Regulatory Circular RG11-105

To: Trading Permit Holders

From: Regulatory Services Division

Date: September 6, 2011

Re: SEC Rule 15c3-5
Risk Management Controls for Brokers or Dealers with Market Access
Limited Extension of Compliance Date for Floor Brokers

Compliance Date

This circular is to advise CBOE Trading Permit Holders that the SEC recently issued an order that granted a limited extension to the compliance date for certain requirements set forth in SEC Rule 15c3-5 (concerning risk management controls for brokers or dealers with market access). Specifically, the SEC has extended the compliance date for the floor broker operations of broker-dealers with market access that handle orders on a manual basis ("Floor Brokers") from the automated controls requirement of Rule 15c3-5(c)(1)(ii) and (c)(2) until November 30, 2011. The SEC extension order can be viewed at the following link: http://www.sec.gov/rules/exorders/2011/34-65132.pdf.

Rule 15c3-5(c)(1)(ii) generally requires broker-dealers with market access to adopt controls and procedures reasonably designed to prevent the entry of erroneous or duplicative orders. Rule 15c3-5(c)(2) requires broker-dealers with market access to adopt risk management controls and supervisory procedures that are reasonably designed to ensure compliance with all regulatory requirements, including, generally, to prevent the entry of orders unless there has been compliance with all regulatory requirements that must be satisfied on a pre-order entry basis, to prevent the entry of orders for securities for a broker-dealer, customer, or other person if such person is restricted from trading those securities, to restrict access to trading systems and technology that provide market access to persons and accounts pre-approved and authorized by the broker-dealer, and to assure that appropriate surveillance personnel receive immediate post-trade execution reports that result from market access.

The extension provides additional time to augment and automate controls already in place for orders handled by Floor Brokers on a manual basis.[1] Please note that the extension of the compliance date applies only to the extent that a Floor Broker is handling orders on a manual

[1] The SEC noted that, "providing additional time for such Floor Brokers to complete the development and implementation of automated controls pursuant to Rule 15c3-5(c)(1)(ii) and (c)(2) for orders handled on a manual basis, where manual system controls historically were used for risk management and regulatory purposes, is reasonable" and that "temporarily exempting Floor Brokers from the automated controls requirement of Rules 15c3-5(c)(1)(ii) and (c)(2) until November 30, 2011, should facilitate the orderly and meaningful implementation of the required automated risk management controls[.]"

basis and, for such orders, applies only to the automated controls requirement of Rule 15c3-5(c)(1)(ii) and (c)(2). The compliance date remains July 14, 2011 for all provisions of Rule 15c3-5 not subject to this limited extension or any other limited extension.[2]

Additional Information

For additional information about SEC Rule 15c3-5, please refer to CBOE Regulatory Circulars RG11-065 and RG11-085. Please note that these circulars contain a summary of Rule 15c3-5. The actual rule text and SEC adopting release (and the limited extension orders noted above) are controlling. Therefore, TPHs should also review the adopting release on the SEC website at http://www.sec.gov/rules/final/2010/34-63241.pdf. The SEC has also made available a Small Entity Compliance Guide, which is located at http://www.sec.gov/rules/final/2010/34-63241-secg.htm. If you have questions regarding SEC Rule 15c3-5, you should speak with your firm's compliance or legal department. You may also contact the SEC. To the extent you have further questions, those inquiries may also be directed to the Regulatory Services Division at (312) 786-7730 or (312) 786-8460.

[2] A separate limited extension was approved by the SEC on June 27, 2011. Under that other limited extension, the SEC extended the compliance date for the requirements of Rule 15c3-5(c)(1)(i) for all securities until November 30, 2011. The SEC also extended the compliance date for all the requirements of Rule 15c3-5 for fixed income securities until November 30, 2011. See Regulatory Circular RG11-085. This other extension order can be viewed at the following link: http://www.sec.gov/rules/final/2011/34-64748.pdf.