

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

	)	
In the Matter of:	)	
	)	
James R. Jordan	)	
8620 Estrelita Drive	)	File No. 97-0022
Las Vegas, NV 89128	)	
	)	
and	)	
	)	
Harry Simpson	)	
1355 Hackberry Lane	)	
Winnetka, IL 60093	)	
	)	
and	)	
	)	
TriJordy Partners	)	
c/o James R. Jordan	)	
8620 Estrelita Drive	)	
Las Vegas, NV 89128	)	
	)	
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"), James R. Jordan ("Jordan"), Harry Simpson ("Simpson"), and TriJordy Partners ("TriJordy"), 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, TriJordy was an Exchange member organization registered to transact business on the Exchange in accordance with Exchange Rules as an organization associated with a market-maker and a lessee organization.
2. During all relevant periods herein, Jordan was an Associated Person<sup>1</sup> of TriJordy and was not registered as an Exchange market-maker. In addition, Jordan was a general partner of TriJordy.
3. During all relevant periods herein, Simpson was a member of the Exchange. In addition, Simpson was a limited partner and an Associated Person of TriJordy, and was not registered as an Exchange market-maker.
4. During all relevant periods herein, Alan Lirtzman ("Lirtzman") was a member of the Exchange, and was registered with the Exchange to transact business on the Exchange in accordance with Exchange Rules as a market-maker and nominee for TriJordy.
5. Prior to January 1995, TriJordy established certain sub-accounts, including sub-accounts LIRJD, LIRJJ, LIRPD, and LIRPJ ("TriJordy's sub-accounts").
6. During all relevant periods herein, Exchange Rules 4.1 - Just and Equitable Principles of Trade, 4.2 - Adherence to Law, 4.6 - False Statements, 8.1 - Market-Maker Defined, 8.7 - Obligations of Market-Makers, 13.1 - Net Capital Requirements - Minimum Requirements, and 15.1 - Maintenance, Retention, and Furnishing of Books, Records, and Other Information, Regulatory Circular RG94-42 - Nominees/Brokers-Dealers Use of Sub-Accounts; 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, Section 17(a) of the Act - Accounts and Records, Reports, Examinations of Exchanges, Members, and Others and Rules 17a-3 - Records to Be Made by Certain Exchange Members, Brokers and Dealers and 17a-5 - Reports to Be Made by Certain Brokers and Dealers thereunder; and Regulation X of the Board of Governors of the Federal Reserve System ("FRB") - Borrowers of Securities Credit were in full force and effect.
7. 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.

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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).

8. 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.
9. During the approximate period from on or about January 3, 1995, through on or about May 16, 1996, Jordan, who was not registered as an Exchange market-maker, initiated and entered numerous option orders from off of the Exchange trading floor on behalf of TriJordy's sub-accounts with Exchange floor broker members. The execution of these orders resulted in transactions representing numerous option contracts which Lirtzman allowed to be cleared or adjusted into TriJordy's sub-accounts, when Lirtzman did not initiate or approve those orders. As a result of the transactions clearing or adjusting into TriJordy's sub-accounts, these transactions received preferential market-maker haircut and capital exempt treatment.
10. On or about June 16, 1996, Jordan provided testimony to the Exchange that all of the option orders referenced in Paragraph 9 above were approved by Lirtzman, when, in fact, during the months of June 1995 and October 1995, Jordan initiated and entered at least 260 option orders from off of the Exchange trading floor on behalf of TriJordy's sub-accounts with Exchange floor broker members without Lirtzman's approval.

### **FINDINGS**

11. The acts, practices, and conduct described in Paragraph 9 above constitute violations of Exchange Rules 4.1, 4.2, 8.1, and 8.7 and Regulatory Circular 94-42 and FRB Regulation X by TriJordy and Jordan, in that TriJordy, through Jordan, caused orders to be represented and executed for TriJordy's sub-accounts when these orders and the resulting transactions were not initiated as market-maker transactions by TriJordy's market-maker nominee.
12. The acts, practices, and conduct described in Paragraph 9 above constitute violations of Exchange Rules 4.1, 4.2, and 8.1 and FRB Regulation X by Simpson, in that Simpson received market-maker treatment for orders TriJordy, through Jordan, caused to be represented and executed for TriJordy's sub-accounts in which Simpson had an interest, when these orders and the resulting transactions were not initiated as market-maker transactions by TriJordy's market-maker nominee.
13. The acts, practices, and conduct described in Paragraph 9 above constitute violations of Exchange Rules 4.2, 13.1, and 15.1 and Section 15(c) of the Act and Rule 15c3-1 thereunder and Section 17(a) of the Act and Rules 17a-3 and 17a-5 thereunder by TriJordy and Jordan, in that TriJordy and Jordan circumvented requirements to accurately compute and report their net capital and TriJordy and Jordan accepted preferential market-maker haircut and capital exempt treatment for option transactions which cleared or were adjusted into TriJordy's market-maker sub-accounts, when the option transactions resulted from non-market-maker activity; and when TriJordy and Jordan knew or should have known that these transactions were non-market-maker transactions and when TriJordy and Jordan knew or should have known as a result of

these non-market-maker transactions, TriJordy and Jordan were no longer qualified to receive a capital exemption provided for under paragraph (b)(1) of SEC Rule 15c3-1.

14. The acts, practices, and conduct described in Paragraph 10 above constitute violations of Exchange Rule 4.6 by Jordan, in that Jordan made false statements in testimony provided to the Exchange when he stated that all of the option orders referenced in Paragraph 9 above were approved by Lirtzman, when, in fact, during the months of June 1995 and October 1995, Jordan initiated and entered at least 260 option orders from off of the Exchange trading floor on behalf of TriJordy's sub-accounts with Exchange floor broker members without Lirtzman's approval.

### **SANCTION**

The sanction to be imposed shall consist of a seventy-five thousand dollar (\$75,000) joint and several fine and a censure of each Respondent.

### **ORDER**

ACCORDINGLY IT IS ORDERED THAT, the Respondents, James R. Jordan, Harry Simpson, and TriJordy Partners shall be and hereby are jointly and severally fined in the amount of seventy five thousand dollars (\$75,000) and each censured.

**SO ORDERED  
FOR THE COMMITTEE**

**Dated: November 12, 1997**

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