

Regulatory Circular RG96-70

To: Members

From: Department of Market Regulation

Re: Rule 6.55 - Multiple Representation Prohibited

Date: July 18, 1996

On June 17, 1996, the Securities and Exchange Commission ("SEC") approved amendments to CBOE Rule 6.55. Set forth below is a description of the provisions of Rule 6.55 as amended.

The purpose of Rule 6.55 is to prevent a person from being disproportionately represented in a trading crowd. In furtherance of this purpose, Rule 6.55 provides that:

- 1) No member, for any account in which the member has an interest or on behalf of a customer, shall maintain with more than one broker orders for the purchase or sale of the same option contract or other security, or the same combination of option contracts or other securities, with the knowledge that such orders are for the account of the same principal (Rule 6.55(a)); and
- 2) No market-maker shall enter or be present in a trading crowd while a floor broker present in the trading crowd is holding an order on behalf of the market-maker's individual account or an order initiated by the market-maker for an account in which the market-maker has an interest (Rule 6.55(b)).¹

In addition, Rule 6.55 provides that a market-maker may not enter a trading crowd in which a floor broker is present who holds an order on behalf of the market-maker's individual account or an order initiated by the market-maker for an account in which the market-maker has an interest unless one of the following three procedures is followed:

- 1) The market-maker makes the floor broker aware of the market-maker's intention to enter the trading crowd and the floor broker time stamps the order ticket for the order and writes the notation "Cancel" or "CXL" next to the time stamp. If the market-maker wishes to re-enter the order upon the market-maker's exit from the trading crowd, the floor broker must at that time again time stamp the order ticket and write the notation "Reentry" or "RNTRY" next to such subsequent time stamp.

¹Exchange Regulatory Circular RG95-64, which governs joint account trading in OEX and SPX, sets forth certain exceptions to Rule 6.55 and should be consulted for procedures governing the simultaneous presence in the OEX or SPX trading crowd of participants in and orders for the same joint account. Also, Exchange Regulatory Circular RG96-28 should be consulted for procedures governing joint account trading in equity option classes.

- 2) The market-maker cancels the order by giving the floor broker a written cancellation of the order which is time-stamped by the market-maker immediately prior to its transmission to the floor broker. If the market-maker wishes to re-enter the order upon the market-maker's exit from the trading crowd, a new order ticket must be used.
- 3) The market-maker cancels the order by taking the order ticket for the order back from the floor broker, provided that the market-maker allows the floor broker to retain a copy of the order ticket (which copy the floor broker must time-stamp at the time of cancellation and retain for the floor broker's records). If the market-maker wishes to re-enter the order upon the market-maker's exit from the trading crowd, a new order ticket must be used.

Finally, Rule 6.55 provides that the appropriate Floor Procedure Committee may establish additional such permitted order cancellation procedures for option classes under its purview or grant individual exemptions in these classes to the multiple representation prohibition contained in Rule 6.55(b). It should be noted, however, that the SEC provided in its approval order (SEC Release No. 34-37316) that a rule filing must be filed with and approved by the SEC in order for a Floor Procedure Committee to establish any additional such permitted order cancellation procedures and that a Floor Procedure Committee may grant individual exemptions to Rule 6.55(b) only in limited and truly extraordinary circumstances.

Any questions concerning this circular may be directed to Steven Slawinski at (312) 786-7744 or Karen Calvin at (312) 786-7759 in the Exchange's Department of Market Regulation.