

Regulatory Circular 94-42

DATE: July 6, 1994

TO: All Market Makers and Market Maker Clearing Organizations

FROM: Department of Financial Compliance

RE: Nominee/Broker-Dealers / Use of Sub-Accounts

The purpose of this circular is to respond to numerous member inquiries regarding two related issues: the appropriate financial treatment for a nominee of a member organization who is also approved to trade for himself as an individual broker-dealer and the use of sub-accounts. Members are encouraged to study this circular carefully and, if necessary, obtain further clarification from the Department of Financial Compliance.

Nominee/Broker-Dealers

A member who trades on behalf of a member organization as a nominee or "registered for", may also trade for himself if he is registered with the Securities and Exchange Commission ("SEC") as an individual broker-dealer as described below. In the case of a nominee, the member organization and the Exchange's Department of Market Surveillance must approve the opening of an individual market maker account. It should be noted that in addition to guarantying all of the obligations of the nominee arising from their representation of the firm, the firm also guarantees all obligations to the Exchange and other members resulting from transactions in the nominee's personal account. For further reference see CBOE Rule 3.8.

The accounts of these two broker-dealers, the member organization and the individual (nominee or "registered for"), must be margined and haircut as two separate accounts. The equity for each account must be computed independently and such accounts may not be grouped or netted for any purpose. Where a member organization has multiple nominees which the clearing firm aggregates in a group account, the individual accounts of any of the nominees may not be included. As each Exchange member can only be assigned one trading acronym, the clearing organizations must internally separate the accounts of these two broker-dealers. It is important to note that the accounts of two broker-dealers operating under one trading acronym may not reflect long and short positions in the same option series, as Options Clearing Corporation will reflect a net position. Note that absent an approved

request for non-aggregation (see CBOE Rule 4.11 Interpretation Policy .03), the two accounts will be aggregated for position limit purposes. Questions regarding non-aggregation should be directed to Karen Charleston at (312) 786-7724.

Use of Sub-Accounts

Members are reminded that the use of sub-accounts to facilitate trading by non-members is strictly prohibited. The effect of this activity is to permit non-members to receive member fees, and favorable market maker capital and credit treatment. This practice represents a violation of Securities and Exchange Commission, Federal Reserve Board, and Exchange rules. Members who are found to be permitting non-members to trade in their account will be subject to discipline by the Business Conduct Committee.

Questions not related to position limits should be directed to Richard Lewandowski at (312) 786-7183 or Richard Schell at (312) 786-7929.

(RG90-55 Revised)