

Regulatory Circular #RG93-55

Date: October 18, 1993

To: Floor Members

From: Office of the Chairman

Re: RAES Systems Enhancements / Trade or Fade Rule

As discussed at the crowd representative meeting of October 13, 1993, the Exchange is currently engaged in an effort to install enhancements to the RAES system in multiply traded options. The enhancement will prevent a RAES order from being executed at a price inferior to the price which is being quoted by another exchange trading the same option class. The pilot, which is currently in place at 12 trading stations, will be expanded over the next several weeks to the balance of the floor.

In connection with the RAES system changes described above, CBOE and other options exchanges have filed "trade or fade" rules which will assure that a market maker/specialist order which is sent to a competing exchange to hit the displayed bid or offer will either be executed or cause the displayed market to be changed to reflect the non-execution of the order.

Most of the options exchanges believe that trade or fade rules will facilitate the orderly execution of customer orders in multiply traded option classes and will help minimize the number of trade-throughs. The SEC staff has indicated that approval of the trade or fade rules is likely at an early date. We request that all members conduct their business as though the rule is in place. We understand that most of the other exchanges have committed to operate in the same manner. Thank you.