar settlement agreements in related matters between the firm and Cboe BZX Exchange, Inc. (f/k/a Bats BZX Exchange, Inc.), Boston Options Exchange LLC, NASDAQ BX, Inc., NASDAQ Options Market LLC, NASDAQ PHLX LLC, NYSE Arca, Inc., and NYSE American LLC (f/k/a NYSE MKT LLC).

The firm agrees to pay the monetary sanction(s) upon notice that this AWC has been accepted and that such payment(s) are due and payable. It has submitted an Election of Payment 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(s) imposed in this matter.

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

## II.

### WAIVER OF PROCEDURAL RIGHTS

The firm specifically and voluntarily waives the following rights granted under EDGX Rules:

- A. To have a Statement of Charges issued specifying the allegations against the firm;
- B. To be notified of the Statement of Charges 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 Appeals Committee of EDGX's Board of Directors

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 (“CRO”), in connection with the CRO’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 EDGX Rule 8.16, 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:

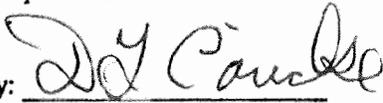
- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the CRO, pursuant to EDGX Rule 8.3;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against the firm; and
- C. 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 EDGX or any other regulator against the firm;
  - 2. this AWC will be published on a website maintained by EDGX in accordance with EDGX Rule 8.18. In addition, this AWC will be made available through FINRA’s public disclosure program in response to public inquiries about the firm’s disciplinary record; 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 EDGX, or to which EDGX is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects the firm’s: (i) testimonial obligations; or (ii) right to take legal or factual positions in litigation or other legal proceedings in which EDGX 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 EDGX,

nor does it reflect the views of EDGX 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.

23 February 2014  
Date

Wolverine Trading, LLC  
Respondent

By: 

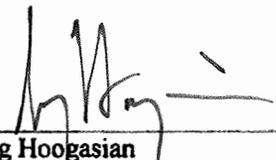
Name: David H. Cavichie

Title: Chief Legal Officer

Reviewed by: Craig Murray

  
Counsel for Respondent  
Firm Name  
Address  
City/State/Zip  
Phone Number

2/23/18  
Date

 4/13/2018  
Greg Hoogasian  
Senior Vice President & Chief Regulatory  
Officer  
Cboe EDGX Exchange, Inc.

### 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  
Wolverine Trading, LLC

23 February 2018  
Date

By:   
Name: David H Cavicke  
Title: Chief legal officer