



400 S. La Salle St.
Chicago, IL 60605
(312) 786-7172

Regulatory Circular RG03-98

Date: October 17, 2003

To: Members and Member Firms

From: Regulatory Division

RE: Comprehensive Linkage Trade or Fade Requirements for non-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 non-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 execute the entire order via RAES or ABP in non-hybrid classes, if those systems are available.
2. **If the size of the order is larger than the PA or P Autoex Size,** the PA or P Autoex Size should autoex via RAES or ABP, if those systems are available, and the balance of the order will re-route to PAR for manual handling.
 - a. If the book is part of the disseminated quote, ABP will trade the full size of the PA order, up to the size of the Book. A P order will trade 10 contracts, and the order balance will route to PAR.
 - b. This balance on PAR must either be traded within 15 seconds, or the quote must be changed to a price worse than the linkage order limit price. The manual handling period on PAR is intended to allow the trading crowd the decision to trade the linkage order or change the quote.
 - c. In many cases the Autofade mechanism will move the quote after 15 seconds, **but Autofade will not over-ride quotes caused by the Book or a manual quote.** In these cases, the quote must be changed manually by either trading the Book, by trading the manual quote or by removing the manual quote, as appropriate.
3. **If the order cannot be executed automatically via RAES or ABP,** the order will re-route to PAR, where the floor broker must still address the order within 15 seconds.
 - a. For these orders the broker must obtain an execution for at least the PA or P Linkage Firm Quote Size³, *in addition to* the trade or fade handling specified in paragraph 2 above.
 - b. ***For PA orders, the amount required to trade by the Linkage Plan is the PA Linkage Firm Quote size, with a minimum of 10 contracts. For P orders, the minimum Linkage Firm Quote guaranteed by the Plan is 10 contracts.***
 - c. A PAR-routed PA or P order that is still owed the minimum Linkage Firm Quote will have **orange highlighting** on the QTY field in the New Order PAR screen.
 - d. If the full size of the P/A or P order is not executed on PAR, RAES or ABP, the CBOE quote must be changed after 15 seconds, as described under paragraph 2 above.
4. **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.
5. **Be very careful to check the volume of the linkage order versus the actual volume required to be traded by linkage.** Linkage orders are regularly received for volumes that exceed quote size requirements.

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.

³ The Linkage Firm Quote Size is equal to the appropriate Linkage Autoex Size.

6. 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.
7. 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 Hybrid classes is being issued concurrently as RG03-97. 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.