



Regulatory Circular 22-007

Date: March 15, 2022

Exchanges: Cboe Options, C2 Options, BZX and EDGX

Markets: Options

To: Trading Permit Holders and Members

Re: Option Customer Account Approval and Supervision

With the March 14, 2022 launch of NANOS on Cboe Exchange, Inc. (“Cboe Options”),¹ Cboe Options and Cboe C2 Exchange, Inc. (“C2 Options”), Cboe BZX Exchange, Inc. (“BZX Options”) and Cboe EDGX Exchange, Inc. (“EDGX Options” or, collectively, the “Exchanges”) are issuing this Regulatory Circular to remind Trading Permit Holders and Members (collectively “Members”) of the approval requirements for customers seeking to trade options in their account. Members are prohibited from accepting orders from a customer to purchase or write an option contract unless the customer’s account has been approved for options transactions in accordance with the provisions set forth in the Exchanges’ rules governing the opening of accounts. A summary follows. For more details and additional information, please refer to Chapter 9 in Cboe Options and C2 Options Rulebooks² and to Chapter XXVI in the BZX Options and EDGX Options Rulebooks.

Approval of Customer Accounts for Options Trading – Due Diligence and Record Retention

Pursuant to the Exchanges’ opening of account rules,³ Members shall exercise due diligence to learn the essential facts as to customers, their objectives, and their financial situation and shall make a record of such information, which shall be retained in accordance with Securities Exchange Act of 1934 (“Exchange Act”) Rule 17a-4 and the Exchanges’ supervision of accounts rules.⁴ If a customer refuses to provide any of the below information, the Member should note such refusal in the customer’s records at the time the account is opened.⁵ Information provided by the customer shall be considered together with other available information to determine whether, and to what extent, to approve the customer’s account for options trading.

As described in Cboe Options and C2 Options Rule 9.1(b)(1) and BZX Options and EDGX Options Rule 26.2(b)(1), Members shall seek to obtain, at a minimum, the following information with respect to options customers that are natural persons:

- (1) investment objectives (e.g., safety of principal, income, growth, trading profits, speculation);

¹ See Securities Exchange Act Release [No. 91528](#) (April 9, 2021), 86 FR 19933 (April 15, 2021) (SR-CBOE-2020-117) and Cboe Options Exchange Notice [C2022020200](#)

² Chapter 9 of the Cboe Options Rulebook is incorporated by reference into chapter 9 of the C2 Options Rulebook.

³ See Cboe Options and C2 Options Rule 9.1 and BZX Options and EDGX Options Rule 26.2.

⁴ See Cboe Options and C2 Options Rule 9.2 and BZX Options and EDGX Options Rule 26.3.

⁵ See Cboe Options and C2 Options Rule 9.1(b)(2) and BZX Options and EDGX Options Rule 26.2(b)(3).

- (2) employment status (name of employer, self-employed or retired);
- (3) estimated annual income from all sources;
- (4) estimated net worth (exclusive of family residence);
- (5) estimated liquid net worth (cash, securities, other);
- (6) marital status and number of dependents;
- (7) age; and
- (8) investment experience and knowledge (e.g., number of years, size, frequency and type of transactions for options, stocks and bonds, commodities and other investments).

Additionally, as described in Cboe Options and C2 Options Rule 9.1(b)(1) and BZX Options and EDGX Options Rule 26.2(b)(2), the customer's account records shall contain the following information if applicable:

- (1) source or sources of background and financial information (including estimates) concerning the customer;
- (2) discretionary trading authorization: agreement on file, name, relationship to customer and experience of person holding trading authority;
- (3) date(s) options disclosure document(s) were furnished to the customer;
- (4) nature and types of transactions for which the account is approved (e.g., buying, covered writing, uncovered writing, spreading, discretionary transactions)
- (5) name of registered representative;
- (6) name of registered options principle approving account and date of approval; and
- (7) dates of verification of currency of account information.

Members should consider utilizing a standard account approval so as to ensure the receipt of all the required information.

Customer Verification of Account Information

The background and financial information upon which a Member based its approval of the account of every new customer who is a natural person for options trading shall be sent to the customer for verification within 15 days after the customer's account has been approved for options transactions unless the information is included in the customer's account agreement.⁶ Members may satisfy the verification requirement by sending the customer the information described in the preceding section and providing the customer with an opportunity to correct or complete the information.⁷ Additionally, a copy of the background and financial information on file with the Member shall be sent to the customer for verification within 15 days after the Member becomes aware of any material change in the customer's financial situation.⁸ In all cases, absent advice from the customer to the contrary, the information will be deemed to be verified.⁹

⁶ See Cboe Options and C2 Options Rule 9.1(c) and BZX Options and EDGX Options Rule 26.2(c).

⁷ *Id.*

⁸ *Id.*

⁹ *Id.*

Written Agreement to Abide by Exchange and OCC Rules

Within 15 days after a customer's account has been approved for options transactions, a Member shall obtain from the customer a written agreement that the account shall be handled in accordance with the Rules of the applicable Exchanges and the Rules of The Options Clearing Corporation ("OCC") and that such customer, acting alone or in concert with others, will not violate the position or exercise limits set forth in the applicable Exchanges' Rules.¹⁰

Delivery of Options Disclosure Document to Customers

At or prior to the time a customer's account is approved for options transactions, Members must furnish the customer with one or more current options disclosure documents issued by the OCC in accordance with the requirements of the applicable Exchanges' option disclosure document rules.¹¹ Copies of the Options Disclosure Document ("ODD") and any supplements to the ODD and information regarding how to obtain printed copies of the ODD and any supplements are available on the OCC's website: <https://www.theocc.com/Company-Information/Documents-and-Archives/Options-Disclosure-Document>.

Written Procedures for Member Business in Uncovered Option Contracts

Cboe Options and C2 Options Rule 9.1(f) and BZX Options and EDGX Options Rule 26.2(f) require Members transacting business with the public in uncovered option contracts to develop, implement and maintain certain specific written procedures governing the conduct of the uncovered options business that must include at least the following:

- (1) specific criteria and standards to be used in evaluating the suitability of a customer for uncovered short option transactions;
- (2) specific procedures for approval of accounts engaged in writing uncovered short option contracts, including written approval of such accounts by a Registered Options Principal;
- (3) designation of a specific Registered Options Principal qualified individual(s) as the person(s) responsible for approving accounts which do not meet the specific criteria and standards for writing uncovered short option transactions and for maintaining written records of the reasons for every account so approved;
- (4) establishment of specific minimum net equity requirements for initial approval and maintenance of customer uncovered option accounts; and
- (5) requirements that customers approved for writing uncovered short options transactions be provided with a special written description of the risks inherent in writing uncovered short option transactions at or prior to the initial uncovered short option transaction pursuant to the Exchanges' option disclosure document rules.

¹⁰ See Cboe Options and C2 Options Rules 8.30 and 8.42 and BZX Options and EDGX Options Rules 18.7 and 18.9.

¹¹ See Cboe Options and C2 Options Rules 9.1(e) and 9.9 and BZX Options and EDGX Options Rules 26.2(e) and 26.10.

Please note that the special written description for uncovered option writers referenced above must be in a format prescribed by the applicable Exchanges or a format developed by a Member, provided it contains substantially similar information as prescribed by the applicable Exchanges and has received prior written approval of the applicable Exchanges. The Exchanges' prescribed formats of the special written description are available in Cboe Options and C2 Options Rule 9.9(c) and BZX Options and EDGX Options Rule 26.10(c).

Supervision of Accounts and Maintenance of Customer Records

Members are required to establish, maintain and enforce written procedures detailing the specific methods used to supervise all non-Member customer accounts, and all orders in such accounts.¹² Please note, the Exchanges require Members to develop and implement specific written procedures concerning the supervision of customer accounts maintaining uncovered short option positions, which procedures must provide for frequent supervisory review of such accounts.¹³

Pursuant to Cboe Options and C2 Options Rule 9.2(j) and BZX Options and EDGX Options Rule 26.3(d), Members are required to maintain background and financial information of customers who have been approved for options transactions at the principal supervisory office having jurisdiction over the office servicing a customer's account, or have such information readily accessible and promptly retrievable, to permit review of each customer's options account on a timely basis to determine:

- (1) the compatibility of options transactions with investment objectives and with the types of transactions for which the account was approved;
- (2) the size and frequency of options transactions;
- (3) commission activity in the account;
- (4) profit or loss in the account;
- (5) undue concentration in any options class or classes; and
- (6) compliance with the provisions of Regulation T of the Federal Reserve Board.

Additional Information

Any questions regarding this Regulatory Circular may be referred to Regulatory Interpretations at reginterps@cboe.com or 312.786.8141.

¹² See Cboe Options and C2 Options Rule 9.2(i) and BZX Options and EDGX Options Rule 26.3(a)-(b).

¹³ See Cboe Options and C2 Options Rule 9.2(i)(3) and BZX Options and EDGX Options Rule 26.3(c).