



Regulatory Circular 08-62

DATE: May 13, 2008

TO: Members and Member Firms

FROM: Member and Regulatory Services Division

RE: Market Maker, DPM, and e-DPM Quoting Obligations in Hybrid 2.0

This circular summarizes the relevant quoting obligations in Hybrid 2.0 options classes for Market-Makers (MMs), DPMs and e-DPMs. The electronic quoting obligations set forth in this circular apply on a per class basis and only when quoting in a particular class. The chart details the minimum quoting requirements and may assist members in determining whether to increase or decrease quoting accordingly. Members may also wish to assess quote frequency and bundling in the interest of preserving systems capacity and to avoid excessive quoting fees. For further information regarding quoting obligations, please review Rule 8.7 relating to MMs, Rule 8.85 relating to DPMs and Rule 8.93 relating to e-DPMs which are available on CBOE's website at www.cboe.org/Legal.

	MM Quoting Obligations Trades <u>More than 20%</u>¹ of Contract Volume Electronically²	DPM Quoting Obligations	e-DPM Quoting Obligations
Opening Quotes	No obligation to quote on the opening.	Must ensure a trading rotation is initiated promptly in 100% of series by entering opening quotes as necessary ³ .	Same as DPM obligation.
Opening Rotation Widths	Quote Widths must be Legal Width ⁴	Same as MM.	Same as MM.
Quote Widths - Intraday	Must provide a two sided, electronic quote no wider than \$5.	Same as MM.	Same as MM.

¹ Please see Exchange Rule 8.7 (d)(i) for MM quoting obligations if trading 20% or less of contract volume electronically.

² The 20% Contract Volume includes volume from all orders including I orders and M orders.

³ For example, if another Market Maker has already entered an opening quote in a particular series, it is not necessary for the DPM and any e-DPM to enter an opening quote.

⁴The maximum permissible spread widths are as follows: \$0.25 for options under \$2, \$0.40 for options above \$2 but not over \$5, \$0.50 for options above \$5 but not over \$10; \$0.80 for options above \$10 but not over \$20; and \$1 for options above \$20.

	MM Quoting Obligations Trades <u>More than 20%</u>¹ of Contract Volume Electronically²	DPM Quoting Obligations	e-DPM Quoting Obligations
Continuous Quoting⁵	Must continually quote 60% of all series of his/her appointed classes that have a time to expiration of less than 9 months when the MM is streaming into that class.	Must continually quote 90% of all series for each <u>multiple list</u> option class allocated to the DPM. Must continually quote 100% of all series for each <u>single list</u> option class allocated to the DPM.	Must continually quote 90% of all series for each class allocated to the e-DPM.
Open Outcry RFQ's	Must respond to all verbal RFQ's with a legal width 10-up market for customers and 1-up for BD's.	Same as MM.	N/A
Quote Size	Initial quote must be for at least 10 contracts. Once size decrements to zero, the MM must replenish to at least 10 contracts.	Same as MM.	Same as MM.
1 Up Quote Size	<p>Same Obligation for MMs, DPMs and e-DPMs:</p> <p><u>Intraday:</u> Allowed on the appropriate side of the option quote when quote size in the primary underlying market is disseminating less than 100 shares <u>provided this process is automated</u>. Quote must automatically return to at least 10-up when underlying primary market no longer disseminates less than 100 shares.</p> <p><u>During Hybrid ("HOSS") Opening Rotation:</u> Allowed on the appropriate side of the option quote when quote size in the primary underlying market is disseminating less than 1000 shares.</p> <p>Process is <u>not</u> required to be automated.</p> <p>1-up quote can be maintained until quote is decremented or updated.</p> <p>Once series is opened <u>and</u> quote is decremented or updated, electronic quote size must replenish to at least 10 contracts per quote size obligations set forth in Rule 8.7.</p>		

⁵ Members may wish to access the Percentage of Series Quoted by Market-Maker Report at www.cboe.org/wbs for data to aid them in determining performance levels. Further details on this report may be found in Information Circular 08-39.

Firm Quote Obligations:

Each Market Maker's quotes are firm quotes and must be honored in accordance with CBOE's Firm Quote Rule 8.51. The firm quote size for customers is the disseminated size.

Quote "Aping" and Anticompetitive Conduct:

In the Hybrid Approval Order, the SEC stated:

Although it is not unlawful for a market maker to take the prices offered by its competitors into account when setting its own prices, or to follow or copy prices of its competitors, such a decision must be a unilateral business judgment not intended to harass or punish a competitor for improving prices or otherwise acting competitively and not the result of collusive agreement. Accordingly, the Commission expects that the CBOE will surveil its market to ensure that market makers are not coordinating quotes in the Hybrid system or engaging in other anticompetitive conduct.

The Exchange's Regulatory Division will surveil for such conduct. Violations may result in disciplinary or regulatory action by CBOE's Business Conduct Committee.

Any questions regarding quoting obligations should be addressed to Timothy MacDonald (312 786-7706, macdonat@cboe.com) or Scott Lamm (312 786-7602, lamm@cboe.com).

For information on quoting more efficiently, please call the API Client Services Group, 312 786-7300. For information on the Hybrid Electronic Quoting Fee, please find the most recent CBOE Fee Schedule at <http://www.cboe.com/AboutCBOE/FeeSchedule.aspx>.

This circular supercedes Regulatory Circular 06-04 and a portion of 07-13 with respect to a DPM's continuous electronic quoting obligation and restates portions of Regulatory Circulars 04-71, 04-92, 07-132, 08-05, and 08-13.