



## **DISCIPLINARY DECISION**

**Cboe Exchange, Inc.**

**File No. USRI-9289-01**

**Lakeshore Securities, LP**

Pursuant to Exchange Rule 13.3, attached to and incorporated as part of this Decision is a Letter of Consent.

### **Applicable Rules**

- Exchange Rules 5.66 – Order Protection, 5.7 – Entry of Orders and Quotes, 5.85 – Order and Quote Allocation, Priority and Execution, 5.91-Floor Broker Responsibilities, 6.1 – Report Transactions to the Exchange, 7.1 – Maintenance, Retention, and Furnishing of Books, Records, and Other Information; 8.14 – Communications to the Exchange or the Clearing Corporation and 8.16 - Supervision; and
- Section 17(a) promulgated under the Exchange Act and Rule 17a-3 – Records to be made by certain exchange members, brokers, and dealers thereunder.

### **Sanction**

- A censure, and
- Monetary fine in the amount of \$50,000.

### **Effective Date**

February 10, 2022

/s/ Greg Hoogasian

Greg Hoogasian, CRO, SVP

**Cboe Exchange, Inc.**  
**LETTER OF CONSENT**  
**File No. USRI-9289-01**

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In the Matter of:

Lakeshore Securities, L.P.  
401 S. LaSalle Street, #1000  
Chicago, IL 60605

Subject

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Pursuant to the provisions of Cboe Exchange, Inc. ("Cboe" or the "Exchange") Rule 13.3 – Expedited Proceeding, Lakeshore Securities L.P. ("Lakeshore" or the "Firm") submits this Letter of Consent for the purpose of proposing a settlement of the alleged rule violations described below.

The Firm neither admits nor denies that violations of Exchange Rules and the Securities Exchange Act of 1934, as amended ("Exchange Act") 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 and during in or about January 2020 through November 2021 (the "Review Period"), 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 registrations remain in effect.

**VIOLATIVE CONDUCT**

**Applicable Rules**

2. During the Review Period, the following rules were in full force and effect: Exchange Rules 5.66 – Order Protection, 5.7 – Entry of Orders and Quotes, 5.85 – Order and Quote Allocation, Priority and Execution, 5.91-Floor Broker Responsibilities, 6.1 – Report Transactions to the Exchange, 7.1 – Maintenance, Retention, and Furnishing of Books, Records, and Other Information; 8.14 – Communications to the Exchange or the Clearing Corporation and 8.16 - Supervision; and Section 17(a) promulgated under the Exchange Act and Rule 17a-3 – Records to be made by certain exchange members, brokers, and dealers thereunder.

3. During the Review Period, Exchange Rule 5.66, in relevant part, provided that: (except as provided in further subsections) "Trading Permit Holders shall not effect Trade-Throughs<sup>1</sup>."
4. During the Review Period, Exchange Rule 5.7, in relevant part, provided that: "Except as provided below, each order, cancellation of, or change to an order transmitted to the Exchange must be "systematized" in a format approved by the Exchange, either before it is sent to the Exchange or upon receipt on the Exchange's trading floor. An order is systematized if (1) the order is sent electronically to the Exchange or (2) the order that is sent to the Exchange nonelectronically (e.g., telephone orders) is input electronically into the Exchange's systems contemporaneously upon receipt on the Exchange, and prior to representation of the order."
5. During the Review Period, Exchange Rule 5.85, in relevant part, provided that: "When a Trading Permit Holder holding an SPX Combo Order and bidding or offering in a multiple of the minimum increment on the basis of a total debit or credit for the order determines that the order may not be executed by a combination of transactions with the bids and offers displayed in the Book or made in the crowd, then the order may be executed at the best net debit or credit if:
  - a. No leg of the order would trade at a price outside the currently displayed bids or offers in the trading crowd or bids or offers in the Book; and
  - b. At least one leg of the order would trade at a price that is better than the corresponding bid or offer in the Book.Notwithstanding any other Rules, if an SPX Combo Order is not executed immediately, the SPX Combo Order may execute and print at the prices originally quoted for each of the component option series within two hours after the time of the original quotes."
6. During the Review Period, Exchange Rule 5.91, in relevant part, provided that: "A Floor Broker handling an order must use due diligence to execute the order at the best price or prices available to him, in accordance with the Rules."
7. During the Review Period, Exchange Rule 6.1, in relevant part, provided that: "A participant in each transaction to be designated by the Exchange must report or ensure the transaction is reported to the Exchange within 90 seconds of the execution in a form and manner prescribed by the Exchange so that the trade information may be reported to time and sales reports. Transactions not reported within 90 seconds after execution in accordance with this Rule shall be designated as late."
8. During the Review Period, Exchange Rule 8.16, in relevant part, provided that: "Each Trading Permit Holder shall establish, maintain, and enforce written supervisory procedures, and a system for applying such procedures, to supervise the types of business in which the Trading Permit Holder engages and to supervise the activities of all associated persons. The written supervisory procedures and the system for applying such procedures shall reasonably be designed to prevent and detect violations of applicable securities laws and regulations, and applicable Exchange rules."

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<sup>1</sup> Exchange Rule 5.65 – Definitions, defines "Trade-Through" in paragraph (q) as follows: "'Trade-Through' means a transaction in an option series at a price that is lower than a Protected Bid or higher than a Protected Offer."

9. During the Review Period, Exchange Rule 8.14, in relevant part, provided that: "No Trading Permit Holder, person associated with a Trading Permit Holder or applicant to be a Trading Permit Holder shall make any misrepresentation or omission in any application, report or other communication to the Exchange, or to the Clearing Corporation with respect to the reporting or clearance of any Exchange transaction, or adjust any position at the Clearing Corporation in any class of options traded on the Exchange except for the purpose of correcting a bona fide error in recording or of transferring the position to another account."
10. During the Review Period, Exchange Rule 7.1, in relevant part, provided that: "Each Trading Permit Holder shall make, keep current and preserve such books and records as the Exchange may prescribe and as may be prescribed by the Exchange Act as though such Trading Permit Holder were a broker or dealer registered pursuant to Section 15 of such Act. No Trading Permit Holder shall refuse to make available to the Exchange such books, records or other information as may be called for under the Rules or as may be requested in connection with an investigation by the Exchange. Trading Permit Holders must comply with all applicable recordkeeping and reporting requirements under the Rules."
11. During the Review Period, Section 17 of the Exchange Act and Exchange Act Rule 17a-3(a)(6)(i) ("Rule 17a-3(a)(6)(i)") required Broker-Dealers, such as Lakeshore, to create a brokerage order memorandum of each brokerage order, and of any other instruction, given or received for the purchase or sale of securities, whether executed or unexecuted. The SEC has recognized that records must be accurate to comply with Rule 17a-3.<sup>2</sup>

### **Priority**

12. During nine months of the Review Period, Lakeshore failed to grant priority to 47<sup>3</sup> orders and effected Trade-Throughs by executing the orders at prices at or outside the best displayed bids or offers in the trading crowd or in the Book and/or at prices through the National Best Bids or Offers and failed to use due diligence to execute the orders at the best prices available.
13. The acts, practices and conduct described in Paragraph 12 constitutes violations of Exchange Rules 5.85, 5.66 and 5.91 by the Firm.

### **Books and Records**

14. During nine months of the Review Period, Lakeshore miscommunicated and provided inaccurate trade information to the Exchange for 25<sup>4</sup> orders. Specifically, for each of these 25 orders, the Firm failed to provide accurate trade times to the Exchange.
15. The acts, practices and conduct described in Paragraph 14 constitute violations of Exchange Rules 7.1 and 8.14 and Exchange Act Section 17(a) and Rule 17a-3 thereunder by the Firm.

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<sup>2</sup> Voss & Co., Inc., 1981 SEC LEXIS 915, at n.16 (SEC Aug. 11, 1981) ("[A]s we have repeatedly held, the requirement that records be kept embodies the requirement that such records be true and correct.").

<sup>3</sup> The 47 total orders represent the minimum number of violative orders during the Review Period.

<sup>4</sup> The 25 total orders represent the minimum number of violative orders during the Review Period.

### **Entry of Orders**

16. During nine months of the Review Period, Lakeshore failed to systematize 12<sup>5</sup> orders prior to representation of those orders on the Exchange trading floor.
17. The acts, practices and conduct described in Paragraph 16 constitute violations of Exchange Rule 5.7 by the Firm.

### **Timely Reporting**

18. During thirteen months of the Review Period, Lakeshore failed to report 30<sup>6</sup> transactions executed on the floor in a timely manner.
19. During six additional months of the Review Period, Lakeshore failed to report approximately 41<sup>7</sup> additional transactions executed on the floor in a timely manner.
20. The acts, practices, and conduct described in Paragraphs 18 and 19 constitute violations of Exchange Rule 6.1 by the Firm.

### **Supervision**

21. During the Review Period, Lakeshore's Written Supervisory Procedures ("WSPs") failed to adequately set forth a process by which the Firm ensured compliance with Exchange Rules related to order and quote allocation, priority, and execution.
22. The acts, practices and conduct described in Paragraph 21 constitute violations of Exchange Rule 8.16 by the Firm, in that the Firm failed to establish, maintain, and enforce WSPs and a system for applying such procedures, reasonably designed to prevent and detect violations of Exchange Rules related to order and quote allocation, priority and execution.

### **SANCTION**

23. The Firm has prior relevant disciplinary history specifically related to priority, books and records, failure to systematize orders, timely reporting, or supervision, as follows:
  - a. Cboe Exchange, Inc. File No. 14-0158 (2015). From approximately July 2013 through January 2015, Lakeshore failed to systematize numerous orders prior to representation and execution of those orders. Additionally, during the same review period, the Firm failed to adequately supervise its Associated Persons to assure compliance with Exchange Rule 6.24 as it relates to said failures. The Firm was censured and fined \$225,000.
  - b. Cboe Exchange, Inc. File No. 14-0195 (2017). From approximately January 2009 through December 2016, on numerous occasions, the Firm failed to grant priority to

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<sup>5</sup> The 12 total orders represent the minimum number of violative orders during the Review Period.

<sup>6</sup> The 30 total instances represent the minimum number of violative orders during the Review Period.

<sup>7</sup> The 41 total instances represent the minimum number of violative orders during the Review Period.

the highest bid and/or lowest offer when such bid or offer was available in relation to equity option classes, index options, and options on ETSs; failed to use due diligence to execute orders at the best prices available; and failed to supervise its Associated Persons to assure compliance with Exchange Rules 6.45A and 6.45B and 6.73. From approximately June 2013 through December 2016, the Firm failed to establish, maintain, and enforce a supervisory system and written supervisory procedures reasonably designed to prevent and detect violations of Exchange Rules related to priority and Trade-Through obligations. The Firm was censured and fined \$40,000.

24. In light of the alleged rule violations and prior disciplinary history described above, the Firm consents to the imposition of the following sanctions<sup>8</sup>:

- a. A censure; and
- b. A monetary fine in the amount of \$50,000.

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 13.3, 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 agrees to pay the monetary sanction(s) upon notice that this Letter of Consent has been accepted and that such payment(s) 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(s) 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 13.3. 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 the Exchange 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.

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<sup>8</sup> As part of this settlement, Lakeshore was required to have a compliance meeting with Cboe Regulatory Staff to discuss the facts and circumstances of the violations noted herein and what steps Lakeshore has or will be implementing to ensure the firm is in compliance with the above-mentioned rules going forward. Such compliance meeting took place on January 13, 2022.

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.

**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: 2/10/2022

Lakeshore Securities, L.P.

By: 

Name: MARIE GANNON

Title: CCO