



Date: February 14, 2011

To: Trading Permit Holders and Clearing Firms

From: Member and Regulatory Services Division

RE: Regulation SHO Frequently Asked Questions

The purpose of this Regulatory Circular is to update answers to frequently-asked questions ("FAQ") concerning the recent Amendments to Regulation SHO which will become effective February 28, 2011.

### **SEC Rule 201 (Short Sale) - Frequently Asked Questions (FAQs)**

#### **What is the Regulation SHO Short Sale Circuit Breaker?**

- ☐ The Securities and Exchange Commission ("SEC") has adopted amendments to Regulation SHO under the Securities Exchange Act of 1934 to implement a short sale-related circuit breaker that, if triggered, will restrict the prices at which securities may be sold short and to impose a "short exempt" marking requirement.

#### **When will the Short Sale Circuit Breaker be implemented?**

- ☐ Compliance is scheduled for February 28, 2011.

#### **How will the CBSX comply with Rule 201 of Regulation SHO?**

- ☐ The CBSX has new responsibilities under the Rule as an executing market. The primary listing markets (NYSE, NYSE ARCA, NYSE AMEX and NASDAQ) will determine whether the Rule 201 price test has been triggered when a transaction in a listed security has occurred at a price 10% or more below the previous day's closing price. Once the CBSX has received notification that the price test has been triggered, CBSX will systemically prevent the execution of short sale orders at or below the current National Best Bid ("NBB") in that security, unless that short sale is exempt under Rule 201 and has been marked "Sell Short Exempt" by the order sender.

#### **How will the Short Sale Circuit Breaker work?**

- ☐ The short sale restriction will remain in effect for the remainder of the trading session **and** the following business day. If, on day 2, the price of the security falls by an additional 10%, the short sale restriction will be carried over to day 3, and so on.

#### **What type of notification will the CBSX provide for stocks that have hit a Short Sale Circuit Breaker?**

- ☐ No notification will be provided.

### **What if there is no previous day's closing price?**

- ☐ If a listed security was halted during the prior trading day or did not trade at all, the Primary Listing Exchange will use the last sale price for that security, on whatever day it occurred.

### **Will the Short Sale price test / restriction apply on the first day of a new offering?**

- ☐ No.

### **How will the CBSX handle orders when a Short Sale Circuit Breaker is triggered?**

- ☐ CBSX will accept an order marked "Sell Short" only if it is priced **above** the NBB at the time of entry. Any attempt to enter an order or cancel-replace order marked "Sell Short" priced at or below the NBB will cause the Sell Short order to be cancelled from the CBSX book.

### **Can I enter Short Sale Orders marked Exempt?**

- ☐ Yes. CBSX will accept orders marked "**Sell Short Exempt**". However, it is the client's responsibility to determine when it is acceptable to submit Sell Short Exempt orders to the CBSX. Market Participants are instructed to reference SEC Rule 201(d) for education on the situations that qualify for an exemption including when the price test restrictions in the relevant security are not in effect (i.e. the circuit breaker has not been triggered in the particular security).

### **How should my orders/quotes be marked when I am selling more than a prior long position?**

- ☐ Such orders must be split into 2 orders; the first order should be marked long based on the balance of the long position, the second order should be marked short. In all cases, a broker-dealer must always mark sell orders on the basis of its net position in the security in accordance with Rule 200 of Regulation SHO.

### **Can I test the new Short Sale Circuit Breaker code?**

- ☐ Yes, the CBSX will participate in the industry-wide testing scheduled for February 26, 2011. Please contact the CBSX Help Desk at 866-458-2279 / [cbsxhelpdesk@cboe.com](mailto:cbsxhelpdesk@.cboe.com).

### **Has the SEC issued guidance on Rule 201 of Regulation SHO?**

- ☐ Yes, compliance with the new rule is required as of February 28, 2011. The SEC's FAQ can be viewed at <http://www.sec.gov/divisions/marketreg/rule201faq.htm>

### **Where can I direct my questions regarding this change?**

- ☐ Functionality Questions: CBSX Help Desk at 866-458-2279
- ☐ Regulatory Questions: 312-786-7315