



LaSalle at Van Buren
Chicago, IL 60605

Regulatory Circular RG98- 60

Date: June 5, 1998

To: Members and Member Firms

From: Equity Floor Procedure Committee

RE: RAES Automatic Step-Up to National Best Quote

In recent years, due to our customer's desire to achieve the best possible execution and heightened competition between options exchanges, the CBOE has increasingly been driven to respond to the challenge of being the premier marketplace. We have led the way with innovation and continued support for customer service. Our membership has responded to better price situations at competing exchanges by manually stepping up to the competitor's quote the majority of the time. In the interest of maintaining the best possible environment for our customers, a rule filing, approved by the Equity Floor Procedure Committee and Floor Directors, is pending with the SEC to allow RAES to "step-up" the execution price by one tick if the National Best Quote for an option is better by one tick at a competing exchange. The CBOE plans to apply this procedure to all multiply listed classes floorwide. The implementation is planned to begin June 22, 1998, pending SEC approval.

The automatic "step-up" increment will be one tick, meaning 1/16 under \$3 and 1/8 for options trading \$3 and above. For example, if the CBOE market was 4 bid at 4 1/4 offer, and another exchange was 4 1/8 bid, a RAES-eligible market sell order automatically would trade at 4 1/8 on RAES, with a CBOE market maker on the opposite side of the transaction. The RAES "step-up" trade would take place automatically without crowd or OBO/DPM intervention. Normal RAES notifications will occur; no special indications will show a "step-up." If a market quote at a competing exchange is more than one tick better than the CBOE market, RAES-eligible orders will not execute automatically. In that case, the order will reject for manual handling as it does today.

Please Note: If the Book quote is matching the market quote, RAES will redirect the order to PAR. Thus, when this Book-touches-market condition occurs, regardless if a one tick better market exists elsewhere, RAES orders will be redirected to PAR. The rule filing submitted to the SEC proposes that at the discretion of the Chairman of the Equity Floor Procedure Committee, relief from these "step-up" procedures may be granted on an individual class basis or on an exchange by exchange basis, if a particular marketplace is disruptive by consistently disseminating inaccurate or unexecutable quotes.

Questions relating to these changes may be directed to Tim Watkins at (312) 786-7172 or Tom Brady at (312) 786-7775.