



Regulatory Circular RG06-84

To: Members

From: Legal and Regulatory Services Divisions

Date: August 3, 2006

Re: Continuous Electronic Quotes and QRM

The Securities and Exchange Commission recently approved a rule change regarding continuous electronic quotes and the Quote Risk Monitor ("QRM") Mechanism (see Release 34-54250; SR-CBOE-2005-93). Below is a description of this rule change.

Continuous Electronic Quotes (Rule 1.1(ccc))

Rule 1.1(ccc) was adopted to define the nature of a Hybrid Market-Maker's obligation to provide continuous electronic quotes in an option class traded on Hybrid. The rule specifies that a Hybrid Market-Maker shall be deemed to have provided "continuous electronic quotes" if the Hybrid Market-Maker provides electronic two-sided quotes for 99% of the time that the Hybrid Market-Maker is required to provide electronic quotes in an appointed option class on a given trading day. If a technical failure or limitation of a system of the Exchange prevents the Hybrid Market-Maker from maintaining, or prevents the Hybrid Market-Maker from communicating to the Exchange, timely and accurate electronic quotes in a class, the duration of such failure shall not be considered in determining whether the Hybrid Market-Maker has satisfied the 99% quoting standard with respect to that option class. The Exchange may consider other exceptions to this continuous electronic quote obligation based on demonstrated legal or regulatory requirements or other mitigating circumstances.

Quote Risk Monitor Mechanism (Rule 8.18)

Rule 8.18 codifies and describes the operation of the QRM Mechanism, which is a service CBOE offers Hybrid Market-Makers to help them manage their quotations in related options series. The rule provides that each Hybrid Market-Maker who is obligated to provide and maintain continuous electronic quotes in an option class may establish parameters by which the Exchange will activate the QRM Mechanism. Specifically, Hybrid Market-Makers that use the QRM Mechanism shall specify, for each such option class in which the Hybrid Market-Maker is engaged in trading, a maximum number of contracts for such option class (the "Contract Limit") and a rolling time period in seconds within which such Contract Limit is to be measured (the "Measurement Interval"). When the Exchange determines that the Hybrid Market-Maker has traded more than the Contract Limit for such option class during any rolling Measurement Interval, the QRM Mechanism shall cancel all electronic quotes that are being disseminated with respect to that Hybrid Market-Maker in that option class until the Hybrid Market-Maker refreshes those electronic quotes.

The Exchange notes that the rule would not relieve a Hybrid Market-Maker of its obligations to provide continuous electronic quotes under the Exchange rules nor to provide “firm” quotes pursuant to the requirements of Exchange Rule 8.51. This means, for example, that if a market-maker's quotes are cleared by operation of the QRM, that market-maker is obligated to immediately reinstate quotes in the market. The fact that a market-maker's quotes are pulled by operation of the QRM, from time to time, will not excuse that market-maker from satisfying the 99% obligation.

For additional information, please refer to the rule change, as well as the revised rules, which are available on CBOE's website at [www.cboe.com](http://www.cboe.com). Please contact Anthony Montesano ([montesan@cboe.com](mailto:montesan@cboe.com)) at (312) 786-7365 with any further questions regarding QRM and Andrew Spiwak at (312) 786-7483 or Tim MacDonald at (312) 786-7706 with any further questions regarding continuous electronic quoting obligations.