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Regulatory Circular RG03-97

Date: October 17, 2003
To: Members and Member Firms
From: Regulatory Division
RE: Comprehensive Linkage Trade or Fade Requirements for Hybrid classes

This Regulatory Circular is being issued to remind members of their agency responsibilities in regards to in-bound Principal Acting as Agent (P/A) and Principal Orders (P) in Hybrid trading classes. This circular also reiterates functional concepts introduced in Exchange training sessions and informational circulars concerning Linkage.

Exchange Rule 6.81 requires in-bound P/A and P Orders to be handled as follows:

1. **If the size of the P/A or P order is less than the Linkage PA Autoex Size¹ or Linkage P Autoex Size²,** respectively, the Exchange will automatically trade PA orders for their full size, and any P order will automatically trade up to 10 contracts.
2. **If the size of the order is larger than the PA or P Autoex Size,**
 - a. a PA order will automatically trade its full size against the disseminated quote, and a P order will automatically trade 10 contracts. Thus, most linkage orders routed to PAR in hybrid classes will be Principal orders. If the PA order size exceeds the quote size, the order balance will route to PAR.
 - b. If a P or PA order is only partially traded via CBOEdirect for a hybrid class and the hybrid quote is insufficient to execute the PA or P Autoex Size, the required Linkage Firm Quote remainder must be traded manually on PAR within 15 seconds. These orders will have orange highlighting in the QTY field on the New Order PAR screen. In most cases this scenario will occur when the hybrid quote is less than 10 contracts.
 - c. Under normal linkage situations, P or PA orders are routed to PAR because they exceed the Linkage Autoex Size. The order balance should be announced to the crowd in the event the DPM or a crowd member would like the opportunity to trade the book, trade the quote, or fade the published quote before the 15-second linkage timer expires. Any of these actions by the crowd or DPM are permitted for P or PA linkage orders. If the order is allowed to time out on PAR for a Hybrid class, it will reroute to the hybrid book and trade the balance remaining against the quote or book. If the crowd elects to trade the quote size or the book before the order is re-routed, the remainder of the linkage order will cancel, as the quote no longer exists.
 - d. **Do not manually cancel the P or PA orders on PAR in Hybrid unless the crowd trades the quote or Book as doing so will interrupt the automated execution process in hybrid.**
3. **If the Linkage Firm Quote volume has been traded and the CBOE market quote has faded, no further action is required for inbound linkage PA or P orders.** The full size of the linkage order does not have to trade as long as the first two requirements have been completed. Any order balance should automatically cancel after 15 seconds on PAR.
4. **Failure to provide a trade for the Linkage Autoex Size on PA or P orders constitutes a violation of the linkage firm quote requirement.** These exceptions are reviewed in conjunction with the Exchanges firm quote program to determine whether any members have a pattern or practice of violating the firm quote requirement that may subject them to regulatory action ranging from summary fines to disciplinary sanctions imposed by the Business Conduct Committee.
5. Failure to either trade the remainder of the linkage order or change the quote may also constitute a violation of the Linkage Plan and related Exchange Rules such as 6.81 that may similarly result in regulatory action.

Information regarding the Intermarket Linkage Plan has previously been reported in Regulatory Circulars RG03-29 and RG03-48. Please reference these circulars for more detailed information. A Trade or Fade circular relevant only to non-Hybrid classes is being issued concurrently as RG03-98. Questions concerning this circular may be directed to Michael Felty at (312) 786-7504, Trading Floor Liaison at (312) 786-4068, or Tim Watkins at (312) 786-7172.

¹ The Linkage PA Autoex Size is the lesser of the autoex sizes between the away exchange & CBOE. The CBOE autoex size is the disseminated quote size for hybrid classes, or for non-hybrid, the lesser of RAES volume or disseminated quote.

² The Linkage P Autoex Size is stated as 10 contracts for both hybrid and non-hybrid classes.