

BEFORE THE BUSINESS CONDUCT COMMITTEE
OF THE
CHICAGO BOARD OPTIONS EXCHANGE, INCORPORATED

_____)
In the Matter of:)
)
HAP Trading, LLC)
33 Whitehall Street)
Sixth Floor)
New York, NY 10004)
)
and)
)
Harsh A. Padia)
c/o HAP Trading, LLC)
33 Whitehall Street)
New York, NY 10004)
)
Respondents)
_____)

File No. 13-0054

DECISION ACCEPTING OFFER OF SETTLEMENT

This proceeding was instituted by the Business Conduct Committee (the “Committee”) of the Chicago Board Options Exchange, Incorporated (the “Exchange”) as a result of an investigation by the staff of the Exchange, which indicated that there was probable cause for finding a violation within the disciplinary jurisdiction of the Exchange. In accordance with that determination, the Committee directed the issuance of a Statement of Charges (“Statement of Charges”). Pursuant to Exchange Rule 17.8, the respondents (“Respondents”), HAP Trading, LLC (“HAP”) and Harsh A. Padia (“Padia”), submitted an offer of settlement (“Offer of Settlement”).

In submitting the Offer of Settlement, the Respondents neither admit nor deny the violations alleged in the Statement of Charges.

The Respondents have agreed that the determination of the Committee to accept the Offer of Settlement shall constitute a final Decision, and, as provided in Exchange Rule 17.8, the Respondents may not seek review thereof.

The Respondents understand and acknowledge that the Committee’s decision in this matter will become part of their disciplinary record and may be considered in any future Exchange proceeding.

With due regard to the particulars of this matter, the Committee believes it is appropriate to accept the Respondents’ Offer of Settlement based on the following stipulated facts and findings and thereby to impose the sanction specified below.

FACTS

1. During all relevant periods, HAP was a TPH organization of the Exchange registered to transact business on the Exchange in accordance with Exchange Rules as a Market-Maker.¹
2. During all relevant periods in which the activity noted below occurred, HAP was acting as a registered broker-dealer.
3. During all relevant periods herein, Saagar Gupta (“Gupta”) was an Associated Person² of HAP and employed as a proprietary trader of HAP.
4. During all relevant periods herein, Padia was HAP’s Chief Executive Officer and Managing Member. Pursuant to HAP’s Written Supervisory Procedures, Padia maintained overall authority and responsibility for internal supervision and control of the organization and compliance with securities laws and regulations. In addition, Padia supervised all employees and traders in the areas of trading, compliance and office supervision.
5. During all relevant periods herein, Exchange Rules 4.1 – Just and Equitable Principles of Trade, 4.2 – Adherence to Law and 4.7 – Manipulation were in full force and effect.
6. Exchange Rule 4.1 provides: “No Trading Permit Holder shall engage in acts or practices inconsistent with just and equitable principles of trade. Persons associated with Trading Permit Holders shall have the same duties and obligations as Trading Permit Holders under the Rules of this Chapter.”
7. Exchange Rule 4.7(a) provides, in relevant part, that no “...Trading Permit Holder shall effect or induce the purchase, sale or exercise of any security for the purpose of creating or inducing a false, misleading, or artificial appearance of activity in such security or in the underlying security, or for the purpose of unduly or improperly influencing the market price of such security or of the underlying security for the purpose of making a price which does not reflect the true state of the market in such security or in the underlying security.”
8. During the approximate time period from in or about May 2010 through in or about July 2010, on multiple occasions and on multiple trade dates, Gupta, on behalf of HAP, engaged in a course of conduct whereby Gupta, for the purpose of making a price which did not reflect the true state of the market in such securities, purchased or sold numerous shares of securities, which unduly or improperly influenced the market price of the underlying securities and the corresponding options contracts. Subsequently, Gupta purchased or sold numerous corresponding options contracts, resulting in Gupta’s and HAP’s inappropriate capitalization on the price movement in the corresponding options.

¹ On or about June 18, 2010, CBOE restructured from a non-stock corporation to a stock corporation and wholly-owned subsidiary of CBOE Holdings, Incorporated. As a result of this demutualization, CBOE modified its rules to reflect changes to references in the rules from “member” to “Trading Permit Holder” and from “member organization” to “TPH organization.” (See Securities Exchange Act Release No. 62382 (June 25, 2010), 75 FR 38164 (July 1, 2010) (SR-CBOE-2010-058)). During all relevant periods of this investigation, HAP Trading, LLC was a member organization or a TPH organization subject to the jurisdiction of the Exchange. All references to TPH organization or Trading Permit Holder, shall also mean member or member organization.

² Person associated with a broker or dealer as defined in the Securities Exchange Act of 1934, as amended, Section 3(a)(18).

9. During the approximate time period from in or about May 2010 through in or about July 2010, Padia, on behalf of HAP, failed to adequately supervise the trading activities of Gupta to assure compliance with Exchange Rules 4.1 and 4.7 in connection with the conduct described in Paragraph 8 above.

FINDINGS

The acts, practices and conduct described in Paragraph 8 above constitute a violation of Exchange Rules 4.1 and 4.7 by HAP, in that Gupta, on behalf of HAP, on multiple occasions and on multiple trade dates, engaged in a cross-product manipulation whereby Gupta, for the purpose of making a price which did not reflect the true state of the market in such securities, purchased or sold numerous shares of securities, which unduly or improperly influenced the market price of the underlying securities and the corresponding options contracts for the purpose of making a price which did not reflect the true state of the market in such securities. Subsequently, Gupta purchased or sold numerous corresponding options contracts, resulting in Gupta's and HAP's inappropriate capitalization on the price movement in the corresponding options.

The acts, practices and conduct described in Paragraph 9 above constitute violations of Exchange Rule 4.2 by HAP and Padia, in that HAP and Padia failed to adequately supervise the trading activities of Gupta to assure compliance with Exchange Rules 4.1 and 4.7 in connection with the conduct described Paragraph 8 above.

SANCTION

The sanction to be imposed shall consist of:

- 1) A total fine of \$1,500,000, of which:³
 - \$1,250,000 represents disgorgement (\$300,000 is payable to CBOE);
 - \$150,000 fine shall be attributed to HAP for violations of Exchange Rules 4.1 and 4.7 (\$60,000 is payable to CBOE); and
 - \$100,000 fine shall be attributed jointly and severally to HAP and Padia for violations of Exchange Rule 4.2 (\$40,000 is payable to CBOE); and
- 2) A censure of HAP and Padia.

ORDER

ACCORDINGLY IT IS ORDERED THAT, the Respondents, HAP Trading, LLC and Harsh A. Padia shall be and hereby are censured. In addition, a total fine in the amount of one million five hundred thousand dollars (\$1,500,000) shall be imposed, of which \$1,250,000 represents disgorgement, \$150,000 fine shall be attributed to HAP for violations of Exchange Rules 4.1 and 4.7, and \$100,000 fine shall be attributed jointly and severally to HAP and Padia for violations of Exchange Rule 4.2. Of the one million

³ The Offer of Settlement was negotiated jointly by CBOE and FINRA (acting on behalf of Nasdaq OMX PHLX, Inc., NYSE MKT LLC and NYSE Arca, Inc.). The acceptance of the Offer of Settlement was contingent upon approval by the applicable self-regulatory organizations.

five hundred thousand dollar (\$1,500,000) fine assessed to HAP and Padia, a total of four hundred thousand dollars (\$400,000) is payable to CBOE, as described above.

**SO ORDERED
FOR THE COMMITTEE**

Dated: May 12, 2014

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