

CBOE Regulatory Circular RG14-024
C2 Regulatory Circular RG14-005

Date: February 27, 2014

To: CBOE, C2 and CBSX Trading Permit Holders

From: Regulatory Services Division

RE: Anti-Money Laundering ("AML") Compliance Program

Annual Requirements for:

- first time filers, or
- previous filers whose AML procedures or designated AML compliance individual have changed since their last filing

As a reminder, in accordance with Rule 4.20,¹ each Trading Permit Holder ("TPH") organization and each Trading Permit Holder not associated with a TPH organization shall develop and implement a written anti-money laundering program reasonably designed to achieve and monitor compliance with the requirements of the Bank Secrecy Act, and the implementing regulations promulgated thereunder by the Department of the Treasury.

The filing requirements contained in this Regulatory Circular apply to CBOE Trading Permit Holders for which ALL of the following conditions are true:²

- your Designated Examining Authority ("DEA") is the CBOE;
- you have not filed AML documents with the CBOE or any part of your AML program has changed; and
- you are not required to file monthly FOCUS reports.³

Please note that this circular also applies to other individuals and entities who may not necessarily be actively trading but are still registered broker-dealers and for whom the CBOE is the Designated Examining Authority ("DEA").

All CBOE Trading Permit Holders to whom the filing requirements of this circular apply are required to submit the following:

- A copy of the broker-dealer's written supervisory procedures for its AML compliance program, signed by a member of senior management.
- Attestation identifying the broker-dealer's AML Compliance Officer.
- Evidence of annual (or more frequent) AML training for all appropriate associated persons of the broker-dealer.
- A copy of an independent review letter identifying the results of the independent testing conducted.⁴

¹ CBOE Rule 4.20 is incorporated into Chapter 4 of the C2 Rules and Appendix A of the CBSX Rules.

² If you previously filed AML documents with the Exchange, have made no changes to your AML procedures, and your designated AML Compliance Officer remains the same, please see CBOE Regulatory Circular RG14-025/C2 Regulatory Circular RG14-006 for a description of your CBOE filing requirements.

³ Monthly FOCUS filers are required to maintain complete AML documentation that will be reviewed as part of the annual routine examination program.

⁴ Rule 4.20 requires an annual (on a calendar-year basis) independent testing for compliance. However, Rule 4.20 permits certain TPH organizations and Trading Permit Holders to have the

This information must be submitted to the Department of Member Firm Regulation no later than **March 3, 2014**. 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 is subject to regulatory review at any time.⁵ The following information may be helpful in fulfilling the above requirements.

Procedures

To accommodate TPHs that are non-clearing, do not conduct a non-member customer business, and do not receive customer funds or securities, the Regulatory Services Division (the "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 more detailed procedures or whether 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. In addition, training should be updated as necessary to reflect new developments in the Bank Secrecy Act. The Financial Industry Regulatory Authority website ("FINRA") (<http://www.finra.org>) has on-line training and guidance available which would be considered appropriate training for 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 the adequacy of compliance with the firm's AML compliance program. In an effort to accommodate TPHs, the Division has included an example of an independent review letter that may be used as a guideline. **This letter should be tailored to accommodate the individual broker-dealer's business situation.**

Additional Information:

Please contact the Regulatory Interpretations and Guidance team at RegInterps@cboe.com or (312) 786-8141 for additional information.

independent audit performed every two years (on a calendar year basis), if the broker-dealer does not execute transactions for customers or otherwise hold customer accounts or act as an introducing broker with respect to customer accounts (e.g., engages solely in proprietary trading or conducts business only with other broker-dealers). However, all Trading Permit Holders and TPH organizations must conduct independent testing during the first calendar year of registration with the Exchange. See Rule 4.20(3) and .01 for more information on who may conduct the independent testing.

⁵ Please note: CBOE Rule 4.6 states, in part, "[n]o Trading Permit Holder, person associated with a Trading Permit Holder or applicant to be a Trading Permit Holder 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" CBOE Rule 4.6 is incorporated into Chapter 4 of the C2 Rules and Appendix A of the CBSX Rules.

Broker-Dealer Attestation for Non-Capital Computing Trading Permit Holders That Do Not Conduct a Public 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 3, 2014** 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: _____

Daytime 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 _____, 20____ and
date

was done _____. Some of the topics covered were
(internally/externally/via an internet website)

_____.

- * **The above identification of specific training and participants in such training is intended to be evidence of the training conducted on behalf of _____.**

Independent Review:

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

_____, 20____, 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.

TPH Signature: _____

Date _____

This document and the attached copy of the letter prepared by the independent reviewer of the AML program are to be maintained as evidence of the independent review.

Small Firm Template for Trading Permit Holders That Do Not Conduct a Public Customer Business and Do Not Receive Customer Funds or Customer Securities

[Broker-Dealer Name]

Anti-Money Laundering (AML) Compliance Program Written Supervisory Procedures

1. Trading Permit Holder 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.

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"). 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 or either the TPH'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 and is an Associated Person of the firm, and is qualified by experience, knowledge and training. The duties of the AML Compliance Officer will include monitoring AML compliance, overseeing communication and training for employees, and 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.

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. These AML procedures will be updated to reflect any such specialized training.

4. Independent Testing of the AML Program

Independent testing must be conducted by a designated person with a working knowledge of applicable requirements under the Bank Secrecy Act (BSA) and its implementing regulations.

Independent testing may not be conducted by a person who performs the functions being tested, the designated anti-money laundering compliance person, or a person who reports to either of these two individuals.

If conducted by an outside party:

The testing of our AML program will be performed by _____
_____[Name and Title], an independent third party.

OR

If conducted by an employee internally:

The testing of our AML program will be performed by _____
_____[Names].

To ensure that they remain independent, we will separate their functions from other AML activities by requiring that the independent reviewer report to someone other than the AML Officer.

Evaluation and Reporting:

AML testing will be completed at least bi-annually on a calendar year basis, as the Firm does not execute transactions for customers or otherwise hold customer accounts or act as an introducing broker with respect to customer accounts. 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 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.

I understand and agree that should the nature and type of business conducted by the broker-dealer change, the broker-dealer will, make appropriate changes to its AML program.

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,

Name / Signature

Reviewer's Company Name

Title

Address / Phone