

Regulatory Circular RG 97-142

To: Option Trading Permit Holders and Members

From: Regulatory Services Division

Re: Trading and Order Procedures for Option Trading Permit Holders

Date: October 31, 1997

This circular is a summary of certain rule provisions that are applicable to Option Trading Permit ("OTP") holders which are set forth in CBOE Rules 3.27, 6.24, 6.51, and 8.7, CBOE Regulatory Circular RG96-32, and other CBOE rules and regulatory circulars. This circular is not intended to be a comprehensive description of these provisions and OTP holders and members are advised to read the full text of the applicable rules and regulatory circulars for more detail.

I. Where OTP Holders May Trade

OTP holders are permitted to execute transactions in the second floor trading area of the CBOE building ("Green Room") in the option classes traded in the Green Room and are permitted to trade by order in the option classes traded in the Green Room. Subject to the provisions of Section II below, OTP holders are also permitted to trade by order in the option classes traded in the third floor trading area of the CBOE building ("Main Trading Floor"), except that they may not do so while physically present on the Main Trading Floor.

In general, OTP holders are not permitted to execute in-person transactions in the option classes traded on the Main Trading Floor. However, an OTP holder may be called to the Main Trading Floor pursuant to CBOE Rule 7.5 to make markets in a class of options in which a transaction was effected for the OTP holder's account on the day of the call.

II. OTP Holder Distribution Requirements

OTP holder market-makers and DPMs are required to satisfy the following distribution requirements in each calendar quarter:

- 1) At least 75% of the OTP holder's contract volume must be in option classes that are traded in the Green Room.
- 2) At least 25% of the OTP holder's total transactions must be in-person transactions.
- 3) An OTP holder's total contract volume in option classes traded on the Main Trading Floor that were not dually traded on the CBOE and the New York Stock

Exchange ("NYSE") on April 25, 1997 ("Non-NYSE Duals") may not exceed 20% of the sum of:

- A) the OTP holder's in-person contract volume as principal in option classes traded in the Green Room; plus
- B) the OTP holder's contract volume as principal in option classes traded on the Main Trading Floor that were dually traded on both the CBOE and the NYSE on April 25, 1997.¹

III. OTP Holder Orders Entitled to Favorable Margin and Capital Treatment

As is more fully described in CBOE Regulatory Circular RG96-32 (attached), on-floor orders initiated by an OTP holder market-maker or DPM in option classes traded in the Green Room are entitled to favorable margin and capital treatment. Similarly, on-floor orders initiated by an OTP holder market-maker or DPM in option classes traded on the Main Trading Floor are entitled to favorable margin and capital treatment as long as the OTP holder satisfies the 20% distribution requirement described in Section II, Item 3 above.

Failure to satisfy the 20% distribution requirement described in Section II, Item 3 above is a violation of Rule 3.27, and any contract volume in Non-NYSE Duals in excess of this 20% distribution requirement is not entitled to favorable margin and capital treatment.

For an order initiated by an OTP holder to be considered an on-floor order, the OTP holder must initiate the order while physically present in the Green Room and must be physically present in the Green Room during the time the order is being represented with only limited absences of short duration. Any other type of order initiated by an OTP holder shall be considered an off-floor order, including any order initiated by an OTP holder from any location other than the Green Room.

Off-floor orders initiated by OTP holder market-makers and DPMs that result in opening transactions are not entitled to favorable margin and capital treatment, unless the OTP holder meets the 80% in-person requirement set forth in CBOE Rule 8.7.03(B) and the transaction qualifies as an eligible transaction under that Rule. Specifically, Rule 8.7.03(B) provides that: "[F]or any calendar quarter in which a Market-Maker receives Market-Maker treatment for off-floor orders in accordance with Rule 8.1, . . . the Market-Maker must execute in person, and not through the use of orders, at least 80 percent of his total transactions. The off-floor orders for which a Market-Maker receives Market-Maker treatment shall be subject to the obligations of Rule 8.7(a) and in general shall be effected for the purpose of hedging, reducing risk of, rebalancing or liquidating open positions of the Market-Maker."

¹The following is an example calculation of this 20% distribution requirement. During a calendar quarter, an OTP holder (i) effects in-person trades as principal totaling 10,000 contracts in option classes traded in the Green Room and (ii) has contract volume as principal totaling 5,000 contracts in option classes traded on the Main Trading Floor that were dually traded on the CBOE and NYSE on April 25, 1997. As a result, in that calendar quarter, the OTP holder's contract volume in option classes traded on the Main Trading Floor that were not dually traded on the CBOE and NYSE on April 25, 1997 may not exceed 3,000 contracts. The following is the calculation for this example: $(10,000 + 5,000) = 15,000 \times 20\% = 3,000$

IV. Procedures for Completing Order Tickets

Only OTP holder orders which are eligible for favorable market-maker margin and capital treatment may be cleared into an individual or DPM market-maker account. Orders that are initiated by an OTP holder which are not eligible for favorable market-maker margin and capital treatment are required to be cleared into the OTP holder's customer account.

The sample order tickets pictured in Attachments A and B to this circular set forth the information that is required to be provided for an OTP holder order to clear into a market-maker account (see Attachment A) and the proper information that is required to be provided for an OTP holder order to clear into the OTP holder's customer account (see Attachment B).

Any questions regarding this circular may be directed to Ann Grady at 786-7733 or Daniel Hustad at 786-7715.