



Regulatory Circular RG09-139

To: Members and Member Organizations

From: Regulatory Services Division

Date: December 3, 2009

Re: Systematizing Orders & COATS Requirements

Summary of Key Issues

- This Regulatory Circular supersedes and replaces RG09-105 which was issued on September 25, 2009.
- On January 7, 2005, the SEC approved amendments to CBOE Rule 6.24, relating to the systematizing of orders in connection with the requirement to implement a consolidated options audit trail system (“COATS”).¹
- Rule 6.24, as amended, requires that each order, cancellation of, or change to an order in any option class transmitted to CBOE must be “systematized” in a format approved by CBOE, either before it is sent to CBOE or upon receipt on the floor of CBOE. Below is a general description of the COATS requirements as set forth in Rule 6.24.
- An order is systematized if:
 - (i) the order is sent electronically to CBOE; or
 - (ii) the order that is sent to CBOE non-electronically (*e.g.*, telephone orders) is input electronically into CBOE’s systems contemporaneously upon receipt on CBOE and prior to representation of the order.
- Customer orders that are systematized after a contra party to that order has reported a trade are considered COATS violations in contravention of Rule 6.24.
- Members and member organizations are hereby warned that any requests or actions made to influence any contra party to delay the reporting of any trade for the purpose of avoiding a COATS violation will be deemed to be a violation of Exchange Rule 4.1 – Just and Equitable Principles of Trade and subject such member or member organization to disciplinary action.

Discussion

It is the responsibility of the Member receiving a non-electronic order on the floor of the CBOE to systematize the order and record any event in the lifecycle of the order (i.e., change, cancel or cancel/replace). All orders must be systematized, including complex orders and contra orders related to an original order.

¹ Please refer to Regulatory Circulars RG05-05, RG06-86, and SR-CBOE-2004-77, which are available on CBOE’s website at www.cboe.org/Legal.

A customer order that is systematized after a contra party to that order has reported a trade, indicates that the customer order was not systematized prior to representation as required by Rule 6.24.

Exchange Contacts

Questions pertaining to the regulatory requirement or to the content of the COATS Regulatory Reports:

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FBW malfunctions or disruptions:

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