Regulatory Circular RG98-43

Date: April 28, 1998

To: Membership

From: Office of the Chairman

Re: Representation of “Go Along” Orders

The circular is being issued to set forth the Exchange’s policy against the representation or execution of “go along” orders (as further described below) on the floor of the Exchange. The representation or execution of such orders will be considered an act inconsistent with just and equitable principles of trade pursuant to Exchange Rule 4.1

**Definition of “Go Along” Orders**

A “go along” order, or a “not held with the crowd” order, is an order that instructs a floor broker to bid (offer) on a contract only (i) when particular market-makers in the trading crowd are bidding (offering) on that contract and (ii) at the price or prices established by such market-makers in the trading crowd. The prohibition of “go along” orders does not limit a broker’s proper use of discretion in representing an order on behalf of a customer. Instead, the prohibition is intended to prohibit a floor broker from accepting a specific instruction to trade in a manner that mimics the trading behavior of one or more market-makers.

Generally, the customer will specify whether the order is to buy or sell, the number of contracts, the series, and the strike price. Typically, the floor broker will be instructed to buy when the majority of the market-makers participating on a trade are buying or to sell when the majority of the market-makers participating on a trade are selling. These orders often are placed by market-making firms as a side business, by upstairs broker-dealers who want to participate in “market making,” and by specialists on other exchanges. These orders are entered in both multiply-traded and singly listed option classes.

**Rationale for Prohibition**

The CBOE believes that the proliferation of “go along” orders interferes with the risk-reward trade-off of Exchange market-making. Essentially, those market participants, generally professional traders, who enter “go-along” orders are attempting to accept the rewards of market making without accepting any of the risks. In addition, by their nature, these orders do not provide any incremental liquidity or price discovery because the market participant entering the “go along” order is merely trading at a price at which the market-makers were willing to trade. These market participants, as customers, however, are not obligated to fulfill any of the obligations of market-makers and their activity is not necessarily subject to Commission or Exchange oversight. These orders can be entered from off the floor of the exchange and can be canceled at the complete discretion of the customer. Therefore, these orders dilute the participation of those market-makers who do provide liquidity on a continual basis both in good times and in bad.

Questions regarding the above policy may be directed to Timothy Thompson. Legal Department, at 786-7070.