

Regulatory Circular 94-74

DATE: November 9, 1994

TO: The Membership

FROM: Department of Financial Compliance

RE: Order Service Firms

On October 14, 1994 the Securities and Exchange Commission approved proposed amendments to existing CBOE Rule 6.77, Stock Execution Services, and new CBOE Rule 6.78, Letters of Guarantee Required of Order Service Firms. The purpose of this memorandum is to summarize these rule changes.

As previously written, Rule 6.77 only addressed member firms that conducted an execution business in stock for market-makers on the floor of the Exchange. This rule is being re-titled Order Service Firms, and amended to include firms that conduct such an execution business in commodity futures and futures options. Amended Rule 6.77 also requires a firm accepting orders for commodity futures or options thereon to comply with the Commodity Exchange Act ("CEA") and keep the Department of Financial Compliance (the "Department") apprised on an ongoing basis of its registration status under the CEA and any applicable financial reporting or capital requirements.

Rule 6.78 requires an order service firm to obtain and have on file with the Exchange an Order Service Firm Letter of Guarantee issued by a member of Options Clearing Corporation. The guarantee shall be in a form acceptable to the Exchange and shall provide that the clearing member accepts financial responsibility for all orders handled by the order service firm on the floor of the Exchange and for all financial obligations of the order service firm to the Exchange. A clearing member will be allowed to guarantee no more than three (3) order service firms without the prior written approval of the Department. A request from a clearing firm to guarantee more than three (3) such firms will be considered based on a clearing member's level of excess net capital, additional financial resources, and such other factors as the Department deems appropriate.

This memorandum is not intended to be a comprehensive description of the recently approved amendments relating to Rules 6.77 and 6.78, and members are advised to read the full text of the

amendments which will be published in the Regulatory Bulletin. Stock and/or commodity execution firms should contact the Membership Department as soon as possible to obtain a copy of the Letter of Guarantee and, if applicable, disclose any financial requirements under the CEA to the Department of Financial Compliance. Any questions regarding this circular should be directed to either Richard Lewandowski at 786-7183 or Richard Schell at 786-7929 in the Exchange's Department of Financial Compliance.