

400 S. La Salle
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Regulatory Circular RG00-41

Date: March 13, 2000
To: Members and Member Firms
From: Trading Operations
Re: RAES Pricing Changes

Effective March 14, 2000, pursuant to its authority under interpretation .02 to rule 6.8, the Equity Floor Procedure Committee has determined to implement changes to its RAES system for all multiple-list option classes. The changes are described below. If you have any questions, please contact Anthony Montesano at (312) 786-7365, or the CBOE Help Desk at (312) 786-7100.

Description of Changes

CBOE will not provide automatic execution when its market is inverted with another exchange's market.

BUY orders will be blocked when another exchange's BID is greater than the CBOE OFFER.

Example 1:

CBOE market is 5 – 5 1/8; AMEX bid is 5 1/4

- BUY orders will route to PAR as NBBO REJECTs (new functionality).
- SELL orders will be blocked because automatic step-up is currently set to 1 tick. If changed to 2 ticks, SELL orders would still be blocked because the execution price would invert CBOE's own market (existing functionality).

SELL orders will be blocked when another exchange's OFFER is less than the CBOE BID.

Example 2:

CBOE market 5 – 5 1/8

AMEX offer is 4 7/8

- SELL orders will route to PAR as NBBO REJECTs (new functionality).
- BUY orders will be blocked because automatic step-up is currently set to 1 tick. If changed to 2 ticks, BUY orders would still be blocked because the execution price would invert CBOE's own market (existing functionality).

Pursuant to rule 8.51, orders that are re-routed as a result of this change will be entitled to be executed at a price no worse than the displayed bid or offer when that order is represented in open out-cry at the trading station.

IMPORTANT: It must be noted that the above blocks will not occur if the quote from the exchange with which the CBOE is inverted has been taken out of the NBBO calculation, pursuant to interpretation .02, such as when the quote from that exchange contains a fast market ("F") indicator. In such cases, CBOE ignores that exchange's quotes, and thus, cannot recognize that an inversion exists between the CBOE and that exchange.