



Regulatory Circular RG08-50

To: Members
From: Legal Division
Date: April 10, 2008
Re: Stock Component of SEC Qualified Contingent Trade Exemption

Pursuant to a request by CBOE and CBSX, the SEC has modified the requirements that contingent trades must meet in order to be "qualified contingent trades," which are exempt from Rule 611 of Regulation NMS (the Order Protection Rule). Specifically, the SEC has eliminated the Size Condition, which is the requirement that the NMS stock transaction that is part of a contingent trade involve at least 10,000 shares or a market value of at least \$200,000. Thus, the stock leg of smaller stock-option orders will now be eligible for execution pursuant to the exemption.

Members are reminded that the other requirements for the qualified contingent trade exemption are still in effect. That is, a qualified contingent trade is now defined as a transaction consisting of two or more component orders, executed as agent or principal, where:

- (1) At least one component order is in an NMS stock;
- (2) All components are effected with a product or price contingency that either has been agreed to by the respective counterparties or arranged for by a broker-dealer as principal or agent;
- (3) The execution of one component is contingent upon the execution of all other components at or near the same time;
- (4) The specific relationship between the component orders (e.g., the spread between the prices of the component orders) is determined at the time the contingent order is placed;
- (5) The component orders bear a derivative relationship to one another, represent different classes of shares of the same issuer, or involve the securities of participants in mergers or with intentions to merge that have been announced or since cancelled; and
- (6) The exempted NMS stock transaction is fully hedged (without regard to any prior existing position) as a result of the other components of the contingent trade.

Any questions regarding this circular may be directed to Angelo Evangelou at (312) 786-7464.