REGULATORY CIRCULAR RG06-64

TO: Members and Member Organizations

FROM: Regulatory Services Division

RE: Prearranged Trades

DATE: June 30, 2006

This Regulatory Circular restates the Exchange's policy concerning prearranged trading. Members and Member Organizations are cautioned that any purchase or sale transaction or series of transactions, coupled with an agreement, arrangement or understanding, directly or indirectly to reverse such transaction which is not done for a legitimate economic purpose or without subjecting the transactions to market risk, violate Exchange Rules and may be inconsistent with various provisions of the Securities Exchange Act of 1934, as amended, and rules thereunder (the "Act"). All transactions must be effected in accordance with applicable trading rules, must be subject to risk of the market, and must be reported for dissemination over the tape.

Section 9(a)(1) of the Act prohibits any member of a national securities exchange, for the purpose of creating a false or misleading appearance of active trading in any security registered on a national securities exchange, or a false or misleading appearance with respect to the market for any such security, (A) from effecting any transaction in such security which involves no change in the beneficial ownership thereof, or (B) from entering an order or orders for the purchase of such security with the knowledge that an order or orders of substantially the same size, at substantially the same time, and at substantially the same price, for the sale of any such security, has been or will be entered by or for the same or different parties, or (C) from entering any order or orders for the sale of any such security with the knowledge that an order or orders of substantially the same size, at substantially the same time, and at substantially the same price, for the purchase of such security, has been or will be entered by or for the same or different parties.

In order for transactions not to be viewed as prearranged trades, there should be two independent transactions, and the price of each should be independently established. At the time of the first transaction there should be no guarantee or assurance of the price of the second. The period of time between the two transactions may not of itself determine whether the subsequent entry of an order that reversed the buyer and seller in the first transaction into the seller and buyer on the second transaction had been effected at the risk of the market.

The Exchange also believes that prearranged trading could result in a violation of CBOE Rule 4.1, which prohibits conduct inconsistent with just and equitable principles of trade, Rule 6.45 which addresses the priority of bids and offers, or Rule 10b-5 of the Act, which prohibits any act, practice, or course of business which operates or would operate as a fraud or deceit upon any person, in connection with the purchase or sale of any security, respectively.

Any questions may be directed to Steve Slawinski (312) 786-7744.

(Regulatory Circulars RG92-51, RG93-36, RG95-48, RG96-99 and RG97-166 Reissued, RG99-129 Revised, RG99-173 Reissued, RG00-91 Revised, RG01-126 Revised, RG05-132 Reissued)