

**CBOE BZX EXCHANGE, INC.**  
**LETTER OF ACCEPTANCE, WAIVER AND CONSENT**  
**NO. 2015047505802**

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

RE: Susquehanna Securities, Respondent  
Broker-Dealer  
CRD No. 35874

Pursuant to Rule 8.3 of the Rules of Cboe BZX Exchange, Inc. ("BZX"), Susquehanna Securities ("SSUS" 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, BZX 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 BZX, or to which BZX 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 BZX:

**BACKGROUND**

Respondent, a market maker firm, became a member of BZX on October 7, 2015, and its registration remains in effect. During all times referenced herein, SSUS was also a member of multiple other options exchanges.<sup>1</sup>

**RELEVANT DISCIPLINARY HISTORY**

Respondent does not have a relevant disciplinary history.

**SUMMARY**

In connection with this matter, the Options Regulation staff ("staff") of FINRA's Department of Market Regulation, on behalf of the relevant options exchanges, conducted a review of whether SSUS exceeded the applicable position limits in listed options securities between October 26, 2015 and April 21, 2017 (the "Review Period").

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<sup>1</sup> In addition to BZX, this includes the following options exchanges: BOX Exchange LLC; Cboe Exchange, Inc.; C2 Options Exchange, Inc.; Cboe EDGX Exchange, Inc.; NYSE American LLC; NYSE Arca, Inc.; and Miami International Securities Exchange, LLC (collectively referred to herein as the "relevant options exchanges").

As a result of staff's investigation, it was determined that the firm failed to comply with an exemption to established options position limits known as the Delta-Based Equity Hedge Exemption, and during the Review Period exceeded the position limits of 250,000 options contracts in four listed options on six occasions on the relevant options exchanges. Accordingly, SSUS improperly controlled an aggregate position in options contracts in excess of the applicable limits for these securities. In addition, during the Review Period the firm failed to establish, maintain, and enforce written supervisory procedures ("WSPs") reasonably designed to ensure compliance with the rules related to position limits and the use of the Delta-Based Equity Hedge Exemption on the relevant options exchanges.

## **FACTS AND VIOLATIVE CONDUCT**

### **Regulatory Framework**

1. On March 19, 2008 and again on December 27, 2010, SSUS submitted documentation claiming the exemption from the established position limits known as the "Delta-Based Equity Hedge Exemption" (the "Delta Hedge Exemption").<sup>2</sup> Pursuant to the rules of the relevant options exchanges, SSUS's use of the Delta-Based Equity Hedge Exemption, which was based upon a Permitted Pricing Model developed by the Options Clearing Corporation ("OCC"), continued to be in effect throughout the Review Period. FINRA, as a member of the Intermarket Surveillance Group ("ISG"),<sup>3</sup> distributed in writing the exemption to the relevant options exchanges who were also members of ISG.
2. As set forth in the applicable rules of certain of the relevant options exchanges governing the Delta Hedge Exemption, an equity options position of a member organization that is delta neutral (*i.e.*, an equity options position that is hedged, in accordance with a Permitted Pricing Model, by a position in the underlying security or one or more instruments relating to the underlying security) shall be exempt from the established position limits subject to certain conditions. BZX Rule 18.8 provides, in relevant part, that an Options Member may rely upon any available exemptions from applicable position limits granted from time to time by another options exchange for any options contract traded on BZX Options subject to certain conditions, which were met in this matter. As such, during the Review Period SSUS was entitled to claim the Delta Hedge Exemption on BZX.
3. For a firm using the Delta Hedge Exemption, any options position that is not delta hedged remains subject to position and exercise limits. While delta hedging generally is employed as part of an overall risk management program, firms may not necessarily hedge every position to be delta neutral or use delta hedging for every stock options position. In such cases, the "net delta" will be subject to position limits.

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<sup>2</sup> Essentially, the Delta Hedge Exemption allows a firm to net its bullish positions (*i.e.*, calculated by aggregating long calls and short puts) and bearish positions (*i.e.*, calculated by aggregating the long puts and short calls).

<sup>3</sup> ISG is comprised of an international group of exchanges, market centers, and market regulators that perform front-line market surveillance in their respective jurisdictions. One of the purposes of ISG is information sharing among its members.

4. The net delta is the number of shares required (either long or short) to offset the risk that the value of an equity options position will change with incremental changes in the price of the security underlying the options position. A firm that is not delta neutral must be hedged to the extent that the Options Contract Equivalent of the Net Delta (“OCEND”) stays within the applicable position limit. SSUS calculated the OCEND by using the OCC Permitted Pricing Model. Once calculated, the OCEND must still be below the applicable position limit.
5. During the Review Period, BZX Rule 5.1 required, among other things, that each member firm establish, maintain and enforce written procedures to enable it to properly supervise the activities of associated persons to ensure compliance with applicable securities laws and regulations and BZX Rules.
6. During the Review Period, BZX Rule 3.1 provided that member firms, in the conduct of their business, shall observe high standards of commercial honor and just and equitable principles of trade.

#### **Position Limits**

7. During the Review Period, the applicable position limit in “ABC”<sup>4</sup> options was 250,000 options contracts on the same side of the market.
8. During the trading day on October 26, 2015, SSUS, which was not delta neutral in ABC, failed to ensure that their OCEND value in ABC remained below the applicable position limit. On that date, the firm’s end of day OCC submitted OCEND value in ABC was 257,134 contracts. As such, SSUS exceeded the applicable position limit in ABC on both the bullish and bearish side by 7,134 contracts, which was not detected and corrected until the next business day. As a result of the foregoing, SSUS violated BZX Rule 18.8.
9. During the Review Period, the applicable position limit in “DEF”<sup>5</sup> options was 250,000 options contracts on the same side of the market.
10. During the trading day on December 16, 2015, SSUS, which was not delta neutral in DEF, failed to ensure that their OCEND value in DEF remained below the applicable position limit. On that date, the firm’s end of day OCC submitted OCEND value in DEF was 278,542 contracts. As such, SSUS exceeded the applicable position limit in DEF on both the bullish and bearish side by 28,542 contracts, which was not detected and corrected until the next business day. As a result of the foregoing, SSUS violated BZX Rule 18.8.
11. During the Review Period, the applicable position limit in “GHI”<sup>6</sup> was 250,000 options contracts on the same side of the market.

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<sup>4</sup> A generic identifier has been used in place of the name of this security.

<sup>5</sup> A generic identifier has been used in place of the name of this security.

<sup>6</sup> A generic identifier has been used in place of the name of this security.

12. During the trading day on February 9, 2016, SSUS, which was not delta neutral in GHI, failed to ensure that their OCEND value in GHI remained below the applicable position limit. On that date, the firm's end of day OCC submitted OCEND value in GHI was 340,211 contracts. As such, SSUS exceeded the applicable position limit in GHI on both the bullish and bearish side by 90,211 contracts, which was not detected and corrected until the next business day. As a result of the foregoing, SSUS violated BZX Rule 18.8.
13. During the trading day on November 30, 2016, SSUS, which was not delta neutral in GHI, failed to ensure that their OCEND value in GHI remained below the applicable position limit. On that date, the firm's end of day OCC submitted OCEND value in GHI was 299,844 contracts. As such, SSUS exceeded the applicable position limit in GHI on both the bullish and bearish side by 49,844 contracts, which was not detected and corrected until the next business day. As a result of the foregoing, SSUS violated BZX Rule 18.8.
14. During the Review Period, the applicable position limit in "JKL"<sup>7</sup> was 250,000 options contracts on the same side of the market.
15. During the trading day on February 6, 2017, SSUS, which was not delta neutral in JKL, failed to ensure that their OCEND value in JKL remained below the applicable position limit. On that date, the firm's end of day OCC submitted OCEND value in JKL was 263,838 contracts. As such, SSUS exceeded the applicable position limit in JKL on the bearish side by 13,838 contracts, which was not detected and corrected until the next business day. As a result of the foregoing, SSUS violated BZX Rule 18.8.
16. During the trading day on April 21, 2017, SSUS, which was not delta neutral in GHI, failed to ensure that their OCEND value in GHI remained below the applicable position limit. On that date, the firm's end of day OCC submitted OCEND value in GHI was 251,185 contracts. As such, SSUS exceeded the applicable position limit in GHI on both the bullish and bearish side by 1,185 contracts, which was not detected and corrected until the next business day. As a result of the foregoing, SSUS violated BZX Rule 18.8.

### Supervision

17. During the Review Period, the firm failed to establish, maintain, and enforce WSPs reasonably designed to ensure compliance with the rules related to position limits and the use of the Delta-Based Equity Hedge Exemption on the relevant options exchanges, including BZX. During the Review Period, the firm had WSPs in place that called for a daily review by a Compliance associate at the firm to monitor and amend, where necessary, the position limits of each listed options traded in order to identify any positions that would potentially exceed the applicable limits. However, the firm's WSPs did not indicate how the daily review would be documented. In addition, the WSPs did not address the need to monitor the firm's intraday positions, on a delta adjusted basis, to

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<sup>7</sup> A generic identifier has been used in place of the name of this security.

ensure compliance with the Delta Hedge Exemption.<sup>8</sup> As a result of the foregoing, SSUS violated BZX Rules 3.1 and 5.1.

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

1. A censure; and
2. A total fine of \$25,000 of which \$3,125 is payable to BZX.<sup>9</sup>
3. Acceptance of this AWC is conditioned upon acceptance of similar settlement agreements in related matters between SSUS and each of the following exchanges: BOX Exchange LLC; Cboe Exchange, Inc.; C2 Options Exchange, Inc.; Cboe EDGX Exchange, Inc.; NYSE American LLC; NYSE Arca, Inc.; and Miami International Securities Exchange, 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 BZX.

## II.

### WAIVER OF PROCEDURAL RIGHTS

The firm specifically and voluntarily waives the following rights granted under BZX 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 the BZX's Board of Directors and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

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<sup>8</sup> The firm updated its WSPs, effective May 17, 2017, to reflect that each day the assigned Compliance associate will use an intra-day OCEND calculation report. Further, in any instance where a warning-alert is generated by the surveillance tool used by SSUS for intraday monitoring for position limits, the assigned Compliance associate will conduct a delta hedge examination to ensure, among other things, compliance with the Delta Hedge Exemption.

<sup>9</sup> The balance of the sanction will be paid to the self-regulatory organizations listed in Paragraph B.3.

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 BZX 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 BZX 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 BZX or any other regulator against the firm;
  - 2. This AWC will be published on a website maintained by BZX in accordance with BZX Rule 8.18; 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 BZX, or to which BZX 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 BZX 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 BZX, nor does it reflect the views of BZX 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.

11-17-2018  
Date


Susquehanna Securities  
Respondent

By: 

Name: MICHAEL P. DOHERTY

Title: CLO

11/16/2018  
Date



Greg Hoogasian  
Senior Vice President & Chief Regulatory Officer  
Cboe BZX 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; or
- Wire transfer.

Respectfully submitted,

Susquehanna Securities  
Respondent

11-12-18  
Date

By:   
Name: MICHAEL P. DONERTY  
Title: CCO