

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

TO: Nasdaq PHLX, LLC  
Phlx Enforcement Department

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

Pursuant to Rule 9216 of the Nasdaq PHLX LLC (“Phlx”) Code of Procedure<sup>1</sup>, 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, Phlx 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 Phlx, or to which Phlx 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 Phlx.

**BACKGROUND AND RELEVANT DISCIPLINARY HISTORY**

DRW is a proprietary trading firm based in Chicago, IL. The Firm became a member of Phlx in August 2015. Its registration remains in effect. The Firm has no relevant disciplinary history.

**SUMMARY**

Between August and September 2022 (the “Quote Spread Review Period”), the Firm was registered as a Market Maker on Phlx. During the Quote Spread Review Period, the Firm violated Phlx Rule Options 2, Section 4(c)(1) by exceeding the maximum allowable quote spread millions of times over the course of 27 trading dates for the options classes in which the Firm was appointed. During the period August 2022 through December 2022 (the “Supervisory Review Period”), the Firm violated Phlx Rules General 9, Sections 20(h) and 1(c)(1) for failing to establish adequate supervisory systems and controls that were

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

reasonably designed to prevent and detect, insofar as practicable, violations of Phlx rules concerning allowable quote widths.

## **FACTS AND VIOLATIVE CONDUCT**

***DRW violated Phlx Rule Options 2, Section 4(c)(1) by submitting overwide quotes for multiple options classes while acting as a Market Maker on Phlx.***

1. This matter originated from surveillance conducted by the Nasdaq Options Review Department.
2. Phlx Rule Options 2, Section 4(c)(1) states that, “Options on equities (including Exchange-Traded Fund Shares), index options and options on U.S. dollar-settled FCOs may be quoted electronically with a difference not to exceed \$5 between the bid and offer regardless of the price of the bid, provided that the foregoing bid/ask differentials shall not apply to in-the-money series where the market for the underlying security is wider than the differentials set forth above. For such series, the bid/ask differentials may be as wide as the spread between the national best bid and offer in the underlying security. The Exchange may establish differences other than the above for one or more series or class of options.”
3. During the Quote Spread Review Period, 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 27 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 (“ORAs”), and options classes granted 2x intraday relief by Floor Exchange Officials.
4. This conduct described in paragraph 3 constitutes violations of Phlx Rule Options 2, Section 4(c)(1).

***DRW failed to establish and maintain a supervisory system and written supervisory procedures reasonably designed to prevent and detect violations of Phlx Rule Options 2, Section 4(c)(1).***

5. Phlx Rule General 9, Section 20(h) requires member organizations to “establish, maintain, and enforce written supervisory procedures, and a system for applying such procedures, to supervise the types of business(es) in which the member or member organization engages in and to supervise the activities of all registered representatives, employees, and associated persons. The written supervisory procedures and the system for applying such procedures shall reasonably be designed to prevent and detect, insofar as practicable, violations of the applicable securities laws and regulations, including the By-Laws and Rules of the Exchange.”
6. Phlx Rule General 9, Section 1(c)(1) states that, “A member, member organization, or person associated with or employed by a member or member organization shall not

engage in conduct inconsistent with just and equitable principles of trade.” A violation of Phlx Rule General 9, Section 20(h) constitutes a violation of Phlx Rule General 9, Section 1(c)(1).

7. During the Supervisory Review Period, the Firm’s supervisory system for detecting violations of Phlx Rule Options 2, Section 4(c)(1) was not reasonably designed.
8. *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 Phlx. 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.
9. *Second*, the Firm closed a majority of alerts generated by Firm’s surveillance system because the “[p]ercentage of invalid spreads does not exceed a material level on a consistent basis.” This is unreasonable because Phlx Rule Options 2, Section 4(c)(1) contains no such exceptions.
10. *Third*, the Firm’s WSPs were not reasonably designed to prevent and detect, insofar as practicable, violations of Phlx Rule Options 2, Section 4(c)(1). 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 Phlx quote spread obligations are, and do not differentiate between the Firm’s obligations on different exchanges.
11. The conduct is paragraphs 8 through 10 constitutes violations of Phlx Rule General 9, Section 20(h) and Phlx Rule General 9, Section 1(c)(1).

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

1. A censure;
2. A fine in the amount of \$24,000 (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 paragraph 10. 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 Phlx staff.

## II.

### **WAIVER OF PROCEDURAL RIGHTS**

The Firm specifically and voluntarily waives the following rights granted under Phlx'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 pre-judgment 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 Phlx Rule 9143 or the separation of functions prohibitions of Phlx 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 Phlx Enforcement Department and the

Exchange Review Council, the Review Subcommittee, or the Office of Disciplinary Affairs, 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 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 Phlx or any other regulator against it;
  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. 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 Phlx, or to which Phlx 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 Phlx 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 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.

29-Apr-2025

Date

Signed by:

*Adam Garchik*

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DRW Securities, L.L.C.  
Respondent

Adam Garchik

Name

CEO

Title

Accepted by Phlx:

04/30/2025

Date

*Reagan Drake*

Reagan Drake

Enforcement Counsel  
Phlx Enforcement Department

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