

Regulatory Circular RG 97-83

TO: Members and Member Firms

FROM: Legal Department

DATE: July 2, 1997

RE: OEX-SPX Spreads

On June 26, 1997, the Securities and Exchange Commission approved CBOE rule filing SR-CBOE-97-15, which proposed to establish a new rule to provide spread priority treatment for the transaction of spread orders between SPX and OEX options at either the OEX trading post or the SPX trading post.¹ In order to receive the spread priority, the rule requires that once an OEX-SPX spread order is represented at either the SPX or OEX trading post, notice of that order, including a contact person and a telephone number for the person representing the order, would have to be disseminated to the other trading crowd. Persons in that other trading crowd thus would be given the opportunity to participate in the order. In the OEX crowd, notice of an order first represented in the SPX crowd would be disseminated via a bulletin board message by contacting Frank or Jackie at ext. 4865. In the SPX trading crowd, notice of an order first represented in the OEX crowd would be disseminated via announcement by the OBO at the post. The SPX OBO may be contacted at ext. 4848.

As with single-class spread orders under the current spread priority rule, a bid or offer for an OEX-SPX spread order (for which it has been determined that the order may not be executed by a combination of transactions with the bids and offers displayed in the OEX or SPX customer limit order book or by the displayed quotes of the crowd) made on the basis of a total debit or credit in a multiple of 1/16 would be entitled to spread priority so long as (i) no leg of the order would trade at a price outside the currently displayed bids or offers or bids or offers in the customer limit order books and (ii) at least one leg of the order would trade at a price that is better than the corresponding bid or offer in one of the books. Bids or offers received promptly from the other trading crowd may participate equally with equal bids or offers from the trading station where the order was originally represented. The meaning of promptly will be determined according to the size of the order and other relevant circumstances.

Please review the copy of new Rule 24.18, *OEX-SPX Spread Orders*, attached hereto for further details.

¹ Paragraph (c) of Rule 6.45, *Priority of Bids and Offers*, currently provides a limited exception from the normal time and price priority rules for spread orders. Spread orders are defined in Exchange Rule 6.53(d) to include only those spreads that involve the same class of options on both legs of the spread. Accordingly, absent this rule change an OEX-SPX "spread" would not have been entitled to any exception from the normal priority rules.

Any questions concerning the above may be directed to Greg Rich, Trading Floor Liaison at pager number 9000, or to Craig Johnson, Trading Floor Liaison at pager number 9007, or to any other member of the Trading Floor Liaison.

OEX-SPX Spread Orders

Rule 24.18 (a) (1) An “OEX-SPX spread order” is an order to buy a stated number of OEX (SPX) options contracts and to sell an equal number of SPX (OEX) option contracts.
(2) The “primary trading station” is the trading station, either the OEX trading station or the SPX trading station, where a particular OEX-SPX spread order is first represented.

(b) Notwithstanding any other rules of the Exchange, an OEX-SPX spread order, which is identified as such, may be represented at either the OEX trading station or the SPX trading station, subject to the following conditions:

(i) Immediately after the order is announced at the primary trading station, or concurrent with the announcement, the member initiating the order must contact an OBO at the other trading station to have a notice of such order disseminated to the other trading crowd in a manner approved by the relevant Floor Procedure Committee.

(ii) The notice must specify the terms of the order, a contact person and a telephone number where the member representing the order may be reached at the primary trading station.

(iii) After satisfying the conditions under sub-paragraphs (i) and (ii) above, when a member holding an OEX-SPX spread order and bidding or offering in a multiple of 1/16 on the basis of a total credit or debit for the order has determined that the order may not be executed by a combination of transactions with the bids and offers displayed in the OEX or SPX customer limit order book or by the displayed quotes of the crowd, then the order may be executed as a spread at the best net debit or credit, whether from the primary trading station or from the other trading crowd, so long as (A) no leg of the order would trade at a price outside the currently displayed bids or offers or bids or offers in the customer limit order books and (B) at least one leg of the order would trade at a price that is better than the corresponding bid or offer in one of the books.

(iv) The priority of bids or offers received from the primary trading station will be determined, with respect to each other, by the terms of paragraphs (a) and (b) of Rule 6.45. Bids or offers received promptly from the other trading crowd may participate equally with equal bids or offers from the primary trading station that were received prior to the bids or offers from the other trading station. The meaning of promptly will be determined according to the size of the order and other relevant circumstances.