



Regulatory Circular RG07-76

To: Members
From: Legal and Regulatory Services Divisions
Date: July 18, 2007
Re: Split-Price Priority Rule

The Exchange would like to remind members of the requirements relating to split-price priority.¹ Pursuant to Rule 6.47, for transactions effected in open outcry, a member who buys (or sells) one or more options contracts at a particular price shall, at the next lower (higher) price at which a member is bidding (offering), have priority in purchasing (selling) up to the equivalent number of option contracts of the same series that the member purchased at the higher (lower) price or prices.

For orders of at least 100 contracts, a member who buys (sells) at least 50 contracts at a particular price shall have priority over all others, including the public customer orders in the book, in purchasing (selling) up to an equivalent number of contracts of the same order at the next lower (higher) price. For orders less than 100 contracts, public customer orders resting in the book at the next lower (higher) price still have priority.

Example: Market is \$1.00 – 1.20, 100-up, which is all customer interest in the book. Floor broker enters crowd with order to buy 100. Market-Maker (MM) A is alone in responding “Sell 50 at \$1.15 and 50 at \$1.20 for a net price of \$1.175.” By offering at \$1.15, MM A has priority over all orders in the book at 1.20 for 50 contracts.

If the market is quoted at the minimum increment width (e.g., \$1.00 - \$1.05), split-price priority is not permitted where there are customer orders on both sides of the market. In such a scenario, members must first trade the resting customer orders on one side of the market. If, however, the market is quoted in the minimum increment width (e.g., \$1.00 - \$1.05) and the bid and/or offer represent non-public customer interest, split price priority is permitted.

When asserting split price priority, members are also reminded that they must comply with the minimum increments for simple and complex orders set forth in Rule 6.42.

Questions regarding this rule may be addressed to Jennifer Lamie in the Legal Division at (312) 786-7576.

¹ A floor broker is able to achieve split-price priority provided, however, the floor broker must ensure compliance with Section 11(a) of the Exchange Act.