



Regulatory Circular RG02-37

Date: June 6, 2002

To: Members and Member Organizations

From: Legal Division and Regulatory Services Division

Re: Ability to Refresh Quote When DPM is “In the Process of Effecting a Transaction”

For purposes of the firm quote rule relating to orders on PAR, a DPM is considered to be in the process of “effecting a transaction” when he selects the order on the PAR screen. If the DPM has selected an order on PAR prior to the arrival of a subsequent order to the PAR terminal, the DPM will have the ability to refresh the quote immediately after the completion of the first transaction. If the second order arrives at the PAR terminal before the DPM selects the first order, the DPM will not have the ability to refresh the quote after the completion of the first transaction (unless the first transaction exhausts the displayed size).

Example A: Quote is \$1.00 – 1.20, 100 x 100

Market order to sell 100 routes to PAR while the quote is \$1.00 – 1.20. Before the DPM selects this order, a second market order to sell 100 routes to PAR. The second order, because it was received before the DPM selected the first order, is entitled to an execution at the disseminated price. Because the first order depleted the disseminated size, however, the DPM has the opportunity to refresh the quote prior to effecting the second transaction. As such, the second order will be entitled to a fill at the refreshed quote.

Example B: Quote is \$1.00 – 1.20, 100 x 100

Market order to sell 40 routes to the PAR and is received while the quote is \$1.00 – 1.20. Immediately thereafter, the DPM selects the order on PAR and is in the process of filling it when a second market order to sell 100 routes to PAR. Because the DPM was “in the process of effecting a transaction” prior to the presentation of the second order to PAR, the DPM may refresh the quote immediately after the completion of the first transaction. The second order is entitled to a fill at the refreshed quote.

Example C: Quote is \$1.00 – 1.20, 100 x 100

Same as Example B above except second order to sell 100 is received on PAR before DPM selects the first order. Because the DPM was not in the process of effecting a transaction prior to the presentation of the second order, the DPM does not have the ability to refresh the quote until the quote size is exhausted. As such, the second order is entitled to receive an execution at the disseminated price up to the remaining size. In this instance, the second order would be filled as follows: 60 contracts at \$1.00, 40 contracts at the refreshed quote.

Questions regarding this circular may be addressed to Margaret Williams at (312) 786-7834 or Steve Youhn at (312) 786-7416.
