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Regulatory Circular RG98-101

September 29, 1998

To: Members

From: Clearing Procedure Committee

Re: Market Maker Terminal - Electronic Trade Notifications

This regulatory circular is being issued to remind market maker terminal users of their obligation to quickly and accurately respond to Electronic Trade Notifications (ETNs). Approximately five months ago, the Exchange completed the rollout of its ETN enhancement, for both CBOE and Non-CBOE market maker terminals. ETN is a delivery interface between the Electronic Book, floor broker workstations (PAR, Mobile PAR) and market maker terminals (MMTs). When a market maker using an MMT executes a trade with the book or a broker using a PAR or Mobile PAR terminal, an ETN is delivered to the MMT. This ETN is a notice that the OBO or floor broker has designated the market maker as a party to the trade. The market maker then has the option of accepting, rejecting or manually entering the trade.

Market makers using MMTs should make every effort to respond to ETNs as quickly and accurately as possible. Exchange Rule 6.51 requires that both the buyer and seller shall immediately and accurately record the trade information on either an electronic storage medium or paper ticket. Market makers who fail to respond to an ETN in a timely manner may be in violation of this rule. For purposes of this notice, the process of accepting or immediately entering the trade manually in the terminal constitutes acceptance of the trade.

Additionally, market makers who accept ETNs for trades they are not party to, can be found in violation of Exchange rule 6.61, which states that members shall not accept any transaction in which they were not involved. In order to prevent problems arising from ETNs accepted in error, members should review their trades and positions intraday as well as prior to the following trade day. Should a discrepancy be found, the market maker must immediately contact their clearing firm as well as notify the opposing party.

Questions or comments concerning this memo may be directed to Patrick Fay at 786-7520, Charlie Hulihan at 786-7176 or Hugh O'Neill at 786-7952.