Regulatory Circular RG09-117

Date: October 26, 2009

To: Members

From: Department of Market Regulation

Re: New Linkage Plan—Prohibition of Trade-Throughs

NEW LINKAGE PLAN/ INTERMARKET SWEEP ORDERS

The New Option Linkage Plan went into effect Monday August 31, 2009 (See also CBOE Regulatory Circular RG 09-84). Under the new plan the Chicago Board Options Exchange, Incorporated ("CBOE" or "Exchange") now accepts and trades inbound Intermarket Sweep Orders (ISO).

An Intermarket Sweep Order is a limit order for an options series that, simultaneously with the routing of the ISO, one or more additional ISOs, as necessary, are routed to execute against the full displayed size of any Protected Bids or Offers. Protected Bids and Offers are the best disseminated Bid/Offer on each Eligible Exchange.

- In the case of a limit order to sell, a member may submit an ISO to the Exchange only if it has simultaneously routed one or more additional ISOs to execute against the full displayed size of any Protected Bid.
- In the case of a limit order to buy, a member may submit an ISO to the Exchange only if it has simultaneously routed one or more additional ISOs to execute against the full displayed size of any Protected Offer.

By entering an ISO a member is representing that it also routed ISO orders for the full size of all better-priced Protected Quotations. CBOE's Department of Market Regulation ("DMR") will monitor members to ensure that they have not engaged in a pattern or practice of trading through Protected Quotations. CBOE may request that a member provide evidence that ISO's are being sent properly and that the member has effective policies and procedures in place to avoid Trade-Throughs of Protected Quotations.

DISTRIBUTIVE LINKAGE & THE CBOE FLOOR

CBOE Floor Brokers should ensure that the routing of any outbound ISOs in connection with an execution on the CBOE floor occur as contemporaneously as possible.

NOTE: Due to the fact that ISOs must be routed "simultaneously" (and in the interest of preserving the Exchange's audit trail) a member firm may not sweep protected quotes upstairs and subsequently send the remaining quantity to a floor broker for execution in reliance on the ISO trade-through exemption (described below).

PROTECTED QUOTATIONS & TRADE THROUGH EXCEPTIONS

Under CBOE Rule 6.81(a) Order Protection, Members are prohibited from trading through Protected Bids/Offers except in certain circumstances.

Any member claiming an exception to Rule 6.81(a) will be expected to provide documentation that supports the applicability of the exception. Such documentation may include, but is not limited to, order history logs, original order tickets and quotation data.

Exceptions to Rule 6.81(a) include:

1) **Self Help-**
If the Eligible Exchange displaying the Protected Quotations repeatedly fails to respond within one second to incoming orders attempting to access the Protected Quotations, CBOE may bypass those Protected Quotations by:

i)   Notifying the non-responding Eligible Exchange immediately after (or at the same time as) electing self-help; and

ii)   Assessing whether the cause of the problem lies with its own systems and, if so, taking immediate steps to resolve the problem.

In the case of another Eligible Exchange's failure to respond, a member may notify the CBOE Help Desk.

2) **Trading Rotations**
If the transaction that traded through a Protected Quotation was being disseminated by an Eligible Exchange during a trading rotation.

3) **Crossed Markets**
If the transaction that constituted a Trade-Through of the Protected Quotation occurred when there was a Crossed Market.

4) **Intermarket Sweep Orders**
If the transaction that constitutes a Trade-Through is the execution of an order identified as an ISO, or the transaction that constitutes a Trade-Through is effected by the Exchange while simultaneously routing an ISO to execute the full displayed size of any better-priced Protected Quotation.

5) **Flickering Quotes**
If the exchange displaying the Protected Quotation that was traded through had displayed, within one second prior to the execution of the Trade-Through, a Best Bid or Offer, as applicable, for the options series with a price that was equal or inferior to the price of the trade through transaction.

6) **Quotes Identified as Non-Firm**
If The Protected Quotation traded through was being disseminated from an Eligible Exchange who's Quotations were Non-Firm with respect to such options series.

7) **Complex Trades**
If the transaction that constituted the Trade-Through was effected as a portion of a Complex Trade as Defined in CBOE Exchange Rule 6.80 (4).

8) **Stopped Orders and Price Improvement**
If an order is "stopped" on the CBOE at a price that would not constitute a Trade-Through and then later executed at a price that trades through an away market. For example, an order is entered into the CBOE's Automated Improvement Mechanism ("AIM") with an initial auction price that equals or exceeds the NBBO. If, during the brief AIM improvement process, another exchange posts a price that is superior to the final AIM auction price, execution of the AIM orders is trade-through exempt.

9) **Stopped Customer Orders**

If the transaction that constituted a Trade-Through was the execution of an order for which, at the time of receipt of the order, a member had guaranteed an execution at no worse than a specified price (a "stopped order").

Under this exception:

i)   the stopped order must be for the account of a public customer; and

ii)   The customer must agree to the specified price on an order-by-order basis; and

iii)   The price of the Trade-Through must, for a stopped buy order, be lower than the national Best Bid or, for a stopped sell order, be higher than the national Best Offer in the Options series at the time of execution (i.e. "underwater" at the time of execution).

Currently, members who wish to stop orders should use the **Optional Data** to mark orders stopped. The Optional Data should clearly state "STOP" and the price of the stop occurred. (example "STOP $2.35").

NOTE: The exceptions listed above apply only to trade throughs of protected quotations on away exchanges. CBOE Customer Book Priority and CBOE displayed quotations must be honored at all times.

Please contact Ji Min Kim at (312) 786-7043 or Nicholas Still at (312) 786-7006 with any questions or concerns regarding Distributive Linkage.