

Regulatory Circular RG05-06

To: Members and Member Organizations

From: Department of Financial and Sales Practice Compliance

Date: January 12, 2005

Re: CBOE Rule 9.25, Borrowing From or Lending to Customers

On December 16, 2004, the Securities and Exchange Commission ("SEC") approved CBOE Rule 9.25, Borrowing From or Lending to Customers, which restricts registered persons of members or member organizations from borrowing or lending money to their customers, unless the borrowing or lending arrangement falls within one of five permissible types of lending arrangements:

- i) the customer is a member of the registered person's immediate family (as defined in the rule);
- ii) the customer is a financial institution regularly engaged in the business of providing credit, financing, or loans, or other entity or person that regularly arranges or extends credit in the ordinary course of business;
- iii) the customer and the registered person are both registered persons of the same member organization;
- iv) the lending arrangement is based on a personal relationship outside of the broker-customer relationship; or
- v) the lending arrangement is based on a business relationship outside of the broker-customer relationship.

Additionally, if a member or member organization chooses to permit their registered persons to engage in borrowing or lending arrangements with their customers, Rule 9.25 requires members and member organizations to have written procedures allowing the

borrowing and lending of money between registered persons and customers of the member or member organization. Rule 9.25 also requires members and member organizations to pre-approve in writing the following types of lending arrangements: the customer and the registered person are both registered persons of the same member organization; the lending arrangement is based on a personal relationship with the customer, such that the loan would not have been solicited, offered, or given had the customer and the associated person not maintained a relationship outside of the broker/customer relationship; or the lending arrangement is based on a business relationship outside of the broker-customer relationship.

Members and member organizations could choose to prohibit the practice of borrowing from or lending to customers by registered persons.

Questions regarding this Regulatory Circular may be directed to Barry Szurgot at (312) 786-7756 or Larry Bresnahan at (312) 786-7713.