

Regulatory Circular RG 97-36

TO: Members and Member Firms

FROM: Legal Department

DATE: March 12, 1997

RE: OEX-SPX Spreads

**Pending approval of the rule filing described below, in order to execute OEX-SPX “spreads,” the OEX and SPX components must be executed in each respective crowd as further explained below.**

**Pending Rule Filing**

The Exchange has submitted a rule filing (SR-CBOE-97-15) to the Securities and Exchange Commission (“SEC”) which proposes 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.<sup>1</sup> In order to receive the spread priority, the rule would require 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 that contact person, 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. Notice would most likely be disseminated to the other trading crowd via a bulletin board message. As with single-class spread orders under the current spread priority rule, an OEX-SPX spread would be entitled to spread priority if the bid or offer bettered the book on one side and only matched the book on the other side.

**Current Procedure to Execute OEX-SPX “Spreads”**

Until the aforementioned rule filing is approved by the SEC or in cases where the trader is not interested in receiving the spread priority protection, a trader wishing to represent an order for OEX versus SPX should arrange to have each leg of the order represented at its respective post by open outcry in order to satisfy Exchange Rule 6.43. The leg may be characterized as part of a “spread” and the other leg of the order may be mentioned in representing that leg. However, as with all other orders each leg must be individually subject to participation by a trader in the pit where that option is traded in accordance with the time and price priority rules set forth in Rule 6.45(a) and (b). Additionally, the solicitation (Rule 6.9) and crossing (Rule 6.74) rules apply individually to each leg.

Any questions concerning the above may be directed to Craig Johnson (ext. 7939) or to any other member of the Trading Floor Liaison.

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<sup>1</sup> 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, an OEX-SPX “spread” is not be entitled to any exception from the normal priority rules under current rules.