CHICAGO BOARD OPTIONS EXCHANGE

Regulatory Circular RG04-82

To: **DPMs, e-DPMs, and Market Makers**

From: **Legal Division and Department of Market Regulation**

Date: **July 28, 2004**

Re: **Quote Lock and "Fading" in Hybrid Classes**

The CBOE Quote Lock Rule (6.45A(d)) provides that when two market makers (MM) (including the DPM or e-DPM) lock quotes, either has the opportunity to eliminate the lock by "fading" his/her quote to an inferior price within one second. The purpose of the Quote Lock rule was to prevent numerous unintended trades from occurring when both MMs were in the process of moving their quotes but because one MM's system was slightly faster than another MM's system, their quotes locked.

When a MM fades his/her quote pursuant to the Quote Lock mechanism, he/she may NOT reinstate his/her quote to the previous price for thirty (30) seconds absent price movement in the underlying primary market. For example, MM A locks MM B at $1.20 and MM B fades the quote to $1.25. Absent a price movement in the underlying primary market, MM B may not reinstate the $1.20 quote for thirty seconds. To do so may be considered a quote rule violation even if a competing MM independently quotes at the original price during that thirty-second period.[1]

If you have any questions regarding this circular, please contact Steve Youhn in the Legal Division at 786-7416 or Doug Beck in Market Regulation at 786-7959.

[1] From the SEC's Firm Quote Adopting Release: "…the Commission expects that, in the absence of a price movement in the underlying security, the responsible broker-dealer will not reinstate its original bid or offer for at least thirty seconds. A responsible broker-dealer may not reinstate its bid or offer for at least thirty seconds even if a competing market maker independently quotes at the original price during the thirty second period." Securities Exchange Act Release 43591 (Nov. 17, 2000), 65 FR 75439, 75450 (footnote 141), (Dec. 1, 2000).