

Regulatory Circular 98-145

Date: December 29, 1998
To: Members, Member Firms and Clearing Members
From: Regulatory Services Division
Re: Order Origin Code Requirements

The purpose of this circular is to emphasize the Exchange's position relating to the requirements to record the appropriate account origin code when accepting orders either electronically, via telephone or in person. Since various rules of trading procedure distinguish between orders of differing origin, the correct code must be recorded on **ALL** trade tickets at the time the order is received on the floor to insure proper execution.

Under Exchange Rules one of seven account origin codes apply to each transaction as follows:

- "b" for the account of a broker/dealer, *including foreign broker/dealers*, even though the account may clear in the customer range at OCC
- "c" for non-broker/dealer customer account orders
- "f" for OCC clearing member firm proprietary account orders
- "m" for member market maker account orders
- "n" for orders in an options class at this Exchange for the account of a market maker or specialist of another options exchange registered as a market maker/specialist in the same class of options multiply listed at the other exchange
- "y" for orders in the account of a specialist registered in the underlying stock at the primary exchange for trading the stock

Members are reminded that a **broker/dealer** order "b" is an order for any account in which a broker or dealer registered or required to register pursuant to section 15, 15B or 15C (a) (1) (a) of the Securities Act of 1934 has a beneficial interest, regardless of whether the broker/dealer is a member of the Chicago Board Options Exchange (the "Exchange"). The Exchange has placed the below listed restrictions on orders in which a broker/dealer has an interest.

-These orders may **not** be placed on the customer limit order book pursuant to Exchange Rule 7.4(a).

-These orders may **not** have access to the Exchange's Retail Automatic Execution System (RAES) in any option class, pursuant to Exchange Rules 6.8(a) (i), 23.7, and 24.15.

-These orders may **not** be executed as an order subject to facilitation pursuant to Exchange Rule 6.74 (b).

-These orders are **not** entitled to priority over limit orders at the same opening price on the book in accordance with Exchange Rule 6.45 (c).

-These orders are **not** entitled to an execution pursuant to the provisions of Exchange Rule 8.51 concerning firm disseminated quotes.

Members are also reminded that certain circumstances require disclosure of origin code information as listed below:

-Interpretation .03 to Exchange Rule 7.5 provides that in an effort to maintain a fair and orderly market "Every Floor Broker who represents a Market-Maker with an order in any options class shall, by public outcry at the post, indicate the identity of such Market-Maker at the request of the... Order Book Official or any member." By this provision, the "m" origin code on a trade ticket must be disclosed if requested.

-Compliance with Exchange Rule 6.74 (b) concerning the facilitation of a customer order would require disclosure of the origin code of the order being facilitated. This provision does not apply to a normal "cross" transaction which is governed by Exchange Rule 6.74 (a).

-Under Exchange Rule 6.45 (c), during the course of opening rotation, non-broker/dealer (origin code "c") market orders are entitled to priority over limit orders at the same opening price on the book. Thus, to the extent necessary to preserve this entitlement, origin codes will be disclosed.

-Pursuant to Exchange Rule 8.51 only non-broker/dealer public customer orders (origin code "c") shall be entitled to execution relating to firm disseminated quotes.

Floor Brokers and member organizations who conduct an agency customer business are reminded that the obligations for due diligence extend to all orders accepted and represented. In order to afford due diligence, account origin must be obtained and included on each order prior to execution. If receiving order instructions directly from a customer, the accepting member is responsible for obtaining and recording the information on the order ticket. If account origin is not indicated on an order ticket received for execution, a Floor Broker is obligated to request the origin and record it on the ticket. Floor Brokers should not disclose information, including origin codes, unless such disclosure is for the purpose of obtaining the best possible execution for orders in accordance with rules and trading procedures and/ or as necessary to remain in compliance with the rules noted above.

Failure to obtain and record the correct account origin at the time the order is received may constitute a violation of 6.24 (a) and 6.51 as well as the various Rules noted above. Clearing members and member organizations should assure that persons receiving orders are instructed to obtain and record the appropriate origin code information. A quick reference chart has been attached for your use. Questions concerning this circular may be directed to Pat Sizemore at (312) 786-7752 or Margaret Williams at (312) 786-7834.