

NASDAQ PHLX LLC
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2019.12.0089

TO: Nasdaq PHLX LLC
Phlx Enforcement Department

RE: Wolverine Trading, LLC, Respondent
Member Firm
CRD No. 36848

Pursuant to Rule 9216 of the Nasdaq PHLX LLC (“Phlx”) Code of Procedure,¹ Wolverine Trading, LLC (the “Firm,” “Wolverine,” or “Respondent”) 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, Phlx will not bring any future actions against the Respondent alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. Respondent 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 Phlx, or to which Phlx 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 Phlx:

BACKGROUND AND RELEVANT DISCIPLINARY HISTORY

Wolverine has been registered with Phlx since September 25, 2000, and its registration remains in effect.

On September 23, 2016, the Phlx Business Conduct Committee issued a disciplinary decision sanctioning Wolverine with a censure and a \$75,000 fine, and imposing an undertaking. Wolverine consented to findings that from July 2014 through May 2016, it violated Phlx Rules 1014(b)(ii)(D)(1) and (2), 1017(k), and 748(h) by failing to quote continuous two-sided markets in 99 percent of the options series listed on Phlx in at least 60 percent of its assigned options series for 90 percent of the trading day; failing to quote at least 99 percent of the series in an option for at least 90 percent of the trading day as measured from the time it had commenced quoting in the option to the end of the trading day; failing to quote continuous, two-sided markets in at least 99 percent of its assigned options series on Phlx for at least 90 percent of the trading day; and failing to establish, maintain, and enforce a system of supervision that was reasonably designed to detect and prevent violations of Phlx Rule 1014(b)(ii)(D).

In December 2014, Wolverine settled with the Chicago Board Options Exchange (“Cboe”) and consented to findings of violations of Cboe rules from May 2013 through November

¹ Series 9000 of The Nasdaq Stock Market LLC Rules are incorporated by reference into Phlx Rule General 5, Section 3, and are thus Phlx Rules and thereby applicable to Phlx members, member organizations, persons associated with member organizations, and other persons subject to Phlx’s jurisdiction.

2013 and on September 17, 2014, by failing to disseminate a continuous opening quotation in SPX options series and by failing to facilitate the final VIX settlement. In addition, from December 2013 through April 2014, and from June through August 2014, Wolverine failed to enter opening quotations as necessary to ensure that trading rotations were initiated promptly following the opening of underlying securities. Wolverine also failed to supervise to ensure compliance with Cboe Rule 8.85(a)(xi) governing opening quotations. Wolverine agreed to a sanction of a censure and a \$40,000 fine.

SUMMARY

During the period of May 15, 2019, through March 31, 2022 (the “Review Period”), Wolverine, acting as a Lead Market Maker and Directed RSQT, violated Phlx Rule Options 2, Section 5(c)(2)(B) and Section 5(c)(2)(C), respectively, for failing to provide two-sided quotations in 90% of the cumulative number of seconds for which the Firm’s assigned options series were open for trading in 67 separate instances on 66 unique trade dates. In addition, during the period of May 15, 2019, through the present (the “Supervisory Review Period”), the Firm violated Phlx Rule 748 (for conduct before February 3, 2020); General 9, Section 20 (for conduct on and after February 3, 2020); Phlx Rule 707 (for conduct before February 3, 2020); Options 9, Section 1 (for conduct from February 3, 2020 through January 21, 2021); and General 9, Section 1 (for conduct on and after January 22, 2021) by failing to establish, maintain, and enforce written supervisory procedures, and a system for applying such procedures, that were reasonably designed to prevent and detect, insofar as practicable, violations of the Options 2, Section 5(a)(1), Section 5(c)(2)(B), and Section 5(c)(2)(C).

FACTS AND VIOLATIVE CONDUCT

1. Options 2, Section 5(a) provides that “[i]n registering as a Market Maker, a member organization commits to various obligations.” In particular, Options 2, Section 5(a)(1) requires that a Market Maker “[m]aintain a two-sided market in those options in which the electronic Market Maker is registered to trade, in a manner that enhances the depth, liquidity and competitiveness of the market” during trading hours.
2. Options 2, Section 5(c)(2)(B) provides that “Lead Market Makers (including Remote Lead Market Makers), associated with the same member organization, are collectively required to provide two-sided quotations in 90% of the cumulative number of seconds, or such higher percentage as Phlx may announce in advance, for which that member organization’s assigned options series are open for trading.”
3. Options 2, Section 5(c)(2)(C) provides that “Directed SQTs and Directed RSQTs, associated with the same member organization, are collectively required to provide two-sided quotations in 90% of the cumulative number of seconds, or such higher percentage as Phlx may announce in advance, for which that member organization’s assigned options series are open for trading.”
4. General 9, Section 20(h), and its predecessors, provides that “Each member or member organization shall establish, maintain, and enforce written supervisory procedures, and a system for applying such procedures, to supervise the types of business(es) in which the member or member organization engages in and to supervise the activities of all registered representatives, employees, and associated persons. The written supervisory procedures and the system for applying such procedures shall reasonably be designed to prevent and detect, insofar as practicable, violations of the applicable securities laws and regulations, including the By-Laws and Rules of the

Exchange.”²

5. General 9, Section 1, and its predecessors, provides that “[a] member, member organization, or person associated with or employed by a member or member organization shall not engage in conduct inconsistent with just and equitable principles of trade.”³
6. In 67 separate instances on 66 unique trade dates during the Review Period, the Firm, while acting as a Lead Market Maker and/or Directed RSQT, failed to provide two-sided quotations in 90% of the cumulative number of seconds for which the Firm’s assigned options series were open for trading. The violations were caused primarily by a variety of system issues with the Firm’s quoting logic.
7. The conduct described in paragraph 6 constitutes violations of Options 2, Sections 5(a)(1), 5(c)(2)(B) and 5(c)(2)(C).
8. During the Supervisory Review Period, the Firm’s written supervisory procedures (“WSPs”) were not reasonably designed to prevent and detect, insofar as practicable, violations of the Phlx continuous quoting rules. Specifically, the Firm’s WSPs did not (1) identify the specific individual reasonable for supervision (either by name or by title and position); and (2) the supervisory steps to be taken. In addition, the Firm’s real-time alert procedures did not describe how the review of real-time alerts should be documented. Moreover, the WSPs reference incorrect continuous quoting requirements and incorrectly state that compliance is calculated based on the total number of minutes, rather than seconds, in the trading day. Finally, the Firm was unable to provide documentation sufficient to demonstrate that it conducted the surveillance described in its WSPs.
9. The conduct described in paragraph 8 constitutes a violation of Phlx Rule 748 (for conduct before February 3, 2020); General 9, Section 20 (for conduct on and after February 3, 2020); Phlx Rule 707 (for conduct before February 3, 2020); Options 9, Section 1 (for conduct from February 3, 2020, through January 21, 2021); and General 9, Section 1 (for conduct on and after January 22, 2021).

B. Respondent also consents to the imposition of the following sanctions:

1. A censure;
2. A fine in the amount of \$175,000, of which \$47,750 will be paid to Phlx⁴; and
3. An undertaking to provide, within 90 days after the date of the Notice of Acceptance of this AWC, a certification that the Firm has (a) remedied the system issues that caused the violations described above in paragraph 6; and (b) revised its written supervisory procedures with respect to the areas described above in paragraph 8. A registered principal of the Respondent shall e-mail the certification from a work-related account of the registered principal to enforcement@nasdaq.com. The certification shall provide the following information: (i) a reference to this matter;

² As of February 3, 2020, Phlx Rule 748 was renumbered to General 9, Section 20.

³ As of February 3, 2020, Phlx Rule 707 was renumbered to Options 9, Section 1. As of January 22, 2021, Options 9, Section 1 was renumbered to General 9, Section 1(c).

⁴ The remainder of the fine shall be paid to Nasdaq ISE, LLC; Nasdaq GEMX, LLC; and Nasdaq MRX, LLC.

(ii) a detailed description of steps taken by the Firm to remedy the system issues that caused the Firm's violations described in paragraph 6, and the date(s) on which specific actions were taken by the Firm; and (iii) a detailed description of steps taken by the Firm to establish and maintain a system to supervise the activities of each registered representative and associated person that is reasonably be designed to prevent and detect, insofar as practicable, violations of Options 2, Section 5(a)(1), Section 5(c)(2)(B), and Section 5(c)(2)(C), and that remedies the deficiencies identified in paragraph 8, the date(s) on which specific actions were taken by the Firm, and a copy of the revised WSPs.

Respondent agrees to pay the monetary sanction(s) in accordance with its executed Payment Information Form.

Respondent 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 Phlx Enforcement Department staff.

II.

WAIVER OF PROCEDURAL RIGHTS

Respondent specifically and voluntarily waives the following rights granted under Phlx's Code of Procedure:

- A. To have a Formal Complaint issued specifying the allegations against the Firm;
- B. To be notified of the Formal Complaint 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 Exchange Review Council and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, Respondent specifically and voluntarily waives any right to claim bias or prejudice of the Chief Regulatory Officer, the Exchange Review Council, or any member of the Exchange Review Council, 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 acceptance or rejection of this AWC.

Respondent further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of Rule 9143 or the separation of functions prohibitions of Rule 9144, 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

Respondent 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 Phlx Enforcement Department and the Exchange Review Council, the Review Subcommittee, or the Office of Disciplinary Affairs (“ODA”), pursuant to Phlx Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against the Respondent; and
- C. If accepted:
 - 1. This AWC will become part of the Respondent’s permanent disciplinary record and may be considered in any future actions brought by Phlx or any other regulator against the Respondent;
 - 2. Phlx may release this AWC or make a public announcement concerning this agreement and the subject matter thereof in accordance with Phlx Rule 8310 and IM-8310-3; and
 - 3. Respondent 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. Respondent may not take any position in any proceeding brought by or on behalf of Phlx, or to which Phlx is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects the Respondent’s right to take legal or factual positions in litigation or other legal proceedings in which Phlx is not a party.
- D. Respondent may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondent 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 Phlx, nor does it reflect the views of Phlx 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 the Firm 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.

Wolverine Trading, LLC
Respondent

By:  _____
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Print Name: David Cavicke


Title: Chief Legal officer

Date:

Accepted by Phlx:

July 12, 2022
Date

Signed on behalf of Phlx, by delegated authority from the Director of ODA



Erik Wittman
Deputy Head of Enforcement
Phlx Enforcement Department