

Date: April 20, 2001

To: Membership

From: Equity Floor Procedure Committee

Re: Split-Price Executions for RAES Book Touches Market Rejected Orders

The SEC has recently approved an Exchange Rule filing (SR-CBOE-00-21) providing for Automated Book Priority (ABP) split-price executions on RAES under certain circumstances. Although the automated split-price functionality is not yet available, the new rule provides for certain split-price manual executions in those option classes where the ABP system is not in effect.

Accordingly, when one or more RAES eligible orders in a class of options is rejected from RAES and rerouted on ORS to PAR in order to avoid a RAES execution at the price of a booked order(s) (Book Touches Market Reject), the crowd is obligated to execute the re-routed order (or the first order in any group of re-routed orders at the same price) *at the price of the booked order(s) only up to the number of contracts represented by the booked order(s), and if a balance remains on the re-routed RAES order, up to the Book Price Commitment Quantity established by the appropriate Floor Procedure Committee.* Any remainder thereafter, if any, would be executed at the next best available price.¹

With respect to equity option classes, the Equity Floor Procedure Committee has determined that the Book Price Commitment Quantity shall be ten (10) contracts. The following example illustrates the application of the split-price procedures described above:

Example. The best bid on the Exchange is an order in the book to buy 5 contracts for 2.50. The next best bid is the crowd for 2.45 (assume no other market center has a better bid). An incoming RAES market order to sell 15 contracts is kicked-out because of the booked order. The agent for the kick-out order should obtain an execution as follows:

- 5 contracts executed at 2.50 against the book (or against the crowd if the book order has traded- the order must receive the price of the booked order that caused the kick-out when the RAES order was received);
- 5 contracts executed at 2.50 against the crowd (up to the Book Price Commitment Quantity);
- the remaining 5 contracts executed against the crowd at 2.45.

Any questions concerning this circular may be directed to Angelo Evangelou at (312) 786-7464 or Anthony Montesano at (312) 786-7365.

¹ If the next best available price is another order in the book, the balance of the kick-out order would execute against the book up to the book size and up to the Book Price Commitment Quantity if applicable.