



## Regulatory Circular RG06-102

**TO:** Members and Member Firms

**FROM:** Equity Market Performance Committee

**DATE:** September 29, 2006

**RE:** Market Share Review

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If the Equity Market Performance Committee (“MPC” or “Committee”) determines, after a hearing, that a trading crowd’s Market Participants (which include DPMs, e-DPMs, Market-Makers, and RMMs), individually or collectively, have failed to satisfy their market responsibilities, CBOE Rule 8.60(c) authorizes the Equity MPC to determine that the Market Participants’ option classes should be reallocated and to take other actions, including suspending, terminating or restricting a Market Participant’s appointment to one or more option classes.<sup>1</sup> In evaluating and determining whether Market Participants have failed to satisfy their market responsibilities, the Equity MPC may consider any relevant information, including statistical measures of performance and other factors and data.

The Equity MPC has determined that, in addition to considering other relevant measures of performance, its evaluation will give considerable weight to total market share.<sup>2</sup> In this respect, the Equity MPC will consider whether the Market Participants in a particular trading crowd collectively have attained an average total market share of at least 18% over a rolling three-month measurement period. Initially, for purposes of this review, the Equity MPC intends to focus on the 600 most actively-traded classes across all options exchanges. When considered with other relevant information, a trading crowd’s failure to attain an average market share of at least 18% over the rolling three-month time frame may trigger a performance review by the Equity MPC and, when considered with that other information, may result in remedial action after a hearing as set forth under Exchange Rule 8.60, including, but not limited to, the reallocation of option classes assigned to that trading crowd or the termination of an appointment in an option class.<sup>3</sup>

In considering mitigating or aggravating factors, the Committee may give particular attention to the following: the total number of days and percentage of days that the Market Participants in the trading crowd attained a market share of at least 18% during the three month period; the number of days in which the trading crowd had the highest market share in the option class (“daily wins”); a Market Participant’s average quoted size and average quoted width; the trading crowd’s AQWA score; and the percentage of time a Market Participant’s quotes represented the NBBO.

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<sup>1</sup> The appropriate MPC can also terminate, place conditions upon, or otherwise limit a member organization’s approval to act as a DPM or e-DPM pursuant to Rules 8.90 and 8.94.

<sup>2</sup> CBOE utilizes OCC data to calculate market share.

<sup>3</sup> Alternatively, the Equity MPC may choose to act with respect to DPMs and e-DPMs pursuant to Rules 8.90 and 8.94, respectively.

**For purposes of the performance review described in this Regulatory Circular, the first three-month measurement period will begin October 1, 2006 and will apply to the 600 most actively-traded classes over the preceding three months. Shortly after October 1, 2006, Equity MPC will identify those 600 classes via Regulatory Circular, which also will identify which of those classes had an average market share of less than 18% over the preceding rolling three-month period.**

The Committee is committed to assisting all Market Participants to meet their market share targets by working with them to heighten their awareness of their market share levels and to develop solid business plans that would result in meeting market share objectives. If you have any questions regarding the above, please contact either Daniel Hustad at (312) 786-7715 or any member of the Equity MPC.