

CBOE Regulatory Circular RG14-138 C2 Regulatory Circular RG14-039

DATE: September 29, 2014
TO: CBOE and C2 Trading Permit Holders
FROM: Regulatory Services Division
RE: Written Supervisory Procedures – CBOE Rule 4.24 - *Supervision*

The attached Written Supervisory Procedures Checklist is designed to assist Trading Permit Holders (“TPHs”) in the establishment, maintenance and enforcement of written supervisory procedures (“WSPs”) reasonably designed to prevent and detect violations of Chicago Board Options Exchange (“CBOE”) and C2 Options Exchange (“C2”) rules and applicable securities laws and regulations in accordance with CBOE Rule 4.24 - *Supervision*.¹

When developing or reviewing written supervisory procedures, TPHs should be aware that this Checklist is not intended to be a comprehensive guide for all TPHs. The Checklist is neither a substitute for the development, maintenance and implementation of WSPs, nor an overall supervisory program. WSPs should document the supervisory program established by the TPH to help ensure compliance guidelines are being followed and to prevent and detect prohibited activity. WSPs should provide personnel subject to the supervisory program, as well as those responsible for implementing and enforcing it, a detailed explanation of the supervisory program and their specific responsibilities. WSPs should also evidence and document in sufficient detail the supervisory program to be able to demonstrate a TPH’s compliance with its WSPs.

As stated above, the Checklist is not intended to be comprehensive. Each TPH must tailor its WSPs and supervisory program to adequately cover the type(s) of business in which it engages and to supervise the activities of all associated persons. WSPs must be updated within a reasonable time after changes occur in applicable securities law and regulations, and Exchange rules, as well as to reflect changes to the TPH’s business, personnel, and supervisory program.

Although the Exchange makes this Checklist available as a resource, the TPH is ultimately responsible for confirming that its own WSPs comply with CBOE Rule 4.24 and applicable securities laws and regulations.

Additional Information:

Questions regarding this Regulatory Circular may be directed to the Regulatory Interpretation and Guidance Line, (312) 786-8141 or RegInterps@cboe.com.

¹ CBOE Rule 4.24 is incorporated into Chapter 4 of the C2 Rules. References to the “Exchange” in this circular mean CBOE or C2, as applicable.

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Attachment Written Supervisory Procedures Checklist

Topic	Floor Brokers	Market Makers	DPMs	RMMs	Transacting Business with the Public
<i>Obligations for Orders</i>					
Due Diligence Obligations / Responsibilities of Floor Brokers	X				X
Limit Order Display ("LODA") Requirements	X				X
Priority of Orders	X				X
Best Execution Obligations	X				X
Priority Of Bids & Offers / Manner of Bidding & Offering	X	X	X	X	X
Disclosure of Orders on PAR	X	X	X		X
Firm Quote Obligations	X	X	X	X	X
Procedures for Execution of Marketable Orders	X				X
Stopping of Orders / Guaranteeing Executions	X				X
Nullification /Adjustment of Options Transactions	X	X	X		X
Book Priority Obligations	X	X	X	X	X

Topic	Floor Brokers	Market Makers	DPMs	RMMs	Transacting Business with the Public
Order Protection Linkage Requirements - NBBO Trade Throughs - Trade or Fade - Locked or Crossed Markets - Satisfaction Orders	X	X	X		X
Linkage Requirements for Principal Orders - 80% of Member's Contract Volume Must be Done at Home Exchange		X	X	X	X
Requirements for Conducting Business with the Public	X				X
Accommodation Liquidation Transaction Procedures	X				X
Error / Personal Accounts					
Error Account Transaction Procedures	X				X
Documentation of Errors	X				X
Trading Ahead / Interpositioning	X				X
Resolution / Liquidation of Errors	X				X
Trading in Personal Securities Accounts	X				X
Disclosure of Personal Securities Accounts	X	X	X	X	X
Evidence of Review of Employee Personal Securities Accounts	X	X	X	X	X

Topic	Floor Brokers	Market Makers	DPMs	RMMs	Transacting Business with the Public
Order Acceptance					
All Orders in Acceptable Format	X				X
Directed / Cross Only Orders	X	X	X	X	X
Go Along Orders	X				X
Orders Involving No Change in Beneficial Ownership	X	X	X	X	X
Discretionary Transactions	X				X
Restricted Opening Transactions	X	X	X	X	X
Required Order Information					
COATS Requirements	X				X
Marking Order Tickets	X				X
Account Origin Codes	X	X	X	X	X
Orders Entered for Market Maker Accounts		X	X	X	X
Reporting Duties					
Price Reporting	X	X	X		X
Submission of Trade Information to Exchange	X	X	X		X
Reconciliation and Resolution of Unmatched Trades	X	X	X	X	X

Topic	Floor Brokers	Market Makers	DPMs	RMMs	Transacting Business with the Public
Insider Trading					
Evidence of Review of Employee and Firm Trading	X	X	X	X	X
Provisions for Investigating Suspect Trades	X	X	X	X	X
Initial Education	X	X	X	X	X
Requirement for Member and Non-Member Employees to Sign Attestations	X	X	X	X	X
ITSFEA Procedures / OE 418 Completion	X	X	X	X	X
Update Employee's on New or Revised Regulations	X	X	X	X	X
Quoting Obligations					
Continuous Quoting Requirements		X	X	X	
Legal Quote Widths At & After the Opening		X	X	X	
Percentage of Quoting Requirements by Series & Class		X	X	X	
Initial Quote Size Requirements		X	X	X	
1-Up Quoting Requirement		X	X	X	
Preferred Market Maker Quoting Requirements (<i>If Applicable</i>)		X	X	X	

Topic	Floor Brokers	Market Makers	DPMs	RMMs	Transacting Business with the Public
Quoting Requirements for DPMs and At the Open			X		
Restrictions Against "Quote Aping"		X	X	X	
Trading Practices					
Frontrunning	X	X	X	X	X
Prearranged Trading	X	X	X	X	X
Use of Adjustments	X	X	X	X	X
Wash Trades	X	X	X	X	X
Marking the close	X	X	X	X	X
Capping & Pegging	X	X	X	X	X
Monitoring Position & Exercise Limit Requirements		X	X	X	X
Position Reporting Requirements <i>(If Applicable)</i> - 200 Contract Reporting Requirement for Customers - Hedging Reporting Requirement for Classes with No Position Limits		X	X	X	X

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Contrary Exercise Advice Procedures		X	X	X	X
OEX Gross Exercise / American Style Index Exercise Advice Procedures		X	X	X	X
Assignment Procedures					X
Transfer of Positions		X	X	X	X
Avoidance of Transactions to End Automated Improvement Mechanism ("AIM") Process	X	X	X	X	X
Avoidance of Transactions to End Hybrid Agency Liaison ("HAL") Process	X	X	X	X	X
Avoidance of Transactions to End Simple Auction Liaison ("SAL") Process	X	X	X	X	X
Avoidance of Transactions to End Complex Order Auction ("COA") Process	X	X	X	X	X
Facilitation / Solicitation / Crossing Order Procedures	X	X	X	X	X
Non Member Trading	X	X	X	X	X
Deficit Trading		X	X	X	X
Restrictions on Participation in IPO's <i>(If Applicable)</i>	X	X	X	X	X
Information Barrier Procedures Between Affiliated Entities <i>(If Applicable)</i>		X	X	X	X

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Trading by Joint Account Participants / Related Accounts	X	X	X	X	X
Market Maker In Person Transaction Requirement in Non Hybrid Classes (i.e. 80/20 MM In Person Requirement)		X			X
Hybrid Order Exposure Requirement - 5 Second Minimum Waiting Period for Entry of Orders for Same or Related Market Maker Account in Hybrid Classes	X	X	X	X	X
Hybrid Order Exposure Requirement – Exposure of Principal Orders by Order Entry Firms for at least __ Seconds Prior to Execution Against Crossable Agency Orders Firm Represents	X	X	X	X	X
Non-Hybrid Crossing Requirement – Prohibition Against Entry of Orders for Same or Related Account of same Beneficial Owner in Non-Hybrid Classes	X	X	X	X	X

Topic	Floor Brokers	Market Makers	DPMs	RMMs	Transacting Business with the Public
PMM Payment for Order Flow Requirement (<i>If Applicable</i>) - Preferred Market Maker Prohibition Against Sharing Non Public Information By Agents that are Directing Orders for Internalization or Payment for Order Flow		X	X	X	
Prohibition Against Members Functioning as Market Makers	X				X
RAES Eligibility / Unbundling	X	X	X	X	X
RAES Market Maker Log On/Log Off Requirements		X			
Prohibition Against Marking / Manipulation		X	X	X	X
Operation of Remote Market Maker Multiple Aggregation Units Requirements				X	
Restrictions on Acting as a Market Maker and Floor Broker	X	X			X
Multiple Representation Prohibition	X	X			X
Admission to and Conduct on the Trading Floor / Floor Decorum Policies	X	X	X		X
DPM Designee Requirements			X		
Participation Entitlement of DPMs	X		X		
DPM Obligations			X		
MM Obligations		X			

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RMM Obligations				X	
LMM / SMM Obligations (Hybrid / Non-Hybrid)		X			
Short Sale ("Reg SHO") Requirements		X	X	X	X
Intimidation / Harassment / Anti-Competitive Practices	X	X	X	X	X
Reg X / Reg T / Net Capital Requirements		X	X	X	X
Communication / Booth Issues					
Telephone Policy	X	X	X		X
Use of Computer/ Communications Equipment on Trading Floor	X	X	X		X
Use of Instant Messaging Systems on Trading Floor	X	X	X		X
Booth Space Policy	X	X			X
Use of e-mail (Firm and Personal)					
Use of IM (Firm and Personal)	X	X	X	X	X
Use of and monitoring of Internet	X	X	X	X	X
Use of cell phones (Firm and Personal)	X	X	X	X	X

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Recordkeeping Requirements					
Balance Sheet and Income Statements	X	X	X	X	X
General Ledgers	X	X	X	X	X
Securities Positions Records and Reconciliation	X	X	X	X	X
Cash Receipts and Disbursement Journals	X	X	X	X	X
Purchase and Sales Blotters	X	X	X	X	X
Order Tickets (including Cancels and Orders Not Executed)	X	X	X	X	X
Fingerprint Cards (SEC Rule 17f-2)	X	X	X	X	X
Correspondence – incoming, outgoing, including facsimiles and electronic messages (email, instant messages, etc.)	X	X	X	X	X
Customer Complaints	X				X
Electronic Records Storage	X	X	X	X	X
E-Book Order Reinstatements	X				X

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Form BD Amendments	X	X	X	X	X
Form U4/U5 Amendments	X	X	X	X	X
Cold calling/Telemarketing Scripts					X
Gifts and Gratuities	X	X	X	X	X
Proper Registrations	X	X	X	X	X
Sharing in Customer Accounts	X	X	X	X	X
Lending between associated persons and clients	X	X	X	X	X
Advertising and Sales Literature (including websites, e-mail and instant messaging)	X	X	X	X	X

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Net Capital Rule	X	X	X	X	X
Preparation of computation	X	X	X	X	X
Frequency of computation	X	X	X	X	X
Notification to SEC and CBOE for failure to maintain minimum net capital	X	X	X	X	X
Notification of withdrawal of capital	X	X	X	X	X
Customer Protection Rule			X	X	X
Reserve Computation			X	X	X
Quarterly securities count			X	X	X
Safekeeping and segregation of customer funds/securities			X	X	X
Exemption from customer protection rule	X	X	X	X	X
Financial Reporting	X	X	X	X	X
FOCUS Reports	X	X	X	X	X

Topic	Floor Brokers	Market Makers	DPMs	RMMs	Transacting Business with the Public
Preparation of FOCUS report	X	X	X	X	X
Review and approval of FOCUS report	X	X	X	X	X
Timing of filing of FOCUS reports (monthly/annual)	X	X	X	X	X
Form Custody	X	X	X	X	X
Reg T		X			X
Reg X		X			X
Reg NMS	X				X
Rumors	X	X	X	X	X
Nominal Employment	X	X	X	X	X
Gifts and Gratuities	X	X	X	X	X
Reporting of Disciplinary Actions	X	X	X	X	X
Systems Governance	X	X	X	X	X
Development	X	X	X	X	X
Implementation	X	X	X	X	X
Maintenance	X	X	X	X	X
Changes	X	X	X	X	X
Supervision of business location other than main office	X	X	X	X	X

Topic	Floor Brokers	Market Makers	DPMs	RMMs	Transacting Business with the Public
Bank Secrecy Act	X	X	X	X	X
Anti Money Laundering	X	X	X	X	X
Designation of AML Compliance Officer	X	X	X	X	X
Written AML Compliance Program approved in writing by Senior Management of firm	X	X	X	X	X
Establish and implement policies and procedures to detect and cause reporting of suspicious transactions	X	X	X	X	X
Independent Testing of AML Compliance Program	X	X	X	X	X
On-going training of appropriate personnel	X	X	X	X	X
Risk Management	X	X	X	X	X
Market Access Rule (SEC 15c3-5)	X	X	X	X	X
Annual Compliance Report and Certification	X	X	X	X	X

Topic	Floor Brokers	Market Makers	DPMs	RMMs	Transacting Business with the Public
Public Customer Business					
Branch offices					X
Opening of Accounts					X
Suitability					X
Discretionary Accounts					X
Supervision of accounts					X
Confirmations					X
Statements of Accounts					X
Delivery of Current ODD					X
Restrictions on pledge and lending of customer's securities					X
Transactions of certain customers					X
Guarantees and Profit Sharing					X
Assuming losses					X
Communications with Customers					X
Brokers blanket bond					X
Loans with Customers					X
Registration and Termination of Associated Persons	X	X	X	X	X
Registration Requirements					
Proprietary Trader	X	X	X	X	X
Compliance Trader	X	X	X	X	X

Topic	Floor Brokers	Market Makers	DPMs	RMMs	Transacting Business with the Public
Proprietary Trader Principal	X	X	X	X	X
Continuing Education for Registered person					
Regulatory Element	X	X	X	X	X
Notification of persons required to sit of CBT	X	X	X	X	X
Track completion	X	X	X	X	X
Monitor inactive registrants	X	X	X	X	X
Firm Element					
Prepare written needs analysis	X	X	X	X	X
Maintain written training plan	X	X	X	X	X
Maintenance of training material	X	X	X	X	X
Record of persons trained	X	X	X	X	X