

BEFORE THE BUSINESS CONDUCT COMMITTEE
OF THE
CHICAGO BOARD OPTIONS EXCHANGE INCORPORATED

)	
In the Matter of:)	
)	
Richard Hanley, Jr.)	
c/o Midwood Securities)	
One Battery Park Plaza)	File No. 96-0044
New York, New York 10004)	
)	
Respondent)	
)	

DECISION ACCEPTING OFFER OF SETTLEMENT

This proceeding was instituted by the Business Conduct Committee (the "Committee") of the Chicago Board Options Exchange, Incorporated (the "Exchange") as a result of an investigation by the staff of the Exchange, which indicated that there was probable cause for finding a violation within the disciplinary jurisdiction of the Exchange. In accordance with that determination, the Committee directed the issuance of a Statement of Charges ("Statement of Charges"). Pursuant to Exchange Rule 17.8, the respondent ("Respondent"), Richard Hanley, Jr. ("Hanley") submitted an offer of settlement ("Offer of Settlement").

In submitting the Offer of Settlement, the Respondent neither admitted nor denied the violations alleged in the Statement of Charges.

The Respondent has agreed that the determination of the Committee to accept the Offer of Settlement shall constitute a final Decision, and, as provided in Exchange Rule 17.8, the Respondent may not seek review thereof.

The Respondent understands and acknowledges that the Committee's decision in this matter will become part of his disciplinary record and may be considered in any future Exchange proceeding.

With due regard to the particulars of this matter, the Committee believes it is appropriate to accept the Respondent's Offer of Settlement based on the following stipulated facts and findings and thereby to impose the sanction specified below.

FACTS

1. During all relevant periods herein, the Respondent, Hanley, was registered with the Exchange to transact business on the Exchange in accordance with Exchange Rules as an associated person of Ladenburg, Thalmann & Co., Inc. ("Ladenburg"), an Exchange member organization. During all relevant periods, Hanley was associated with Ladenburg as its Compliance Director.

2. During all relevant periods herein, a person associated with Ladenburg ("Associated Person") was registered with the Exchange to transact business on the Exchange in accordance with Exchange Rules as an associated person of Ladenburg working as a trader's assistant on Ladenburg's proprietary trading desk. During all relevant periods, Associated Person maintained a personal trading account at Ladenburg.
3. During all relevant periods herein, Hanley was responsible for establishing reasonable compliance procedures at Ladenburg and making reasonable efforts to ensure that employees of Ladenburg complied with those procedures.
4. During all relevant periods herein, Exchange Rules 4.2 - Adherence to Law and 9.8 - Supervision of Accounts were in full force and effect.
5. During the approximate period from in or about December 1991 through in or about May 1995, Hanley, as Ladenburg's Compliance Director, failed to establish and implement reasonable supervisory procedures to monitor: 1) trades effected by Ladenburg employees in their personal accounts, including trades effected by Associated Person in Associated Person's personal account; 2) the proper completion and maintenance of same-day trade corrections entered over the wire order entry system at Ladenburg; and, 3) the proper completion and maintenance of hard copy order tickets and corresponding confirmations.¹ As a result of Hanley's failure to establish and implement reasonable procedures as described herein, Associated Person was allowed to engage in a fraudulent and deceptive course of conduct for a period of over three years, whereby Associated Person assigned numerous Standard & Poors 100 Stock Index option ("OEX") trades originally effected for Associated Person's personal account and/or the accounts of other Ladenburg employees to Ladenburg's proprietary accounts; and, Associated Person assigned certain profitable OEX option trades originally effected for Ladenburg's proprietary accounts to Associated Person's personal account. Associated Person's course of conduct as described herein resulted in a net loss to Ladenburg of approximately \$757,111.

FINDINGS

6. The acts, practices and conduct described in Paragraph 5 above constitute violations of Exchange Rules 4.2 and 9.8 by Hanley, in that, as Ladenburg's Compliance Director, Hanley failed to establish and implement reasonable compliance procedures, and as a result, Associated Person was allowed to engage in the course of conduct described in Paragraph 5 above.

¹ Ladenburg informed Exchange staff that such confirmations are called "play-backs" which are printed confirmations of orders or trade corrections transmitted over the electronic order entry system in Ladenburg's office.

SANCTION

The sanction to be imposed shall consist of:

- (1) an admonishment,
- (2) an undertaking that, within six months of acceptance of this offer, Mr. Hanley shall requalify as a Compliance Director and successfully complete the Series 14 Compliance Officer Examination, and
- (3) an undertaking to disclose this entire sanction on any current or future securities industry registration filing.

ORDER

ACCORDINGLY IT IS ORDERED THAT, the Respondent, Richard Hanley, Jr., shall be and hereby is admonished. The Respondent is also hereby ordered to:

- (1) within six months of acceptance of this offer, requalify as a Compliance Director and successfully complete the Series 14 Compliance Officer Examination; and
- (2) disclose this entire sanction on any current or future securities industry registration filing.

**SO ORDERED
FOR THE COMMITTEE**

Dated: May 12, 1997

**By: /s/ Bruce I. Andrews
Bruce I. Andrews
Chairman
Business Conduct Committee**