



**DISCIPLINARY DECISION**

**Cboe BZX Exchange, Inc.**

**Star No. 20190625174-01 / File No. USRI-8537-05**

**Wolverine Trading, LLC**

Pursuant to Exchange Rule 8.3, attached to and incorporated as part of this Decision is a Letter of Consent.

**Applicable Rule(s)**

- BZX Rules 2.4 – Mandatory Participation in Testing of Backup Systems and 5.1 – Written Procedures.

**Sanction**

A censure and a monetary fine in the amount of \$1,250.

**Effective Date**

December 2, 2020

/s/ Greg Hoogasian

Greg Hoogasian, CRO, SVP

**Cboe BZX Exchange, Inc.**  
**LETTER OF CONSENT**  
**Star No. 2019062517401**  
**File No. USRI-8537-05**

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In the Matter of:

Wolverine Trading, LLC  
175 W. Jackson Boulevard, Suite 200  
Chicago, Illinois 60604,

Subject

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Pursuant to the provisions of Cboe BZX Exchange, Inc. (“BZX” or the “Exchange”) Rule 8.3, Wolverine Trading, LLC (the “Firm”) submits this Letter of Consent for the purposes of proposing a settlement of the alleged rule violations described below.

The Firm neither admits nor denies that violations of Exchange Rules have been committed, and the stipulation of facts and findings described herein do not constitute such an admission.

**BACKGROUND**

1. During all relevant periods herein, the Firm was acting as a registered Broker-Dealer and was an Exchange Trading Permit Holder registered to conduct business on the Exchange to conduct a floor brokerage business. The Firm’s registration remains in effect.
2. This matter originated from a review conducted by FINRA’s Cause Trading Examinations (“CTE”) group.

**VIOLATIVE CONDUCT**

**Applicable Rules**

3. On October 13, 2018, BZX Rule 2.4 – Mandatory Participation in Testing of Backup Systems was in full force and effect, and provided:
  - (a) Pursuant to Regulation SCI and with respect to the Exchange’s business continuity and disaster recovery plans, including its backup systems, the Exchange is required to establish standards for the designation of Members that the Exchange reasonably determines are, taken as a whole, the minimum necessary for the maintenance of fair

and orderly markets in the event of the activation of such plans. The Exchange has established standards and will designate Members according to those standards as set forth below. All Members are permitted to connect to the Exchange's backup systems and to participate in testing of such systems.

(b) Certain Members are required to connect to the Exchange's backup systems and participate in functional and performance testing as announced by the Exchange, which shall occur at least once every 12 months. The following Members must participate in mandatory testing of the Exchange's backup systems:

- (1) Members that have been determined by the Exchange to contribute a meaningful percentage of the Exchange's overall volume; and
- (2) Members that participate as Lead Market Makers (LMMs) with respect to one or more securities listed on the Exchange.

#### Interpretations and Policies

.01 For purposes of identifying Members that account for a meaningful percentage of the Exchange's overall volume, the Exchange will measure volume executed on the Exchange on a quarterly basis. The percentage of volume that the Exchange considers to be meaningful for purposes of this Interpretation and Policy .01 will be determined by the Exchange and will be published in a circular distributed to Members. The Exchange will also individually notify all Members quarterly that are subject to paragraph (b) based on the prior calendar quarter's volume. If a Member has not previously been subject to the requirements of paragraph (b), such Member will have until the next calendar quarter before such requirements are applicable.

4. Further, between July 3, 2018 and October 13, 2018, BZX Rule 5.1 – Written Procedures was in full force and effect and provided that:

Each Member shall establish, maintain and enforce written procedures which 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, where appropriate, and with Exchange Rules.

## **Participation in Mandatory Testing Violations**

5. The Exchange, among other exchanges in the Cboe Global Markets (“Cboe”) family, published Exchange Notices on April 6,<sup>1</sup> May 30,<sup>2</sup> September 10,<sup>3</sup> and October 10, 2018,<sup>4</sup> alerting its members of the annual mandatory business continuity/disaster recovery (“BCP/DR”) testing occurring on October 13, 2018 between 8 a.m. and 11 a.m. (Central Time) (the “Testing Date”). The Exchange Notices provided in part:

Members that qualify for mandatory participation at the end of Q2 2018 will be expected to participate in the test. Required participants will be expected to connect to the applicable Exchanges’ backup systems and submit a meaningful amount of orders to the DR site during the test. The expected level of activity will be at least two (2) executions on each designated Exchange.

6. On July 3, 2018, BZX and other the Exchanges published a Regulatory Circular titled “Mandatory Participation in Disaster Recovery Testing” reminding members of the Testing Date and other testing requirements.<sup>5</sup>
7. On July 10, 2018, Cboe emailed Wolverine attaching a letter dated July 3, 2018, from Cboe’s “Compliance Department regarding participation in mandatory testing of the Exchanges’ backup systems pursuant to Regulation SCI.” The email was “the final notification of [the] Firm’s required participation in the 2018 SIFMA Annual Disaster Recovery Test scheduled for October 13, 2018.” The attached letter specifically noted that, “[b]ased on executed volume and as a Lead Market Maker, Wolverine Trading, LLC has been designated to participate in periodic functional and performance testing on the following Exchanges: BZX . . .”. The letter reminded the Firm of the requirement to connect and complete at least two executions on BZX, among other designated Exchanges, on the Testing Date.
8. In the months prior to the Testing Date, the Exchanges also made available on the Cboe website specific internet protocol (“IP”) information regarding where firms were required to connect. Specifically, the website directed firms like Wolverine

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<sup>1</sup> See Cboe 2018 SIFMA and Reg SCI BCP/DR Test Plan, published April 6, 2018.

<sup>2</sup> See Cboe Reminder: 2018 SIFMA/FIA and Reg SCI BCP/DR Test Plan, published May 30, 2018 (Reference ID: C2018053000).

<sup>3</sup> See Cboe Reminder: 2018 SIFMA/FIA and Reg SCI BCP/DR Test Plan with Voluntary Connectivity Testing Opportunity on Saturday, September 15, 2018, published September 10, 2018 (Reference ID: C2018091000).

<sup>4</sup> See Cboe Final Reminder: 2018 SIFMA/FIA and Reg SCI BCP/DR Test Plan, published October 10, 2018 (Reference ID: C2018101000).

<sup>5</sup> See BYX Regulatory Circular 18-007, BZX Regulatory Circular 18-007, EDGA Regulatory Circular 18-007, EDGX Regulatory Circular 18-007, and C2 Options Regulatory Circular 18-011, dated July 3, 2018.

connecting to, among other exchanges, BZX, to connect to the “Cermak” IP address on the Testing Date.

9. On October 11, two days before the Testing Date, the Firm emailed a Cboe Senior Compliance Specialist and asked for confirmation of the identities of the exchanges to which it needed to connect. Cboe instructed the Firm to connect to, among other exchanges, BZX.
10. The Firm ultimately failed to connect to the Exchange and participate in the mandatory testing on the Testing Date.
11. The acts, practices and conduct described in Paragraph 10 constitute a violation of BZX Rule 2.4, in that the Firm failed to participate in the mandatory testing of backup systems.

### **Supervision Violations**

12. Between July 3, 2018 and October 13, 2018, Wolverine had certain written supervisory procedures (“WSPs”) in place with respect to its compliance with BZX Rule 2.4, but those WSPs restated BZX Rule 2.4’s requirement to participate, in relevant circumstances, in mandatory business continuity plan and disaster recovery testing. Specifically, the WSPs state that the required testing “will be conducted by a Firm technologist who will validate that testing is complete with the appropriate exchange contact at the conclusion of each test.” The WSPs, however, do not provide a description of the supervisory steps the Firm must take to comply with BZX Rule 2.4, including how it will “validate that testing is complete”, or the resources, if any, the relevant supervisor will consult in conducting such supervisory reviews. The written supervisory procedures in place failed to include any detail on the pre or post testing steps the Firm would take to ensure requirements were completed timely.
13. The acts, practices, and conduct described in Paragraph 12 constitute a violation of BZX Rule 5.1, in that the Firm failed to establish, maintain and enforce written procedures which enabled the Firm to supervise properly the activities of its associated persons and to assure their compliance with BZX Rule 2.4.

### **SANCTIONS**

1. The Firm does not have any prior relevant formal disciplinary history specifically related to the participation in the mandatory testing of backup systems.
2. In light of the alleged rule violations described above, the Firm consents to the imposition of the following sanctions:
  - a. A censure; and

- b. A monetary fine in the amount of \$2,500, of which \$1,250 shall be paid to BZX.<sup>6</sup>

If this Letter of Consent is accepted, the Firm acknowledges that it shall be bound by all terms, conditions, representations and acknowledgements of this Letter of Consent, and, in accordance with the provisions of Exchange Rule 8.3, waives the right to review or to defend against any of these allegations in a disciplinary hearing before a Hearing Panel. The Firm further waives the right to appeal any such decision to the Board of Directors, the U.S. Securities and Exchange Commission, a U.S. Federal District Court, or a U.S. Court of Appeals.

The Firm 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 Letter of Consent, or other consideration of this Letter of Consent, including acceptance or rejection of this Letter of Consent. The Firm further waives any claim that a person violated the ex parte prohibitions of Exchange Rule 8.16, in connection with such person’s participation in discussions regarding the terms and conditions of this Letter of Consent, or other consideration of this Letter of Consent, including its acceptance or rejection.

The Firm agrees to pay the monetary sanction upon notice that this Letter of Consent has been accepted and that such payments are due and payable. 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 Firm understands that submission of this Letter of Consent is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the CRO, pursuant to Exchange Rule 8.3. If the Letter of Consent is not accepted, it will not be used as evidence to prove any of the allegations against the Firm.

The Firm understands and acknowledges that acceptance of this Letter of Consent will become part of its disciplinary record and may be considered in any future actions brought by BZX or any other regulator against the Firm. The Letter of Consent will be published on a website maintained by the Exchange in accordance with Exchange Rule 8.18.

The Firm understands that it may not deny the charges or make any statement that is inconsistent with the Letter of Consent. The Firm may attach a Corrective Action Statement to this Letter of Consent that is a statement of demonstrable corrective steps taken to prevent future misconduct. Any such statement does not constitute factual or legal findings by the Exchange, nor does it reflect the views of the Exchange or its staff.

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<sup>6</sup> The remainder of the fine total shall be paid to Cboe EDGX Exchange, Inc.

**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 Letter of Consent and has been given a full opportunity to ask questions about it; that it has agreed to the Letter of Consent's provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein, has been made to induce the Firm to submit it.**

**Date:** November 30, 2020

**Wolverine Trading, LLC**

**By:** 

**Name:** David L Cavicke

**Title:** Chief Legal Officer