Date: January 14, 1997

To: Members and Member Organization

From: Operations Planning Division

Re: SEC Order Execution Rules

The Securities and Exchange Commission ("SEC") has adopted new rules, scheduled to be phased in beginning on January 20, 1997, concerning the market making obligations and order handling responsibilities of market makers and specialists in stocks and other securities underlying listed option classes. **Although these rules do not directly apply to the trading of listed options, implementation of these new rules may have a significant impact on the displayed market quotations for securities underlying CBOE option classes.** Based upon information available to the Exchange, it appears that the impact of these rules will be the greatest in Nasdaq stocks. CBOE market makers and DPMs should be aware that the implementation of these rules may cause a change in the historical spreads and quoted size of the displayed markets for the securities underlying option classes they trade. The new rules are known as the Limit Order Display Rule (Rule 11Ac1-4 under the Securities Exchange Act of 1934) amendments to the Quote Rule (Rule 11Ac1-1 under the Act).

The Limit Order Display Rule

The Limit Order Display Rule will require stock exchange specialists and OTC market makers to immediately include in their market quotation both the price and the full size of each customer limit order which they represent as agent if the order would improve their quoted bid or offer, or increase the size of such bid or offer. Although there are various interpretations and exceptions to this new rule, customer limit orders which were previously not required to be reflected in the displayed market quotation must now be displayed. The new Limit Order Display Rule and related NASD rule changes (which will reduce the minimum quote size requirements for Nasdaq market makers) may result in the displayed market for certain underlying stocks being narrower and for smaller size than previously existed. **As an example, stock ABCD, which was previously quoted 19 - 19⅞ (1000 x 1000), may now be quoted 19½ - 19⅞ (100 x1000), followed by a quote of 19 - 19⅞ (1000 x 100).** Since the mid-point of the stock bid-ask is normally used to drive autoquote, market makers and DPMs in option classes overlying Nasdaq stocks should be aware of this possible change in the character of the displayed market for these stocks when determining autoquote parameters and when making markets in the overlying options generally.

Amendment to the Quote Rule

The Quote Rule has been amended to require stock exchange specialists and OTC market makers to include in their disseminated market quotation any limit order they enter into an electronic communication network ("ECN") if the limit order they placed in the ECN would improve their own market quote or the size of their quote. An ECN has been defined by the SEC as "an electronic system that widely disseminates to third parties orders entered therein by a market maker or specialist, and permits such orders to be executed against in whole or in part". The most well known and most utilized ECN is Instinet. Under a provision of the amendment, the stock exchange specialist or OTC market maker may comply with the new requirement by manually including the terms of the ECN order in his own quotation, or by using a linkage established between the ECN and an exchange or Nasdaq.

We understand that, at this time, Instinet (the ECN most utilized by CBOE market makers and DPMs) will be electronically linked with Nasdaq and that, when requested, Instinet will transmit the limit prices of orders to Nasdaq for inclusion in the Nasdaq quote. CBOE members should contact their stock execution firms regarding possible changes that may occur in the processing of their stock orders as a result of the implementation of the Limit Order Display Rule and the amendment to the Quote Rule.

Implementation Dates

The Limit Order Display Rule and the amendment to the Quote Rule will be implemented in all listed stocks and 50 of the 1000 most actively traded Nasdaq stocks on Monday, January 20, 1997. These rules will be implemented in an additional 100 Nasdaq stocks on February 7, 1997 and will be applicable to the remaining 850 most actively traded Nasdaq stocks on February 28, 1997. The initial fifty Nasdaq stocks are as follows:

INTC	Intel Corporation	FITB	Fifth Third Bancorp
MSFT	Microsoft Corporation	SOTR	South Trust Corporation
CSCO	Cisco Systems, Inc. *	WFMI	Whole Foods Market, Inc.
DELL	Dell Computer Corporation	TNCR	Tencor Instruments
USRX	U.S. Robotics Corporation *	XIRC	Xircom, Inc. *
SUNW	Sun Microsystems, Inc.	VNTV	Vantive Corporation (The) *
COMS	3Com Corporation	APOL	Apollo Group, Inc.
ASND	Ascend Communications, Inc. *	GTIS	GT Interactive Software Corp. *
ORCL	Oracle Corporation *	CDWC	CDW Computer Centers, Inc. *
CSCC	Cascade Communications Corp. *	TREE	Doubletree Corporation
AMGN	Amgen Inc.	HNCS	HNC Software, Inc.
HBOC	HBO & Company	ARSW	Arbor Software Corporation *
PMTC	Parametric Technology Corporation	VISX	VISX Incorporated
QCOM	QUALCOMM Incorporated *	PHSYA	PacifiCare Health Systems, Inc.
SCIS	SCI Systems, Inc. *	SUIT	Men's Warehouse, Inc. (The)
PHSYB	PacifiCare Health Systems, Inc. *	DLTR	Dollar Tree Stores, Inc.
PHYC	PhyCor, Inc.	FSCO	First Security Corporation
OSSI	Outback Steakhouse, Inc. *	HPRT	Heartport, Inc. *
APAC	APAC TeleServices, Inc.	ATLS	Atlas Air, Inc. *
PAYX	Paychex, Inc.	COHR	Coherent, Inc.
ROST	Ross Stores, Inc.	CINF	Cincinnati Financial Corporation
RMDY	Remedy Corporation	NATR	Nature's Sunshine Products, Inc.
DURA	Dura Pharmaceuticals, Inc. *	USFC	US Freightways Corporation
MONE	The Money Store Inc.	OSII	Objective Systems Integrators, Inc.
EVGM	Evergreen Media Corporation	DIIG	DII Group, Inc.

*Stocks underlying CBOE option classes

Questions concerning the SEC Order Execution Rules may be directed to Edward L. Provost, Senior Vice President at 312-786-7717. Questions regarding autoquote parameters should be directed to Tim Watkins at 312-786-7172.