

Regulatory Circular RG15-088

Date: May 29, 2015

To: Trading Permit Holders
From: CBOE Business Development Division
RE: New Rule 6.79—Floor Broker Practices

Effective May 30, 2015, new Rule 6.79 will replace CBOE Regulatory Circular RG95-49 (See SR-CBOE-2015-030). New Rule 6.79 sets forth requirements for floor brokers related to the liquidation or reduction of error account positions, erroneously executed orders, lost or misplaced market orders, legging multi-part orders, print-throughs, stopping orders, and documentation of errors and record keeping requirements. The purpose of this circular is to highlight particular provisions of Rule 6.79. Please see Rule 6.79 and SR-CBOE-2015-030 for a complete description of the requirements of Rule 6.79.

If moving a client's position into the floor broker's error account requires the broker to make a change in CTM to the series; quantity; buy or sell; premium price; or the origin code from "C" to any other origin code, the floor broker must follow the procedures set forth in Rule 6.67 and RG15-072.

Liquidation or Reduction of Error Account Positions:¹

A floor broker may personally represent an order that will liquidate or reduce the broker's error account position ("liquidation order"); however, a liquidating floor broker may not cross a liquidation order with a client's order also represented by the liquidating floor broker, unless the liquidating floor broker either:

- 1) prior to executing the orders, the liquidating floor broker informs the client of the broker's intention to execute the client's order against an order for the floor broker's error account and the client does not object;
- 2) the liquidating floor broker sends the liquidation order to an unassociated broker (i.e., any broker who is not directly or indirectly controlling, controlled by, or under common control with the liquidating floor broker); or
- 3) the liquidating floor broker sends the client's order to a PAR Official.

For 1 through 3 above, the client's order must either be displayed in the relevant order book or announced in open outcry in accordance with Rule 6.74.

In addition, for 1 through 3 above, floor brokers must notify the Exchange of the execution of the liquidation order by 7:30 a.m. CT on the first trading day following the execution by:

Sending an email to Rule679@CBOE.com with "Rule 6.79" in the subject line of the email and a completed CBOE Change Form² attached (an OMT drop copy may be used in place of section C on the form).

¹ Several provisions of Rule 6.79 allow a floor broker to execute a client's order out of the floor broker's error account (i.e., provide a fill to the client's order via the broker's error account). If executing a client's order out of the floor broker's error account will reduce or liquidate a position in the floor broker's error account, the floor broker must follow these procedures related to the liquidation or reduction of error account positions.

² The CBOE Change Form is located at <https://www.cboe.org/members/generalinfo/memberforms.aspx#misc>.

For all other liquidation orders (i.e., liquidation orders that do not execute against an order for a client of the liquidating floor broker), notification will be satisfied by:

- 1) Including the floor broker's error account number in the account field (i.e., "ACCT" field on FBW or PULSe)³ on the liquidation order or
- 2) Sending an email to Rule679@CBOE.com with "Rule 6.79" in the subject line of the email and a completed CBOE Change Form attached (an OMT drop copy may be used in place of section C on the form) by 7:30 a.m. CT on the first trading day following the execution.

Erroneously Executed Orders:

Orders erroneously executed (e.g., executing a call order as a put or a buy order as a sell) on the Exchange must clear in the error account of the floor broker that executed the erroneous order, unless the erroneously executed orders are nullified pursuant to a mutual agreement under Rule 6.25.⁴ It shall be considered conduct inconsistent with just and equitable principals of trade and a violation of Rule 4.1 for a floor broker to give a trade acquired through an error to another Trading Permit Holder or for a Trading Permit Holder to accept a transaction that another Trading Permit Holder acquired through an error.

If a floor broker discovers an order was erroneously executed on the Exchange and a better price is available at the time the error was discovered, the client's order is entitled to be executed at the better price. If a better price is not available, then the floor broker is responsible at the price at which the client's order should have been executed, and the floor broker shall either:

- 1) execute the client's order at the available market and give the client a "difference check" or
- 2) execute the client's order out of the floor broker's error account⁵ and notify the Exchange⁶ of the execution **within 15 minutes after the close of the trading session during which the execution occurred by:**

Sending an email to Rule679@CBOE.com with "Rule 6.79" in the subject line of the email and a completed CBOE Change Form attached (an OMT drop copy may be used in place of section C on the form).

Lost or Misplaced Market Orders:

If a floor broker fails to execute a market order, the client's order is entitled to an execution on up to the size of the disseminated bid or offer at the time the order was received or at a better price if it is available at the time the error is discovered. If a better price or the price the client's order is entitled to is not available at the time the error is discovered, the floor broker shall either:

- 1) execute the client's order at the available market and give the client a "difference check" or

³ If utilizing an alternative system, please contact the Regulatory Interpretations and Guidance team at reginterps@cboe.com or (312) 786-8141 in order to identify the proper field.

⁴ See Rule 6.25 and RG15-074 for a complete description of the procedures to be followed with regards to mutual agreements to nullify or adjust the price of a transaction, as well as Exchange mandated nullifications or adjustments pursuant to Rule 6.25.

⁵ Executing the client's order out of the floor broker's error account may involve adding a trade record in the Continuous Trade Match ("CTM") system. Adding a trade record in CTM pursuant to Rule 6.79 is outside the scope of Rule 6.67 and RG15-072. Therefore, TPHs adding a trade record in CTM pursuant to Rule 6.79 should follow the procedures outlined in Rule 6.79 and this circular instead of the procedures set forth in Rule 6.67 and RG15-072.

⁶ Upon receipt of the required notifications the Exchange will report the transaction as late or out of sequence if applicable.

- 2) execute the client's order out of the floor broker's error account and notify the Exchange of the execution **within 15 minutes after the close of the trading session during which the execution occurred by:**

Sending an email to Rule679@CBOE.com with "Rule 6.79" in the subject line of the email and a completed CBOE Change Form attached (an OMT drop copy may be used in place of section C on the form).

If the unexecuted market order is in excess of the disseminated bid or offer at the time the order was received, the execution price on the additional contracts shall be negotiated between the floor broker and client.

Legging Multi-Part Orders:

A floor broker is not restricted from legging multi-part orders. For the purposes of this Rule, multi-part orders include complex orders, stock-option orders, and futures and option orders where one of the legs is executed on the Exchange. If a broker executes a leg of a complex option order, for example, the price of the remaining leg of the order must be within the current disseminated market (e.g., when a broker executes the buy side, the price of the sell side of the order must be at the disseminated offer price or lower). If a floor broker is unable to complete the execution of an order that the floor broker has legged, the floor broker must either:

- 1) offer the executed leg to the client;
- 2) liquidate the leg and then offer the trade, regardless of whether it's a profit or loss, to the client;
- 3) execute the remaining leg(s) of the order at the available market and give the client a "difference check"; or
- 4) execute the client's order out of the floor broker's error account and notify the Exchange of the execution **within 15 minutes after the close of the trading session during which the execution occurred by:**

Sending an email to Rule679@CBOE.com with "Rule 6.79" in the subject line of the email and a completed CBOE Change Form attached (an OMT drop copy may be used in place of section C on the form).

The floor broker must document the time and to whom the offer noted in 1) and 2) above was made and retain this record.

Print-throughs:

A print-through on a limit order occurs when a trade is effected at a better price than the order's limit during the time that the order should have been represented in the crowd. The order that is 'printed-through' is entitled to the number of contracts which trade through the order's limit up to the number of contracts specified in the order. Generally, the order that is 'printed-through' should be given a better price if it is available at the time the error is discovered. However, under certain circumstances, such as a systems failure, where a large number of orders were not received or receipt was delayed, it would not be improper for a floor broker to execute the client's order at the original limit price rather than the better price. A floor broker shall generally proceed as follows when a print-through has occurred:

If a floor broker discovers a print-through and a better price is available at that time, the client's order is entitled to be executed at the better price. If a better price is no longer available, then the floor broker is responsible at the original limit price and the floor broker shall either:

- 1) execute the client's order at the available market and give the client a "difference check" or



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- 2) execute the client's order out of the floor broker's error account and notify the Exchange of the execution **within 15 minutes after the close of the trading session during which the execution occurred by:**

Sending an email to Rule679@CBOE.com with "Rule 6.79" in the subject line of the email and a completed CBOE Change Form attached (an OMT drop copy may be used in place of section C on the form).

If a print-through occurs on the opening, the order that is 'printed-through' is entitled to the number of contracts which print through at the opening price. If a better price than the opening price is available at the time the error is discovered, the client's order shall be filled at the better price; if a better price is not available, the floor broker shall either:

- 1) execute the client's order at the available market and give the client a "difference check" or
- 2) execute the client's order out of the floor broker's error account and notify the Exchange of the execution **within 15 minutes after the close of the trading session during which the execution occurred by:**

Sending an email to Rule679@CBOE.com with "Rule 6.79" in the subject line of the email and a completed CBOE Change Form attached (an OMT drop copy may be used in place of section C on the form).

Additional Information:

Operational questions may be directed to CBOE Market Services at marketservices@cboe.com or (312) 786-7950. Regulatory questions regarding this circular may be directed to the Regulatory Interpretations and Guidance team at reginterps@cboe.com or (312) 786-8141.