

CBOE Regulatory Circular RG17-085

Date: June 23, 2017
To: Trading Permit Holders
From: Regulatory Division
RE: Prearranged Trades

This Regulatory Circular restates Chicago Board Options Exchange, Incorporated's ("Exchange" or "CBOE") policy concerning prearranged trading. Trading Permit Holders are cautioned that any purchase or sale, transaction or series of transactions, coupled with an agreement, arrangement, or understanding, directly or indirectly to reverse such transaction which is not done for a legitimate economic purpose or without subjecting the transactions to market risk, violates Exchange Rules and may be inconsistent with various provisions of the Securities Exchange Act of 1934, as amended, (the "Act") and rules thereunder. All transactions must be effected in accordance with applicable trading rules, must be subject to risk of the market, and must be reported for dissemination.

Section 9(a)(1) of the Act provides in relevant part that it shall be unlawful for any member of a national securities exchange, for the purpose of creating a false or misleading appearance of active trading in any security registered on a national securities exchange or a false or misleading appearance with respect to the market for any such security, (A) to effect any transaction in such security which involves no change in the beneficial ownership thereof, or (B) to enter an order or orders for the purchase of such security with the knowledge that an order or orders substantially the same size, at substantially the same time, and at substantially the same price, for the sale of any such security, has been or will be entered by or for the same or different parties.

Among other things, prearranged trading could result in a violation of CBOE Rule 4.1 (which prohibits conduct inconsistent with just and equitable principles of trade), Rule 6.45 (which addresses the priority of bids and offers), and/or Rule 10b-5 under the Act (which prohibits any act, practice, or course of business which operates or would operate as a fraud or deceit upon any person, in connection with the purchase or sale of any security).

Additional Information

Please contact the Regulatory Interpretations team at reginterps@cboe.com or (312) 786-8141 for additional information.

(Regulatory Circular RG16-190, reissued)