



## Regulatory Circular RG 05-048

**Date:** May 4, 2005

**To:** Membership

**From:** Regulatory Services Division  
Legal Division

**Re:** Competitive Quote Obligations and Quote Widths in Hybrid Classes

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CBOE Market-Makers are obligated by rule to compete with other Market-Makers to improve markets in all series of appointed options classes as part of their obligations for a fair and orderly market. CBOE rules provide guidance to members with respect to their market obligations and these rules distinguish between open outcry and electronic quote widths. Specifically, Market-Makers who quote hybrid classes electronically may do so provided their quote width does not exceed \$5.00. However, the rules do not provide a safe-harbor that Market-Maker quotes that are consistently \$5-wide will otherwise satisfy the requirements of Rule 8.7(b), including the requirement to compete with other Market-Makers to improve markets in all series of option classes at the station where the Market-Maker is present and to update market quotations in response to changed market conditions. Members are cautioned that they may be subject to regulatory review, disciplinary action and/or Market Performance Committee action if their quotes are found to be inconsistent with the requirements of this rule.

### Maximum Electronic Quote Width (Rule 8.7(b)(iv)(A)):

- Market-Maker electronic quotes may be no wider than \$5, regardless of the premium value & regardless of the width of market for the underlying security. For example, a \$1.00 - \$6.00 quote is permissible however a \$1.00 - 6.20 quote is not.
- Market-makers may not establish a legal width quote through a combination of a quote that exceeds \$5 and an I-order. For example, an electronic quote of \$1.00 - 6.20 combined with an I-order to sell at \$6.00 does not constitute a \$5-wide two-sided quote.

### Maximum Open Outcry and Opening Quote Widths (Rule 8.7(b)(iv)):

\$0.25 Bid price is less than \$2  
\$0.40 Bid price is at least \$2 and less than or equal to \$5  
\$0.50 Bid price is above \$5 and less than or equal to \$10  
\$0.80 Bid price is above \$10 and less than or equal to \$20  
\$1.00 Bid price is above \$20

- Opening rotation quotes MUST be consistent with the width requirements under Rule 8.7(b)(iv). After the opening rotation, quotes may be \$5 wide.
- Quotes given in open outcry must conform with the width requirements of Rule 8.7(b)(iv) and may not be \$5 wide.

Questions regarding the Market-Maker quoting obligations should be addressed to Dan Earner of the Regulatory Services Division at (312) 786-7059 or to Patrick Sexton, Legal Division, at (312) 786-7467, or any member of the Equity Market Performance Committee.