Regulatory Circular RG08-47

Date: March 27, 2008
To: CBOE Members
From: CBOE Trading Operations
Re: AIM Customer-to-Customer Immediate Crosses

A change to the Automated Improvement Mechanism (AIM) has been implemented, effective immediately. When both the primary and matching AIM orders have an origin of Customer, the orders will cross immediately, without exposure to the AIM 3-second electronic auction. The price on the matching order must be no worse than the NBBO and must improve the price established by any public customers resting on the CBOE BBO.

IMPORTANT: Please note that in non-penny classes, the match order on a customer-to-customer AIM transaction must be submitted with a limit price in standard nickel/dime increments (i.e. the user may not enter a penny limit price on the match order).

Additionally, if the match order contains a price of "MKT", then the transaction will be subject to the standard AIM process, including the auction interval.

If either or both the primary or matching orders are non-customer, normal AIM functionality will still apply.

Please refer to Rule 6.74A and Regulatory Circulars RG06-29 and RG06-38 for further information on AIM functionality generally. Please also refer to new Interpretation and Policy .09 to Rule 6.74A and SR-CBOE-2008-19 for additional information about the new AIM customer-to-customer immediate cross functionality and regulatory requirements. This information is available at www.cboe.org/legal. Members should be aware that Rules 6.45A.01 and 6.45B.01 prevent an order entry firm from executing against agency orders as principal unless there has been a 3-second exposure period, which gives other trading interests an opportunity to either trade with the agency order or to trade at the execution price when the member was already bidding or offering on the book. It would be a violation for a firm to circumvent Rule 6.45A.01 or 6.45B.01 by providing an opportunity for (i) a customer affiliated with the firm, or (ii) a customer with whom the firm has an arrangement that allows the firm to realize similar economic benefits from the transaction as the firm would achieve by executing agency orders as principal, to regularly execute against agency orders handled by the firm immediately upon their entry as AIM customer-to-customer immediate crosses.

Questions regarding this change may be directed to Anthony Montesano at (312) 786-7365/ montesan@cboe.com, or the Help Desk at (312) 786-7100.