

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

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In the Matter of:)	
)	
James M. Smith, Jr.)	Consolidated File
401 Rainey St.)	Nos. 96-0028 and 96-0068
Bonham, Texas 75418)	
)	
Respondent)	
)	

NOTICE OF SUMMARY PROCEEDINGS

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. The respondent ("Respondent"), James M. Smith, Jr. ("Smith"), has failed to Answer or Deny the allegations set forth in the Statement of Charges. Accordingly, the Respondent is deemed to have admitted the charges contained therein, and the Committee has determined to impose disciplinary action through summary proceedings under the provisions of Exchange Rule 17.7.

FINDINGS

1. During all relevant periods herein, Smith was registered with the Exchange to transact business as a Registered Representative of A.G. Edwards & Sons, Inc. ("Edwards"), an Exchange member organization, at Edwards' Houston, Texas branch office.
2. During all relevant periods herein, Smith was acting in his capacity as a Registered Representative for Edwards, and was engaged in the handling of public customer accounts, including, but not limited to, the public customer account of Customer A ("Customer A").
3. During all relevant periods herein, Exchange Rules 4.1 - Just and Equitable Principles of Trade, 9.10(a) Discretionary Accounts (Authorization and Approval Required), and 17.2(b) - Complaint and Investigation, were in full force and effect.
4. During the period from in or about April 1995, through in or about July 1995, Smith misrepresented to Customer A that she owned 1000 shares of Compaq Computer Corp. (CPQ) stock unhedged, when in fact 10 short covered call option contracts were executed for her account on April 19, 1995.

5. On or about January 25, 1995, Smith effected an unauthorized option transaction involving the purchase of 20 Sequent Computer Systems, Inc. (SQQ) March 20 call option contracts in Customer A's account.
6. On or about February 6, 1995, Smith effected an unauthorized option transaction involving the purchase of 20 ASA Ltd. (ASA) March 45 call option contracts in Customer A's account.
7. On or about February 20, 1995, Smith effected an unauthorized option transaction involving the purchase of 10 Standard & Poor's 100 Stock Index Options (OEX) Mar 430 put option contracts in Customer A's account.
8. On or about March 9, 1995, Smith effected an unauthorized option transaction involving the purchase of 10 OEX Mar 450 put option contracts in Customer A's account.
9. Since October 31, 1995, Smith has impeded and delayed an Exchange investigation by failing to respond to numerous requests from Exchange staff for a signed, detailed statement concerning the complaint of a public customer.
10. The acts, practices and conduct described in Paragraph 4 above constitute violations of Exchange Rule 4.1 by Smith, in that Smith misrepresented to Customer A that she owned 1000 shares of CPQ stock unhedged, when in fact 10 short covered call option contracts were executed for her account on April 19, 1995.
11. The acts, practices and conduct described in each of Paragraphs 5 through 8 above constitute violations of Exchange Rules 4.1 and 9.10(a) by Smith, in that Smith effected numerous unauthorized option transactions in Customer A's account.
12. The acts, practices and conduct described in Paragraph 9 above constitute a violation of Exchange Rule 17.2(b) by Smith, in that Smith impeded and delayed an Exchange investigation by failing to respond to numerous requests from Exchange staff for a signed, detailed statement concerning the complaint of a public customer.

SANCTION

In that the Respondent, James M. Smith, Jr., has violated Exchange Rules for the conduct described in Paragraphs 4 through 9 above, the sanction to be imposed shall consist of:

- (a) a censure; and
- (b) a bar from Exchange membership and from association with any Exchange member or member organization for three consecutive years commencing on the date of this decision.

ORDER

ACCORDINGLY IT IS ORDERED that the Respondent, James M. Smith, Jr., shall be and hereby is censured and barred from Exchange membership and from association with any Exchange member or member organization for three consecutive years commencing on the date of this decision.

* * *

Pursuant to Exchange Rule 17.7, the Respondent shall have ten (10) days from the date of service of this notice to notify the Business Conduct Committee that he desires a hearing upon all or a portion of any charges not previously admitted or upon the penalty. Failure to so notify the Business Conduct Committee shall constitute admission of the violations and acceptance of the penalty as determined by the Business Conduct Committee and a waiver of all rights of review. If the Respondent requests a hearing, the matters which are the subject of the hearing shall be handled as if this summary determination had not been made.

**SO ORDERED
FOR THE COMMITTEE**

Dated: April 4, 1997

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