



To: Membership  
From: Floor Directors/Financial Planning Committee  
Date: February 12, 2008  
Re: Hybrid 4.0 Hybrid Agency Liaison (HAL) Rebate Program

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On January 2, 2008, the Exchange launched the Hybrid 4.0 Initiative (see Information Circular IC 07-208 for details), of which the primary components were 1) the institution of pro-rata as the base matching algorithm for all hybrid classes; 2) the addition of a 50% market turner overlay to the pro-rata matching algorithm in all penny pilot classes; 3) the removal of "tweeners" from HAL and the institution of a step-up rebate for HAL responders meeting an 80% NBBO quoting threshold (described below) in penny pilot classes; 4) a reduction in the marketing fee and 5) a redesigned quoting fee schedule. The early returns have showed a measured, yet modest, improvement in CBOE market quality and market share to date, although it is still too early to draw any solid conclusions.

However, an analysis of the data as well as feedback from several market participants indicates that CBOE has been the beneficiary of increased order flow from certain customer segments, although the Exchange continues to link away a notable portion of this business. To further incent the execution of this business at CBOE, the Floor Directors and Financial Planning Committee have approved two changes to the HAL step-up rebate program.

1) Beginning March 1, 2008, there will be a temporary reduction in the qualifying threshold for HAL rebates, from 80% of total quotes being on one side of the NBBO to 60%. Under this measure, market makers for which at least 60% of their total quotes in a penny pilot class (not including LEAPS) for the one month "qualifying period" are on either side of the NBBO will be entitled to the \$.20/rebate against their transaction fee on any contracts traded in HAL. Market makers not meeting that qualification will continue to participate in HAL but would not receive the rebate. This change will be in effect until at least June 1, 2008, at which time CBOE may adjust the qualifying threshold.

2) A permanent change to the "qualifying period" that redefines it to be the previous month's quote quality instead of the same month's quote quality. Thus, market makers that meet the 60% standard in February will have all of their HAL transactions in those same classes eligible for the \$.20/contract rebate for the entire month of March, while March performance will enable compensation in April, and so on. This addresses comments from participants that the original program, which based payments on quote quality for the same calendar month, was difficult to track, and makes the rebate qualification "known" for purposes of programming HAL responses.

Additionally, market makers may now request, whether on an ad-hoc basis or for a regular daily, weekly or monthly email delivery, a copy of their Monthly HAL Rebate Performance Report by emailing Alicia Goldberg at [Goldberg@cboe.com](mailto:Goldberg@cboe.com). This will enable firms to monitor their attainment of the reimbursement standard by month and by class.

Subject to SEC approval, these changes will be effective as of March 1, 2008 for all qualifying business. CBOE will continue to monitor the performance of the Hybrid 4.0 initiative and inform the membership of any further developments. Please direct any questions to Anthony Montesano at (312) 786-7365 or [montesano@cboe.com](mailto:montesano@cboe.com), or to Eric Frait at (312) 786-7747 or [frait@cboe.com](mailto:frait@cboe.com).