



To: Members
From: Legal Division
Date: January 4, 2008
Subject: Changes to HOSS Opening Quote Obligations

The SEC has approved a rule change that amends the opening quote obligations of DPMs, e-DPMs and LMMs on the Hybrid Opening System (“HOSS”)(see Release 34-57067, SR-CBOE-2007-87). Under the previous requirements, HOSS was programmed to open an option series as long as *any* market-maker¹ has submitted an opening quote that complies with the legal width quote requirements. In addition, however, DPMs, e-DPMs and LMMs were also obligated to timely submit opening quotes in 100% of the series of each appointed class.

The rule change was designed to give some relief to DPMs, e-DPMs and LMMs from the opening quote requirement. Under the revised procedures, the HOSS parameters may be configured on a class-by-class basis so that an option series will open either:

- (i) if any market-maker has submitted an opening quote, or
- (ii) only if a DPM or LMM, as applicable, has submitted an opening quote.

If HOSS is configured to open a series based on any market-maker’s opening quote, under the revised procedures the DPM and any e-DPMs appointed to the class (or, if applicable, the LMMs appointed to the class) would be obligated to ensure that a trading rotation is initiated promptly following the opening of the underlying security (or promptly after 8:30 a.m. (Central Time) in an index class) in 100% of the series of each allocated class by entering opening quotes *only as necessary*. For example, if another market-maker has already entered an opening quote in a particular series, it is no longer necessary for the DPM and any e-DPMs, or the LMM, to enter an opening quote. However, if no other market-maker has entered an opening quote, the DPM and any e-DPMs, or the LMM, would be responsible for ensuring that an opening quote is promptly entered so that HOSS can automatically open the series.²

Except as noted below, all Hybrid classes are configured to open based on any market-maker’s quote. For the *VIX*, *VXN*, *RVX*, *MVR*, *OEX* and *SPX* options classes, option series will open only if the DPM or LMM has submitted an opening quote. Members seeking further information as to the revised rule should refer to the rule change, which is available on CBOE’s website at www.cboe.org/Legal. For any other questions, please contact Anthony Montesano, Trading Operations, at (312) 786-7365 or Jennifer Lamie, Legal Division, at (312) 786-7576.

¹ This could include a quote from a DPM, e-DPM, LMM, Market-Maker or RMM.

² This obligation to ensure that an opening rotation is conducted promptly in an allocated class by entering opening quotes only as necessary is in lieu of the previous obligation (which, as indicated above, required DPMs, e-DPMs and LMMs to enter opening quotes in 100% of the series of each allocated class). Although not obligated, DPMs, e-DPMs and LMMs are still permitted to enter opening quotes even if another market-maker has already entered an opening quote.