CBOE
CHICAGO BOARD OPTIONS EXCHANGE

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Date: August 9, 2004 Regulatory Circular RG04-86

To: Members and Member Firms

From: Legal Division and Trading Operations

Re: Linkage – Approved Amendments to the Linkage Plan

Three amendments to the Linkage Plan (Plan) have been approved by the SEC. They apply to the handling of secondary Principal-Acting-As-Agent (PA) orders, an extension of the pilot for reduced trade through liability at the end of the day, and changes to Satisfaction order handling. Corresponding changes have also been made to CBOE Rules 6.81 and 6.83. The amendments are described below.

1. Sending secondary PA orders to NBBO markets:

   If after sending a PA order, on behalf of a customer order, to an NBBO market for the Linkage AutoEx size, and after executing the PA order that market continues to disseminate the same NBBO quote for 15 seconds,a second PA order may be sent to that market sized for at least the lesser of:

   - the size of the disseminated NBBO quote (this is the new part added by the Amendment);
   - 100 contracts; or
   - the remainder of the customer order size.

   If multiple PA orders had been sent to multiple NBBO markets, these initial PA orders should be sized up to the Linkage AutoEx size. If these same exchanges continue to disseminate the same NBBO quote after 15 seconds a second PA order can be sent, subject to the same three caveats for secondary PA orders listed above. The aggregate size of all secondary PA orders cannot exceed the remainder of the customer order size.

2. Pilot extension for reduced trade through liability at the end of the day and a change to the trade through liability amount for Satisfaction orders:

   A reduced trade through liability for filling an inbound Satisfaction order applies between the final five minutes of trading in the underlying stock and the regularly scheduled close of trading in the option class. The reduced trade through liability has been changed to a maximum of 25 contracts per S order, regardless of the volume of the S order, effective July 1, 2004. The pilot period will be extended until the end of January 2005.

3. Revisions to Satisfaction order handling requirements following a Trade-Through:

   The volume of a Satisfaction order will be limited to the lesser of the customer order size traded through and the size of the Trade-Through at the destination market. Second, if the underlying customer order that was traded through is filled or canceled while the Satisfaction order is pending, the originating market is required to promptly send a cancel request of that Satisfaction order. Lastly, while a Satisfaction order is pending, if the DPM elects to trade with the customer order in his book that underlies that Satisfaction, he is not entitled to subsequently reject the S order fill.

Other amendments are still pending at the SEC, namely the Real Size Amendment. For questions relating to the above Plan changes or linkage in general, please contact Tim Watkins at (312) 786-7172, Angelo Evangelou at (312) 786-7464, or Roger Mulcahy at (312) 786-7280.