

NYSE ARCA, INC.

NYSE REGULATION,

Complainant,

v.

WOLVERINE TRADING, LLC,

Respondent.

Proceeding No. 2018-01-00067

April 19, 2019

Wolverine violated: (i) NYSE Arca Rule 7.23-E by failing to maintain continuous, two-sided trading interest in approximately 15,400 instances; and (ii) NYSE Arca Rule 11.18(b) by failing to establish and maintain adequate supervisory procedures designed to ensure compliance with NYSE Arca Rule 7.23-E. Consent to censure and \$40,000 fine.

Appearances

For the Complainant: Aaron H. Krieger, Esq. and Adam J. Wasserman, Esq., NYSE Regulation.

For the Respondent: David L. Cavicke, Esq. and Craig Murray for Wolverine Trading, LLC.

DECISION

Wolverine Trading, LLC (“Wolverine” or “Firm”) and NYSE Arca, Inc. (“NYSE Arca” or “Exchange”) 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.¹ The Hearing Officer accepts the Offer of Settlement and Consent and issues this Decision.²

¹ 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.

² See NYSE Arca Rule 10.6(e). The facts, allegations, and conclusions contained in this Decision were taken from the executed Offer of Settlement and Consent.

FINDINGS OF FACTS AND VIOLATIONS

Overview

1. From October 1, 2017, through December 31, 2018 (“Review Period”), Wolverine violated: (i) NYSE Arca Rule 7.23-E by failing to maintain continuous, two-sided trading interest in approximately 15,400 instances; and (ii) NYSE Arca Rule 11.18(b) by failing to establish and maintain adequate supervisory procedures reasonably designed to ensure compliance with NYSE Arca Rule 7.23-E.

Background and Jurisdiction

2. Wolverine is an Equities Trading Permit (“ETP”) Holder with NYSE Arca, Inc.

Violative Conduct

Failure to Maintain Continuous Two-Siding Trading Interest

3. NYSE Arca Rule 7.23-E(a)(1) requires that ETP Holders registered as market makers in one or more securities that trade on the NYSE Arca market “shall maintain continuous, two-sided trading in those securities in which the Market Maker is registered to trade.”
4. Because market makers receive benefits for their registration in particular symbols, it is essential that they uphold the quoting obligations associated with their registered symbols and provide market liquidity in the form of continuous quoting, as NYSE Arca Rule 7.23-E requires.
5. During the Relevant Period, Wolverine was a registered market maker.
6. In approximately 15,400 instances during the Review Period, Wolverine violated NYSE Arca Rule 7.23-E(a)(1) by failing to enter and maintain continuous, two-sided trading interest as required by the rule.
7. Wolverine’s violations included both (i) full day gaps and (ii) intra-day gaps.

The Full Day Gaps

8. For more than 100 trading days during the Review Period, Wolverine failed to transmit any quotes in one of the symbols in which it was a registered market maker.
9. Wolverine attributed the error to a change in the ticker symbol of the relevant product that was not recognized by the Firm’s internal systems, which were designed to monitor and parse ticket notices received from the Exchange.
10. Because Wolverine’s internal systems missed the ticker change, the product’s new symbol was not added to the Firm’s market making obligation engine, and no quotes

were submitted to the Exchange for more than 100 trading days during the Review Period.

Intraday Gaps

11. The intraday gaps at issue were primarily (i) gaps in a single symbol that recurred throughout the Relevant Period (“Single Symbol Recurring Gaps”) and (ii) gaps across a series of symbols arising from isolated incidents that occurred on October 13, 16, 17, and 25, of 2017 (“October 2017 Gaps”).

The Single Symbol Recurring Gaps

12. Wolverine’s primary method for submitting continuous two-sided quotes in satisfaction of its market making obligations was an automated quoting engine programmed with each symbol in which the Firm was a registered market maker.
13. In addition to the automated quoting engine, Wolverine also had manual mechanisms by which it sent quotes to the Exchange that could also satisfy its continuous two-sided interest obligations.
14. The quoting engine was configured on a daily basis to read a table of symbols in which Wolverine was a registered market maker. The Firm’s trade desk manually compiled the table.
15. Wolverine did not have an adequate automated or cross-checking process to confirm that its manually compiled table included each of the symbols in which the Firm was a registered market maker.
16. During the Relevant Period, Wolverine repeatedly failed to include one of the symbols in which it was a registered market maker in the manually compiled table used to configure the quoting engine.
17. Thus, Wolverine’s automated mechanism for submitting continuous two-sided interest—the quoting engine—was not programmed to send continuous two-sided interest to the Exchange in this particular symbol; rather, the Firm was limited to quotes sent as a result of its manual processes.
18. As a result, Wolverine experienced intraday quoting gaps in the relevant symbol throughout the Relevant Period.

The October 2017 Gaps

19. Wolverine attributed the October 2017 Gaps to a series of isolated systems or configuration issues that the Firm detected and remedied, including, *inter alia*, a configuration glitch that resulted in quotes not being sent to the Exchange, and a pre-

market check that required manual intervention to commence quoting that was not completed until after the opening of trading.

20. NYSE Arca Rule 7.23-E does not provide an exception to the continuous quoting requirement for the circumstances described above concerning either the (i) Full Day Gaps or the (ii) Intraday Gaps (including the Single Symbols Recurring Gaps and the October 2017 Gaps). Thus, the aforementioned instances constitute violations of NYSE Arca Rule 7.23-E.

Failure to Establish and Maintain A Reasonably Designed Supervisory System

21. NYSE Arca Rule 11.18(b) requires each ETP Holder to “establish and maintain a system to supervise the activities of its associated persons and the operation of its business.” Pursuant to NYSE Arca Rule 11.18(b), “[s]uch system must be reasonably designed to ensure compliance with applicable federal securities laws and regulations and NYSE Arca Rules.”
22. During the Relevant Period, Wolverine experienced long-running failures in submitting continuous two-sided interest, in particular with respect to the Full Day Gaps and the Single Symbol Recurring Gaps, undetected by the Firm.
23. Although Wolverine had an internal system for monitoring compliance with its quoting obligations, the system was not reasonable, looking only for quotes in the products the automated quoting engine was configured to submit quotes (based on the manual table created by Wolverine’s trade desk). The Firm did not have an adequate mechanism to ensure that all products in which Wolverine was registered as a market maker were accounted for.
24. Accordingly, its surveillance only detected quoting failures in products for which Wolverine was a registered market maker if those products were properly configured in the quoting engine.
25. The corollary was also true. If the products were not properly configured in the quoting engine, Wolverine was at risk of not submitting continuous two-sided quotes, while also blind to the issue (and thus unable to correct it) because the surveillance did not monitor the problematic symbols.
26. As a result of this failure, Wolverine was unaware of both the Full Day Gaps and the Single Symbol Recurring Gaps—neither of which generated exception alerts in the Firm’s internal systems—until the commencement of this matter.
27. Accordingly, Wolverine violated NYSE Arca Rule 11.18(b) during the Review Period because it failed to establish and maintain supervisory procedures reasonably designed to ensure compliance with NYSE Arca Rule 7.23-E.

Other Factors Considered

28. During the course of this matter, Wolverine implemented a process whereby the quoting engine cross references its configured products against an Exchange list of all appointed symbols. Should the engine detect a difference between its product list and the list of symbols in which Wolverine is a registered market maker, the engine can modify its product list and/or generate an exception alert for Firm personnel.


ORDER

Wolverine violated: (i) NYSE Arca Rule 7.23-E by failing to maintain continuous, two-sided trading interest in approximately 15,400 instances; and (ii) NYSE Arca Rule 11.18(b) by failing to establish and maintain adequate supervisory procedures designed to ensure compliance with NYSE Arca Rule 7.23-E.

SANCTIONS

Wolverine Trading, LLC is censured and fined \$40,000.

These sanctions are effective immediately.



David Williams
Hearing Officer