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Regulatory Circular: RG07-104

Date: October 8, 2007
To: Members
From: Equity and Index Options Procedure Committees
Re: EPW Activation in Single-List, Hybrid 2.0 Classes

On October 9, 2007, a change will be implemented to single-listed classes trading on CBOE's Hybrid 2.0 system. For those classes, the Exchange will activate the Exchange Prescribed Width ("EPW"). EPW is a feature within Hybrid 2.0 that will prevent the automatic execution of a market order when CBOE's BBO is wider than the following parameters:

- \$0.40 where the bid is less than \$2,
- \$0.60 where the bid is at least \$2 but does not exceed \$5,
- \$0.75 where the bid is more than \$5 but does not exceed \$10,
- \$1.20 where the bid is more than \$10 but does not exceed \$20, and
- \$1.50 where the bid is more than \$20.

These parameters are approximately 1.5 times the bid/ask differentials that apply for open outcry trading under Rule 8.7(b)(iv)(A). If an incoming market order (or the remaining balance of an incoming market order) is processed against a quote where the bid/ask spread is wider than the EPW, the order will route to the PAR workstation, to the BART workstation in the booth, or, at the order entry firm's discretion, to the order entry firm's booth printer. (For example, assume that the market in a series is \$1.65 - \$1.85, the best bid is for 10 contracts, the next best bid is \$1.50 for 10 contracts, and the next best bid is \$0.50 for 10 contracts. An incoming market order to sell 50 contracts would trade against the \$1.65 for 10 contracts and the \$1.50 for 10 contracts. When the bid moves to \$0.50, the EPW parameter would be triggered because the width between the best bid (\$0.50) and best offer (\$1.85) is wider than the \$0.40 EPW price range. As a result, the remaining 30 contracts would route to PAR, BART or the booth printer.)

All Hybrid 2.0 single-list classes will be subject to this change.

Prior to this change, orders in certain single-list classes with a quantity greater than the displayed size were made in-eligible for auto-ex (see Regulatory Circular RG07-84). With this change, this restriction will be removed, and marketable orders, regardless of size, will again be eligible for auto-ex.

For additional information on the EPW price check parameter, please refer to rule change SR-CBOE-2007-104 (located at www.cboe.org/legal). Further inquiries regarding this change may be directed to the Help Desk at (312)786-7100 or Anthony Montesano at (312)786-7365.