

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

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In the Matter of:)	
)	
First Options of Chicago, Inc.)	
440 South LaSalle Street)	
3rd Floor)	File No. 96-0061
Chicago, IL 60605)	
)	
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"), First Options of Chicago, Inc. ("FOC"), 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, FOC, was a member of the Exchange.

2. During all relevant periods herein, FOC was registered with the Exchange to transact business on the Exchange in accordance with Exchange Rules as a Clearing Member, as a member organization associated with a market-maker and a floor broker, and as a member organization authorized to conduct a non-member customer business.
3. During all relevant periods herein, Rockrimmon Securities ("Rockrimmon"), currently known as Rockrimmon Securities L.L.C., 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.
4. In or about November 1992, certain Rockrimmon nominees established a market-maker joint account ("QJR") pursuant to Exchange Rule 8.9(c).
5. During all relevant periods herein, Exchange Regulatory Circular RG 90-44 - Joint Account Order Identification required that all trade tickets prepared for transactions executed on behalf of a joint account must contain both the acronym of the joint account participant who initiated the transaction and the joint account acronym.
6. During all relevant periods herein, Exchange Rules 4.1 - Just and Equitable Principles of Trade, 4.2 - Adherence to Law, and 8.9(c) - Securities Accounts and Orders of Market-Makers were in full force and effect.
7. During all relevant periods herein, FOC established and implemented procedures for processing orders which were represented and executed for joint accounts, but where no initiating joint account member was recorded. In circumstances where FOC staff ("Staff") could not ascertain an initiator, the Staff was instructed by FOC to assign the first acronym from a list of joint account members and submit that acronym as the initiating market-maker for the purpose of providing trade match and audit trail data to the Exchange.
8. During the period from in or about February 1993 through in or about October 1996, FOC used the procedures described in Paragraph 7 above to assign the first acronym from a list of Rockrimmon QJR joint account members as the joint account initiator to transactions representing at least 375,000 option contracts, when those related floor order tickets did not have a joint account initiator recorded and when the member identified by FOC as initiating those orders had not, in fact, initiated those orders. As a result, FOC submitted inaccurate information to the Exchange which was not provided to FOC on floor order tickets.

FINDINGS

9. The acts, practices, and conduct described in Paragraph 8 above constitute violations of Exchange Rules 4.1 and 4.2 by FOC, in that FOC submitted inaccurate information to the Exchange which was not provided to FOC on floor order tickets by assigning the first acronym from a list of QJR members as the joint account initiator to transactions representing at least 375,000 option contracts, when those related floor order tickets did not have a joint account initiator recorded and when the member identified by FOC as initiating those orders had not, in fact, initiated those orders. As a result of the conduct described in Paragraph 8 above, FOC impeded the Exchange's audit trail.

SANCTION

The sanction to be imposed shall consist of:

- a) a censure;
- b) a fine in the amount of twenty seven thousand five hundred dollars (\$27,500)
- c) undertakings that
 - 1) FOC will retain Trade Edge Solutions, L.L.C. ("Trade Edge") as an outside consultant; and
 - 2) Trade Edge will conduct an initial analysis, implement code changes, test and validate FOC's system, provide documentation and procedures to enable FOC's system to enter the mnemonic "WHO" when an initiator or joint account order ticket is not present.

ORDER

ACCORDINGLY IT IS ORDERED THAT, the Respondent, First Options of Chicago, Inc., shall be and hereby is censured and fined in the amount of twenty seven thousand five hundred dollars (\$27,500). The Respondent is also hereby ordered to complete the following undertakings:

- 1) FOC will retain Trade Edge Solutions, L.L.C. ("Trade Edge") as an outside consultant; and
- 2) Trade Edge will conduct an initial analysis, implement code changes, test and validate FOC's system, provide documentation and procedures to enable FOC's system to enter the mnemonic "WHO" when an initiator or joint account order ticket is not present.

SO ORDERED
FOR THE COMMITTEE

/s/ Fred Goldman
Fred Goldman
Acting Chairman
Business Conduct Committee

June 4, 1997
Date