

**NASDAQ PHLX LLC**  
**NOTICE OF ACCEPTANCE OF AWC**

**Certified, Return Receipt Requested**

**TO: Wolverine Trading, LLC  
Mr. David L. Cavicke  
Chief Legal Officer  
175 W. Jackson Blvd.  
Suite 200  
Chicago, IL 60604**

**FROM: Nasdaq PHLX LLC (“PHLX”)  
c/o Financial Industry Regulatory Authority (“FINRA”)  
Department of Enforcement  
9509 Key West Avenue  
Rockville, MD 20850**

**DATE: May 2, 2018**

**RE: Notice of Acceptance of Letter of Acceptance, Waiver and Consent No. 20140414439-06**

**Please be advised** that your above-referenced Letter of Acceptance, Waiver and Consent (“AWC”) has been accepted on **May 2, 2018** by the PHLX Review Council’s Review Subcommittee, or by the Office of Disciplinary Affairs on behalf of the PHLX Review Council, pursuant to PHLX Rule 9216. A copy of the AWC is enclosed herewith.

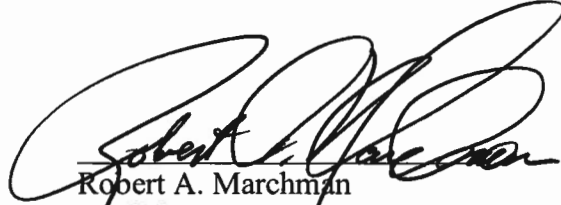
You are again reminded of your obligation, if currently registered, immediately to update your Uniform Application for Broker-Dealer Registration (“Form BD”) to reflect the conclusion of this disciplinary action. Additionally, you must also notify FINRA (or PHLX if you are not a member of FINRA) in writing of any change of address or other changes required to be made to your Form BD.

You are reminded that Section I of the attached Letter of Acceptance, Waiver, and Consent includes an undertaking. In accordance with the terms of the AWC, a registered principal of the firm is required to notify the Compliance Assistant, Department of Enforcement, 9509 Key West Avenue, Rockville, MD 20850, of completion of the undertaking.

You will be notified by the Registration and Disclosure Department regarding sanctions if a suspension has been imposed and by Nasdaq’s Finance Department regarding the payment of any fine if a fine has been imposed.

Wolverine Trading, LLC  
Page 2

If you have any questions concerning this matter, please contact Eustace Francis, Senior Counsel,  
at (215) 209-7002.



Robert A. Marchman  
FINRA Fellow  
Department of Enforcement, FINRA  
Signed on behalf of PHLX

Enclosure

FINRA District 8 – Chicago  
Edward Wegener  
Senior Vice President and Regional Director  
(Via email)

Mr. Craig Murray  
Counsel for Respondent  
Wolverine Trading, LLC  
175 W. Jackson Blvd.  
Suite 200  
Chicago, IL 60604

**NASDAQ PHLX LLC**  
**LETTER OF ACCEPTANCE, WAIVER AND CONSENT**  
**NO. 20140414439-06**

TO: Nasdaq PHLX LLC  
c/o Department of Enforcement  
Financial Industry Regulatory Authority ("FINRA")

RE: Wolverine Trading, LLC, Respondent  
Broker-Dealer  
CRD No. 36848

Pursuant to Rule 9216 of Nasdaq PHLX LLC ("PHLX") Code of Procedure, Wolverine Trading, LLC (the "Firm" 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**

The Firm has been a PHLX member since September 26, 2000, and its registration remains in effect. The Firm has no relevant disciplinary history.

**SUMMARY**

During the period between January 2014 and the present (the "Review Period"), the staff of FINRA's Market Regulation Department (the "staff"), on behalf of the PHLX and various other options exchanges, conducted a review of the Firm's compliance with Rule 15c3-5 promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act") and Exchange Rules 707 and 748(h). As detailed further below, the Firm had failed to establish and maintain an adequate system of risk management controls and supervisory procedures, including written supervisory procedures ("WSPs"), and an adequate system of follow-up and review, reasonably designed to manage the financial, regulatory, and other risks of providing market access, including, but not limited to, risk management controls and supervisory procedures reasonably designed to: (i) prevent the entry of erroneous orders by rejecting orders that exceed appropriate price or size parameters or that indicate duplicative orders; (ii) prevent the entry of orders that do not comply with regulatory requirements that must be satisfied on a pre-order entry

basis; (iii) manage the risk of unintended or inadvertent quotations generated by a malfunctioning system; and (iv) address or otherwise codify the Firm's obligation to prevent the entry of excessive messages on a pre-trade basis, or document changes to pre-defined quoting parameters set by users of the Firm's real-time quote-monitoring and alert application.

### **FACTS AND VIOLATIVE CONDUCT**

1. On November 3, 2010, the SEC adopted SEC Rule 15c3-5 (sometimes referred as the "Market Access Rule") under the Exchange Act to address concerns relating to the practice of broker-dealers affording direct market access to customers. SEC Rule 15c3-5 requires, among other things, that a broker-dealer with market access establish risk management controls and supervisory procedures that are reasonably designed to limit the financial exposure of the broker-dealer and ensure compliance with all regulatory requirements applicable to market access. The rule became effective on July 14, 2011.
2. Rule 15c3-5(b) requires brokers and dealers with market access to "establish, document, and maintain a system of risk management controls and supervisory procedures reasonably designed to manage the financial, regulatory, and other risks of this business activity."
3. Rule 15c3-5(c) requires, among other things, broker-dealers with market access to have risk management controls and supervisory procedures that are reasonably designed to prevent the entry of erroneous or duplicative orders and ensure compliance with all pre-trade regulatory requirements.
4. Exchange Rule 748(h) requires member organizations to establish, maintain and enforce written supervisory procedures ("WSPs"), and a system of supervision for applying such procedures, that are reasonably designed to supervise the types of businesses and activities in which they and their associated persons engage in order to achieve compliance with, and to prevent and detect violations of, applicable securities laws and regulations, including the By-Laws and Rules of the Exchange.
5. Exchange Rule 707 prohibits member organizations from engaging in conduct inconsistent with just and equitable principles of trade.
6. During the Review Period, Respondent's risk management system and supervisory procedures, including its quoting application, were not reasonably designed to monitor, regulate, detect and prevent the dissemination of excessive, erroneous, and duplicative orders, quotations and/or cancellations, or otherwise ensure compliance with Rule 15c3-5 promulgated under the Exchange Act.
7. Specifically, the Firm's T+1 quote surveillance report, which the Firm implemented in 2012 to compare aggregate daily quote count by options across multiple options exchanges, was not reasonably designed to: (i) provide real-time monitoring of quoting activity; (ii) detect and generate real-time alerts regarding intraday spurts in quoting activity or when pre-defined quote count thresholds were exceeded; (iii) monitor and detect quote cancellations;

and (iv) provide real-time surveillance of quoting activity across multiple options exchanges.

8. Additionally, during the Review Period, the Firm's quoting application, including its built-in controls, and modifications to its logic and functionalities, were not adequately designed to detect and prevent the unintended entry of excessive, erroneous, or duplicative quotations and cancellations to the Exchange. For example, during the Review Period, the Firm implemented and deployed certain quoting logics and functionalities that caused unintended submissions of excessive, erroneous, and/or duplicative quotations and/or cancellations to the Exchange while the application was disseminating quotes at the widest permissible quote width. However, the application was not reasonably configured, and its built-in safety controls, such the throttling mechanism and duplicate quote-prevention functionality, were not reasonably designed to operate, detect or prevent excessive or duplicative quotations and quote cancellations generated while quoting at the widest permissible quote width.
9. Finally, the Firm's risk management controls and WSPs were inadequate, in that they did not: (i) codify the Firm's obligation to prevent the entry of excessive messages on a pre-trade basis, or to document changes and reviews of changes to the pre-defined parameters set by users of its real-time automated alert system; (ii) have pre-trade controls to prevent the entry of orders that exceeded appropriate price parameters on an order-by-order basis; and (iii) have controls to prevent the inadvertent entry of messages that exceeded configurable thresholds.
10. The acts, practices, and conduct described above in paragraphs 6 through 9 constitute violations of Rules 15c3-5(b) and 15c3-5(c) promulgated under the Exchange Act, and PHLX Rules 707 and 748(h).

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

A censure; a total fine of \$450,000, of which \$45,000 shall be paid to PHLX;<sup>1</sup> and an undertaking requiring Respondent to address the supervisory deficiencies described in this Offer and to ensure that it has implemented controls and procedures that are reasonably designed to achieve compliance with the rules and regulations cited herein. Within 60 days after this Offer becomes final, Respondent shall submit to the COMPLIANCE ASSISTANT, LEGAL SECTION, MARKET REGULATION DEPARTMENT, 9509 KEY WEST AVENUE, ROCKVILLE, MD 20850, a written representation from a senior management firm executive, to [MarketRegulationComp@finra.org](mailto:MarketRegulationComp@finra.org) that provides the following information: (1) a reference to this matter; (2) a representation that Respondent has revised its written supervisory procedures as indicated above; and (3) the date(s) this was completed.

Acceptance of this AWC is conditioned upon acceptance of similar settlement

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<sup>1</sup> The balance of the fine shall be paid to Cboe BZX Exchange, Inc. (f/k/a Bats BZX Exchange, Inc.), Cboe EDGX Exchange, Inc. (f/k/a Bats EDGX Exchange, Inc.), Boston Options Exchange LLC, NASDAQ BX, Inc., NASDAQ Options Market LLC, NYSE Arca, Inc., and NYSE American LLC (f/k/a NYSE MKT LLC).

agreements in related matters between the firm and Cboe BZX Exchange, Inc. (f/k/a Bats BZX Exchange, Inc.), Cboe EDGX Exchange, Inc. (f/k/a Bats EDGX Exchange, Inc.), Boston Options Exchange LLC, NASDAQ BX, Inc., NASDAQ Options Market LLC, NYSE Arca, Inc., and NYSE American LLC (f/k/a NYSE MKT LLC).

Respondent agrees to pay the monetary sanction(s) in accordance with its executed Election of Payment 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 FINRA 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 PHLX 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 prejudgment of the Chief Regulatory Officer, the PHLX Review Council, or any member of the PHLX 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

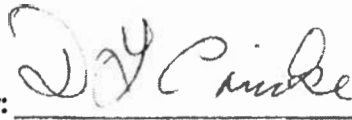
Respondent understands that:

- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by FINRA's Department of Enforcement and the PHLX 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.

23 February 2018  
Date

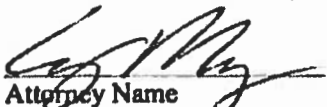
Wolverine Trading, LLC  
Respondent

By: 

Print Name: David L. Cavicko

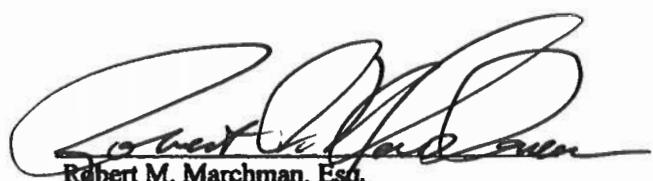
Title: Chief Legal Officer

Reviewed by: Cary Mung

  
Attorney Name  
Counsel for Respondent  
Name of Firm  
Address  
City/State/Zip

Accepted by PHLX:

5/2/2018  
Date

  
Robert M. Marchman, Esq.  
~~Executive Vice President~~ FINRA Fellow  
Department of Enforcement

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



**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

Wolverine Trading, LLC

23 February 2016  
Date

By: [Signature]

Name: David L. Cavicchi

Title: Chief legal officer

**Billing and Payment Contact**

Please enter the billing contact information below. Nasdaq MarketWatch will contact you with billing options and payment instructions. **Please DO NOT submit payment until Nasdaq has sent you an invoice.**

Billing Contact Name: \_\_\_\_\_

Billing Contact Address: \_\_\_\_\_

Billing Contact Email: \_\_\_\_\_

Billing Contact Phone Number: \_\_\_\_\_