

## Regulatory Circular RG05-051

**Date:** May 23, 2005  
**To:** Membership  
**From:** Regulatory Services Division,  
Legal Division, and  
Systems Division  
**Re:** Opening Rotation Quoting in Hybrid Classes

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### **Opening Quote Width**

Opening rotation quotes MUST be consistent with the width requirements of Rule 8.7(b)(iv). Permissible widths for Hybrid classes during opening rotation are:

<b><u>Bid Price</u></b>	<b><u>Permissible Quote Width</u></b>
Less than \$2.00	\$0.25
\$2.00 to \$5.00	\$0.40
More than \$5.00 to \$10.00	\$0.50
More than \$10.00 to \$20.00	\$0.80
More than \$20.00	\$1.00

Members should also be aware that this Rule 8.7(b)(iv) and these widths apply to all standard listed options, including series that still have LEAPS symbols but that are within nine months of expiration. The Market Performance Committee has also directed that LEAPS series, i.e. series with more than nine months until expiration, be allowed double the permissible quote width specified above. Once a LEAPS series has nine-months or less until expiration, the double-width differentials no longer apply, absent additional Market Performance Committee relief, regardless of whether the series symbol has converted to a normal or non-LEAPS symbol. Members must take precautions to not overlook the time to expiration date, or the resultant bid/ask differentials may be impermissibly wide.

The Regulatory Division considers opening quotes that exceed the permitted width a serious regulatory matter and intends to treat instances uncovered as such.

### **Hybrid Opening System**

The Hybrid Opening System ("HOSS") currently opens series beginning within 8 seconds of the initial print of the underlying security. Note that CBOE may soon reduce timers so that series open in LESS THAN 8 seconds of the initial underlying print. To be certain of compliance, DPMs and e-DPMs may want to consider submitting their quotes as soon as possible after the initial underlying print. Quotes may also be sent before the underlying print. Quoters should be aware that HOSS does not require an underlying bid/ask update to open. Those entering pre-open quotes using underlying bid/ask average should take appropriate steps to ensure the accuracy of their opening quotes.

### **End of Opening Rotation**

After the opening rotation, for Hybrid classes, the CBOE Hybrid Trading System disseminates a message each time the market transitions from one product state to another. Market-makers, including DPMs and e-DPMs, must comply with the opening quote width requirement throughout the Opening Rotation product state. When the product state changes to Open, options on classes trading on the Hybrid system may be quoted electronically with a difference not to exceed \$5 between the bid and the offer regardless of the price of the bid. 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.

### **Notification of Product State Change by the Hybrid System**

Market-makers whose front-end systems comply with the CBOE Market Interface (CMi) are informed of the transition from Opening Rotation to Open via the CMi message "Product State".

Market-makers whose front-end system complies with the Financial Information Exchange (FIX) protocol are informed of the transition from Opening Rotation to Open via the FIX message "Security Status".

Market Makers or their vendors who provide their electronic quoting applications are encouraged to incorporate the Product State or Security Status message into the electronic quoting applications to prevent the entry of illegally wide quotes during Opening Rotation. Market Makers who use a quote provider service that does not incorporate such messages must continue to maintain quotes no wider than the Rule 8.7(b)(iv) width parameters until they have otherwise manually confirmed that the series is open.

### **Contacts:**

Questions regarding the market state transition messages in the CMi and FIX interfaces should be addressed to API Testing Group at (312) 786-7300, option #2.

Questions regarding application of the rules, please contact Pat Sexton, Legal Division, at (312) 786-7467 or Tim MacDonald in the Department of Market Regulation at (312) 786-7706.