

Regulatory Circular No. #94-38

Date June 7, 1994

To: Members and Member Firms

From: Market Performance Committee

Re: Triple Weighting of Option Classes

Rule 8.7 authorizes the Market Performance Committee to assign a weighting factor based on volume to one or more classes or series of option contracts. According to the Rule, this weighting may be applied in connection with the requirement that market makers execute 75% of their contract volume in their appointed classes and 25% of their transaction volume in person and not through the use of orders. Historically, weightings have been applied to classes in low volume trading crowds in order to permit those market makers who conduct the majority of their business in those crowds to enter orders in other locations on the floor without being penalized for doing so. As a result, the Market Performance Committee assigned a triple weighting factor to the lower one-half of all option classes in terms of contract volume level.

Today, the Exchange lists equity options on more than 570 underlying securities, thus, more than 285 of those option classes receive triple weighting. Due to these factors as well as changes in the market place and market makers' understanding of their responsibilities and function, the Market Performance Committee has determined that it is no longer necessary to assign a weighting factor to any group of option classes. **Therefore, beginning on October 1, 1994, the Market Performance Committee will discontinue the policy of assigning a weighting factor to option classes traded on CBOE.** The Committee will however, reserve the right, as provided under Rule 8.7, to weight option classes on a case-by-case basis.

Any questions regarding weighting of option classes may be directed to Market Performance Committee Members or to Daniel Hustad at 786-7715.

Date: May 31, 1994
To: Floor Directors
From: Market Performance Committee
Re: Triple Weighting of Option Classes

At recent meetings, the Market Performance Committee reviewed the benefits of assigning a weighting factor to option classes traded on CBOE. The Committee's review included a study of the potential negative impact to market makers if the Committee were to discontinue the practice of assigning a triple weighting factor to the lower one-half of all option classes (in terms of contract volume) traded on CBOE. The Committee concluded that discontinuing the practice of assigning a weighting factor to option classes would affect a minimal number of market makers in terms of their ability to meet their 25% and 75% obligations under Rule 8.7 and the ability of market makers to comply with the new provisions of Rule 8.1, when the Exchange receives approval from the Securities and Exchange Commission.

The Market Performance Committee has determined to apprise the Floor Directors of this change in policy due to the effect it may have on the manner in which a handful of market makers conduct their business.