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Regulatory Circular RG05-115

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 a new definition of the Firm Customer Quote Size as the receiving market quote size, the generation of linkage orders during a “Trade & Ship” or “Book & Ship” scenario, and a de minimis change to the 80/20 Test under the Plan. The amendments are described below.

1. The Linkage Firm Customer Quote Size (FCQS) for PA orders has been simplified to reflect the quote size of the receiving exchange at the point the PA order is received. The previous definition included a calculation of the lesser of the autoex sizes between sending and receiving exchanges, which may have been less than the disseminated quote sizes. All markets are now obligated to automatically execute a PA order up to their disseminated quote size. If the PA order volume is greater than the receiving market quote size, the entire PA order can be routed for manual handling; or if autoex is provided for part of the order, the remaining balance could be immediately canceled. Additionally, this amendment eliminates the 15-second wait between primary and secondary PA orders sent to the same exchange, based on the same customer order.
2. The “Trade & Ship” amendment allows the sending of PA or P orders to NBBO markets while simultaneously trading at CBOE’s price, as long as CBOE’s quote is only one tick off the NBBO. If CBOE is more than one tick away from the NBBO price, this rule does not apply. Printing a trade to the CBOE tape under the conditions of this rule will be exempt from the Linkage Trade Through provision. Under the proposed Hybrid Agency Liaison (HAL) process, currently under development, every incoming order will automatically be evaluated for “Trade & Ship” eligibility. For those orders eligible when CBOE is one tick off the NBBO, HAL will coordinate with AutoLink to simultaneously generate the balance of any underlying order via PA or P linkage orders to all NBBO exchanges.

The “Book & Ship” aspect of the amendment allows for the sending of PA or P orders to NBBO markets while simultaneously booking any balance of the underlying order and locking the NBBO. This rule does not apply if booking the order would create a crossed or inverted NBBO market. Posting an updated quote due to booking under this rule will be exempt from the Linkage NBBO Quote Locking provision.

3. The Linkage 80/20 Test has been amended to provide a de minimis exemption during any monthly period. If a market maker trades less than 1000 contracts in a given calendar quarter, the 80/20 Test will not apply. The 80/20 Test determines that 80% or more of a market maker’s trades (against customer contracts) must be traded in his or her home market, and less than 20% can be routed as Principal linkage orders to away exchanges.

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.