



Regulatory Circular RG07-13

To: Members

From: Legal Division

Date: January 31, 2007

Re: SEC Approval of CBOE Rule Filing relating to Penny Pilot Program and Quote Mitigation

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The SEC approved CBOE's rule filing (SR-CBOE-2006-92) pertaining to the Penny Pilot Program, which also described certain quote mitigation strategies CBOE has implemented or intends to implement. A copy of the SEC's approval order is available on CBOE's website at [www.cboe.org/Legal](http://www.cboe.org/Legal). For a list of the option classes participating in the Penny Pilot and the rollout schedule, please see Regulatory Circular RG07-009, which is also available on CBOE's website at [www.cboe.org/Legal](http://www.cboe.org/Legal).

Among other changes, CBOE rule filing SR-CBOE-2006-92 amended Market-Maker and RMM electronic quoting obligations and adopted a new delisting policy as described below:

- Amendment to Market-Maker Obligations. The continuous electronic quoting obligation of Market-Makers and RMMs has been amended to require that **Market-Makers and RMMs shall provide continuous electronic quotes in 60% of the series of his/her appointed class that have a time to expiration of less than nine months.**
  - DPMs continue to have an obligation to provide continuous electronic quotes in all of the series of each allocated class.
  - e-DPMs, LLMs, and Preferred Market-Makers continue to have an obligation to provide continuous electronic quotes in at least 90% of the series of each allocated class.
- Delisting Policy. All equity option classes with national average daily volume ("ADV") of less than 20 contracts will be delisted.

As noted in the filing, CBOE also limits the number of messages sent by members accessing CBOE electronically which protects the integrity of the Hybrid Trading System and mitigates quotes. (See CBOE Rule 6.23A.)

In a separate rule filing (SR-CBOE-2006-98), CBOE amended its fee schedule to adopt a Hybrid Electronic Quoting Fee. This fee commences on February 1, 2007. For a description of the fee, please review CBOE's fee schedule or the rule filing.

For questions, please contact Patrick Sexton, Legal Division, at [sexton@cboe.com](mailto:sexton@cboe.com) or (312) 786-7467, or Tom Knorrning, Trading Operations, at [knorrning@cboe.com](mailto:knorrning@cboe.com) or (312) 786-7363.