Regulatory Circular RG04-48

Date: April 28, 2004

To: CBOE Members

From: Equity Floor Procedure Committee

Re: EBOOK "Trigger" Functionality

CBOE's "Trigger" functionality automatically removes a resting book from the disseminated quote, for a quantity equal to the lesser of the book size or the RAES size, when the auto-quote locks or crosses the book. The book trade is then displayed on the EBOOK endorsement screen, from which the book clerk can either endorse the trade or re-instate the order back into the book if the Trigger was in error.

Previously, the crowd was REQUIRED to trade any balance of a "Triggered" book. The SEC recently approved a CBOE rule change removing the requirement to trade the balance of a "Triggered" book. Of course, the crowd may trade the balance if it desires, otherwise the balance of the order will remain in the book.

In light of the SEC approval, any trading crowd that wants to activate Trigger in its non-Hybrid classes should submit a request to the EFPC. The text below describes the Trigger functionality as stated in Information Circular IC01-156, originally distributed with the Trigger implementation in September 2001. If you have any questions, please contact Greg Burkhardt at x7531, Carole Zylius at x7365 or the Help Desk at x7100.

Overview
Trigger will automatically trade the book offer (bid) when the CBOE or proprietary AutoQuote bid (offer) is greater (less) than or equal to the book price. The volume Triggered may not exceed the RAES series volume. For classes/series not on RAES (those with a RAES series volume = 0), the "TRIGGER MINIMUM VOLUME" will be used (see below).

Trades will be instantaneously price reported to the tape, but endorsements will be deferred so erroneous reports to customers are not generated due to false underlying prints or incorrect Autoquotes. The Ebook TRIGGER ENDORSEMENT screen will be used to complete the endorsement, at which point, execution reports and ETNs will be generated. Book staff is required to announce all Triggered trades prior to endorsement. Trades should be quickly endorsed to the RAES wheel, using Ebook functionality, but may be manually endorsed if a verbal book trade was initiated prior to the Trigger trade. The balance of a Triggered order <u>may</u> be traded in open outcry or may remain in the book.

For all Trigger trades, MDR will show a prefix of "TRIG." No special marking will be disseminated to OPRA.

Example 1 (Book size less than RAES size); assume RAES size is 50:
Initial AQ: 3.00 – 3.20 50x50
Book offer: 3.20 for 20 contracts
Disseminated market: 3.00 – 3.20 50x70
AQ changes to: 3.20 – 3.40
Inversion notice prints; Trigger trades book offer of 20 contracts at 3.20;
Price report generated; Item appears on TRIGGER ENDORSEMENT screen "20 at 3.20"
New disseminated market 3.20 – 3.40 50x50
Book staff announces trade and completes endorsement to the wheel. Fills and ETNs generated upon endorsement.

Example 2 (Book size greater than RAES size; assume RAES size is 50; assume book balance does not trade):
Initial AQ: 3.00 – 3.20 50x50
Book offer: 3.20 for 200 contracts
Disseminated market: 3.00 – 3.20 50x250
AQ changes to: 3.20 – 3.40
Inversion notice prints; Trigger trades 50 from book offer at 3.20; leaving 150 offered in the book at 3.20;
Price report generated; Item appears on TRIGGER ENDORSEMENT screen "50 at 3.20 LVS 150"
New disseminated market 3.10 – 3.20 50x150
Book staff announces trade and informs the DPM/crowd of remaining 150 in book (assume the 150 does not trade).
Book staff completes endorsement of 50 to the wheel. Fills and ETNs generated upon endorsement.
The remaining book offer of 150 contracts at 3.20 improves the AQ offer of 3.40, preventing dissemination of the new AQ. Since the AQ is now locked with the book offer, newly received buy orders will be blocked from executing in RAES/ABP, just as is currently done when the AQ locks or inverts the book. The book orders, however, can still be canceled by the customer. Also, since the Trigger volume limit of 50 has been reached, additional Trigger trades will be prevented until Trigger is "re-set". This happens when the book is traded or when the AQ bid drops below the book offer.

Example 3 (same as Example 2, but now assume book balance trades):
Book staff announces trade and the DPM/crowd trades the book balance of 150 in open outcry.
Book staff completes endorsement of all 200 contracts. Fill reports and ETNs generated upon completion of endorsement. The new AQ of 3.20 – 3.40 is disseminated.