



Date: October 20, 2006
To: Members, Member Firms and Member Organizations
From: Trading Operations
Re: Complex Orders in Penny Increments

Regulatory Circular RG06-109

The CBOE is pleased to announce that it will permit the entry of complex orders in penny increments in its Complex Order Book (COB), in all Hybrid classes, beginning **October 23, 2006**. With COA (the Complex Order Auction) and COB functionality, orders will enjoy electronic processing, while maintaining an opportunity for price improvement. COA-eligible orders will pass through a brief electronic auction. At the conclusion of the auction, the incoming order will either (A) rest in the COB if not marketable (unless marked IOC, in which case the order will cancel); or (B) execute against the best price(s), including auction responses, resting COB orders and the displayed leg market. Submitting members should be aware that IOC M-orders will also be COA eligible and the COA process currently lasts for 2 seconds. Thus, fills and cancel reports will not be returned until the end of the process.

CBOE rules require that complex orders be executed at a minimum of one standard price increment (i.e. \$.05/\$.10) better than the displayed leg market when there are public customer orders resting on the BBO in each of the corresponding series, unless the trade is executed via COA. Thus, orderflow providers that have chosen to use COA to execute orders are not subject to this requirement. Firms that have chosen not to use COA will have penny orders that are net priced within a standard price increment of the displayed leg market routed to PAR. These measures will ensure compliance without having to queue or reject orders when public customer orders are on the BBO in each of the corresponding series of the displayed leg market.

However, unlike orders, strategy quotes (which includes I-orders) are not COA-eligible and never route to PAR. Thus, Hybrid participants using I-orders or strategy quotes (instead of IOC M-orders) to trade against COB orders that are resting in penny increments should always check for a public customer resting on the BBO in each of the applicable series. This information is available through the CMI and FIX APIs. Since COB executions always occur at the price of the resting COB order, the Hybrid participant should not submit its strategy I-order or strategy quote unless the resting COB order improves the displayed market by at least one price increment, when public customers are on the BBO in each applicable series.

Brokers may continue to execute complex orders in open outcry in net priced penny increments (other than in SPX and OEX where the minimum net price increment is \$.05, except for box spreads), provided no leg of the order would trade at a price outside the displayed leg market and at least one leg of the order would trade at a price that is at least \$.05/\$.10 better than the corresponding bid or offer in public customer limit order book. PAR brokers wishing to trade against resting COB orders may do so using the TA button or by booking the PAR order. However, if public customer orders are on the BBO in each of the corresponding series of the displayed leg market, and if the desired COB order is less than one standard increment better than the displayed leg market, the broker may only trade with the COB order by using the <Auction> button on PAR. The PAR order will be auctioned via COA before trading with the COB order, and any un-filled quantity will be returned to PAR at the conclusion of the auction.

Questions regarding this circular may be directed to Anthony Montesano (montesan@cboe.com)/(312)786-7365), Mike Trees (treesm@cboe.com)/(312)786-8408), or the CBOE Help Desk at 1-866-728-2263.