CBOE
CHICAGO BOARD OPTIONS EXCHANGE

Regulatory Circular 05-96

Date: October 19, 2005
To: Members, Member Firms and Member Organizations
From: Trading Operations
Re: Mini-SPX (XSP) Options

On October 25th, 2005, CBOE will commence trading of "mini-S" options, based on a value that is one-tenth the value of SPX. The product will trade in the SPY crowd, without a DPM or LMM, on Hybrid, but with a few differences. Below is a summary of the specifics regarding open outcry and electronic trading details. Training sessions will also be held at 3:30PM in conference room 4A on Thursday, October 20th and Monday, October 24th. Interested brokers, market makers and member firm representatives are encouraged to attend.

Electronic Trading
1) Rather than UMA, the matching algorithm will be pro-rata, with a "Market Turner Priority" (MTP) overlay. The market turner will receive 35% of each incoming auto-ex order, then share in the balance of the order with all other participants on a pro-rata basis. The pro-rata allocation assigned to the market turner will be based on his/her remaining quote size after the initial 35% allocation.
2) The first participant to IMPROVE a displayed market will retain MTP status at that price, as long as the participant does not move from that price. For example, MM1 turns the market and is first to offer at 1.15. MM2 moves to 1.10 offer while MM1 remains at 1.15. MM2 then moves back to 1.15, with MM1. MM1 has MTP status at 1.15.
3) MTP does not apply until the first market move AFTER rotation. Thus, pre-opening quotes or orders and resting GTCs from prior days will not have MTP status coming out of rotation.
4) Customer orders in the book do not have priority on electronic trades but will instead share with other participants on a pro-rata basis. As with any other participant, customers will be given MTP status if they turn the market.
5) There will be no joining period (Quote Trigger) for book trades.
6) The Quote Lock timer will be 1 second, but no Quote Lock alert message will be disseminated via the API to those involved in the lock.
7) The Complex Order Book (COB) will be active.
8) Direct book routing for eligible simple and complex orders will be in effect. Firms that wish to add restrictions and route otherwise bookable or auto-ex-eligible orders to a broker or to the booth must e-mail the CBOE at 'helpdesk@cboe.com'. Firms must also select a crowd PAR broker for non-bookable orders.
9) DAY and GTC STP/STP LMT orders will be eligible for direct book routing. GTCs will remain active in the book until filled, canceled, or expired.

Open Outcry Trading

1) If the limit order book contains only customer orders, the customer book must trade before the crowd can trade at the book price. PAR brokers must use the TB button (not the TA button) to take out the book. Use of the TA button will allocate the PAR order among ALL electronic participants, not just the customer book.

2) If the limit order book contains only non-customer orders, the book must receive a share no less than the largest crowd participant, after the first crowd participant takes his/her share. Note that the first participant may take no more than 70% of the order (same for ALL Hybrid classes). Example: Book contains 100 non-customer contracts at 1.20. Broker trades a 100-lot buy order in open outcry at 1.20. The first MM takes 70 contracts. 5 other MMs have equal interest on the balance. The broker must include the non-customer book as a sixth participant on the balance and may give 5 contracts each to the 5 MMs and the non-customer book. The PAR broker must use the TB button (not the TA button) to take out the book.

3) If the limit order book contains both customer and non-customer orders, and if the TOTAL book quantity is less than the order quantity, the book must trade before the crowd can trade at the book price. The PAR broker must use the TB button (not the TA button) to take out the book.

4) If the limit order book contains both customer and non-customer orders, and the TOTAL book quantity is greater than or equal to the order quantity, the PAR broker may use either the TA or TB buttons to trade. If the TA button is used, the order will be allocated among ALL electronic participants (similar to an auto-ex'd order). If the TB button is used, the order will be allocated only among the customer and non-customer book orders.

Questions may be directed to Anthony Montesano at (312) 786-7365 or the Help Desk at (312) 786-7100.