

## NYSE ARCA, INC.

NYSE REGULATION,

Complainant,

v.

SUSQUEHANNA SECURITIES,

Respondent.

FINRA Proceeding No. 2015047505808

January 25, 2019

**Susquehanna Securities violated: (i) NYSE Arca Options Rule 6.8, Commentary .07(iii), by failing to comply with an exemption to established options position limits known as the Delta-Based Equity Hedge Exemption, and exceeded the position limits of 250,000 options contracts in two listed options on four occasions; and (ii) NYSE Arca Options Rule 11.18(c), by failing to establish, maintain, and enforce written supervisory procedures reasonably designed to ensure compliance with Exchange rules related to position limits and the use of the Delta-Based Equity Hedge Exemption. Consent to censure and \$3,125 fine.**

### Appearances

For the Complainant: Abha Mohla, Esq., Kenneth R. Bozza, Esq., Tina S. Gubb, Esq., and Elizabeth Hogan, Esq., FINRA Department of Enforcement.

For the Respondent: Michael Doherty, Susquehanna Securities.

### DECISION

Susquehanna Securities (“Susquehanna” or “Firm”) and NYSE Arca, Inc. (“NYSE Arca”) entered into an Offer of Settlement and Consent for the sole purpose of settling this disciplinary proceeding, without adjudication of any issues of law or fact, and without admitting or denying

any allegations or findings referred to in the offer of settlement.<sup>1</sup> The Hearing Officer accepts the Offer of Settlement and Consent and issues this Decision in accordance with NYSE Arca Rules.<sup>2</sup>

## **FINDINGS OF FACTS AND VIOLATIONS**

### **Background and Jurisdiction**

1. Susquehanna, a market maker firm, became registered as an Options Trading Permit (“OTP”) Firm with NYSE Arca, Inc. on December 10, 2015, and its registration remains in effect. During all times referenced herein, the Firm was also a member of multiple other options exchanges.<sup>3</sup>

### **Relevant Disciplinary History**

2. Respondent does not have a relevant disciplinary history.

### **Summary**

3. 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 Susquehanna exceeded the applicable position limits in listed options securities between December 10, 2015 and April 21, 2017 (“Review Period”).<sup>4</sup>
4. As a result of staff’s investigation, it was determined that Susquehanna failed to comply with an exemption to established options position limits known as the Delta-Based Equity Hedge Exemption (“Delta Hedge Exemption”),<sup>5</sup> 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 (on NYSE Arca, the Firm exceeded the position limits in two listed options on four occasions). Accordingly, Susquehanna 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

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<sup>1</sup> FINRA’s Office of Hearing Officers reviewed the Offer of Settlement and Consent under the terms of a Regulatory Services Agreement (as amended) among NYSE Group, Inc., New York Stock Exchange LLC, NYSE Arca, Inc., NYSE American LLC (fka NYSE MKT LLC), and FINRA.

<sup>2</sup> The facts, allegations, and conclusions contained in this Decision were taken from the executed Offer of Settlement and Consent. Prior to August 17, 2017, the rules involved in this matter were called NYSE Arca Options rules.

<sup>3</sup> In addition to NYSE Arca, Inc., the other options exchanges included: BOX Exchange LLC; Cboe Exchange, Inc.; C2 Options Exchange, Inc.; Cboe BZX Exchange, Inc.; Cboe EDGX Exchange, Inc.; NYSE American LLC; and Miami International Securities Exchange, LLC (collectively referred to herein as the “relevant options exchanges”).

<sup>4</sup> The Review Period for the other relevant options exchanges began on October 26, 2015.

<sup>5</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).

compliance with the rules related to position limits and the use of the Delta Hedge Exemption on the relevant options exchanges.

## Violations

### *Regulatory Framework*

5. On March 19, 2008, and again on December 27, 2010, Susquehanna submitted documentation claiming the Delta Hedge Exemption. Pursuant to the rules of the relevant options exchanges, the Firm's use of the Delta Hedge Exemption, 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>6</sup> distributed copies of the exemption to the relevant options exchanges that were also members of ISG.
6. As set forth in the applicable rules of certain of the relevant options exchanges governing the Delta Hedge Exemption, which include NYSE Arca Options Rule 6.8, Commentary .07(iii),<sup>7</sup> 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.
7. 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" is subject to position limits.
8. 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. Susquehanna calculated the OCEND by using the OCC Permitted Pricing Model. Once calculated, the OCEND must still be below the applicable position limit.
9. During the Review Period, NYSE Arca Options Rule 11.18(c) stated, in pertinent part, that "[e]ach OTP Holder or OTP Firm . . . must establish, maintain, and enforce written procedures to supervise the business in which it engages and to supervise the activities of

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<sup>6</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.

<sup>7</sup> As of August 17, 2017, this rule is denominated NYSE Arca Rule 6.8-O, Commentary .07(iii).

its associated persons that are reasonably designed to ensure compliance with applicable federal securities laws and regulations, and with the NYSE Arca Rules.”

### *Position Limits*

10. During the Review Period, the applicable position limit in “GHI”<sup>8</sup> was 250,000 options contracts on the same side of the market.
11. During the trading day on February 9, 2016, Susquehanna, not delta neutral in GHI, failed to ensure that its 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, the Firm 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, Susquehanna violated NYSE Arca Options Rule 6.8, Commentary .07(iii).
12. During the trading day on November 30, 2016, Susquehanna, not delta neutral in GHI, failed to ensure that its 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, the Firm 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, Susquehanna violated NYSE Arca Options Rule 6.8, Commentary .07(iii).
13. During the Review Period, the applicable position limit in “JKL”<sup>9</sup> was 250,000 options contracts on the same side of the market.
14. During the trading day on February 6, 2017, Susquehanna, not delta neutral in JKL, failed to ensure that its 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, the Firm 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, Susquehanna violated NYSE Arca Options Rule 6.8, Commentary .07(iii).
15. During the trading day on April 21, 2017, Susquehanna, not delta neutral in GHI, failed to ensure that its 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, the Firm 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, Susquehanna violated NYSE Arca Options Rule 6.8, Commentary .07(iii).

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<sup>8</sup> A generic identifier has been used in place of the name of this security.

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## *Supervision*

16. During the Review Period, Susquehanna 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 Hedge Exemption on the relevant options exchanges, including NYSE Arca. 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 ensure compliance with the Delta Hedge Exemption.<sup>10</sup> As a result of the foregoing, Susquehanna violated NYSE Arca Options Rule 11.18(c).

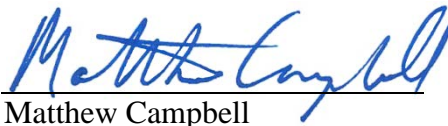
## **ORDER**

Susquehanna Securities violated: (i) NYSE Arca Options Rule 6.8, Commentary .07(iii) by failing to comply with an exemption to established options position limits known as the Delta-Based Equity Hedge Exemption, and exceeded the position limits of 250,000 options contracts in two listed options on four occasions; and (ii) NYSE Arca Options Rule 11.18(c), by failing to establish, maintain, and enforce written supervisory procedures reasonably designed to ensure compliance with Exchange rules related to position limits and the use of the Delta-Based Equity Hedge Exemption.

## **SANCTIONS**

Susquehanna Securities is censured and fined \$3,125.<sup>11</sup>

These sanctions are effective immediately.



Matthew Campbell  
Hearing Officer

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<sup>10</sup> Susquehanna 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 Susquehanna 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>11</sup> Under the Offer of Settlement and Consent, Susquehanna agreed to pay a total fine of \$25,000, of which \$3,125 shall be paid to NYSE Arca and the remaining amount shall be paid to: BOX Exchange LLC; Cboe Exchange, Inc.; C2 Options Exchange, Inc.; Cboe BZX Exchange, Inc.; Cboe EDGX Exchange, Inc.; NYSE American LLC; and Miami International Securities Exchange, LLC.