

Date: January 9, 2004

Regulatory Circular RG04-05

To: Members

From: Regulatory Services Division

Re: Erroneous Execution Reports & Order Reinstatements

Pursuant to Exchange Rule 6.52 - Price Binding Despite Erroneous Report - "The price at which an order is executed shall be binding notwithstanding that an erroneous report in respect thereto may have been rendered, or no report rendered. A report shall not be binding if an order was not actually executed but was in error reported to have been executed." When both parties agree that the Book staff erroneously removed an order from the book and that no trade actually occurred with respect to that book order, that order should be reinstated back into the Book.

Pursuant to the SEC approval order regarding AutoQuote Triggered E-Book Execution ("Trigger"), a Triggered order is to be rebooked and the last sale canceled if the DPM determines that the Triggering of the order was not valid based on movements in the underlying security (e.g. erroneous print in the underlying security).¹ The purpose of this circular is to clarify the Exchange's policy regarding the handling of resting orders in the Book which are erroneously Triggered or removed from the Book and later reinstated.

1. For orders that are erroneously removed from the Book by Book staff and are price reported, but not endorsed or fill reported to the routing firm, Book personnel must:
 - Immediately reinstate the order back into the Book
 - Complete the Order Reinstatement Log

In the following situations Floor Official(s) must be notified of the order reinstatement:

2. For orders that are erroneously removed from the Book, endorsed, price reported, and fill reported to the routing firm, Book personnel must:
 - Immediately reinstate the order back into the Book
 - Immediately notify Floor Official personnel of the order reinstatement
 - Complete the Order Reinstatement Log, which must contain the initials of the Floor Official(s) who were notified
3. For orders that are erroneously removed from the Book by the Trigger function, the DPM must²:
 - Immediately reinstate the order back into the Book by utilizing the "bust" feature located on the Trigger Endorsement screen to re-book the order and cancel the erroneous last sale
 - Immediately notify Floor Official personnel of the order reinstatement
 - Complete the Order Reinstatement Log, which must contain the initials of the Floor Official(s) who were notified

DPMs must maintain accurate and complete records of all errors relating to the erroneous removal of orders that are reinstated into the Book.³ Effective immediately, Book personnel are required to document the reinstatement of all orders into the Book by completing, in its entirety, the attached Order Reinstatement Log (the "Log"). A copy of all Logs containing Floor Official initials must be submitted to the TFL booth on the Exchange floor by the end of each day. A copy of all Logs, not containing Floor Official initials, must be submitted to the TFL booth on the Exchange floor by the end of trading on the following Monday.

The Exchange will be conducting appropriate surveillance to ensure member compliance with this requirement.

Questions regarding this circular may be addressed to Karen Calvin of the Regulatory Division at (312) 786-7759 or Craig Johnson of TFL at (312) 786-7939.

¹ In making these determinations, DPMs should use the standards set forth in Exchange Rule 6.25.

² To the extent that the procedures described in this circular differ from those described in Exchange Regulatory Circular RG02-117, this circular supersedes RG02-117. In all other respects, RG02-117 remains in effect.

³ Pursuant to Exchange Rule 15.1 – Maintenance, Retention and Furnishing of Books, Records and Other Information whereby members shall make, keep current and preserve such books and records as the Exchange may prescribe.

Order Reinstatement Log
(For "Non-Trigger" Orders)

General Information:

Acronym/Name:

DPM:

Post/Station:

Information Regarding Order:

Buy ☐ or Sell ☐

Call ☐ or Put ☐

Volume:

Class:

Month:

Strike Price:

Premium:

Trade Date:

Reinstate Date:

Firm:

ORS/Branch ID:

EXEC Party Acronym:

Contra Party Acronym(s):

Entry Time:

Last Sale Time:

Erroneous Report Time:

Reinstate Time:

Explanation of Error

A detailed explanation MUST accompany explanation of error choices below

☐ Buy vs. Sell

☐ Incorrect Quantity

☐ Other Error Regarding Whether
Trade Occurred

☐ Call vs. Put

☐ Incorrect Class Symbol

☐ Incorrect Series

☐ Incorrect Limit Price

Explanation: _____

☐ Notified representative of the originating firm of the order reinstatement

☐ Agreement reached by both parties that there was a mistake pertaining to the removal of the order
Initials of both parties: _____ / _____

☐ Notified Floor Official(s) of Reinstatement (*In situations where the order was removed from the Book, endorsed, price reported, and fill reported to the routing firm, Floor Officials must be notified of the reinstatement*)

Floor Official/TFL Initials: _____ / _____ Date: _____

- THIS LOG MUST BE COMPLETED IN FULL REGARDLESS OF WHETHER THE ORDER WAS ENDORSED OR NOT (FLOOR OFFICIAL NOTIFICATION NOT REQUIRED FOR REINSTATED ORDERS THAT WERE NOT ENDORSED).
- AS PART OF THE RECORD KEEPING REQUIREMENTS, THIS RECORD MUST BE RETAINED FOR A MINIMUM OF THREE YEARS, THE FIRST TWO YEARS IN AN EASILY ACCESSIBLE PLACE.
- A COPY OF ALL LOGS CONTAINING FO INITIALS MUST BE DROPPED OFF AT THE TFL BOOTH ON THE TRADING FLOOR BY THE END OF EACH DAY
- A COPY OF ALL LOGS, NOT CONTAINING FO INITIALS, MUST BE DROPPED OFF AT THE TFL BOOTH ON THE TRADING FLOOR BY THE END OF TRADING ON THE FOLLOWING MONDAY

TRIGGER Order Reinstatement Log

General Information:

Acronym/Name:

DPM:

Post/Station:

Information Regarding Order:

Buy ☐ or Sell ☐

Call ☐ or Put ☐

Volume:

Class:

Month:

Strike Price:

Premium:

Trade Date:

Reinstate Date:

Firm:

ORS/Branch ID:

Contra Party Acronym(s):

Entry Time:

Last Sale Time:

Erroneous Report Time:

Reinstate Time:

Explanation of Error

☐ DPM Affirmation of an Invalid Trade Because of Movements in Underlying Security

Explanation: _____

☐ Notified representative of the originating firm of the order reinstatement

☐ Notified Floor Official(s) of Reinstatement

Floor Official/TFL Initials: _____ / _____ Date: _____

- THIS LOG MUST BE COMPLETED IN FULL REGARDLESS OF WHETHER THE ORDER WAS ENDORSED OR NOT.
- AS PART OF THE RECORD KEEPING REQUIREMENTS, THIS RECORD MUST BE RETAINED FOR A MINIMUM OF THREE YEARS, THE FIRST TWO YEARS IN AN EASILY ACCESSIBLE PLACE.
- A COPY OF ALL LOGS CONTAINING FO INITIALS MUST BE DROPPED OFF AT THE TFL BOOTH ON THE TRADING FLOOR BY THE END OF EACH DAY