



Regulatory Circular RG06-53

Date: May 25, 2006  
To: Members and Member Firms  
From: Legal Division  
Re: Rule Change Regarding Cabinet Trading, PAR Officials and Floor Brokers

A rule change that amends CBOE Rule 6.54, *Accommodation Liquidations (Cabinet Trades)*, has become effective (see Release 34-53808; SR-CBOE-2006-33). The rule change amends Rule 6.54 to clarify that PAR Officials may perform the functions that Order Book Officials ("OBOs") perform with respect to cabinet trading. The rule change also amends Rule 6.54 to authorize Floor Brokers to receive cabinet orders and effect cabinet trades. Previously only OBOs were authorized to perform these functions.

The revised cabinet trading procedures, which are summarized below, are substantially similar to the old procedures:

- Limit orders labeled at a price of \$1 per option contract may still be placed with either an OBO (which, as the rule change clarifies, includes a PAR Official) or, under the revised procedures, with a Floor Broker.
- As with the old procedures, cabinet orders may be placed for the accounts of customers, firms and Market-Makers. To the extent cabinet orders are placed with an OBO, priority continues to be based on the sequence in which the orders are placed with the OBO. Also, as with the old procedures, bids and offers for opening transactions at a price of \$1 per option contract may be placed with the OBO only to the extent that the cabinet contains unexecuted contra-side closing orders with which those opening orders immediately may be matched.
- Under the revised procedures, bids and offers (whether opening or closing a position) at a price of \$1 per option contract may also be provided in response to a request for quotes by an OBO or a Floor Broker, but must yield priority to all orders in the OBO's cabinet book.
- All cabinet transactions will continue to be reported to the Exchange following the close of each business day and the procedures for maintaining quotation, order and transaction information for cabinet transactions apply unchanged.<sup>1</sup>

The text of the revised rule is attached. Members seeking further information as to the revised cabinet trading procedures should refer to the rule change, which is available on CBOE's website at [www.cboe.org/Legal](http://www.cboe.org/Legal). For any other questions, please contact Jennifer Lamie, Legal Division, at (312) 786-7576.

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<sup>1</sup> Rule 6.54 accommodation liquidations are exempt from the requirements of Exchange Rule 6.24, Required Order Information, pertaining to the Consolidated Options Audit Trail. However, the Exchange maintains quotation, order and transaction information for accommodation liquidations in the same format as the COATS data is maintained. See Interpretation and Policy .04 to Exchange Rule 6.24.

Rule 6.54. Accommodation Liquidations (Cabinet Trades)

RULE 6.54. Cabinet trading under the following terms and conditions shall be available in each series of option contracts open for trading on the Exchange.

(a) For classes not trading on the CBOE Hybrid System:

(i) Trading shall be conducted in accordance with other Exchange Rules except as otherwise provided herein.

(ii) Limit orders labeled at a price of \$1 per option contract must be placed with the Order Book Official or with a Floor Broker.

(iii) Orders may be placed for customer, firm, and Market-Maker accounts and, to the extent such orders are placed with the Order Book Official, priority in the cabinet book will be based upon the sequence in which such orders are placed with the Order Book Official.

(iv) Bids or offers for opening transactions at a price of \$1 per option contract may be placed with the Order Book Official only to the extent that the cabinet book contains unexecuted contra closing orders with which the opening orders immediately may be matched. Bids and offers at a price of \$1 per option contract may also be provided in response to a request for quote by an Order Book Official or a Floor Broker, but must yield priority to all orders in the cabinet book.

(v) Market-Makers shall not be subject to the requirements of Rule 8.7 for orders placed pursuant to this Rule.

(vi) The Order Book Official appointed to each class of option contracts shall be responsible for \$1 orders that are placed with him for that class. All bids and offers that are submitted to the Order Book Official must be submitted to the Order Book Official in writing and displayed as such in accordance with Rule 7.7, and the Order Book Official shall effect transactions during the day by matching such orders placed with him or by executing such orders placed with him with a Floor Broker representing a contra order.

(vii) All cabinet transactions at a price of \$1 per option contract shall be reported to the Exchange following the close of each business day.

(b) For classes trading on the CBOE Hybrid System:

(i) Trading shall be conducted in accordance with other Exchange Rules except as otherwise provided herein.

(ii) Limit orders labeled at a price of \$1 per option contract must be traded on the Exchange in a form and manner prescribed by the Exchange. Currently, accommodation liquidations are only eligible for Exchange trading via open outcry and hence are not eligible for placement into the Electronic Book.

*... Interpretations and Policies:*

.01 Order Book Official: An Order Book Official who receives a closing buy (sell) order for \$1 per option contract shall attempt to execute the order against any \$1 closing sell (buy) orders in his possession. If any part of the buy (sell) order cannot be immediately executed, the Order Book Official shall display the \$1 bid (offer).

The Order Book Official may accept bids or offers for opening transactions at a price of \$1 per contract only to the extent that the cabinet book already contains closing orders for the contra side.

Upon execution of any \$1 per contract orders, the Order Book Official shall promptly supply reports of the transaction back to the member firms involved. In accordance with (a)(vii) above, he will not report the transactions to the Exchange until after the close of each business day.

.02 PAR Officials: For purposes of this Rule, a PAR Official may also perform the functions of an Order Book Official.