

Regulatory Circular RG00-164

Date: October 26, 2000
To: All Members
From: Regulatory Services Division
Re: Obligation to Ensure Book Priority

The Regulatory Services Division reminds all floor members that they are obligated to ensure that transactions they effect do not violate the priority afforded to orders entered into the Customer Limit Order Book (the “Book”).

- **Book Trade Throughs Are Prohibited** -- According to Exchange Rule 6.45, the highest bid (lowest offer) shall have priority, except where two or more bids (offers) for the same option contract represent the highest (lowest) price and one such bid (offer) is displayed in the Book in accordance with Exchange Rule 7.7. In this case, the Book bid (offer) displayed in accordance with Exchange Rule 7.7 shall be afforded priority over any other bid (offer) for the same option contract at the trading post. Under no circumstances may any transaction be effected at a price better than the limit price of an order in the Book that represents the best disseminated CBOE quote.
- **Certain Complex Orders May Touch (Trade Ahead Of) The Book On One Side** -- Certain complex transactions may trade ahead of the Book (i.e., at a price equal to the limit price of an order in the Book which represents the best CBOE disseminated quote). According to Rule 6.45(e), when a member holding a spread, straddle or combination order and bidding or offering in a multiple of 1/16 on the basis of a total credit or debit for the order has determined that the order may not be executed by a combination of transactions with the bids and offers displayed in the Book or announced by crowd members, then the order may be executed as a spread, straddle or combination at the total credit or debit with one other member without giving priority to bids or offers of crowd members that are no better than the bids or offers comprising such total debit or credit and bids and offers in the Book provided at least one leg of the order trades at a price that is better than the corresponding Book bid or offer. A stock-option order as defined in Exchange Rule

1.1(ii)(b)¹, consisting of a combination order with stock, may be executed in this same manner. Finally, under these circumstances, a stock-option order as defined in Rule 1.1(ii)(a)² has priority over the bids and offers of crowd members but not over the bids and offers of the Book.

- **The Size And Price Of Booked Orders That Improve The Disseminated Quotes Must Be Visibly Displayed In The Crowd At All Times** -- Additionally, be reminded that Exchange Rule 7.7, requires an Order Book Official (“OBO”) or a Designated Primary Market-Maker (“DPM”)³ to continuously and visibly display to the crowd the highest bid and lowest offer in the Book, including the number of contracts bid for at the highest bid and offered at the lowest offer. It is inappropriate for an OBO, or a DPM acting in the capacity of an OBO, to suppress the true size and price of a Book bid or offer in the course of fulfilling such obligations.

Questions regarding this circular may be directed to Karen Charleston in the Department of Market Monitoring at (312) 786-7724 or Karen Calvin in the Department of Market Regulation at (312) 786-7759.

1 An order to buy or sell a stated number of units of an underlying or related security coupled with the purchase and sale of an equal number of put and call option contracts, each having the same exercise price, expiration date and number of units of the underlying or related security, on the opposite side of the market representing in aggregate twice the number of units of the underlying or related security.

2 An order to buy or sell a stated number of units of an underlying or related security coupled with the purchase or sale of option contract(s) of the same series on the opposite side of the market representing the same number of units of the underlying or related security.

3 This includes a DPM acting in the capacity of an OBO (as defined in Exchange Rule 7.1) pursuant to Exchange Rule 8.80.