



## **2014 Formal Disciplinary Actions as of December 23, 2014**

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The following is a list of disciplinary actions that have resulted in the imposition of penalties for violations of specified provisions of the federal securities laws and/or the Constitution and Rules of the Exchange. New actions are added to the list as and when they are finalized.

### **A. Disciplinary Sanctions Imposed Pursuant to BOX Rule 12140, Imposition of Fines for Minor Rule Violations:**

- None.

### **B. Disciplinary Sanctions Imposed Pursuant to BOX Rule 10230, Letters of Consent:**

- Wolverine Trading, LLC was fined \$10,000 (\$2,500 for locked/crossed violations, \$2,500 for trade-through violations, and \$5,000 for supervision violations). During the review period of May 14, 2012 through July 31, 2012, the firm failed to reasonably avoid displaying, and engaged in a pattern or practice of displaying, quotations that locked or crossed the NBBO without taking corrective action within a timely manner on 728 occasions, with each occasion lasting an average of 48 seconds. This conduct constitutes separate and distinct violations of BOX Rule 15020. Additionally, during the review period, the firm effected eight trade-throughs which constitutes separate and distinct violations of BOX Rule 15010. Lastly, during the review period and through September 2013, the firm failed to maintain an adequate system of supervision, including adequate written supervisory procedures and effective monitoring reasonably designed to achieve compliance with Exchange rules and requirements relating to the avoidance of locked/crossed markets and trade-throughs. This conduct constitutes violations of BOX Rule 7000(c)(4).
- Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Pierce") was fined \$5,796,000, of which \$1,450,000 was paid to BOX; and Merrill Lynch Professional Clearing Corp "Merrill Pro") was fined \$1,454,000, of which \$ 365,000 was paid to BOX, due to deficiencies in the Firms' Large Option Position Reporting ("LOPR") submissions. From at least 2008 through November 2013, as a result of deficiencies in the firms' systems and procedures, the firms omitted positions and included inaccurate data in

their LOPR submissions. This conduct constitutes violations of BOX Rule 3150(a). Additionally the firms failed to establish adequate systems of supervision, including systems of follow-up and review, which were reasonably designed to ensure compliance with the rules governing the reporting of positions to the LOPR system. Merrill Pierce lacked any written supervisory procedures or practices requiring reviews to determine that LOPR submissions accepted by the LOPR system were accurate or that all reportable positions had actually been reported. Although Merrill Pro had established written supervisory procedures that provided for limited reviews of randomly selected reports, these reviews were inadequate to detect or prevent systemic violations of the LOPR reporting rules. As a result, the firms failed to detect the violations of BOX Rule 3150(a) when the violations occurred. Their failures to supervise constitute violations of BOX Rules 3010 and 3070(a).

- Volant Liquidity, LLC was censured and fined \$27,500 (\$10,000 for Market Maker Quoting Performance violations; \$7,500 for Directed Order violations; and \$10,000 for supervision violations). During the review period of October 4, 2012 through January 3, 2013, the firm failed to adequately participate in the Exchange's pre-opening phase, in that the firm quoted less than 60% of its appointed series at the market opening on 57 out of 61 total trade dates (93.44%). The firm also failed to adequately participate in the Exchange's continuous quoting phase, in that the firm quoted less than 60% of its appointed series at the market opening on 39 out of 61 total trade dates (63.93%). This conduct constitutes a violation of BOX Rule 8050(e). Additionally, during the review period of August 1, 2013 and January 31, 2014, the firm improperly traded against a Directed Order that the firm had ignored or rejected without first exposing it to the BOX Book for at least one second on 72 separate occasions. In each of the 72 instances in this matter, the firm submitted a separate contra order to trade against the Directed Order prior to the expiration of one second. This conduct constitutes a violation of BOX Rule 8040(d)(6).

Further, during the review period of October 4, 2012 through April 22, 2013, the firm did not have adequate compliance controls, including adequate Written Supervisory Procedures, in place with respect to monitoring for violations of BOX Rule 8050. The firm did not self-detect its issues and only became aware of them after being informed by BOX. Also, during the review period of August 1, 2013 through August 14, 2014, the firm failed to have adequate compliance controls, including adequate Written Supervisory Procedures, with respect to monitoring for violations of BOX Rule 8040(d)(6). This conduct constitutes violations of BOX Rule 7000(c)(4).

- Wolverine Execution Services, LLC was censured and fined \$20,000 (\$5,000 for origin code and related supervisory violations, and \$15,000 for order exposure violations). During the period of July 1, 2011 through October 11, 2012, the firm improperly had marked certain options orders on behalf of broker-dealers as "customer" or "firm", instead of "broker-dealer customer" through its smart order router used to send options orders to BOX, resulting in: (i) an inaccurate audit trail; and (ii) the potential that, in

certain situations, orders and quotations were not properly prioritized and matched, given that orders marked as “customer” had priority over other order types on certain exchanges. Additionally, the firm had supervisory deficiencies related to these matters. On November 27, 2012, for approximately 284 separate crossing orders, totaling 2,784 contracts, the firm had failed to properly enter and expose the orders on the BOX Price Improvement Period mechanism. This conduct constitutes violations of Section 17(a) of the Exchange Act, and Exchange Act Rule 17a-3; and BOX Rules 3010, 3070, 7000, 7120, 7140, 7150 and 10000.