



Regulatory Circular RG07-15

To: Members
From: Legal Division
Date: February 1, 2007
Re: Rule Changes Regarding Cabinet Trading

Two rule changes that amend CBOE Rule 6.54, *Accommodation Liquidations (Cabinet Trades)*, have become effective (see SR-CBOE-2007-02 and SR-CBOE-2006-92). The rule changes amend the rule in the following respects:

- **Market-Maker Initiated Cabinet Trades:** Previously, a Market-Maker was only permitted to place an order with a PAR Official/OBO or a Floor Broker, or respond to a request for quote from a PAR Official/OBO or Floor Broker. SR-CBOE-2007-02 amends Rule 6.54 to provide that a Market-Maker may also personally initiate a cabinet trade for his own account.
- **Opening Cabinet Trades:** Previously, the rule was unclear as to whether it was permissible for both sides of a cabinet transaction to be opening. SR-CBOE-2007-02 clarifies that a Floor Broker or a Market-Maker may enter into an opening (or a closing) cabinet transaction, so long as the member first yields priority to all orders in the PAR Official/OBO cabinet book. Thus, so long as both the buyer and the seller yield to orders resting in the cabinet book, opening cabinet bids can trade with opening cabinet offers.
- **Penny Pilot Classes:** SR-CBOE-2006-92 provides that the cabinet trading rule is **not** applicable to option classes participating in the Penny Pilot Program (see Regulatory Circular RG07-09 for additional information regarding the Penny Pilot Program).

The revised cabinet trading procedures are summarized below:

- **Cabinet Order Entry/Representation:** Limit orders labeled at a price of \$1 per option contract may be placed either with a PAR Official/OBO or with a Floor Broker for representation in the trading crowd. Such cabinet orders may be for the accounts of customers, firms and Market-Makers. In addition, a Market-Maker in the trading crowd may represent a cabinet order for his own account.
- **Cabinet Book Priority:** To the extent cabinet orders are placed with a PAR Official/OBO for entry in the cabinet book, priority is based on the sequence in which the orders are placed with the PAR Official/OBO. Also, bids and offers for opening transactions at a price of \$1 per option contract may be placed with the PAR Official/OBO only to the extent that the cabinet book contains unexecuted contra-side closing orders with which those opening orders immediately may be matched.

- **Trading Crowd Priority:** Bids and offers (whether opening or closing a position) at a price of \$1 per option contract may be represented in the trading crowd by a Floor Broker or by a Market-Maker or provided in response to a request by a PAR Official/OBO, a Floor Broker or a Market-Maker, but must yield priority to all orders in the PAR Official/OBO cabinet book.
- **Cabinet Reporting Requirements:** Cabinet bids and offers and cabinet trades are not disseminated to the public. In addition, cabinet transactions continue to be exempt from the Consolidated Options Audit Trail (“COATS”) requirements of Exchange Rule 6.24. However, the Exchange maintains quotation, order and transaction information for cabinet trades in the same format as the COATS data is maintained. In this regard, all cabinet transactions must be reported to the Exchange following the close of each business day. *To comply with these requirements, each member that is a party to a cabinet trade must provide the Exchange with a copy of his physical order ticket reflecting his side of the cabinet transaction.* Tickets can be provided at anytime following execution to the PAR Official/OBO in the trading crowd or to the RAES Supervisor Desk. Submitted tickets will then be taken to the Trade Match Window for reporting to the Exchange after the close of each business day.

The text of the revised rule is attached. Members seeking further information as to the revised cabinet trading procedures should refer to the rule changes, which are available on CBOE’s website at www.cboe.org/Legal. For any other questions, please contact Jennifer Lamie, Legal Division, at (312) 786-7576.

[Replaces Regulatory Circular RG06-53.]

Rule 6.54. Accommodation Liquidations (Cabinet Trades)

RULE 6.54. Cabinet trading under the following terms and conditions shall be available in each series of option contracts open for trading on the Exchange. However, Rule 6.54 is not applicable to trading in option classes participating in the Penny Pilot Program.

(a) For classes not trading on the CBOE Hybrid System:

(i) Trading shall be conducted in accordance with other Exchange Rules except as otherwise provided herein.

(ii) Limit orders labeled at a price of \$1 per option contract must be placed with the Order Book Official or with a Floor Broker.

(iii) Orders may be placed for customer, firm, and Market-Maker accounts and, to the extent such orders are placed with the Order Book Official, priority in the cabinet book will be based upon the sequence in which such orders are placed with the Order Book Official.

(iv) Bids and offers for opening and closing transactions may be represented by an Order Book Official, Floor Broker or Market-Maker subject to the following: Bids and offers for opening transactions at a price of \$1 per option contract may be placed with the Order Book Official only to the extent that the cabinet book contains unexecuted contra closing orders with which the opening orders immediately may be matched. Bids and offers at a price of \$1 per option contract may be represented by a Floor Broker or by a Market-Maker or provided in response to a request by an Order Book Official, a Floor Broker or a Market-Maker, but must yield priority to all orders in the cabinet book.

(v) Market-Makers shall not be subject to the requirements of Rule 8.7 for orders placed pursuant to this Rule.

(vi) The Order Book Official appointed to each class of option contracts shall be responsible for \$1 orders that are placed with him for that class. All bids and offers that are submitted to the Order Book Official must be submitted to the Order Book Official in writing and displayed as such in accordance with Rule 7.7, and the Order Book Official shall effect transactions during the day by matching such orders placed with him or by executing such orders placed with him with a Floor Broker or Market-Maker representing a contra order.

(vii) All cabinet transactions at a price of \$1 per option contract shall be reported to the Exchange following the close of each business day.

(b) For classes trading on the CBOE Hybrid System:

(i) Trading shall be conducted in accordance with other Exchange Rules except as otherwise provided herein.

(ii) Limit orders labeled at a price of \$1 per option contract must be traded on the Exchange in a form and manner prescribed by the Exchange. Currently, accommodation liquidations are only eligible for Exchange trading via open outcry and hence are not eligible for placement into the Electronic Book.

... Interpretations and Policies:

.01 Order Book Official: An Order Book Official who receives a closing buy (sell) order for \$1 per option contract shall attempt to execute the order against any \$1 closing sell (buy) orders in his possession. If any part of the buy (sell) order cannot be immediately executed, the Order Book Official shall display the \$1 bid (offer).

The Order Book Official may accept bids or offers for opening transactions at a price of \$1 per contract only to the extent that the cabinet book already contains closing orders for the contra side.

Upon execution of any \$1 per contract orders, the Order Book Official shall promptly supply reports of the transaction back to the member firms involved. In accordance with (a)(vii) above, he will not report the transactions to the Exchange until after the close of each business day.

.02 PAR Officials: For purposes of this Rule, a PAR Official may also perform the functions of an Order Book Official.