

**CBOE EDGA EXCHANGE, INC.**  
**LETTER OF ACCEPTANCE, WAIVER AND CONSENT**  
**NO. 2017053089501**

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

RE: Belvedere Trading LLC, Respondent  
Broker-Dealer  
CRD No. 132605

Pursuant to Rule 8.3 of the Rules of Cboe EDGA Exchange, Inc. ("EDGA"), Belvedere Trading LLC ("Belvedere" 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, EDGA 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 EDGA, or to which EDGA 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 EDGA:

**BACKGROUND**

Belvedere is proprietary trading firm and an options market maker based in Chicago, Illinois. As part of its options market making business, the firm trades equity securities to hedge positions. It became registered with EDGA on November 29, 2011, and its registration remains in effect. The firm does not have relevant disciplinary history.

**SUMMARY**

In Matter No. 20170530895, FINRA's Trading and Compliance Examinations team (the "Staff") conducted a 2017 equities cycle examination of the firm. During the period from July 18 through October 13, 2017 (the "review period"), the firm mismarked certain proprietary sale orders as long or short, and had related supervisory violations.

## **FACTS AND VIOLATIVE CONDUCT**

### **Rules Governing Accurate Order Marking of Sell Orders**

1. EDGA Rule 11.10(a)(5) requires all short sale orders to include a Short Sale or Short Exempt instruction when entered into EDGA's System. Rule 200(g) of Regulation SHO of the Securities Exchange Act of 1934 ("Regulation SHO Rule 200(g)") requires a broker-dealer to mark all sell orders of equity securities as long, short, or short exempt. Regulation SHO Rule 200(g)(1) provides an order to sell shall be marked "long" only if the seller is deemed to own the security being sold and either is in the physical position or control of the broker or dealer or it is reasonably expected that the security will be in the physical possession or control of the broker dealer no later than the settlement of the transaction.

### **Belvedere's Inaccurate Markings of Sell Orders**

2. The firm began mismarking certain proprietary sell orders on July 18, 2017, when a change was made to its execution gateway system. Due to a misconfiguration, the firm failed to include certain of its proprietary trading accounts in the start-of-day positions published to the execution gateways.
3. As a result, the firm incorrectly marked proprietary equity orders as long or short in approximately 26,594 instances, and entered short sale orders on EDGA without a short sale indicator.
4. The conduct described in paragraphs 2 and 3 above constituted violations of Regulation SHO Rule 200(g) and EDGA Rule 11.10(a)(5).

### **Rules Governing Supervisory Obligations**

5. EDGA 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.
6. EDGA Rule 3.2 requires, in relevant part, that each member supervise persons associated with the member as to assure compliance with, among other things, the Exchange Act and EDGA rules.
7. EDGA Rule 5.1 states that each member shall establish, maintain, and enforce written procedures that will enable it to supervise properly the activities of associated persons of the member and to assure their compliance with applicable securities laws, rules, regulations, and statements of policy promulgated thereunder, with the rules of the designated self-regulatory organization, and EDGA rules.

### **Belvedere's Supervisory Violations**

8. The firm had written supervisory procedures ("WSPs") in place during the review period that described its supervisory reviews to ensure accurate order marking. The WSPs

provided for the compliance department's review of a daily short-sale mismatch report, which generated an exception whenever there was a difference between the Firm's opening and aggregate positions. The WSPs required the prompt evaluation of any exceptions and escalation of any issues, when appropriate, with the applicable trading supervisor. The WSPs further provided for quarterly reviews by the compliance department of a random sampling of sell orders.

9. The firm's short-sale mismatch report generated exceptions on three consecutive days in July 2017 (July 18, 19, and 20), but the firm did not take any action until July 21, when a junior compliance analyst emailed technology and compliance staff, attaching the reports and alerting them to the mismarking exceptions. From July 21 through August 31, 2017, the firm's mismatch report continued to display exceptions, but the firm erroneously closed the alerts as false positives and the mismarkings continued. On September 27, 2017, the firm discovered that certain of its proprietary trading accounts were excluded from the start-of-day positions published to the execution gateways, thereby causing certain order mismarkings. By October 14, 2017, the firm had resolved the issue.
  10. Thus, while the firm's junior compliance analyst promptly escalated exceptions, the firm did not promptly address and remediate the exceptions. The firm's delay resulted in continued noncompliance through October 13, 2017 with Regulation SHO Rule 200(g) and EDGA Rule 11.10(a)(5).
  11. For the reasons set forth in paragraphs 8 and 9, during the review period, the firm failed to establish, maintain, and enforce written procedures to supervise its activities and to assure compliance with Regulation SHO Rule 200(g) and EDGA Rule 11.10(a)(5). Such conduct violated EDGA Rules 5.1, 3.1, and 3.2.
  12. The firm self-identified and corrected the issue and disclosed the issue to the Staff during the onsite portion of the 2017 equities cycle examination. After the review period, the firm implemented a new alert designed to detect discrepancies in firm position records.
- B. The firm also consents to the imposition of a censure and a \$35,000 fine (\$30,000 for order marking violations and \$5,000 for related supervisory deficiencies).
- The firm agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is 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 imposed in this matter.
- The sanctions imposed herein shall be effective on a date set by EDGA.

## **II.**

### **WAIVER OF PROCEDURAL RIGHTS**

The firm specifically and voluntarily waives the following rights granted under EDGA 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 EDGA'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 EDGA 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 EDGA 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 EDGA or any other regulator against the firm;
  - 2. This AWC will be published on a website maintained by EDGA in accordance with EDGA 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 EDGA, or to which EDGA 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 EDGA 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 EDGA, nor does it reflect the views of EDGA 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.

Date

6/11/2019

Respondent

Belvedere Trading LLC

By:

Name:

William D'Anna

Title:

CFO / CCO

Reviewed by:

Counsel for Respondent

6/17/2019

Date

Greg Hoogasian

Senior Vice President & Chief Regulatory Officer  
Cboe EDGA 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

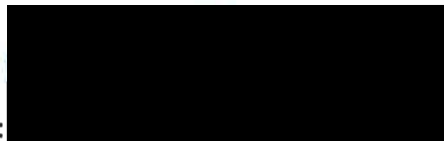
Belvedere Trading LLC

6-11-2009  
Date

By:

Name:

Title:



William Dana

CFO ICW