



## Regulatory Circular 20-052

**Date:** December 21, 2020

**Exchanges:** Cboe Options, C2 Options, Cboe BYX, Cboe BZX, Cboe EDGA and Cboe EDGX

**Markets:** Equities and Options

**To:** Trading Permit Holders and Members

**Re:** Prearranged Trades

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This Regulatory Circular is periodically issued to remind Trading Permit Holders/Members of Cboe Exchange, Inc.'s ("Cboe Options"), C2 Exchange, Inc.'s, ("C2 Options"), Cboe BYX Exchange, Inc.'s ("BYX"), Cboe BZX Exchange, Inc.'s ("BZX"), Cboe EDGA Exchange, Inc.'s ("EDGA"), and Cboe EDGX Exchange, Inc.'s ("EDGX," and collectively the "Exchanges") policy concerning prearranged trading. Trading Permit Holders/Members 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 is done 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 other than a government security, 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 of 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, or (C) to enter any order or orders for the sale of any such security with the knowledge that an order or orders of substantially the same size, at substantially the same time, and at substantially the same price, for the purchase of 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 Options and C2 Options Rule 8.1,<sup>1</sup> and BYX, BZX, EDGA, and EDGX Rule 3.1 (which prohibit conduct inconsistent with just and equitable principles of trade); Cboe Options Rule 5.85, C2 Options Rule 6.12, BYX Rule 11.12, BZX Rules 11.12 and 21.8, EDGA Rule 11.9, and EDGX Rules 11.9 and 21.8 (which address the priority of bids and

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<sup>1</sup> Chapter 5 of the C2 Options Rulebook incorporates by reference Cboe Options Chapter 8, including Cboe Options Rule 8.1.

offers); BYX, BZX, EDGA, and EDGX Rule 12.2 (which prohibit fictitious transactions); 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 Regulatory Interpretations at [reginterps@cboe.com](mailto:reginterps@cboe.com) or 312.786.8141 for additional information.