

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

)	
In the Matter of:)	
)	
Spear, Leeds & Kellogg)	
120 Broadway)	File No. 97-0047
New York, NY 10271)	
)	
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"), Spear, Leeds & Kellogg ("SLK"), 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 its 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, SLK was a member of the Exchange.
2. During all relevant periods herein, SLK 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.

3. During all relevant periods herein, First Marathon America, Inc. ("FMAI") was a member organization registered with the Exchange to transact business on the Exchange as an organization associated with a market maker, floor broker, and lessee.
4. During all relevant periods herein, Marathon Arbitrage CV ("MACV") was a registered broker-dealer and a member of the National Association of Securities Dealers ("NASD"), and was a customer of FMAI.
5. During all relevant periods herein, Exchange Rules 4.2 - Adherence to Law, 4.6 - False Statements, and 6.49(a) - Transactions Off the Exchange were in full force and effect.
6. During the period from on or about November 30, 1995 through on or about December 17, 1996, SLK submitted approximately 84 position adjustments to OCC which moved positions which totaled at least 20,321 option contracts between FMAI's account and MACV's account. As a result of this conduct, at least 11 of these position adjustments resulted in the netting of positions by way of adjustments in FMAI's account and MACV's account, and not by way of transactions effected on the Exchange trading floor.

FINDINGS

7. The acts, practices, and conduct described in Paragraph 6 above constitute violations of Exchange Rules 4.6 and 6.49(a) by SLK, in that SLK submitted approximately 84 position adjustments to OCC which moved positions which totaled at least 20,321 option contracts between FMAI's account and MACV's account. As a result of this conduct, at least 11 of these position adjustments resulted in the netting of positions by way of adjustments in FMAI's account and MACV's account, and not by way of transactions effected on the Exchange floor.
8. The acts, practices, and conduct described in Paragraph 6 above constitute violations of Exchange Rule 4.2 by SLK, in that SLK failed to establish, implement and maintain adequate procedures for the supervision and control of its activities and operations related to the clearance of trades into appropriate accounts and the verification that option positions were adjusted or moved for the purpose of correcting bona fide errors.

SANCTION

The sanction to be imposed shall consist of

- (a) a twenty-five thousand dollar (\$25,000) fine;
- (b) a censure; and
- (c) a written representation that the Undertaking set forth in the Decision Accepting Offer of Settlement for In the Matter of Spear, Leeds & Kellogg, Inc. (File No. 96-0060), to establish, implement, and maintain adequate procedures for the supervision and control of its activities and operations related to the clearance of

trades into appropriate accounts and the verification that option positions are adjusted only for proper purposes, will encompass and address the improper adjustments set forth in Paragraph 6 herein. The written representation shall be submitted to the Exchange with its fully executed Offer of Settlement.

ORDER

ACCORDINGLY IT IS ORDERED THAT, the Respondent, Spear, Leeds & Kellogg, shall be and hereby is censured and fined in the amount of twenty-five thousand dollars (\$25,000), and shall provide a written representation that the Undertaking set forth in the Decision Accepting Offer of Settlement for In the Matter of Spear, Leeds & Kellogg, Inc. (File No. 96-0060), to establish, implement, and maintain adequate procedures for the supervision and control of its activities and operations related to the clearance of trades into appropriate accounts and the verification that option positions are adjusted only for proper purposes, will encompass and address the improper adjustments set forth in Paragraph 6 herein. The written representation shall be submitted to the Exchange with its fully executed Offer of Settlement.

**SO ORDERED
FOR THE COMMITTEE**

Dated: November 12, 1997

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