

NASDAQ ISE, LLC
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
Case No. 2022.10.0408

TO: Nasdaq ISE, LLC
ISE Enforcement Department

RE: DRW Securities, L.L.C.
Respondent Member Firm
CRD No. 45908

Pursuant to Rule 9216 of the Nasdaq ISE, LLC (“ISE”) Code of Procedure¹, Respondent DRW Securities, L.L.C. (“DRW” or the “Firm”) 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, ISE will not bring any future actions against the Firm alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. DRW 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 ISE, or to which ISE is a party, prior to a hearing and without adjudication of any issue of law or fact, to the entry of the following findings by ISE.

BACKGROUND AND RELEVANT DISCIPLINARY HISTORY

DRW is a proprietary trading firm based in Chicago, IL. The Firm became a member of ISE in October 2011. Its registration remains in effect. The Firm has no relevant disciplinary history.

SUMMARY

Between August and December 2022, the Firm was registered as a Market Maker on ISE. During August and September 2022 (“Review Period 1”), the Firm violated ISE Rule Options 2, Section 4(b)(4) by exceeding the maximum allowable quote spread millions of times over the course of 28 trading dates for the options classes in which the Firm was appointed. Further, in December 2022 (“Review Period 2”), the Firm violated ISE Rule Options 2, Section 4(b)(4) by exceeding the maximum allowable quote spread hundreds of thousands of times over the course of six trading dates for the options classes in which the Firm was appointed. Finally, during the period August 2022 through December 2022 (the “Supervisory Review Period”), the Firm violated ISE Rule Options 9, Sections 2 and 1 for

¹ Series 9000 of The Nasdaq Stock Market, LLC (“Nasdaq”) Rules are incorporated by reference into the Nasdaq ISE Rules General 5, Section 3, and are thus Nasdaq ISE Rules and thereby applicable to Nasdaq ISE Members, Associated Persons, and other persons subject to Nasdaq ISE’s jurisdiction.

failing to establish and maintain a supervisory system that was reasonably designed to assure compliance with ISE rules concerning allowable quote widths.

FACTS AND VIOLATIVE CONDUCT

DRW violated ISE Rule Options 2, Section 4(b)(4) by submitting overwide quotes for multiple options classes while acting as a Market Maker on ISE.

1. This matter originated from surveillance conducted by the Nasdaq Options Review Department.
2. ISE Rule Options 2, Section 4(b)(4) requires Market Makers “[t]o price options contracts fairly by, among other things, bidding and offering so as to create differences of no more than \$5 between the bid and offer following the opening rotation in an equity or index options contract. The Exchange may establish differences other than the above for one or more series or classes of options.”
3. During Review Period 1, the Firm, acting in the capacity of a Market Maker, failed to meet the allowable quote spread threshold millions of times over the course of 28 trading dates. The violations occurred because the Firm’s market making desk implemented a new code that affected its quoting performance. The violative conduct affected options classes with an allowable spread of \$5, options classes with special relief, options classes granted 4x quarterly relief via Options Regulatory Alerts, and options classes granted 2x intraday relief by Floor Exchange Officials.
4. During Review Period 2, the Firm, acting in the capacity of a Market Maker, failed to meet the allowable quote spread hundreds of thousands of times over the course of six trading dates. The violations occurred because the Firm failed to identify an Options Regulatory Alert that removed certain quote spread parameter relief for Security A’s options classes.
5. The conduct described in paragraphs 3 and 4 constitutes violations of ISE Rule Options 2, Section 4(b)(4).

DRW failed to establish and maintain a supervisory system and written supervisory procedures reasonably designed to detect violations of ISE Rule Options 2, Section 4(b)(4).

6. ISE Rule Options 9, Section 2 provides that “[n]o Member shall engage in conduct in violation of the Exchange Act, the By-Laws or the Rules of the Exchange, or the Rules of the Clearing Corporation insofar as they relate to the reporting or clearance of any Exchange Transaction, or any written interpretation thereof. Every Member shall so supervise persons associated with the Member to assure compliance therewith.”
7. ISE Rule Options 9, Section 1 states that “[n]o Member shall engage in acts or practices inconsistent with just and equitable principles of trade. Persons associated with Members shall have the same duties and obligations as Members under the

Rules of this Options 9.” A violation of ISE Rule Options 9, Section 2 constitutes a violation of ISE Rule Options 9, Section 1.

8. During the Supervisory Review Period, the Firm’s supervisory system for detecting violations of ISE Rule Options 2, Section 4(b)(4) was not reasonably designed.
9. *First*, for a portion of the Supervisory Review Period, the Firm did not have a system in place to prevent over-wide quotes from being displayed on ISE. The Firm remediated this issue on September 13, 2022. Once implemented, this system prevented the Firm’s traders from displaying over-wide quotes in the options classes in which the Firm was appointed.
10. *Second*, the Firm closed a majority of alerts generated by the Firm’s surveillance system during Review Period 1 because the “[p]ercentage of invalid spreads does not exceed a material level on a consistent basis.” This is unreasonable because ISE Rule Options 2, Section 4(b)(4) contains no such exceptions.
11. *Third*, the Firm’s WSPs were not reasonably designed to assure compliance with ISE Rule Options 2, Section 4(b)(4). Specifically, the WSPs do not (1) specifically identify the individual responsible for supervision; and (2) do not provide for how the reviews shall be documented. Moreover, the WSPs direct the designated reviewer to identify instances where the percentage of over-wide spreads “exceeds a material level on a routine basis.” The WSPs do not define “material level” or “routine basis” or otherwise provide guidance on their meaning. Finally, the Firm’s WSPs do not specify what the ISE quote spread obligations are, and do not differentiate between the Firm’s obligations on different exchanges.
12. *Fourth*, the Firm did not have a supervisory process in place for ensuring that Options Regulatory Alerts are identified and properly entered into the Firm’s quoting systems.
13. The conduct in paragraphs 9 through 12 constitutes violations of ISE Rule Options 9, Section 2 and ISE Rule Options 9, Section 1.

The Firm also consents to the imposition of the following sanctions:

1. A censure;
2. A fine in the amount of \$25,500 (resolved simultaneously with similar matters for a total fine of \$50,000); and
3. An undertaking to revise the Firm’s written supervisory procedures with respect to the areas described in paragraphs 11 and 12. Within 90 days of this AWC becoming final, a registered principal of the Respondent shall submit an email from a work-related account of the registered principal to Reagan Drake (Reagan.Drake@nasdaq.com), Enforcement Counsel, providing the following information: (1) a reference to this matter; (2) a representation that the Firm has revised its written supervisory procedures to address the deficiencies described above; and (3) the date the revised supervisory procedures were implemented.

The Firm agrees to pay the fine upon notice that this AWC has been accepted and that such payment is due and payable. The Firm has submitted a Payment Information form showing the method by which it proposes to pay the fine imposed.

The Firm specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, the fine imposed in this matter.

The sanctions imposed herein shall be effective on a date set by ISE staff.

II.

WAIVER OF PROCEDURAL RIGHTS

The Firm specifically and voluntarily waives the following rights granted under ISE's Code of Procedure:

- A. To have a Complaint issued specifying the allegations against the Firm;
- B. To be notified of the 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, the Firm specifically and voluntarily waives any right to claim bias or prejudgment 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.

The Firm further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of ISE Rule 9143 or the separation of functions prohibitions of ISE 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

The Firm 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 ISE Enforcement Department and the

Exchange Review Council, the Review Subcommittee, or the Office of Disciplinary Affairs, pursuant to ISE 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 Firm; and

C. If accepted:

1. This AWC will become part of the Firm's permanent disciplinary record and may be considered in any future actions brought by ISE or any other regulator against it;
2. ISE may release this AWC or make a public announcement concerning this agreement and the subject matter thereof in accordance with ISE Rule 8310 and IM-8310-3; and
3. The Firm 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. The Firm may not take any position in any proceeding brought by or on behalf of ISE, or to which ISE is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects the Firm's right to take legal or factual positions in litigation or other legal proceedings in which ISE is not a party.

D. The Firm may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. The Firm 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 ISE, nor does it reflect the views of ISE 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.

29-Apr-2025

Date

Signed by:

Adam Garchik

3D626702020F401...

DRW Securities, L.L.C.
Respondent

Adam Garchik

Name

CEO

Title

Accepted by ISE:

04/30/2025

Date

Reagan Drake

Reagan Drake

Enforcement Counsel
ISE Enforcement Department

On behalf of ISE, by delegated
authority from the Director of ODA