



Regulatory Circular RG03-03

DATE: January 10, 2003

TO: All Designated Primary Market-Makers

FROM: Department of Market Monitoring/Regulatory Services Division

RE: Limit Order Display Requirements

As you were previously advised in various written communications from the Exchange, Phase III of the progressive reduction of the limit order-handling standard (the requirement that a DPM execute, display or book at least 95% of certain eligible limit orders immediately but not later than 30-seconds under normal market conditions¹), is scheduled to take effect January 20, 2003. Although CBOE members have shown steady improvement in complying with the performance standards to date, it still appears that it would be difficult for most DPMs to meet the requirement to book 95% in 30-seconds or less.

As a result, the Exchange is developing an enhancement to the PAR workstation that **will result in the automatic booking of eligible limit orders residing on PAR after a designated amount of time not to exceed 30 seconds.** This project will be completed by April 2003. In conjunction with this effort, the Exchange also requested from the SEC an extension of time in moving to the 95% in 30-seconds or less standard. **The SEC has granted this request. As such, the requirement to handle at least 95% of certain eligible limit orders within 60-seconds or less under normal market conditions will remain in effect until April 18, 2003. DPMs will continue to be subject to disciplinary action for failure to meet this standard.**

The Exchange, in the near future, will begin providing each DPM with updates of their limit order display performance as measured against the 95% in 30-seconds or less standard. These updates will be provided strictly on an informational basis in an effort to give you advance notice of whether it appears the DPM will meet the reduced standard and to enable you to take the necessary steps to ensure that the DPM is in compliance with the reduced standard upon its effective date of April 21, 2003.

Should you have any questions concerning this memorandum or wish to discuss your DPMs performance with respect to limit order display requirements, please contact Karen Charleston at 786-7724.

¹ Eligible limit orders were defined by the BCC to include orders routed electronically through the CBOE's Order Routing System ("ORS") that middle the disseminated quote at the time of entry in ORS that are routed to Live Ammo or the DPM floor broker workstation (PAR terminal). Although all limit orders should be executed or booked promptly, limit orders subject to the standard do not include orders a) in excess of 100 contracts, b) that would lock/cross the NBBO if booked, c) received on PAR prior to the opening of trading and for 5 minutes following the opening of trading (whether at the beginning of a trading day or after a halt), d) entered during the last 5 minutes of trading or e) for which the DPM enters an order with the same terms to another exchange for execution. Contingency, broker-dealer and non-electronic orders are also excluded, as well as orders entered during unusual market conditions.

