



To: Membership

Regulatory Circular RG05-30

From: Market Performance Committee

Date: March 1, 2005

Re: The new "SizeQuote" Mechanism

The SEC approved CBOE's SizeQuote Mechanism, a process by which a floor broker (FB) may execute and facilitate large-sized orders in open outcry. The SizeQuote procedure works as follows:

1. A FB holding an order for at least 250-contracts must specifically request a SizeQuote from in-crowd market participants ("ICMPs"). ICMPs may respond with indications of the price and size at which they would be willing to trade with a SizeQuote order. ICMPs only have one opportunity to respond and are obligated to respond with a legal width quote for at least ten contracts.

2. After ICMPs have been given the opportunity to respond, the FB must execute the entire SizeQuote order either with ICMPs or with a facilitation order, or both, in accordance with the following procedures:

A. Executing the Order at ICMP's Best Price: ICMPs that provided SizeQuote responses at the highest bid or lowest offer ("best price") have priority to trade at the best price. Allocation of the order among ICMPs is prorata, up to the size of each ICMP's response. The FB must trade at the best price any contracts remaining in the original SizeQuote Order that were not executed by ICMPs.

B. Executing the Order at a Price that Betters the ICMP's Price by One Tick: ICMPs that provided SizeQuote responses at the best price ("eligible ICMPs") have priority to trade with the SizeQuote Order at a price equal to one trading increment better than the best price ("improved best price"). Allocation of the order among eligible ICMPs at the improved best price shall be prorata. The FB must trade at the improved best price any contracts remaining in the original SizeQuote Order that were not executed by eligible ICMPs.

C. Trading at a Price that Betters the ICMP's Price by More than One Tick: A FB may execute the entire SizeQuote order at a price two trading increments better than the best price communicated by the ICMPs in their responses to the SizeQuote request.

Executions at NBBO: Unless a SizeQuote request is properly canceled, a FB must execute the entire SizeQuote order at a price that is not inferior to the NBBO, even in situations where there are no SizeQuote responses received or where such responses are inferior to the NBBO.

Canceling a SizeQuote Request: It will be a violation of a FB's duty of best execution to its customer if it were to cancel a SizeQuote order to avoid execution at a better price. Use of the SizeQuote Mechanism does not alter a FB's best execution duty to get the best price for its customer. A SizeQuote request can be canceled prior to the receipt of responses. Once the FB receives a response to the SizeQuote request, if he/she were to cancel the order and then subsequently attempt to execute the order at an inferior price to the previous SizeQuote response, there would be a presumption that the FB did so to avoid execution of its customer order in whole or in part by others at the better price.

Questions regarding this circular should be addressed to any member of MPC or to Steve Youhn at (312) 786-7416.

