



**Regulatory Circular RG07-116**

**To: Members**

**From: Membership Committee**

**Re: Trading by Nominees and Persons Who Have  
Registered Their Memberships for Member Organizations**

**Date: November 6, 2007**

The Exchange recently has received some questions from members concerning CBOE Rule 3.8 and how its provisions apply to trading by nominees and persons who have registered their memberships for member organizations. The Membership Committee is issuing this explanatory circular concerning these provisions.

Nominees

Rule 3.8(e)(ii) provides that a nominee may perform trading functions only on behalf of the member organization for which the nominee is authorized.

However, Rule 3.8(e)(ii) does not preclude a nominee floor broker from representing orders that are placed with the nominee's member organization by another member organization, provided that (i) there is an arms length customer relationship between the member organization that placed the orders and the nominee's member organization and (ii) the nominee continues to receive his or her compensation from, be supervised by, and report to the member organization for which the nominee is approved by the Exchange.

Rule 3.8(e)(iii) states that a nominee may not perform trading functions on the nominee's own behalf or on behalf of a member organization other than the member organization for which the nominee is approved by the Exchange. This means that a nominee may not act as an independent Market-Maker and/or as an independent Floor Broker. This also means that a nominee must receive compensation from, must be supervised by, and must report to the member organization for which the nominee is approved by the Exchange (and not any other member organization).

Notwithstanding the provisions of Rule 3.8(e)(iii), a nominee, under Rule 3.8(f), may trade as an independent Market-Maker and/or as an independent Floor Broker if the following 4 requirements are satisfied: (i) the nominee is a registered broker-dealer, (ii) the nominee has the prior written approval of the nominee's member organization to trade as an independent Market-Maker and/or as an independent Floor Broker, (iii) the member organization for which the nominee is approved by the Exchange to perform trading functions agrees, in a manner and form

prescribed by the Exchange, to guarantee all obligations arising out of that nominee's activities as an independent Market-Maker and/or an independent Floor Broker; and (iv) the nominee has the prior approval of the Exchange to trade as an independent Market-Maker and/or as an independent Floor Broker.

Application forms for use by nominees to request approval under Rule 3.8(f) to trade as an independent Market-Maker and/or as an independent Floor Broker are available from, and must be filed with, the Membership Department. A nominee's member organization is required to designate on the application form whether the organization is authorizing the nominee to trade under Rule 3.8(f) as (i) solely an independent Market-Maker, (ii) solely an independent Floor Broker, or (iii) both an independent Market-Maker and an independent Floor Broker. Similarly, the Exchange will include in any Exchange approval granted under Rule 3.8(f) a designation of which of these capacities the Exchange has approved.

However, notwithstanding the Exchange approval granted under Rule 3.8(f), CBOE Rule 8.8 generally provides that a member may not act as an independent Market-Maker and as an independent Floor Broker in the same trading station on the same business day.

#### Persons Who Have Registered Their Memberships for Member Organizations

The provisions of Rule 3.8(e) and of Rule 3.8(f), which are applicable to nominees, are also applicable to persons who have registered their memberships for member organizations (since, under Section 2.4 of the CBOE Constitution, such a person represents a member organization in lieu of a nominee). Any questions regarding this circular may be directed to Stan Leimer, Director, Membership Department at (312) 786-7299 or to Regina Millison, Manager, Membership Department, at (312) 786-7452.