



## Regulatory Circular RG09-15

To: Members  
From: Legal Division  
Date: February 4, 2009  
Re: \$1 Cabinet Trades & Trades Below \$1

A rule change, which extends a temporary procedure that allows trades to take place in open outcry at a price of at least \$0 but less than \$1 through May 29, 2009, has become effective.

This Regulatory Circular provides an overview of CBOE Rule 6.54's procedures for cabinet trades that may take place at \$1 per option contract on the Exchange. This Regulatory Circular also provides an overview of the temporary procedure that allows trades to take place at a price of at least \$0 but less than \$1. Please note that the procedures have been updated to state that tickets should be provided only to the PAR Official/OBO in the trading crowd. Tickets should no longer be provided to the RAES Supervisor Desk. (Previously Regulatory Circular RG08-170 stated that tickets could be provided to either the PAR Official/OBO in the trading crowd or to the RAES Supervisor Desk.)

The procedures for \$1 cabinet trades are as follows:

- **Cabinet Order Entry/Representation:** Limit orders labeled at a price of \$1 per option contract may be placed either with a PAR Official/OBO or with a Floor Broker for representation in the trading crowd. Such cabinet orders may be for the accounts of customers, firms and Market-Makers. In addition, a Market-Maker in the trading crowd may represent a cabinet order for his own account.
- **Cabinet Book Priority:** To the extent cabinet orders are placed with a PAR Official/OBO for entry in the cabinet book, **priority is based on the sequence in which the orders are placed with the PAR Official/OBO.** Also, bids and offers for opening transactions at a price of \$1 per option contract may be placed with the PAR Official/OBO only to the extent that the cabinet book contains unexecuted contra-side closing orders with which those opening orders immediately may be matched.
- **Trading Crowd Priority:** Bids and offers (whether opening or closing a position) at a price of \$1 per option contract may be represented in the trading crowd by a Floor Broker or by a Market-Maker or provided in response to a request by a PAR Official/OBO, a Floor Broker or a Market-Maker, but must yield priority to all orders in the PAR Official/OBO cabinet book. Thus, so long as both the buyer and the seller yield to orders resting in the cabinet book, opening bids can trade with opening cabinet offers. **Members should confirm with a PAR Official/OBO that there are no cabinet orders resting in the Cabinet Book.**
- **Cabinet Reporting Requirements:** Cabinet bids and offers and cabinet trades are not disseminated to the public. In addition, cabinet transactions continue to be exempt from the Consolidated Options Audit Trail ("COATS") requirements of Exchange Rule 6.24. However, the Exchange maintains quotation, order and transaction information for cabinet trades in the same format as the COATS data is maintained. In this regard, all cabinet

transactions must be reported to the Exchange following the close of each business day. *To comply with these requirements, each member that is a party to a cabinet trade must provide the Exchange with either an electronic order ticket or a copy of his physical order ticket reflecting his side of the cabinet transaction.* Tickets can be provided at anytime following execution to the PAR Official/OBO in the trading crowd. Submitted tickets will then be taken to the Trade Match Window for reporting to the Exchange after the close of each business day.

- **Penny Pilot Classes:** The cabinet trading procedures are **not** applicable to option classes participating in the Penny Pilot Program.

The temporary procedures for trades at a price of at least \$0 but less than \$1 will be available until May 29, 2009 (unless otherwise extended by the Exchange) and are as follows:

- Limit orders with a price of less than \$1 per option contract may trade under the terms and conditions in Rule 6.54 above in each series of option contracts open for trading on the Exchange, except that (i) bids and offers for opening transactions are only permitted to accommodate closing transactions, and (ii) these procedures are available for trading in all options classes trading on the Exchange, including options classes participating in the Penny Pilot Program.
- Transactions that occur for less than \$1 will not be disseminated to the public on the consolidated tape. In addition, as with other accommodation liquidations under Rule 6.54, the transactions will be exempt from the COATS requirements. However, the Exchange will maintain quotation, order and transaction information for the transactions in the same format as the COATS data is maintained. In this regard, all transactions for less than \$1 must be reported to the Exchange following the close of each business day (see the cabinet reporting requirements above).
- Transactions for less than \$1 will be reported for clearing utilizing forms, formats and procedures established by the Exchange from time to time. In this regard, clearing firms are to directly report the transactions to OCC using OCC's position adjustment/transfer procedures. (This manner of reporting transactions for clearing is similar to the procedure that CBOE currently employs for on-floor position transfer packages executed pursuant to Rule 6.49A, Transfer of Positions.)

For additional information on the procedures for trades less than \$1 please refer to rule filing SR-CBOE-2008-133, which is available at [www.cboe.org/legal](http://www.cboe.org/legal). For any other questions, please contact Jennifer Lamie, at (312) 786-7576 or Andrew Spiwak at (312) 786-7483, in the Exchange's Legal Division.

(Replaces RG08-170)

Rule 6.54. Accommodation Liquidations (Cabinet Trades)

RULE 6.54. Cabinet trading under the following terms and conditions shall be available in each series of option contracts open for trading on the Exchange. However, Rule 6.54 is not applicable to trading in option classes participating in the Penny Pilot Program.

(a) For classes not trading on the CBOE Hybrid System:

(i) Trading shall be conducted in accordance with other Exchange Rules except as otherwise provided herein.

(ii) Limit orders labeled at a price of \$1 per option contract must be placed with the Order Book Official or with a Floor Broker.

(iii) Orders may be placed for customer, firm, and Market-Maker accounts and, to the extent such orders are placed with the Order Book Official, priority in the cabinet book will be based upon the sequence in which such orders are placed with the Order Book Official.

(iv) Bids and offers for opening and closing transactions may be represented by an Order Book Official, Floor Broker or Market-Maker subject to the following: Bids and offers for opening transactions at a price of \$1 per option contract may be placed with the Order Book Official only to the extent that the cabinet book contains unexecuted contra closing orders with which the opening orders immediately may be matched. Bids and offers at a price of \$1 per option contract may be represented by a Floor Broker or by a Market-Maker or provided in response to a request by an Order Book Official, a Floor Broker or a Market-Maker, but must yield priority to all orders in the cabinet book.

(v) Market-Makers shall not be subject to the requirements of Rule 8.7 for orders placed pursuant to this Rule.

(vi) The Order Book Official appointed to each class of option contracts shall be responsible for \$1 orders that are placed with him for that class. All bids and offers that are submitted to the Order Book Official must be submitted to the Order Book Official in writing and displayed as such in accordance with Rule 7.7, and the Order Book Official shall effect transactions during the day by matching such orders placed with him or by executing such orders placed with him with a Floor Broker or Market-Maker representing a contra order.

(vii) All cabinet transactions at a price of \$1 per option contract shall be reported to the Exchange following the close of each business day.

(b) For classes trading on the CBOE Hybrid System:

(i) Trading shall be conducted in accordance with other Exchange Rules except as otherwise provided herein.

(ii) Limit orders labeled at a price of \$1 per option contract must be traded on the Exchange in a form and manner prescribed by the Exchange. Currently, accommodation liquidations are only eligible for Exchange trading via open outcry and hence are not eligible for placement into the Electronic Book.

... *Interpretations and Policies:*

.01 Order Book Official: An Order Book Official who receives a closing buy (sell) order for \$1 per option contract shall attempt to execute the order against any \$1 closing sell (buy) orders in his possession. If any part of the buy (sell) order cannot be immediately executed, the Order Book Official shall display the \$1 bid (offer).

The Order Book Official may accept bids or offers for opening transactions at a price of \$1 per contract only to the extent that the cabinet book already contains closing orders for the contra side.

Upon execution of any \$1 per contract orders, the Order Book Official shall promptly supply reports of the transaction back to the member firms involved. In accordance with (a)(vii) above, he will not report the transactions to the Exchange until after the close of each business day.

.02 PAR Officials: For purposes of this Rule, a PAR Official may also perform the functions of an Order Book Official.

.03 Limit Orders Priced Below \$1: Limit orders with a price of at least \$0 but less than \$1 per option contract may trade under the terms and conditions in Rule 6.54 above in each series of option contracts open for trading on the Exchange, except that:

(a) Bids and offers for opening transactions are only permitted to accommodate closing transactions.

(b) These procedures are available for trading in all options classes trading on the Exchange, including options classes participating in the Penny Pilot Program.

(c) Transactions shall be reported for clearing utilizing forms, formats and procedures established by the Exchange.

(d) Unless otherwise extended, the effectiveness of this Interpretation and Policy .03 terminates May 29, 2009.