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Regulatory Circular RG 10-17

DATE: January 27, 2010

TO: Members

FROM: Member and Regulatory Services Division

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

This circular summarizes minimum quoting obligations in Hybrid option classes (all classes except Hybrid 3.0 class SPX) for Market-Makers (MMs), DPMs, e-DPMs, and LMMs in light of recent rule changes. The obligations set forth in this circular apply on a per class basis. The quoting obligations for MMs apply only when quoting in a particular class. The quoting obligations for DPMs, e-DPMs and LMMs apply throughout the trading day. For further detail on quoting obligations, please review Rule 8.7 relating to MMs, Rule 8.85 relating to DPMs, Rule 8.93 relating to e-DPMs, and Rule 8.15A relating to LMMs. All rules are available on CBOE's website at www.cboe.org/Legal.

	MM Quoting Obligations. Trades <u>More than 20%</u>¹ of Contract Volume Electronically	DPM Quoting Obligations	e-DPM Quoting Obligations	LMM Quoting Obligations in Appointed Hybrid Classes
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. ²	Same as DPM obligation.	Same as DPM obligation. ³
Quote Widths – Opening Rotation, Open Outcry, and Intraday Electronic	Must comply with bid/ask differentials determined by the Exchange on a class by class basis. Currently outlined in RG 09-145.	Same as MM.	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. The 20% contract volume includes volume from all quotes and orders including I orders and M orders.

² For example, if another Market Maker has already entered an opening quote in a particular series, it is not necessary for the DPM, e-DPM, or LMM to enter an opening quote.

³ Pursuant to Rule 8.15A(b)(iv), when there is both an On-Floor LMM and Off-Floor DPM appointed, it is the Off-Floor DPM's obligation to ensure a trading rotation is initiated.

	MM Quoting Obligations. Trades More than 20% of Contract Volume Electronically	DPM Quoting Obligations	e-DPM Quoting Obligations	LMM Quoting Obligations in Appointed Hybrid Classes
Continuous Quoting	Must continually quote 60% of all series of 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.	Same as e-DPM. ⁴
Open Outcry RFQs	Must respond to all verbal RFQs. Size requirement as determined by the Exchange on a class by class basis. Currently 10 contracts for non-B/D orders and 1 contract for B/D orders as stated in RG 08-167.	Same as MM for On-Floor DPMs. N/A for Off-Floor DPMs.	N/A	Same as MM.
Quote Size – Electronic	Initial size of MM quote must be for at least the minimum number of contracts determined by the Exchange on a class by class basis. Currently 10 contracts as stated in RG 08-167.	Same as MM.	Same as MM.	Same as MM.
1 Up Quote Size Exception	<p>Same Obligation for MM, DPM, e-DPM, and LMM: As stated in RG 08-167, an exception to the 10-contract minimum quotation size for electronic quotes applies to both opening and intra-day. If the underlying primary market disseminates less than a 1000 share quote, the undecrement option quote size may be as low as 1 contract. The process does not need to be automated.</p> <p>For example, if the underlying primary market is quoting 1500 x 200 shares, the option quote size may be as low as 1 x 1 contract (for calls and puts).</p>			

⁴ Pursuant to Rule 8.15A(b)(i), when there is both an On-Floor LMM and Off-Floor DPM appointed, the On-Floor LMM's obligation to continuously quote in appointed classes shall be the same obligations as MMs in Hybrid classes as outlined in Rule 8.7(d).

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."

Questions pertaining to the regulatory requirements for quoting should be directed to the Department of Market Regulation at (312) 786-8460 or (312) 786-7730.

This circular updates and replaces Regulatory Circulars 04-71, 04-92, 07-132, 08-13, 08-62, 08-165 and portions of 07-13 with respect to a DPM's continuous electronic quoting obligation.

This circular supplements Regulatory Circulars 08-05 and 08-167.