

BEFORE THE BUSINESS CONDUCT COMMITTEE PANEL
OF THE
CBOE FUTURES EXCHANGE, LLC

In the Matter of:)	
)	
DRW Securities LLC,)	CFE 17-0010
)	Enf ICT 109492
Subject.)	ICT 109025
)	

DECISION ACCEPTING LETTER OF CONSENT

This proceeding was instituted by a Panel of the Business Conduct Committee (“Committee”) of CBOE Futures Exchange (“CFE”) as a result of an investigation by CFE Regulation. In order to resolve this matter, DRW Securities LLC has submitted a Letter of Consent for purposes of this proceeding without admitting or denying that a violation of Exchange Rules has been committed. With due regard to the stipulated facts and findings and the proposed sanction, contained therein, the Committee believes it is appropriate to accept the Letter of Consent, attached hereto and made a part of this decision.

So Ordered for the Committee

December 21, 2017

By: /s/ Bruce Andrews
Bruce Andrews
Chairman
Business Conduct Committee Panel

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CBOE FUTURES EXCHANGE, LLC

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In the Matter of:)	
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DRW Securities LLC,)	File No. CFE 17-0010
)	Enforcement ICT 109492/ICT 109025
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LETTER OF CONSENT

In order to resolve these proceedings pursuant to the Cboe Futures Exchange, LLC (“CFE or Exchange”) Rule 703, Expedited Proceeding, DRW Securities LLC (“DRW”), hereby submits this Letter of Consent in the above captioned matter to the Business Conduct Committee (“BCC”). For purposes of this proceeding only and without admitting or denying that a violation of Exchange Rules has been committed, DRW consents to the Stipulation of Facts and Findings and Sanction set forth below.

Stipulation of Facts and Findings

1. During all relevant periods herein, DRW was a CFE Trading Privilege Holder.
2. During all relevant periods herein, CFE Rules 608 - Acts Detrimental and Just and Equitable and 620 – Disruptive Trading was in full force and effect, and in relevant part states that:

CFE Rule 608

It shall be an offense to engage in any act detrimental to the Exchange, in conduct inconsistent with just and equitable principles of trade or in abusive practices, including without limitation, fraudulent, noncompetitive or unfair actions.

CFE Rule 620

No Trading Privilege Holder nor any of its Related Parties shall engage in any trading, practice or conduct on the Exchange or subject to the Rules of the Exchange that... demonstrates ... reckless disregard for the orderly execution of transactions during the closing period...

3. During all relevant periods noted herein, CFE listed the following Volatility Index Futures products: the CBOE Emerging Markets ETF Volatility Index Futures contract (“VXEM”), the CBOE Brazil ETF Volatility Index Futures contract (“VXEW”) and the CBOE Crude Oil ETF Volatility Index Futures contract (“OV”).
4. The settlement of the futures contract price for the products referenced above was based upon a formula that utilizes out-of-the-money constituent options with an expiration date of approximately 30 days after the volatility future settlement date. Settlement of these volatility futures contracts would result in the delivery of a cash settlement amount on the business day immediately following the final settlement date and the cash amount would be the final mark-to-market amount against the final settlement value of the volatility futures multiplied by \$100.
5. The exercise/final settlement value for these volatility index contracts was based on a Special Opening Quotation (“SOQ”) of the respective volatility index calculated from the sequence of opening prices, as traded on Cboe, of a single strip of the constituent option series used to calculate the volatility index on the exercise/final settlement date. The opening price for any constituent option series in which there was no trade on Cboe would be the average of that option’s bid price and ask price as determined at the opening of trading. The strip of constituent option series used to calculate the settlement price included out-of-the-money series until two consecutive strike prices that had zero bid prices, or “no bids,” were identified for the SOQ (the “Two Zero Bid rule”). Once two put option series with consecutive strike prices had no bids, no puts with lower strikes were considered for inclusion. Similarly, when two call option series had no bids, no calls with higher strikes were considered.
6. DRW’s U.S. Equity Index Options Desk, as part of its trading strategy, participated in the Special Opening Quotation by submitting a “strategy order” composed of a strip of constituent options, to replace the U.S. Equity Index Options Desk’s expiring Vega. At the time of the SOQs, the strip of constituent options had already largely converged with the prior day’s futures settlement price.
7. From in or about February 2014 through in or about March 2015, on nine trade dates, DRW, through its U.S. Equity Index Options Desk, submitted minimum increment option orders, or “safety bids,” in addition to its “strategy orders,” ensuring that certain option series were included in the final settlement calculations of the SOQ. This conduct impacted the final settlement calculation of the VXEM, VXEW, and OV futures contracts. As a result of this conduct, the final settlement calculations on those nine dates included additional options series in the SOQ settlement calculation that otherwise would not have been included due to the Two Zero Bid rule described above.
8. The acts, practices, and conduct described above constitute violations of CFE Rules 608 and 620.

9. For further reference, please see Cboe Case No. 20150448574.

Sanction: As a result of the conduct described above, a \$450,000 fine and disgorgement in the amount of \$157,056. (In conjunction with the above-cited Cboe case, a total fine of \$1,250,000 and disgorgement of \$257,056 shall be paid).

DRW acknowledges it has read the Letter of Consent, that no promise or inducement of any kind has been made to it by the Exchange or CFE Regulation, and that this Letter of Consent is voluntary on its part. DRW also understands and acknowledges that the BCC's decision in this matter will become part of its disciplinary record and may be considered in any future Exchange proceeding. Finally, DRW acknowledges that the BCC's decision to accept or reject this Letter of Consent is final, and that it may not seek review thereof in accordance with Exchange Rule 703.

December 21, 2017
Date

By: /s/ DRW Securities LLC
DRW Securities LLC.