



## **Regulatory Circular RG11-066**

TO: Trading Permit Holders

FROM: Registration and Regulatory Services Division

RE: Prearranged Trades

DATE: June 1, 2011

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This Regulatory Circular restates the Exchange's policy concerning prearranged trading. Trading Permit Holders 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, violates Exchange Rules and may be inconsistent with various provisions of the Securities Exchange Act of 1934, as amended, (the "Act") and rules thereunder. 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.

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 (sale) 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 (purchase) of any such security, has been or will be entered by or for the same or different parties.

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 6.45A or 6.45B 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.

Questions may be directed to the Department of Market Regulation at (312) 786-8460 or (312) 786-7730.

(Regulatory Circular RG10-132, reissued)