



Regulatory Circular RG03-25

Date: April 3, 2003

To: Members

From: Regulatory Services Division

Re: Systematization of Orders in Equity Option Classes

❖ NEW REGULATORY REQUIREMENT EFFECTIVE JUNE 11, 2003

The Securities and Exchange Commission's ("SEC") has required that the options exchanges, including CBOE, develop a consolidated options audit trail system ("COATS") with respect to multiply listed options. To date, CBOE has completed four phases of the development of COATS. The last phase, Phase V, requires that the audit trail capture the following events and times for all non-electronic orders: the receipt of an order, execution or partial execution of an order, cancellation of an order or change to an order. The SEC has imposed a deadline of June 11, 2003 for CBOE to incorporate into COATS all non-electronic orders. This order entry requirement applies to all multiply listed equity option classes, including the QQQ option class.

Orders Must Be "Systematized":

To comply with this requirement, CBOE intends to file a rule change to Rule 6.24 which will require that each order received on the CBOE, whether executed or not and including any cancellation or change to an order, be immediately "systematized" upon receipt on the floor of the CBOE. An order "systematized" if:

- It is sent electronically to the CBOE in a manner and format approved by the CBOE;
- It is input electronically into CBOE systems or an electronic order entry system acceptable to the CBOE upon receipt on the CBOE.

The Regulatory Services Division has been working closely with the member firm community to keep them informed of this new regulatory requirement, and to advise them on how to comply with the requirement to "systematize" non-electronic orders. The Division will continue to be available to assist them.

Contemporaneous Representation of Orders Is Permitted:

Orders that are telephoned to the floor¹ can be systematized simultaneous with the communication of such order to a floor broker.

¹ As permitted by applicable Exchange Rules and telephone policies.

CBOE Sponsored Systems

There are several different manual and electronic interfaces that may be used to meet this order entry and systemization requirement. Those include:

- TNT terminal using Booth Entry and Routing System (BERS) functionality for entering orders into ORS
- Floor broker Workstation (in development)
- CBOE Hybrid Trading System (HyTS) entry into CBOE ORS
- CBOE's Common Pass-through System (COMPASS) entry into CBOE's ORS
- CBOE CMI entry into CBOE's ORS
- FIX entry into CBOE's ORS

For more information concerning access to and use of these systems, please contact the Help Desk at 786-7100.

Proprietary Systems:

It is acceptable to use a proprietary order entry system that interfaces with a CBOE sponsored system to send orders to ORS.

Special Provision for Stop/Limit Orders:

Exchange systems will not be capable of accepting and routing stop/limit orders by the June 11, 2003 COATS deadline. To meet the COATS order entry requirement, the following procedures must be followed:

- The Stop/limit order is recorded on paper and time-stamped upon receipt. The order will remain in paper format until the stop is triggered.
- When the stop is triggered, the member holding the order must re-time-stamp the original stop limit order ticket and systematize the terms of now active limit order. Once the limit portion of the order is systematized and an ORS ID number is assigned, the member must manually record the ORS ID on the original paper stop limit order.
- Upon systematizing the limit portion of the order members must turn in the original stop limit order ticket or a legible copy thereof to the Trade Match Window.

Regulatory Compliance:

The Exchange will initiate surveillance and enforcement of this new order entry requirement with a period of member education, including issuing regular notices to members advising them of their compliance rates. Such notices will begin to be issued prior to June 2003, and will include special notice to members who appear to have a lower rate of compliance than expected. Members who continue to have an unacceptable rate of compliance may be subject to regulatory action, including disciplinary sanctions, where warranted.

Exchange Contacts:

Operational Questions: Carole Zylus at (312) 786-7174 or the Help Desk at (312) 786-7100
Regulatory Questions: Pat Cerny (312) 786-7722 or Margaret Williams (312) 786-7834
Legal Questions: Pat Sexton (312) 786-7467