

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-76235; File No. SR-CBOE-2015-095)

October 22, 2015

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to Revisions to the Registered Options Principal Examination

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on October 16, 2015, Chicago Board Options Exchange, Incorporated (the “Exchange” or “CBOE”) filed with the Securities and Exchange Commission (the “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the CBOE. CBOE has designated the proposed rule change as “constituting a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of an existing rule” under Section 19(b)(3)(A)(i) of the Act<sup>3</sup> and Rule 19b-4(f)(1) thereunder,<sup>4</sup> which renders the proposal effective upon receipt of this filing by the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

CBOE is filing revisions to the content outline and selection specifications for the Registered Options Principal (Series 4) examination program.<sup>5</sup> The proposed revisions update the material to reflect changes to the laws, rules and regulations covered by the examination and

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> 15 U.S.C. 78s(b)(3)(A)(i).

<sup>4</sup> 17 CFR 240.19b-4(f)(1).

<sup>5</sup> CBOE is also proposing corresponding revisions to the Series 4 question bank. CBOE is submitting this filing for immediate effectiveness pursuant to Section 19(b)(3)(A) of the act and Rule 19b-4(f)(1) thereunder.

to incorporate the functions and associated tasks currently performed by a Registered Options Principal. In addition, CBOE is proposing to make changes to the format of the content outline. CBOE is not proposing any textual changes to the By-Laws, Schedules to the By-Laws or Rules of CBOE. CBOE is proposing these revisions to adopt the revised Series 4 examination program of the Financial Industry Regulatory Authority, Inc. (“FINRA”). FINRA currently administers Series 4 examinations on behalf of CBOE.

The revised content outline is attached.<sup>6</sup> The Series 4 selection specifications were submitted to the Commission under separate cover by FINRA. FINRA submitted the Series 4 selection specifications in connection with a FINRA filing to revise its Series 4 Examination Program.<sup>7</sup> CBOE is in agreement with the selection specifications submitted by FINRA.

The text of the [sic] proposed rule change is available on the Exchange’s website (<http://www.cboe.com/AboutCBOE/CBOELegalRegulatoryHome.aspx>), at the Exchange’s Office of the Secretary, and at the Commission’s Public Reference Room.

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 Exchange 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 Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

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<sup>6</sup> The Commission notes that the revised content outline is attached to the filing, not to this Notice. The content outline is available as part of the filing on CBOE’s website.

<sup>7</sup> See Securities Exchange Act Release No. 75246 (June 18, 2015), 80 F.R. 36388 (June 24, 2015) (SR-FINRA-2015-018).

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

1. Purpose

Section 6(c)(3) of the Act<sup>8</sup> authorizes CBOE to prescribe standards of training, experience, and competence for persons associated with CBOE Trading Permit Holders (“TPH”). In accordance with that provision, CBOE has developed examinations that are designed to establish that persons associated with CBOE TPHs have attained specified levels of competence and knowledge, consistent with applicable registration requirements under CBOE rules. CBOE periodically reviews the content of the examinations to determine whether revisions are necessary or appropriate in view of changes pertaining to the subject matter covered by the examinations.

CBOE Rule 9.2 states that no TPH organization shall be approved to transact options business with the public until those persons associated with it who are designated as Options Principals have been approved by and registered with the Exchange. Rule 9.2 states that persons engaged in the supervision of options sales practices or a person to whom the designated general partner or executive officer or another Registered Options Principal delegates the authority to supervise options sales practices shall be designated as Options Principals. CBOE Rule 9.2 further requires successful completion of an examination prescribed by the Exchange in order to qualify for registration as an Options Principal. The Series 4 examination, an industry-wide examination, has been designed for this purpose, and tests a candidate’s knowledge of options trading generally, the industry rules applicable to trading of option contracts, and the rules of registered clearing agencies for options. The Series 4 examination covers, among other things, equity options, foreign currency options, and index options.

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<sup>8</sup> 15 U.S.C. 78f(c)(3).

In consultation with a committee of industry representatives, including representatives from CBOE, FINRA recently undertook a review of the Series 4 examination program. As a result of this review, FINRA filed revisions to the content outline to reflect changes to the laws, rules and regulations covered by the examination and to incorporate the functions and associated tasks currently performed by a Registered Options Principal. FINRA also made changes to the format of the content outline.<sup>9</sup> CBOE is filing these changes to adopt FINRA's revised Series 4 examination program.

#### Current Content Outline

The current content outline is divided into three sections. The following are the three sections and the number of questions associated with each of the sections, denoted Section 1 through Section 3:

1. Options Investment Strategies, 34 questions;
2. Supervision of Sales Activities and Trading Practices, 75 questions; and
3. Supervision of Employees, Business Conduct, and Recordkeeping and Reporting Requirements, 16 questions.

Each section also includes the applicable laws, rules and regulations associated with that section. The current content outline also includes a preface (addressing, among other things, the purpose, administration and scoring of the examination), sample questions and reference materials.

#### Proposed Revisions

CBOE is proposing to divide the content outline into six major job functions that are performed by a Registered Options Principal. The following are the six major job functions,

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<sup>9</sup> See Securities Exchange Act Release No. 75246 (June 18, 2015), 80 F.R. 36388 (June 24, 2015) (SR-FINRA-2015-018).

denoted Function 1 through Function 6, with the associated number of questions:

Function 1: Supervise the Opening of New Options Accounts, 21 questions;

Function 2: Supervise Options Account Activities, 25 questions;

Function 3: Supervise General Options Trading, 30 questions;

Function 4: Supervise Options Communications, 9 questions;

Function 5: Implement Practices and Adhere to Regulatory Requirements, 12 questions;

and

Function 6: Supervise Associated Persons and Personnel Management Activities, 28 questions.

CBOE is proposing to adjust the number of questions assigned to each major job function to ensure that the overall examination better reflects the key tasks performed by a Registered Options Principal. The questions on the revised Series 4 examination will place greater emphasis on key tasks such as supervision of registered persons, sales practices and compliance.

Each function also includes specific tasks describing activities associated with performing that function. There are four tasks (1.1 – 1.4) associated with Function 1; four tasks (2.1 – 2.4) associated with Function 2; four tasks (3.1 – 3.4) associated with Function 3; four tasks (4.1 – 4.4) associated with Function 4; two tasks (5.1 – 5.2) associated with Function 5; and four tasks (6.1 – 6.4) associated with Function 6.<sup>10</sup> By way of example, one such task (Task 4.2) is review options retail communications and determine appropriate approval.<sup>11</sup> Further, the content outline lists the knowledge required to perform each function and associated tasks (e.g.,

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<sup>10</sup> See Exhibit 3, Outline Pages 6 - 22. The Commission notes that Exhibit 3 is an exhibit to the filing, not to this Notice.

<sup>11</sup> See Exhibit 3, Outline Page 15.

types of retail communications, required approvals).<sup>12</sup> In addition, where applicable, the content outline lists the laws, rules and regulations a candidate is expected to know to perform each function and associated tasks. These include the applicable FINRA Rules (e.g., FINRA Rule 2220), NASD Rules (e.g., NASD Rule 2711(i)), CBOE Rules (e.g., CBOE Rule 9.21) and SEC rules (e.g., SEA Rule 135a).<sup>13</sup> FINRA conducted a job analysis study of Registered Options Principals, which included the use of a survey, in developing each function and associated tasks and updating the required knowledge set forth in the revised content outline. The functions and associated tasks, which appear in the revised content outline for the first time, reflect the day-to-day activities of a Registered Options Principal.

As noted above, CBOE also is proposing to revise the content outline to reflect changes to the laws, rules and regulations covered by the examination. Among other revisions, CBOE is proposing to revise the content outline to reflect the adoption of rules in the CBOE rulebook (for example CBOE Rule 3.6 (Persons Associated with TPH Organizations); CBOE Rule 4.24 (Supervision); CBOE Rule 6.25 (Nullification and Adjustment of Options Transactions including Obvious Errors) and CBOE Rule 12.4 (Portfolio Margin)

CBOE is proposing similar changes to the Series 4 selection specifications and question bank.

Finally, CBOE is proposing to make changes to the format of the content outline, including the preface, sample questions and reference materials. Among other changes, CBOE is proposing to: (1) add a table of contents;<sup>14</sup> (2) provide more details regarding the purpose of the

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<sup>12</sup> See Exhibit 3, Outline Page 15.

<sup>13</sup> See Exhibit 3, Outline Page 15.

<sup>14</sup> See Exhibit 3, Outline Page 2.

examination;<sup>15</sup> (3) provide more details on the application procedures;<sup>16</sup> (4) provide more details on the development and maintenance of the content outline and examination;<sup>17</sup> (5) explain that the passing scores are established by FINRA staff, in consultation with a committee of industry representatives, using a standard setting procedure, and that a statistical adjustment process known as equating is used in scoring exams;<sup>18</sup> and (6) note that each candidate will receive a score report at the end of the test session, which will indicate a pass or fail status and include a score profile listing the candidate's performance on each major content area covered on the examination.<sup>19</sup>

The number of questions on the Series 4 examination will remain at 125 multiple-choice questions,<sup>20</sup> and candidates will have 195 minutes to complete the examination. The test time will change from 180 minutes to 195 minutes because pretest items increased from 5 items to 10 items. Currently, a score of 70 percent is required to pass the examination. The passing score will change to 72 percent with the revised Series 4 examination program.

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<sup>15</sup> See Exhibit 3, Outline Page 3.

<sup>16</sup> See Exhibit 3, Outline Page 3.

<sup>17</sup> See Exhibit 3, Outline Page 4.

<sup>18</sup> See Exhibit 3, Outline Page 5.

<sup>19</sup> See Exhibit 3, Outline Page 5.

<sup>20</sup> Consistent with FINRA's practice of including "pretest" items on certain qualification examinations, which is designed to ensure that new examination items meet acceptable testing standards prior to use for scoring purposes, the examination includes 10 additional, unidentified pretest items that do not contribute towards the candidate's score. Therefore, the examination actually consists of 135 items, 125 of which are scored. The 10 pretest items are randomly distributed throughout the examination.

### Availability of Content Outline

The revised Series 4 content outline is available on FINRA's website, at [www.finra.org/brokerqualifications/exams](http://www.finra.org/brokerqualifications/exams).

CBOE is filing the proposed rule change for immediate effectiveness. CBOE will announce the proposed rule change in a Regulatory Circular.

### 2. Statutory Basis

CBOE believes that the proposed revisions to the Series 4 examination program are consistent with the provisions of Section 6(b)(5) of the Act,<sup>21</sup> which requires, among other things, that CBOE rules must be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect investors and the public interest, and Section 6(c)(3) of the Act,<sup>22</sup> which authorizes CBOE to prescribe standards of training, experience, and competence for persons associated with CBOE TPHs. CBOE believes that the proposed revisions will further these purposes by updating the examination program to reflect changes to the laws, rules and regulations covered by the examination and to incorporate the functions and associated tasks currently performed by a Registered Options Principal.

### B. Self-Regulatory Organization's Statement on Burden on Competition

CBOE does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The updated examination aligns with the functions and associated tasks currently performed by a Registered Options Principal and tests knowledge of the most current laws, rules, regulations and skills relevant to those functions and associated tasks. As such, the proposed revisions would

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<sup>21</sup> 15 U.S.C. 78f(b)(5).

<sup>22</sup> 15 U.S.C. 78f(c)(3).

make the examination more efficient and effective.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

Written comments were neither solicited nor received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>23</sup> and paragraph (f)(1) of Rule 19b-4 thereunder<sup>24</sup>. At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission will institute proceedings to determine whether the proposed rule change should be approved or disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-CBOE-2015-095 on the subject line.

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<sup>23</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>24</sup> 17 CFR 240.19b-4(f)(1).

Paper comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-CBOE-2015-095. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, D.C. 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer

to File Number SR-CBOE-2015-095 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>25</sup>

Brent J. Fields  
Secretary

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<sup>25</sup> 17 CFR 200.30-3(a)(12).