



Regulatory Circular RG06-86

To: Members and Member Organizations  
From: Regulatory Services Division  
Date: August 9, 2006  
Re: Systematizing Orders & COATS Requirements

---

**Summary of Key Issues**

- On January 7, 2005, the SEC approved amendments to CBOE Rule 6.24, relating to the systematizing of orders in connection with the requirement to implement a consolidated options audit trail system (“COATS”).<sup>1</sup>
- Rule 6.24, as amended, requires that each order, cancellation of, or change to an order in any option class transmitted to CBOE must be “systematized”, in a format approved by CBOE, either before it is sent to CBOE or upon receipt on the floor of CBOE. Below is a general description of the COATS requirements as set forth in Rule 6.24.
- An order is systematized if:
  - (i) the order is sent electronically to CBOE; or
  - (ii) the order that is sent to CBOE non-electronically (*e.g.*, telephone orders) is input electronically into CBOE’s systems contemporaneously upon receipt on CBOE, and prior to representation of the order.

**Discussion**

The following serves as a reminder to Member Firms, Members and their clerks of the requirement to systematize orders, and to advise that failure to comply may result in formal disciplinary action against the Member Firm and Member. Member Firms that conduct an agency business are required to supervise their employees to assure compliance with Rule 6.24 and the obligation to systematize all non-electronic orders entered with the firm and their employees.

It is the responsibility of the Member receiving a non-electronic order on the floor of the CBOE to systematize the order and record any event in the lifecycle of the order (*i.e.*, change, cancel or cancel/replace). All orders must be systematized, including complex orders and contra orders related to an original order. The manner of systematizing orders will be through the Floor Broker Workstation (“FBW”), BERS, or through proprietary systems approved by CBOE.

**Marketable Orders**

With respect to non-electronic, market and marketable orders sent to CBOE, the Member responsible for systematizing the order shall input into CBOE’s systems at least the following eight specific items with respect to the order prior to the representation of the order: (i) the option

---

<sup>1</sup>Please refer to Regulatory Circular RG05-05, and SR-CBOE-2004-77, which are available on CBOE’s website at [www.cboe.org/Legal](http://www.cboe.org/Legal).

symbol; (ii) the expiration month; (iii) the expiration year; (iv) the strike price; (v) buy or sell; (vi) call or put; (vii) the number of contracts; and (viii) the Clearing Member. Any additional information with respect to the order shall be input into CBOE's systems contemporaneously upon receipt, which may occur after the representation and execution of the order. For orders that are not routed to PAR for execution, the FBW record must be updated manually to generate a "Fill" report in order to complete the record when the order is executed.

### **Malfunction of Systems.**

In the event of a malfunction or disruption of CBOE's systems<sup>2</sup> such that a Member is unable to systematize an order, the Member or Member organization shall manually record the order information in written form including the time of its receipt during the time period that the malfunction or disruption occurs. After the malfunction or disruption ceases, the Member shall immediately resume systematizing orders. In addition, the Member is required to input electronically into CBOE's systems all relevant order information received during the time period when there was a malfunction or disruption of CBOE's systems as soon as possible, and in any event, shall input such data electronically into CBOE's systems not later than the close of business on the day that the malfunction or disruption ceases.<sup>3</sup> The retroactive entry of orders received during an outage may be systematized using the Outage Ticket feature on the FBW<sup>4</sup>. The Outage Ticket allows users to enter orders received during an FBW outage with the actual date and time of the order for those affected orders. The Ticket is to be used only following an FBW outage. Abuse of the Outage Ticket for purposes other than retroactively entering orders received during an outage may result in disciplinary action.

### **Due Diligence Rule**

CBOE Rule 6.73 - Responsibilities of Floor Brokers states in part that a broker's responsibility to immediately and continuously represent market and marketable orders is subject to the requirement that each order must be systematized prior to representation, pursuant to Rule 6.24.

### **Regulatory Reports Showing Current Systemization Rates**

Members are reminded that COATS compliance reports are available through the CBOE Web-Based Surveillance to allow Members to monitor their compliance with the COATS requirements. The website for viewing COATS reports is (<https://www.cboe.org/WBS>). In the event that you do not have a User Identification and Password for these, please contact the below listed regulatory staff. The COATS Summary Report will generally be available on a trade date plus two (2) basis. Data will be retained on the website for a period of twelve (12) weeks. **It is the obligation of the Floor Brokers and their respective Member Firms to access and review their daily COATS Report.**

---

<sup>2</sup> In the event of a malfunction or disruption to an individual FBW, it is the responsibility of the Member to report the outage to the Help Desk.

<sup>3</sup> Retroactive entry may be done until 3:45 P.M. on the date the order was received. At that time, FBW terminals are closed in order to transmit data files to the FBW vendor service. In the event that the outage is not resolved before 3:45 P.M., the original date and time of receipt as recorded manually during the outage should be recorded the next business day using the Outage Ticket.

<sup>4</sup> The Outage Ticket is currently available on the Index version of the FBW and is under development for the Equity FBW. Users of the Equity version will be advised when the Outage Ticket is released and available for retroactive order entry following an FBW Outage.

### **Exchange Contacts**

Questions pertaining the regulatory requirement or to the content of the COATS Regulatory Reports:

Lisa Trzeciak	786-7906
Keith Friedman	786-7798
Ryan Peterson	786-7722
Joanne Heenan Hustad	786-7786

Questions concerning the FBW or other devices to systematize orders:

Monica Wiedlin-Torres	786-7368
Jeff Short	786-8410

FBW malfunctions or disruptions:

Help Desk	786-7100
-----------	----------