

hours for other than the business of the member organization with which the person is associated; and (ii) to require prompt notice, but not Exchange approval, of persons registered as Registered Options Principals, Sales Supervisors or Financial and Operations Principals with member organizations for which the CBOE is the firm's Designated Examining Authority who are acting as a part-time employee or independent contractor of the member or engaged in outside business activities. Below is the text of the proposed rule change. Proposed new language is *italicized*. Proposed deletions are in [brackets].

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### Chicago Board Options Exchange, Inc. Rules

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#### Rule 3.6A. Qualification and Registration of Certain Associated Persons

(a) Financial/Operations Principal. Each individual member or member organization subject to Exchange Act Rule 15c3-1 shall designate a Financial/Operations Principal. The duties of a Financial/Operations Principal shall include taking appropriate actions to assure that the member complies with applicable financial and operational requirements under the Rules and the Exchange Act, including but not limited to those requirements relating to the submission of financial reports and the maintenance of books and records. Each Financial/Operations Principal is required to have successfully completed the Financial and Operations Principal Examination (Series 27 Exam). Each Financial/Operations Principal designated by a member shall be registered in that capacity with the Exchange in a form and manner prescribed by the Exchange. A Financial/Operations Principal of a member may be a full-time employee [of the member], [or with the prior written approval of the Exchange, may be] a part-time employee or independent contractor of the member. *Member firms for which the Exchange is the Designated Examining Authority ("DEA") must provide prompt written notice to the Exchange's Department of Financial and Sales Practice Compliance for each person designated as a Financial/Operations Principal reporting whether such person is a full-time employee, part-time employee, independent contractor or has any outside business affiliations.*

(b) No change.

\* \* \* Interpretations and Policies:

.01-.03 No change.

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### Chapter IX

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#### Doing Business With the Public

##### Rule 9.4. Other Affiliations of Registered [Representatives] *Associated Persons*

(a) *No person associated with a member in any registered capacity shall be employed by, or accept compensation from, any other person or entity as a result of any business activity, other than a passive investment, outside the scope of his/her relationship with his/her employer firm, unless the person has provided prompt written notice to the member and has received prior written consent of the member.*

(b) Except with the prior written consent of the member and [express] prompt written notice to [permission of] the Exchange, every Registered Options Principal, *Sales Supervisor, and Financial/Operations Principal registered with a member for which the Exchange is the Designated Examining Authority ("DEA")* and Registered Representative shall devote his/her entire time during business hours to the business of the member organization employing [him] *or compensating him/her*. [or to the business of its affiliates which are engaged in the transaction of business as a broker or dealer in securities or commodities or in such other businesses as have been approved by the Exchange.]

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#### II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the CBOE included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The CBOE has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

##### A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

###### 1. Purpose

The purpose of this proposed rule is to bring the outside business affiliation reporting requirements of registered persons of CBOE members in line with those of the other major securities

exchanges. Current National Association of Securities Dealers ("NASD"), New York Stock Exchange ("NYSE"), American Stock Exchange ("AMEX"), Pacific Exchange ("PCX"), and Philadelphia Stock Exchange ("PHLX") rules do not require SRO approval for the outside business activities of registered persons operating in a non-supervisory capacity but rather require such notification be made to and receive the approval from the member organization employing or compensating the registered person.<sup>3</sup> PHLX Rule 793 requires such member organization approvals be filed with their Office of the Secretary.

CBOE Rule 9.4 is proposed to be amended to reduce the current reporting burden of member organizations by eliminating the need for member organizations to seek prior Exchange approval for Registered Representatives, employed in a non-supervisory capacity, to engage in business practices during business hours for other than the business of the member organization with which the person is associated. Proposed Rule 9.4(a) instead would require that each associated person in any registered capacity with a member organization provide written notification to the member organization and receive written approval from the member organization prior to becoming employed by, or accepting compensation from, any other person or entity as a result of business activity, other than a passive investment, outside the scope of his/her relationship with the member organization.

Proposed Rule 9.4(b) would specifically require the prior written consent of the member and prompt written notice to the Exchange for outside affiliations of persons registered with a member, for which the CBOE is the DEA, in the capacity of a Registered Options Principal, Sales Supervisor, or Financial and Operations Principal. This proposed amendment to Rule 9.4 would also require a corresponding amendment to Exchange Rule 3.6A(a) to require prompt notice to the Exchange, rather than prior written approval of the Exchange, of a Financial and Operations Principal acting as a part-time employee or independent contractor or engaged in outside business activities. NYSE and AMEX rules require Exchange approval for registered persons delegated supervisory responsibilities and performing such duties on a part-time basis, however, the NASD does not have a comparable rule.<sup>4</sup> Therefore, the

<sup>3</sup> See AMEX Rule 342(b), NASD Rule 3030, NYSE Rule 346(b), PCX Rule 1.26(d) and PHLX Rule 793.

<sup>4</sup> See NYSE Rule 346(e) and AMEX Rule 342(a).