



Regulatory Circular RG10-27

To: Members

From: Regulatory Services Division

Date: February 19, 2010

Re: Obligation to Ensure Customer Book Priority

The Regulatory Services Division reminds all floor members of their obligation to ensure that the transactions they effect in open outcry do not violate the priority afforded to orders entered into the electronic Customer Limit Order Book (the "Customer Book").

According to Exchange Rules 6.45A(b) and 6.45B(b), the highest bid (lowest offer) shall have priority in open outcry. Where two or more bids (offers) for the same option contract represent the highest (lowest) price, public customer orders in the Customer Book shall have priority over any other bid (offer) for the same option contract at the trading post.¹ Under no circumstances may any transaction be effected at a price through a public customer order(s) in the Customer Book that represents the disseminated CBOE BBO.²

If a member effects a transaction that violates Customer Book priority, the Regulatory Services Division considers that transaction to be a violation of Customer Book priority regardless of whether the member subsequently trades with the Customer Book or adjusts the trade price in such a manner that it no longer violates Customer Book priority. In addition, the Regulatory Services Division may regard a refusal to trade with the Customer Book or a refusal to adjust a trade price when a Customer Book priority violation has occurred as an aggravating circumstance in any disciplinary action that the Regulatory Services Division may take against the member.

Please be advised that Customer Book priority violations: (1) may be processed in accordance with Exchange Rule 17.50 – Imposition of Fines for Minor Rule Violations, or (2) may result in referral to the Exchange's Business Conduct Committee for formal disciplinary action.

Questions regarding this memorandum may be directed to the Regulatory Services Division at (312) 786-8460 or (312) 786-7730.

¹ An exception exists for complex orders. A complex order as defined in Rule 6.42.01 may be executed at a net debit or credit price with another member without giving priority to equivalent bids (offers) in the individual series legs that are represented in the trading crowd or in the Customer Book provided at least one leg of the order betters the corresponding bid (offer) in the Customer Book by at least one minimum trading increment as defined in Rule 6.42 (i.e., \$0.10 or \$0.05 or \$0.01, as applicable) or a \$0.01 increment, which increment shall be determined by the Exchange on a class-by-class basis. Stock-option orders and security future-option orders, as defined in Rule 1.1(ii)(a) and Rule 1.1(zz)(a), respectively, have priority over bids (offers) of the trading crowd but not over bids (offers) in the Customer Book.

² Please see Rules 1.1(fff)-(ggg), 6.45A(b) and 6.45B(b) for priority and allocation principles concerning bids (offers) of in-crowd market participants, professional and broker-dealer orders in the electronic book, and electronic quotes of Market-Makers.