CBOE
CHICAGO BOARD OPTIONS EXCHANGE

Regulatory Circular RG04-02

To: **Membership**

From: **Equity Market Performance Committee**

Date: **January 6, 2004**

Re: **Double Width Quote Spreads**

The SEC recently approved a CBOE proposal relating to double-width bid-ask relief. Under the new rule, market makers automatically may go double-wide in specific series of a class when the primary market for the underlying: (a) reports a trade outside of its disseminated quote (including any LiquidityQuote[1]); or (b) disseminates an inverted quote. This relief is subject to two mandatory conditions:

- It only applies to options series where the bid price is below $2. This means that series with a bid price of $2 or higher are not eligible for this relief; and

- The double-width relief must <u>automatically</u> terminate when the condition that necessitated the double-width relief (i.e., condition (a) or (b)) is no longer present.

Accordingly, market makers that have not automated this process may <u>not</u> manually adjust prices to double-width. Market makers that have automated the process may adjust their bid-ask spreads to $0.50 wide in these series.

Please contact Michael Felty (312) 786-7504 or Steve Youhn at (312) 786-7416 with any questions regarding this Circular.

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[1] LiquidityQuote refers to the NYSE program whereby it displays a second quote for greater size than that of the displayed inside quote. For example, the inside quote might be $20.01 x 20.02, 300x400 while the LiquidityQuote might be $19.97 x 20.05, 10,000x12,000. LiquidityQuotes are firm, two-sided, real-time quotes.