



400 S. La Salle
Chicago, IL 60605

Regulatory Circular 02-061

Date: July 22, 2002
To: Members and Member Organizations
From: Trading Operations
Re: Large Order Utility (LOU)

Beginning July 17, 2002, rollout of LOU began on the trading floor. Highlights are provided below. Questions should be directed to Anthony Montesano 312-786-7365 or Carole Zylus 312-786-7174.

When LOU is active in a class, qualified marketable customer orders, regardless of quantity, will receive an instantaneous report up to the crowd's displayed size, **when the crowd's market is the NBBO**. Customer orders within the applicable RAES size will continue to receive automatic executions on RAES. Qualifying customer orders in excess of the RAES size will be processed using the new LOU functionality, described below. In no cases will the crowd be assigned an execution in excess of the displayed size.

Orders handled instantaneously by LOU are 'stopped' at the displayed crowd market. The quote size is decremented, and a report is routed back to the customer at that price. Market-Maker allocation of the LOU Stop occurs at the crowd PAR terminal through open outcry. The execution price on an order stopped by LOU may be improved during open outcry allocation. If a LOU-eligible order's volume exceeds the available disseminated size, LOU will stop the customer order (and provide a report) only for the portion of the order that equals the disseminated size. The balance of the order will be routed to PAR for normal order handling.

Example 1

Mkt quote 1.00 – 1.10 100 x 100 (CBOE is NBBO)

RAES Volume = 50

A 75 contract marketable Buy order is accepted by LOU. A report at 1.10 for 75 contracts is sent to the customer, and the 'stopped' order is sent to PAR for allocation at a price no higher than 1.10. The new quote is 1.00 – 1.10 100x25.

Example 2

Mkt quote 1.00 – 1.10 100 x 100 (CBOE is NBBO)

RAES Volume = 50

A 110 contract marketable Buy order is accepted by LOU. A report at 1.10 for 100 contracts is sent to the customer, and the 'stopped' portion of the order is sent to PAR for allocation at a price no higher than 1.10. The new quote is 1.00 – 1.10 100x1. RAES and LOU will not be in effect until the size is replenished. The balance of 10 contracts is also sent to the PAR and may be traded at a refreshed price or booked. If booked, the new bid will be 1.10 for 10 contracts.

When a LOU 'Stop' cannot be fully allocated in open-outcry allocation, the remaining balance may be allocated by the PAR broker among all crowd members, as follows:

1. In-person Wheel: Volume is distributed equally to all members of a crowd who trade the option, up to a maximum of 5 contracts each. Market makers present in a crowd are required to be logged into this Wheel for all classes that they trade, whether or not they are logged into RAES. DPMs must log in each of their badges. It is a rule violation for a market maker to be present in the crowd and not be logged into the in-person wheel.
2. RAES Wheel: Any order volume remaining after allocation to the In-person wheel ("5's-around") will be allocated to the RAES wheel.

Members who log into RAES or ROS for a class will automatically be logged into the In-person wheel for that class. Members who do not log into RAES or ROS must login from a RAES terminal each morning. Those needing additional training should contact the RAES supervisors at x4340 prior to LOU activation at their location.

Reporting Information

- Customers receive an instantaneous report with 'LOU' as the executing broker, contra broker and contra firm.
- LOU executed orders are color-coded blue on PAR for easy identification.
- In order to allow for price improvement of a LOU trade, last sale dissemination to OPRA is deferred until allocation from PAR.
- Any time a LOU trade is price-improved, a notification ticket will print at the firm booth. The booth staff will be responsible for reporting the adjustment to the customer and/or entering the price improvement into their proprietary system.
- Submission to CBOE Trade Match is also deferred until allocation from PAR, allowing for price improvement. The CBOE will submit all LOU allocations to trade match for all firms. (Firms with questions regarding trade match submission should contact Charlie Hulihan 312-786-7176.)
- Traders receive ETNs for trades allocated in open outcry.
- Traders receive RAES TATs for trades assigned to the In-person and RAES wheels.
- As with all RAES trades, the CBOE will submit both the retail firm and market maker sides of assigned trades to trade match.