

BEFORE THE BUSINESS CONDUCT COMMITTEE
OF THE
CBOE EXCHANGE, INC.

In the Matter of:)	
)	
Susquehanna Securities)	
175 West Jackson Boulevard)	STAR No. 20150475058-04
Suite 1700)	
Chicago IL, 60604)	
)	
Subject)	

LETTER OF CONSENT

In order to resolve these proceedings pursuant to Cboe Exchange, Inc. (the "Exchange") Rule 17.3 – Expedited Proceeding, the Subject, Susquehanna Securities ("Susquehanna" or the "Firm"), hereby submits this Letter of Consent in the above captioned matter. Only for purposes of this proceeding, and without admitting or denying that a violation of Exchange Rules has been committed, Susquehanna consents to the Stipulation of Facts and Findings and Sanction set forth below.

Stipulation of Facts and Findings

1. During all relevant periods herein, Susquehanna was an Exchange Trading Permit Holder registered to conduct business on the Exchange as a Market Maker.
2. During all relevant periods herein, Susquehanna was acting as a registered Broker-Dealer.
3. During all relevant periods herein, Exchange Rules 4.11 – Position Limits, and 4.24 – Supervision were in full force and effect.
4. Exchange Rule 4.11, Interpretation and Policy .04 provides, in relevant part that: "The Delta-Based Equity Hedge Exemption is in addition to the standard limit and other exemptions available under Exchange rules, interpretations and policies. An equity option position of a Trading Permit Holder, non-Trading Permit Holder affiliate of a Trading Permit Holder or customer that is delta neutral shall be exempt from established positions limits.... An equity option position that is not delta neutral shall be subject to position limits in accordance with this Rule 4.11 (subject to the availability of other position limit exemptions). Only the option contract equivalent of the net delta of such position shall be subject to the appropriate position limit. The 'options contract equivalent of the net delta' [OCEND] is the net delta divided by the number of shares that equate to one option contract on a delta basis. The term "net delta" means, at any time, the number of shares and/or other units of trade (either long or short) required to offset the risk that the value of an equity

option position will change with incremental changes in the price of the security underlying the option position, as determined in accordance with a permitted pricing model.”

5. The Options Regulation staff of FINRA’s Department of Market Regulation conducted a review of whether Susquehanna exceeded the applicable position limits in listed options securities between October 26, 2015 and April 21, 2017 (the “Review Period”), including whether the Firm complied with an exemption to established options position limits.
6. As a result of staff’s investigation, it was determined that the Firm failed to comply with an exemption to established options position limits known as the Delta-Based Equity Hedge Exemption, and during the Review Period exceeded the position limits of 250,000 options contracts in four listed options on six occasions on the Exchange. Accordingly, Susquehanna improperly controlled an aggregate position in options contracts in excess of the applicable limits for these securities. In addition, during the Review Period the Firm failed to establish, maintain, and enforce written supervisory procedures (“WSPs”) reasonably designed to ensure compliance with the rules related to position limits and the use of the Delta-Based Equity Hedge Exemption on the Exchange.
7. On March 19, 2008 and again on December 27, 2010, Susquehanna submitted documentation claiming the exemption from the established position limits known as the “Delta-Based Equity Hedge Exemption” (the “Delta Hedge Exemption”).¹ Pursuant to Exchange Rule 4.11, Susquehanna’s use of the Delta-Based Equity Hedge Exemption, which was based upon a permitted pricing model developed by the Options Clearing Corporation (“OCC”), continued to be in effect throughout the Review Period. FINRA, as a member of the Intermarket Surveillance Group (“ISG”), distributed in writing the exemption to the relevant options exchanges who were also members of ISG.²
8. As set forth in Exchange Rule 4.11, Interpretation and Policy .04, an equity options position of a member organization that is delta neutral (i.e., an equity options position that is hedged, in accordance with a Permitted Pricing Model, by a position in the underlying security or one or more instruments relating to the underlying security) shall be exempt from the established position limits subject to certain conditions.
9. For a firm using the Delta Hedge Exemption, any options position that is not delta hedged remains subject to position and exercise limits. While delta hedging generally is employed as part of an overall risk management program, firms may not necessarily hedge every position to be delta neutral or use delta hedging for every stock options position. In such cases, the “net delta” will be subject to position limits.
10. The net delta is the number of shares required (either long or short) to offset the risk that the value of an equity options position will change with incremental changes in the price of the security underlying the options position. A firm that is not delta neutral must be hedged to the extent that the Options Contract Equivalent of the Net Delta (“OCEND”)

¹ Essentially, the Delta Hedge Exemption allows a firm to net its bullish positions (i.e., calculated by aggregating long calls and short puts) and bearish positions (i.e., calculated by aggregating the long puts and short calls).

² ISG is comprised of an international group of exchanges, market centers, and market regulators that perform front-line market surveillance in their respective jurisdictions. One of the purposes of ISG is information sharing among its members.

stays within the applicable position limit. Susquehanna calculated the OCEND by using the OCC Permitted Pricing Model. Once calculated, the OCEND must still be below the applicable position limit.

11. During the Review Period, the applicable position limit in "ABC"³ options was 250,000 options contracts on the same side of the market.
12. During the trading day on October 26, 2015, Susquehanna, which was not delta neutral in ABC, failed to ensure that their OCEND value in ABC remained below the applicable position limit. On that date, the Firm's end of day OCC submitted OCEND value in ABC was 257,134 contracts. As such, Susquehanna exceeded the applicable position limit in ABC on both the bullish and bearish side by 7,134 contracts, which was not detected and corrected until the next business day.
13. During the Review Period, the applicable position limit in "DEF"⁴ options was 250,000 options contracts on the same side of the market.
14. During the trading day on December 16, 2015, Susquehanna, which was not delta neutral in DEF, failed to ensure that their OCEND value in DEF remained below the applicable position limit. On that date, the Firm's end of day OCC submitted OCEND value in DEF was 278,542 contracts. As such, Susquehanna exceeded the applicable position limit in DEF on both the bullish and bearish side by 28,542 contracts, which was not detected and corrected until the next business day.
15. During the Review Period, the applicable position limit in "GHI"⁵ was 250,000 options contracts on the same side of the market.
16. During the trading day on February 9, 2016, Susquehanna, which was not delta neutral in GHI, failed to ensure that their OCEND value in GHI remained below the applicable position limit. On that date, the Firm's end of day OCC submitted OCEND value in GHI was 340,211 contracts. As such, Susquehanna exceeded the applicable position limit in GHI on both the bullish and bearish side by 90,211 contracts, which was not detected and corrected until the next business day.
17. During the trading day on November 30, 2016, Susquehanna, which was not delta neutral in GHI, failed to ensure that their OCEND value in GHI remained below the applicable position limit. On that date, the Firm's end of day OCC submitted OCEND value in GHI was 299,844 contracts. As such, Susquehanna exceeded the applicable position limit in GHI on both the bullish and bearish side by 49,844 contracts, which was not detected and corrected until the next business day.
18. During the Review Period, the applicable position limit in "JKL"⁶ options was 250,000 options contracts on the same side of the market.

³ A generic identifier has been used in place of the name of this security.

⁴ A generic identifier has been used in place of the name of this security.

⁵ A generic identifier has been used in place of the name of this security.

⁶ A generic identifier has been used in place of the name of this security.

19. During the trading day on February 6, 2017, Susquehanna, which was not delta neutral in JKL, failed to ensure that their OCEND value in JKL remained below the applicable position limit. On that date, the Firm's end of day OCC submitted OCEND value in JKL was 263,838 contracts. As such, Susquehanna exceeded the applicable position limit in JKL on the bearish side by 13,838 contracts, which was not detected and corrected until the next business day.
20. During the trading day on April 21, 2017, Susquehanna, which was not delta neutral in GHI, failed to ensure that their OCEND value in GHI remained below the applicable position limit. On that date, the Firm's end of day OCC submitted OCEND value in GHI was 251,185 contracts. As such, Susquehanna exceeded the applicable position limit in GHI on both the bullish and bearish side by 1,185 contracts, which was not detected and corrected until the next business day.
21. During the Review Period, the Firm failed to establish, maintain, and enforce WSPs reasonably designed to ensure compliance with the rules related to position limits and the use of the Delta-Based Equity Hedge Exemption on the Cboe Exchange, Inc. During the Review Period, the Firm had WSPs in place that called for a daily review by a Compliance associate at the Firm to monitor and amend, where necessary, the position limits of each listed options traded in order to identify any positions that would potentially exceed the applicable limits. However, the Firm's WSPs did not indicate how the daily review would be documented. In addition, the WSPs did not address the need to monitor the Firm's intraday positions, on a delta adjusted basis, to ensure compliance with the Delta Hedge Exemption.
22. The acts, practices, and conduct described in each of Paragraphs 12, 14, 16, 17, 19 and 20 above constitute separate and distinct violations of Exchange Rule 4.11 by Susquehanna, in that Susquehanna exceeded the applicable position limits in the identified securities, which were not detected and corrected until the next business day in each instance.
23. The acts, practices, and conduct described in Paragraph 21 above constitute violations of Exchange Rule 4.24 by Susquehanna, in that Susquehanna failed to establish, maintain, and enforce written supervisory procedures and a separate system of follow-up and review reasonably designed to ensure compliance with Exchange Rule 4.11.

Sanction: A censure and a fine of \$25,000, of which \$3,125 is payable to Cboe Exchange, Inc.⁷

Subject acknowledges that it has read the foregoing Letter of Consent, that no promise or inducement of any kind has been made to it by the Exchange or its staff, and that this Letter of Consent is voluntary on its part.

⁷ Acceptance of this Letter of Consent is conditioned upon acceptance of similar settlement agreements in related matters between Susquehanna and each of the following exchanges: NYSE American LLC; BOX Exchange LLC; C2 Options Exchange, Inc.; Cboe BZX Exchange, Inc.; Cboe EDGX Exchange, Inc.; NYSE Arca, Inc.; and Miami International Securities Exchange, LLC.

