

Regulatory Circular RG98-68

TO: MEMBERS

FROM: DEPARTMENT OF MARKET REGULATION

RE: CONTRARY EXERCISE ADVICE (CEA) PROCEDURES

DATE: JUNE 22, 1998

This circular is to remind members that CBOE Rule 11.1 Interpretations and Policies .06 requires that a Contrary Exercise Advice (CEA) be submitted any time a market-maker or clearing member, on behalf of its proprietary account or one of its customer accounts, exercises an "out-of-the-money" expiring equity option position or does not exercise an "in-the-money" expiring option position, as defined by OCC Rule 805.¹ The clearing member or market-maker must submit a CEA to the Exchange for all such exercises by 4:30 p.m. (CT) on Expiration Friday. It should be noted that this rule was adopted in conjunction with rules adopted by the NASD and other U.S. options Exchanges who are members of the Intermarket Surveillance Group.

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KEY POINTS TO REMEMBER

- The exercise cut-off time for the submission of a CEA is 4:30 p.m. (CT) on Expiration Friday.
- A CEA must be time stamped and submitted to one of the RED Advice drop boxes that are located at the first floor CBOE trade match window and most market-maker clearing firms.
- Members must submit separate instructions to their clearing firms to exercise contrary to OCC Rule 805 or not exercise an in-the-money expiring equity option.
- CEA's for non-member customer accounts may be submitted directly to OCC via C/MACS before the 4:30 p.m. (CT) cutoff time.

For further information, please contact Patricia Cerny at (312) 786-7722 or Karen Charleston at (312) 786-7724 in the Department of Market Regulation.

¹ Expiring equity options that are 3/4 of a point or more in-the-money for customer accounts and 1/4 of a point or more for firm or market-maker accounts are automatically exercised. Expiring options that are below those parameters will be exercised only if the OCC clearing member holding the position submits an "Exercise Notice" to OCC. In addition, notice must be given to OCC to NOT exercise an in-the-money expiring equity option.