

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

In the Matter of:	)	
	)	
	)	
Rockrimmon Securities, L.L.C.	)	
120 Broadway	)	
7 <sup>th</sup> Floor	)	
New York, NY 10271	)	
	)	
and	)	Consolidated File Nos.
	)	96-0056,
Jeffrey Wilson	)	96-0057 and 97-0020
120 Broadway	)	
7 <sup>th</sup> Floor	)	
New York, NY 10271	)	
	)	
Respondents	)	
	)	

**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 respondents ("Respondents"), Rockrimmon Securities, L.L.C. ("Rockrimmon") and Jeffrey Wilson ("Wilson"), submitted an offer of settlement ("Offer of Settlement").

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

The Respondents have 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 Respondents may not seek review thereof.

The Respondents understand and acknowledge that the Committee's decision in this matter will become part of their 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 Respondents' 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, Rockrimmon, currently known as Rockrimmon Securities L.L.C., was a member of the Exchange.
2. During all relevant periods herein, Rockrimmon was a member organization registered with the Exchange to transact business on the Exchange in accordance with Exchange rules as an organization associated with a market-maker, floor broker and lessee.
3. During all relevant periods herein, the Respondent, Wilson, was an associated person<sup>1</sup> ("Associated Person") of Rockrimmon. In addition, Wilson owned the majority interest in or was the controlling partner and managing member of Rockrimmon.
4. During the approximate period from in or about October 1991 through in or about July 1993, Kelly Luthringshausen ("Luthringshausen") was an Exchange member registered to transact business on the Exchange in accordance with Exchange Rules as a market-maker and nominee for Rockrimmon. In addition, in or about October 1991 through all relevant periods herein, Luthringshausen was registered to transact business on the Exchange as a Broker-Dealer and was registered as an individual Exchange member and as a market-maker.
5. During all relevant periods herein, Rockrimmon had certain Associated Persons at its New York, NY offices who were not registered as Exchange market-makers.
6. During all relevant periods herein, Todd Vukovich ("Vukovich") was an Exchange member registered to transact business on the Exchange in accordance with Exchange Rules as a market-maker and a nominee of Rockrimmon.
7. In or about November 1992, certain Rockrimmon nominees established a market-maker joint account ("QJR") pursuant to Exchange Rule 8.9(c).
8. During the approximate period from in or about November 1992 through in or about July 1993, Rockrimmon market-maker nominee Luthringshausen was a member of QJR.
9. During the approximate period from in or about November 1992 through in or about July 1994, Rockrimmon market-maker nominee Richard Lindar ("Lindar") was a member of QJR.
10. During the approximate period from in or about August 1993 through in or about July 1994, two Rockrimmon market-maker nominees were members of QJR.
11. During all relevant periods herein, Spear, Leeds & Kellogg, Inc. ("Spear Leeds") was registered with the Exchange to transact business on the Exchange as a member organization associated with a market-maker and a floor broker, as a member organization authorized to conduct a non-member customer business, as a lessor member and as an Options Clearing Corporation ("OCC") Clearing Member.

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<sup>1</sup> Person associated with a broker or dealer as defined in the Securities Exchange Act of 1934, as amended, Section 3(a)(18).

12. During all relevant periods herein Exchange Rules 4.1 - Just and Equitable Principles of Trade, 4.2 - Adherence to Law, 4.6 - False Statements, 7.4(a) - Obligations For Orders, 8.1 - Market-Maker Defined, 8.7 and Interpretation and Policy .03 thereunder - Obligations of Market-Makers, 8.9(c) - Securities Accounts and Orders of Market-Makers, 13.1 - Net Capital Requirements- Minimum Requirements, Section 15(c) of the Securities Exchange Act of 1934, as amended (the "Act") - Registration and Regulation of Brokers and Dealers and Rule 15c3-1 - Net Capital thereunder, and Section 17(a)(1) of the Act - Accounts and Records, Reports, Examinations of Exchanges, Members, and Others and Rule 17(a)-5 - Reports to be Made by Certain Brokers and Dealers were in full force and effect.
13. During all relevant periods herein, pursuant to Exchange Rule 8.1, only transactions that were initiated by an Exchange market-maker on the floor of the Exchange qualified as market-maker transactions.
14. During all relevant periods herein, SEC Rule 15c3-1(b)(1) - Exemptions provided, in part, that transactions of non-clearing market-makers who conduct not more than an occasional non-market-maker trade are *not* subject to the net capital rule. Non-clearing market-makers who execute more than an occasional non-market-maker trade become subject to the capital requirements set forth under the Act and Exchange Rule 13.1.
15. In or about October 1991 through in or about February 1993, Wilson and/or Rockrimmon Associated Persons, who were not registered as Exchange market-makers, initiated and entered numerous option orders from off of the Exchange trading floor on behalf of Rockrimmon market-maker accounts with Exchange floor broker members. The execution of these orders resulted in transactions representing an aggregate of at least 269,000 contracts which Luthringshausen allowed to be cleared or adjusted into his Rockrimmon market-maker nominee account, when Luthringshausen did not initiate or approve those orders. As a result of the transactions clearing or adjusting into Luthringshausen's Rockrimmon market-maker nominee account, these transactions received preferential market-maker haircut and capital exempt treatment.
16. In or about February 1993 through in or about July 1994, Wilson and/or Rockrimmon Associated Persons, who were not registered as Exchange market-makers, initiated and entered numerous option orders on behalf of Rockrimmon market-maker accounts with Exchange floor broker members, the execution of which resulted in transactions representing an aggregate of at least 430,000 option contracts that cleared or were adjusted into QJR, without the knowledge or approval of any QJR members, described in Paragraphs 7 through 10 above, of those orders.
17. On or about August 25, 1993, Wilson, through Rockrimmon, caused an order to purchase 100 Johnson & Johnson ("JNJ") Oct 40 call option contracts to be entered into and executed by the Exchange's Public Customer Order Book ("Book") when that order was executed on behalf of a Rockrimmon account and thus, was not eligible for Book entry, execution, or priority afforded only to public customer orders.
18. During the period from on or about October 1, 1991 through on or about July 31, 1993, Wilson, through Rockrimmon, engaged in a course of conduct whereby Rockrimmon caused Spear Leeds to submit position adjustments to OCC. These position adjustments

moved numerous positions that totaled at least 81,000 contracts from Rockrimmon accounts carried in Spear Leeds Customers' Account<sup>2</sup> at OCC to Luthringshausen's Rockrimmon market-maker nominee account at OCC, when those positions resulted from transactions on the Exchange floor on behalf of Rockrimmon's customer account, and when those positions were not effected through market-maker transactions initiated by Luthringshausen.

19. During the period from on or about February 25, 1993 through on or about July 31, 1994, Wilson, through Rockrimmon, engaged in a course of conduct whereby Rockrimmon caused Spear Leeds to submit position adjustments to OCC. These position adjustments moved numerous positions that totaled at least 55,000 contracts from Rockrimmon accounts carried in Spear Leeds Customers' Account at OCC to Rockrimmon's market-maker nominee QJR account, when those positions resulted from transactions on the Exchange floor on behalf of Rockrimmon's customer account, and when those positions were not effected through market-maker transactions initiated by qualified members of QJR.
20. During the period from on or about May 1, 1992 through on about July 31, 1993, Wilson, through Rockrimmon, engaged in a course of conduct whereby Rockrimmon caused Spear Leeds to submit position adjustments to OCC which moved numerous positions that totaled at least 6,350 option contracts from Lindar's Rockrimmon market-maker nominee account into Luthringshausen's Rockrimmon nominee account when those positions resulted from transactions on the Exchange trading floor on behalf of Lindar's Rockrimmon nominee account, and when those positions were not effected through market-maker transactions initiated by Luthringshausen.
21. During all relevant periods herein, pursuant to Exchange Rule 8.7 and Interpretation and Policy .03 thereunder, at least 75% of a market-maker's total contract volume ("75% Requirement") must be in option classes to which the market-maker has been appointed.
22. On or about February 18, 1994, the Exchange's Market Performance Committee imposed a trading restriction ("Trading Restriction") on Rockrimmon and its nominees for Rockrimmon's failure to meet the 75% Requirement during the fourth quarter of 1993. The Trading Restriction prohibited Rockrimmon nominees from entering orders which established or increased an option position in any class listed for trading at the Exchange other than those to which Rockrimmon market-makers were appointed pursuant to Rule 8.7 and Interpretation and Policy .03 thereunder, for a period of ten (10) consecutive business days, effective from March 21, 1994 through April 4, 1994.
23. On or about March 29, 1994, March 31, 1994 and April 4, 1994, Wilson and/or Rockrimmon Associated Persons who were not registered as market-makers entered orders that should have been designated for Rockrimmon's proprietary account. However, these Associated Persons caused the orders to be executed on behalf of Rockrimmon market-maker account QJR and the resulting transactions to be cleared as market-maker trades thereby causing Rockrimmon to violate the Trading Restriction referred to in Paragraph 20 above and the 75% Requirement referred to in Paragraph 19 above.

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<sup>2</sup> As defined by OCC By-Laws, Article I, Section (X).

24. On or about August 20, 1996, Wilson, who was not registered with the Exchange as a market maker, initiated, entered and caused to be executed, an option spread order (the "Order") from off of the Exchange trading floor to sell 3655 Hewlett Packard ("HWP") September 1996 37½ call option contracts and to purchase 3800 HWP January 1997 30 call option contracts on behalf of Vukovich's market maker nominee account. The execution of this order resulted in a 7455 option contract position (the "Position") which Vukovich allowed to be adjusted into his market maker nominee account, when Vukovich did not initiate the Order nor was he involved in the establishment of the Position. As a result of the Position adjustment into Vukovich's market maker nominee account, Rockrimmon received preferential market-maker haircut and capital exempt treatment for the Position.

### **FINDINGS**

25. The acts, practices, and conduct described in each of Paragraphs 15 and 16 above constitute violations of Exchange Rules 4.1 and 8.1 by Rockrimmon and Wilson, in that Rockrimmon Associated Persons caused orders to be represented and executed for Rockrimmon CBOE market-maker accounts when these orders and the resulting transactions were not initiated as market-maker transactions by any of Rockrimmon's CBOE market-makers.
26. The acts, practices, and conduct described in each of Paragraphs 15 and 16 above constitute violations of Exchange Rules 4.1, 4.2 and 13.1 and Section 15(c) of the Act and Rule 15c3-1 thereunder and Section 17(a)(1) of the Act and Rule 17(a)-5 thereunder by Rockrimmon and Wilson, in that Rockrimmon and Wilson circumvented requirements to accurately compute and report its net capital and Rockrimmon accepted preferential market-maker haircut and capital exempt treatment for option and stock transactions which cleared or were adjusted into Rockrimmon's market-maker accounts, when the option transactions resulted from non-market-maker activity; and when Rockrimmon and Wilson knew or should have known that these transactions were non-market-maker transactions and when Rockrimmon and Wilson knew or should have known as a result of these non-market-maker transactions, Rockrimmon was no longer qualified to receive a capital exemption provided for under paragraph (b)(1) of SEC Rule 15c3-1.
27. The acts, practices and conduct described in Paragraph 17 above constitute violations of Exchange Rule 7.4(a) by Rockrimmon and Wilson, in that Rockrimmon and Wilson caused an order in which a broker dealer had an interest, to be placed with and executed by the Book.
28. The acts, practices and conduct described in each of Paragraphs 18, 19 and 20 above constitute violations of Exchange Rules 4.1 and 4.6 by Rockrimmon and Wilson, in that Rockrimmon and Wilson caused Spear Leads to submit false statements to the OCC by causing Spear Leads to submit position adjustments to OCC which moved numerous positions from Rockrimmon accounts carried in Spear Leeds Customers' Account at OCC to Luthringshausen's Rockrimmon market-maker nominee account at OCC or Rockrimmon's market-maker nominee QJR account, when those positions resulted from transactions on the Exchange floor on behalf of Rockrimmon's customer account. In addition, Rockrimmon and Wilson caused Spear Leads to submit position adjustments to OCC which moved numerous positions from Lindar's Rockrimmon market-maker

- nominee account into Luthringshausen's Rockrimmon nominee account when those positions resulted from transactions on the Exchange trading floor on behalf of Lindar's Rockrimmon nominee account, and when those positions were not effected through market-maker transactions initiated by Luthringshausen or qualified members of QJR, respectively.
29. The acts, practices and conduct described Paragraph 23 above constitute violations of Exchange Rules 4.1 and 8.7 and Interpretation and Policy .03 thereunder by Rockrimmon and Wilson, in that through the activities of its Associated Persons, at least one Rockrimmon nominee failed to meet 75% Requirement and Rockrimmon nominees failed to comply with the Trading Restriction.
30. The acts, practices, and conduct described in paragraph 24 above constitute violations of Exchange Rules 4.1 and 8.1 by Rockrimmon and Wilson, in that Wilson, as Rockrimmon's principal, caused the Order described in Paragraph 24 above to be represented and executed for a Rockrimmon market-maker nominee account when the Order and the resulting Position was not initiated on the floor of the Exchange by Rockrimmon's nominee market-maker.
31. The acts, practices, and conduct described in paragraph 24 above constitute violations of Exchange Rules 4.1 and 4.2 and Section 15(c) of Act and Rule 15c3-1 thereunder, and Section 17(a)(1) of the Act and 17(a)-5 thereunder by Rockrimmon and Wilson, in that Rockrimmon and Wilson circumvented requirements to accurately compute and report Rockrimmon's net capital and Rockrimmon accepted preferential market-maker haircut and capital exempt treatment for the Position described in Paragraph 24 above which Position was adjusted into a Rockrimmon market-maker nominee account, when the Position resulted from non-market-maker activity; and when Wilson, on behalf of Rockrimmon, knew that the Position was the result of a non-market-maker transaction

### **SANCTION**

The sanction to be imposed shall consist of

- (a) a \$175,000 joint and several fine;
- (b) a censure of each Respondent; and
- (c) a six (6) consecutive month restriction from engaging in the following activities:
  - 1) Jeffrey Wilson shall not maintain any control, discretion or trading authority involving any securities transaction for any account other than a retail customer securities account;
  - 2) Jeffrey Wilson shall be restricted from receiving, directly or indirectly, either on a current or on a deferred basis: (i) any financial benefit, other than that derived from a retail customer securities account, from trading activities on any transaction effected from options listed on the CBOE, including transactions in any individual market-maker or market-maker joint account and any joint back office ("JBO") account; and

- (ii) profits or income, including interest income, from any consulting or advisory fees related to any securities account; and
- 3) Jeffrey Wilson shall provide the CBOE with documentation acceptable to the CBOE within 60 days after the tax year subsequent to the end of the completion of the 6 month restriction evidencing compliance with (c)(2) above.

**ORDER**

ACCORDINGLY IT IS ORDERED THAT, the Respondents, Rockrimmon and Wilson, shall be and hereby are joint and severally fined in the amount of one hundred seventy five thousand dollars (\$175,000), each censured and restricted for six consecutive months from engaging in the following activities:

- 1) Jeffrey Wilson shall not maintain any control, discretion or trading authority involving any securities transaction for any account other than a retail customer securities account;
- 2) Jeffrey Wilson shall be restricted from receiving, directly or indirectly, either on a current or on a deferred basis: (i) any financial benefit, other than that derived from a retail customer securities account, from trading activities on any transaction effected from options listed on the CBOE, including transactions in any individual market-maker or market-maker joint account and any joint back office ("JBO") account; and (ii) profits or income, including interest income, from any consulting or advisory fees related to any securities account; and
- 3) Jeffrey Wilson shall provide the CBOE with documentation acceptable to the CBOE within 60 days after the tax year subsequent to the end of the completion of the 6 month restriction evidencing compliance with (c)(2) above.

SO ORDERED  
FOR THE COMMITTEE

/s/ Bruce I. Andrews  
Bruce I. Andrews  
Chairman  
Business Conduct Committee

October 6, 1997  
Date