



Regulatory Circular RG01-151

TO: Members and Member Firms

FROM: Legal Division

DATE: October 19, 2001

RE: Spread Orders in Multiple Broad-Based Index Options Classes

The Securities and Exchange Commission has recently approved amendments to Rule 24.19, which is the rule that provides spread priority treatment for the transaction of spread orders between OEX and SPX options at either the OEX trading post or the SPX trading post.¹ Rule 24.19 is amended to apply its terms also to MNX, NDX, OEF, QQQ, XEO and any other broad-based index option or option on exchange-traded fund shares derived from a broad-based index (collectively, "broad-based index options") that is determined by the appropriate Floor Procedure Committee to create an appropriate hedge with any other broad-based index option under Rule 24.19.²

Rule 24.19 is further amended to define a "Multi-Class Spread Order" as an order to buy a stated number of contracts of a broad-based index option and to sell an equal number, or an equivalent number, of contracts of a different broad-based index option. Rule 24.19 shall apply only to Multi-Class Spread Orders composed of (i) any combination of MNX, NDX or QQQ; (ii) any combination of OEF, OEX, XEO or SPX; and (iii) any other combination of related broad-based index options as determined by the appropriate Floor Procedure Committee.

The procedures to be followed in representing and filling a Multi-Class Spread Order remain the same as the procedures for representing and filling an OEX-SPX spread order. In order to receive the spread priority, the rule requires that once a Multi-Class Spread Order is represented at the primary trading station (the station where a particular Multi-Class Spread Order is first represented), notice of that order, including a contact person and a telephone number for the person representing the order, would have to be disseminated to the other trading crowd. Persons in that other trading crowd thus would be given the opportunity to participate in the order.

¹ Paragraph (e) of Rule 6.45, *Priority of Bids and Offers*, provides a limited exception from the normal time and price priority rules for spread orders. Spread orders are defined in Exchange Rule 6.53(d) to include only those spreads that involve the same class of options on both legs of the spread. Rule 24.19 provides an exception from the normal priority rules for an OEX-SPX "spread" that this type of spread would not otherwise have under Exchange rules.

² The appropriate Floor Procedure Committee will look to whether particular broad-based index options classes are "related" (i.e. are derived from the same underlying index, have underlying indices that have a close relationship in their price movement, etc.) when determining what options classes and spread orders are eligible to be transacted under the Rule.

As with single-class spread orders under Rule 6.45(e), a bid or offer for a Multi-Class Spread Order (for which it has been determined that the order may not be executed by a combination of transactions with the bids and offers displayed in either of the applicable customer limit order books or by the displayed quotes of the crowd) made on the basis of a total debit or credit in a multiple of the minimum increment would be entitled to spread priority so long as (i) no leg of the order would trade at a price outside the currently displayed bids or offers or bids or offers in the customer limit order books and (ii) at least one leg of the order would trade at a price that is better than the corresponding bid or offer in one of the books. Bids or offers received promptly from the other trading crowd may participate equally with equal bids or offers from the trading station where the order was originally represented. The meaning of promptly will be determined according to the size of the order and other relevant circumstances.

Any questions concerning the above may be directed to Craig Johnson, Trading Floor Liaison at extension 7939, or to Jaime Galvan, Legal Division at extension 7058.