



## **Regulatory Circular RG02-32**

**Date:** May 22, 2002

**To:** Members and Member Organizations

**From:** Index Floor Procedure Committee

**Re:** Broker Dealer Orders for Options on QQQs on RAES

On May 20, 2002, the SEC approved a rule change to Rule 6.8.01, as a pilot program for six months, which would give the Index Floor Procedure Committee the discretion to permit broker-dealer orders for options on Nasdaq-100 Index® Tracking Stock ("QQQ") to be executed on RAES. Under the proposed rule change IFPC may permit RAES access in the options on the QQQ for

- (1) all broker-dealer orders or
- (2) broker-dealer orders, except for market-makers and specialists who are exempt from Regulation T margin.

Broker-dealer orders would not be automatically executed against the limit order book, but would be rerouted to a floor broker for execution in the crowd, and the broker-dealer orders could not be placed in the limit order book.

The proposed rule change also permits IFPC to set a lower RAES order size for broker-dealer orders, than the RAES size requirement for non-broker-dealer. IFPC may also determine that broker-dealer orders on RAES are not eligible for automatic step-up.

If in the future CBOE market-makers are permitted to enter orders on RAES, they must assure that orders for their accounts do not violate:

- Rules 6.55 Interpretation .02 and 8.9 regarding multiple representation of orders for market-maker joint accounts.
- Exchange Rule 6.55, which prohibits a market-maker to enter or be present in a trading crowd while a floor broker present in the trading crowd is holding an order on behalf of the market-maker's individual account or account in which the market-maker has an interest, unless the market-maker or floor broker cancels the order pursuant to Interpretation .01.
- Section 9 of the Securities Exchange Act of 1934, which prohibits wash sales.

IFPC has voted to permit all broker-dealer orders for option on the QQQs to be allowed on RAES. These orders will not be eligible for automatic step-up. The RAES size for the permitted broker-dealer orders for options on the QQQs will be 500.

If you have any questions, please contact a member of the Index Floor Procedure Committee.

## **RAES Operations**

### **Rule 6.8**

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#### ***...Interpretations and Policies:***

**.01** [[Reserved.]] a. Notwithstanding 6.8(c)(ii), for a six-month pilot period ending November 20, 2002, the Index Floor Procedure Committee may determine to allow the following types of orders for options on Nasdaq-100 Index® Tracking Stock (“QQQ”) to be executed on RAES:

1. Broker-dealer orders; or
2. Broker-dealer orders that are not for the accounts of market-makers or specialists on an exchange who are exempt from the provisions of Regulation T of the Federal Reserve Board pursuant to Section 7(c)(2) of the Securities Exchange Act of 1934.

b. Broker-dealer orders entered through the Exchange’s order routing system will not be automatically executed against orders in the limit order book. Broker-dealer orders may interact with orders in the limit order book only after being re-routed to a floor broker for representation in the trading crowd. Broker-dealer orders are not eligible to be placed in the limit order book pursuant to Rule 7.4.

c. If the Index Floor Procedure Committee permits broker-dealer orders to be automatically executed in the QQQ pursuant to this Interpretations and Policies .01 of Rule 6.8, then it may also permit the following with respect to such orders:

1. The maximum order size eligibility for the broker-dealer orders may be less than the applicable order size eligibility for non-broker-dealer orders.
2. Non-broker-dealer orders may be eligible for automatic execution at the NBBO pursuant to Interpretations and Policies .02 of Rule 6.8, while broker-dealer orders are not so eligible.

d. CBOE market-makers must assure that orders for their own accounts are not entered on the Exchange and represented or executed in violation of the following provisions: Interpretations and Policies .02 of Rule 6.55 and Interpretations and Policies .06 of Rule 8.9 (concurrent representation of a joint account), Rule 6.55(concurrent representation of a market-maker account), and Section 9 of the Securities Exchange Act of 1934 (wash sales).