CBOE
CHICAGO BOARD OPTIONS EXCHANGE

Regulatory Circular RG07-03

To: **Members and Member Organizations**

From: **Regulatory Services Division**

Re: **Anti-Money Laundering ("AML") Compliance Program (CBOE Rule 4.20):**

Annual Requirements for
- **First time filers, or**
- **Previous filers whose AML procedures or designated AML compliance individual have changed since their last filing**

Date: **January 16, 2007**

All registered broker-dealers, including sole proprietors, are required to demonstrate compliance with the requirements of the USA PATRIOT Act.

This Regulatory Circular applies to members for which ALL of the following conditions are true[1]:
- Primary regulator is the CBOE
- You have not filed AML documents with the CBOE **OR** any part of the AML program has changed
- You are not required to file monthly FOCUS reports[2]

Please note that this circular also applies to sole proprietors, lessors and other individuals who may not necessarily be actively trading.

<u>**All filers to whom this circular applies are required to submit the following:**</u>

- A copy of the broker-dealer's written supervisory procedures for its AML compliance program
- AML attestation identifying the broker-dealer's AML Compliance Officer (or other AML compliance designated person), signed by a member of senior management
- Evidence of annual (or more frequent) AML training for all appropriate persons of the broker-dealer
- A copy of an independent review letter identifying the results of the independent review conducted by an individual not involved with the broker-dealer's AML function

This information must be submitted to the Department of Member Firm Regulation no later than **March 1, 2007**. Please do not submit your original documents. Broker-dealers have a books and records requirement to maintain copies of this information. Additionally, please be advised that all AML documentation and ongoing procedures are subject to regulatory review <u>at any time</u>.

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[1] If you previously filed AML documents with the Exchange, have made no changes to your AML procedures, and your designated AML compliance individual remains the same, please see Regulatory Circular RG07-01 for a description of your CBOE filing requirements.
[2] Monthly filers are required to maintain complete AML documentation, which will be reviewed as part of the annual routine examination program.

The following page contains additional information that may be helpful in fulfilling the above requirements.

Procedures

To accommodate CBOE members that are non-clearing, do not conduct a non-member customer business, and do not receive customer funds or securities, the Regulatory Services Division created a small-firm AML compliance program template, which is attached to this Circular. This template may suffice in complying with the written procedures requirement. However, every broker-dealer must decide, based on the type of business it is conducting, whether it must adopt highly extensive procedures or whether something less detailed such as the template, will suffice.

Training

Training should be conducted at least annually and developed under the leadership of the AML Compliance Officer or senior management. Broker-dealers should document the content of the training and maintain a list of the participants. The broker-dealer may wish to have participants sign an attestation acknowledging that they have participated in the training and understand the firm's AML program. The attestation could contain language directing any questions to the firm's AML Compliance Officer. In addition, training should be updated as necessary to reflect new developments in the PATRIOT Act.

The NASD (http://www.nasd.com) and SIA (http://www.sia.com) websites have on-line training and guidance available to all broker-dealers which would be considered appropriate training for CBOE market-makers that are non-clearing and do not conduct a non-member customer business.

Independent Review Letter

Broker-dealers must have an independent testing function to review and assess at least annually the adequacy of compliance with the firm's AML compliance program. In an effort to accommodate CBOE members, the Division has included an example of an independent review letter for members to use as a guideline. This letter should be tailored to accommodate the individual broker-dealer's business situation.

Please direct any questions to the Department of Member Firm Regulation, Mike LaGioia at (312) 786-7728 or Tyson Wilson at (312) 786-7011.

Please note: CBOE Rule 4.6 states in part, "no member, person associated with a member or applicant for membership shall make any willful or material misrepresentation, including a misstatement or false statement, or omission in any application, report or other communication to the Exchange, or to the Clearing Corporation…"

If you make a false statement you may be subject to disciplinary action by the Exchange.

Broker-Dealer Attestation for Non-Capital Computing Members That Do Not Conduct a Non-Member Customer Business and Do Not Receive Customer Funds or Customer Securities

Reminder: Broker-dealers that are not capital computing and therefore, not subject to an annual examination by the Department of Member Firm Regulation (the "Department"), are required to submit (i) a copy of the broker-dealer's written supervisory procedures for its AML Compliance Program, approved by a member of senior management, (ii) the completed broker-dealer AML attestation provided below, (iii) evidence of the AML training described in the attestation and (iv) a copy of the independent review letter issued to the broker-dealer, to the Department no later than **March 1, 2007** in order to demonstrate the broker-dealer's compliance with CBOE Rule 4.20 - Anti-Money Laundering Compliance Program.

Broker Dealer Number: 8 -___________

Broker Dealer Name: ____

Address: ____

____

Day-Time Phone: ____

Designated Anti-Money Laundering Compliance Officer:

Name: ____

Title: ____

Email: ____

Address: ____

____

Phone: ____

Fax (If applicable): ______________________________

Broker-Dealer Annual Training:

Attendees: _______________________ _______________________________

_______________________________ _______________________________

_______________________________ _______________________________

The broker-dealer training was conducted on _______________, 200___ and
date
was done ____________________________________. Some of the topics covered were _______
(internally/externally/via an internet website)
____

*	**Broker-Dealers are required to maintain evidence of the training conducted and a list of participants.**

<u>Independent Review:</u>

The independent review of the broker-dealer AML program was conducted on

__________________, 200___, by __________________________________,
date name

of ____.
company name (internal or external)

*	**Broker-Dealers are required to maintain written documentation of the Independent Review conducted.**

I __________________________________, as _________________________________, of
name title

____, certify that the information listed
broker-dealer name

above is accurate.

Member Signature: __________________________________ **Date** ___________________

____

[Broker-Dealer Name]
Anti-Money Laundering (AML) Compliance Program Written Supervisory Procedures

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1. Member Policy

It is the policy of ______________________________ [*Broker-Dealer Name*] to prohibit and actively prevent money laundering and any activity that facilitates money laundering or the funding of terrorist or criminal activities. Money laundering is generally defined as engaging in acts designed to conceal or disguise the true origins of criminally derived proceeds so that the unlawful proceeds appear to have derived from legitimate origins or constitute legitimate assets. Generally, money laundering occurs in three stages. Cash first enters the financial system at the "placement" stage, where the cash generated from criminal activities is converted into monetary instruments, such as money orders or traveler's checks, or deposited into accounts at financial institutions. At the "layering" stage, the funds are transferred or moved into other accounts or other financial institutions to further separate the money from its criminal origin. At the "integration" stage, the funds are reintroduced into the economy and used to purchase legitimate assets or to fund other criminal activities or legitimate businesses. Terrorist financing may not involve the proceeds of criminal conduct, but rather an attempt to conceal the origin or intended use of the funds, which will later be used for criminal purposes.

The Broker-Dealer is currently ____________________________________(*engaged in the business of market-making in options / engaged in the business of market-making in options and commodities trading / a Lessor and not actively trading but maintaining its Broker-Dealer registration with the Securities and Exchange Commission ("SEC") / inactive but maintaining its Broker-Dealer registration with the SEC)*. It is not the policy of the broker-dealer to accept cash. The Broker-Dealer does not accept funds from individuals that do not have a disclosed ownership interest in the Broker-Dealer. Any fund transfers made are related to its Broker-Dealer activity in the normal course of business. The Broker-Dealer has ____ (*no/1/2/3*) outside bank accounts related to the broker-dealer business activity. (*either*) All funds transfers are effected through the Broker-Dealer's ____(*clearing firm account <u>or</u> either the member's clearing firm account or its outside bank account.)*

2. AML Compliance Officer Designation and Duties

__________________________[*Name*] is designated as the Anti-Money Laundering Program Compliance Officer, with full responsibility for the firm's AML program. ___________________________ [*Name*] is qualified by experience,knowledge and training, including ____[*Describe*]. The duties of the AML Compliance Officer will include monitoring AML compliance, overseeing communication and training for employees, and _________________________________[*Add any other duties to be assigned to the AML Compliance Officer*]. The AML Compliance Officer will also ensure that proper AML records are kept. When warranted, the AML Compliance Officer____[*Add if appropriate: "in consultation with {Name or title}" OR "with the approval of {Name or title}"*] will ensure Suspicious Activity Reports (SARs) are filed with the Financial Crimes Enforcement Network (FinCEN).

3. Training Programs

We will develop ongoing employee training under the leadership of the AML Compliance Officer and senior management. Our training will occur at least annually. The training will be based on our firm's size, its customer base, and its resources.

Our training will include, at a minimum: how to identify red flags and signs of money laundering that arise during the course of the employees' duties; what to do once the risk is identified; what employees' roles are in the firm's compliance efforts and how to perform them; the firm's record retention policy; and the disciplinary consequences (including civil and criminal penalties) for non-compliance with the PATRIOT Act.

We will develop training, or contract for it. Delivery of the training may include educational pamphlets, videos, intranet systems, in-person lectures, and explanatory memos. Currently our training program is:____ ____[*Insert specifics, such as "all must view the video entitled "Spotting Money Laundering" by X date or within two weeks of being hired, etc.*] We will maintain records to show the persons trained, the dates, and the subject matter of their training.

We will review our operations to see if certain employees require specialized additional training. Our written procedures will be updated to reflect any such changes.

4. Independent Testing of the AML Program

<u>If conducted by an outside party:</u>
The testing of our AML program will be performed by _________________________________ ________________________[*Name and Title*], an independent third party. Their qualifications include ____[*Describe*].

OR

<u>If conducted by an employee internally:</u>
The testing of our AML program will be performed by ____ _________________________________[*Names*]. Their qualifications include_______________________________ ____[*Describe.*] To ensure that they remain independent, we will separate their functions from other AML activities by____ ____[*Describe*].

<u>Evaluation and Reporting:</u>
AML testing will be completed at least annually. The testing will include at a minimum, a review of the Firm's procedures in correlation with its business activity, a review of any bank account deposit activity for a specific period of time, a review of the Broker-Dealer's fund transfer activity, both incoming and outgoing made through any clearing firm account or bank account for a specific period of time, a review of any Bank Secrecy Act ("BSA") forms required to be filed and a review of any Suspicious Activity Reports filed. After the testing is completed, the reviewer will report its findings to _______________________________________ [*Senior Management]*. We will address each of the resulting recommendations.

5. Approval

I hereby attest that I do not conduct a non-member customer business and do not receive customer funds or customer securities. I have approved this AML program as reasonably designed to achieve and monitor ongoing compliance with the requirements of the USA PATRIOT Act and the implementing regulations under the BSA.

AML Program Approval (Approved by Senior Management):

Signed:_______________________________________

Print Name: ___________________________________

Title:____

Broker-Dealer Number: _________________________

Date:____

Example of an Independent Review Letter

Date

Managing Member
Firm Name
Address
City, State, Zip

Attn: Managing Member of the Firm

Dear ____________________(Managing Member of the B/D)

Please be advised that I conducted an Independent Review of the Anti-Money Laundering ("AML") Program for ______________________________(B/D Name) as of ________________(date). I am of the opinion that the Broker-Dealer's AML program appears adequate given the nature and size of its business. Please be advised that my review noted no areas of concern.

______________________________(B/DName) is a______________________________(Sole-Prop/L.L.C./Corp.), with _____ (# of or no) employees. The firm does not conduct a non-member customer business. It is not the Broker-Dealer's policy to accept cash. The Broker-Dealer has no outside bank accounts related to its Broker-Dealer business and has no foreign bank or securities accounts. Any fund transfers related to the Broker-Dealer are processed through its clearing account.

Sincerely,

____
Signature

____
Title

____
Reviewer's Company Name

____
Address

____
Phone Number