![CBOE - CHICAGO BOARD OPTIONS EXCHANGE logo]

To: Members, Member Firms and Member Organizations
From: Trading Operations
Date: July 21, 2006
Re: Complex Order Auction (COA) and Other Complex Order-Related Rule Changes

CBOE is pleased to announce the activation of the Complex Order Auction (COA) in all Hybrid option classes on **July 28, 2006**. COA automates the handling of complex orders while providing the potential for price improvement through a brief electronic auction process.

The rule change that adopted the COA process also contained various other changes, including changes related to the electronic complex order book ("COB") and to the reporting of the "legs" of a complex order transaction (see Release 34-54135; SR-CBOE-2005-65). Certain aspects of these changes, and related trading parameters, are summarized below. For a complete description of the changes and revised rules, please refer to the rule change, which is available on CBOE's website at www.cboe.org/Legal.

*   *   *   *

- **COA Details:** Members that route orders to COB may request that eligible complex orders be COA'd on a class-by-class basis.

  o *Eligible Complex Orders:* The Equity and Index Options Procedure Committees (the "Committees") have determined for all Hybrid classes that complex orders of **any** size that satisfy the following criteria are eligible for COA.
    ➢ Complex orders with origins CUSTOMER, FIRM, or BD.
    ➢ Complex orders with a ratio of 1:1, 1:2, 1:1:1, 1:2:1 and 1:1:1:1.
    ➢ Marketable orders and "tweeners" (limit orders bettering same side market).
    ➢ Complex orders with either a stock leg or a security future leg are not eligible.

  o *COA Process:* At the start of an auction, a request for response ("RFR") will be sent to all members who subscribe to receive COA messages. The RFR includes the strategy and size, but not the side of the order.
    ➢ Market-Makers with an appointment in the relevant option class, and each member acting as agent for orders resting at the top of the COB in the relevant options series, may submit responses to the RFR message during the auction. Responses may be in **$0.01** net price increments and responders may respond at multiple price points.
    ➢ The duration of the auction is **2 seconds**. At the expiration of the auction, the order will either trade and/or book.

➢ The allocation method is similar to the existing process for executing complex orders in the COB. At the same net price, resting quotes and orders in the individual series legs residing in the EBook having first priority, public customer orders resting in COB having second priority, non-public customer orders resting in COB before the initiation of the auction having third priority, and Auction Responses and subsequently received non-public customer orders have fourth priority.

➢ PAR operators may send complex orders to the auction on an order-by-order basis by pressing the <Auction> button from the order ticket. If the complex order is not fully executed at the conclusion of the auction, the balance of the order will be returned to PAR.

- **Other COB and Complex Order-Related Changes:**

  o *Complex Order Transaction "Leg" Increments:* The rule change provides that the legs of a complex order may be executed and reported in one-cent increments, irrespective of the net price trading increment applicable to the complex order. This change applies a consistent standard for reporting the legs of a complex order transaction whether the transaction takes place in open outcry or electronically via COB or COA, and enables members to more efficiently execute transactions with less component parts in the transaction.

  o *Net Price Increments for OEX:* The rules change adopts the same standard applicable to the net pricing of **SPX** options for **OEX** options. Thus, effective immediately, bids and offers for complex orders in OEX options, other than box/roll spreads, must now be expressed in decimal increments no smaller than **$0.05**. (For all other classes, complex orders executed in open outcry may be expressed in any net price increment, provided that complex orders that are not priced in a multiple of the minimum increment are not entitled to the same priority.)

Trading groups with proprietary systems and third-party vendors should contact the API group at (312) 786-7300, to obtain message specs and to begin testing. Market-Makers using third-party quote systems should contact their vendor if interested in participating in COA.

For those wishing more details on COA functionality please contact Anthony Montesano (montesan@cboe.com) at (312) 786-7365, Mike Trees (treesm@cboe.com) at (312) 786-8408 or the CBOE Help Desk at (866) 728-2263. Any other questions regarding the rule change may be directed to Jennifer Lamie (lamie@cboe.com) at (312) 786-7576.