CBOE
CHICAGO BOARD OPTIONS EXCHANGE

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Regulatory Circular RG99-220

Date:　November 22, 1999
To:　　CBOE Members and Member Firms
From:　Trading Operations
Re:　　Automated Book Priority (ABP)

Effective November 23, 1999, the CBOE will implement a new system enhancement, the Automated Book Priority (ABP). ABP will allow incoming RAES-eligible orders to automatically trade against EBOOK orders when the book matches the market. Previously, under this condition, in all classes except OEX, DJX and IBM, RAES-eligible orders would route to PAR as BTM (Book Touches Market) rejects. On 11/23/99, ABP will be activated at: CWY (Post 1, Station 10); HWP (Post 4, Station 5); MRK (Post 4, Station 10); and APA, ESV, SAQ (Post 11, Station 4). A schedule for rollout to the remainder of the trading floor will be developed by the appropriate Floor Procedure Committees. Details of the functional changes are described below. If you have any questions, please contact Anthony Montesano at (312) 786-7365, Tim Watkins at (312) 786-7172, or the CBOE Help Desk at (312) 786-7100.

RAES-Eligible Order Trades with EBOOK; Balance Trades with RAES Wheel
If CBOE is the NBBO, and the book market reflects the best bid (offer), incoming RAES-eligible sell (buy) orders will automatically trade against the book order. If the book does not have enough quantity at that best price to satisfy the entire quantity on the incoming RAES-eligible order, the balance of that order will trade against the next market maker(s) up on the RAES wheel, at the same price.
Example 1: CBOE market is 5 - 5 1/8 and EBOOK contains an order to BUY 15 contracts for $5.

A RAES-eligible order is received to SELL 10 at MKT
- 10 contracts will automatically trade against the book at a price of $5.
- 5 contracts will remain in EBOOK.

Subsequently, another RAES-eligible order is received to SELL 20 at MKT
- 5 contracts will trade against the book at a price of $5.
- The balance of 15 contracts will trade against the RAES wheel at a price of $5.

ABP Trades will be Prevented if the AutoQuote Locks or Crosses the Book Market
If AutoQuote or VendorQuote is attempting to lock or cross the book, the book order prevents the quote update. In such cases, ABP trades will not be allowed and incoming orders will be routed to PAR or BART (depending on the firm's parameters).
Example 2: CBOE market is 5 – 5 1/8, with a book order to SELL at $5 1/8.

- AutoQuote and / or VendorQuote is attempting to generate a quote of 5 1/8 – 5 ¼.
- Incoming BUY orders will not take the EBOOK OFFER but will route to PAR or BART.

NBBO Will be Checked Before Allowing ABP Trades with EBOOK
If CBOE is not the NBBO and an EBOOK order represents the best CBOE market, an incoming RAES-eligible order will not trade with EBOOK. Instead, RAES will attempt to automatically "step up" to the NBBO. If the NBBO is 1 tick better than the CBOE market, RAES will execute at the NBBO. If the NBBO is more than 1 tick better, the order will route to PAR as an NBBO REJECT.

**IMPORTANT*: Since the presence of an EBOOK order which matches the market will no longer "block" RAES executions, it is now possible for RAES to "step up" to a price which improves the CBOE disseminated market by only 1 tick, while actually improving the market makers' quote by more than 1 tick.*
Example 3: RAES-eligible BUY order
- CBOE disseminated market is 5 - 5 1/4 because EBOOK has a $5 1/4 offer.
- Crowd quote is 5 - 5 3/8.
- AMEX offer is 5 1/8 (i.e.1 tick better than the CBOE market and 2 ticks better than the crowd quote).
- RAES automatic "step up" is set to 1 tick

A RAES-eligible BUY order will automatically execute against the wheel at a "stepped up" price of $5 1/8, which is only 1 tick better than the CBOE market, but 2 ticks better than the AutoQuote, or crowd market. Please note that the RAES NBBO step-up feature was modified on September 30, 1999, to protect against situations in which CBOE market makers would be assigned by RAES to BUY for more than they would SELL (refer to Regulatory Circular RG99-193). THESE PROTECTIONS WILL STILL APPLY.

Executing Broker "ZBK" The executing broker on an incoming RAES-eligible order that trades against EBOOK will be "ZBK". The contra broker will be the book acronym, and the contra firm will be the firm(s) owning the EBOOK order(s). Conversely, the contra broker on the EBOOK trade will be "ZBK", and the contra firm will be the firm on the incoming order. If a balance of the order trades against the RAES wheel, that portion of the execution will show an executing broker of "ZZZ", and the contra broker/firm will be that assigned by the wheel.

Overhead Displays Each ABP trade will generate a LAST SALE. Trading floor display screens, including RCN overheads, DCNs, WDNs and WPTs, will display an "A" (for ABP) next to the LAST price. It is important to note that if an incoming order trades partially against the book with the balance against the wheel, the RAES trade against the wheel will immediately update the LAST SALE indicator from an "A" to an "R".

MDR The trade will be logged to MDR (Time-and-Sales) with a prefix of "ABP". If there is a balance on the incoming order which trades against the RAES wheel, that trade will be logged separately, with a prefix of "RAES".

Printed "NAMES LATER" Notification An EBOOK "**NAMES LATER**" ticket will print each time a book order is automatically hit by an incoming RAES-eligible order. The firm on the incoming order can be identified by the clearing number associated with the contra acronym, "ZBK", on the ticket.

Queuing of RAES-Eligible Orders When EBOOK Clerks "Reserve" a Series
When EBOOK clerks enter a trade, they must "reserve" the book quantity as an initial step. While the quantity is reserved, ABP trades will not be allowed. Instead, incoming RAES-eligible orders will queue (unless eligible for NBBO step-up) until the clerk completes the trade. Once the trade is complete, all queued orders will be released and will be re-routed through the system again, just as if they were new orders. These orders may still trade against the book, if there is book size remaining after the clerk completes the trade. If the book is gone, but the order is still RAES-eligible, it will be executed against the wheel. Please note that these trades may execute against a new market quote since the removal of the book may cause the quote to update. If it is no longer RAES-eligible, it will route to EBOOK, Live Ammo, PAR or BART, depending on the quote, parameters, order premium and size.

IQOD Messages:
Page 1, "ROUTED TO: ABP" = Order was initially routed to ABP and at least partially traded against EBOOK.
Page 1, "ROUTED TO: QUEUE" = Order was eligible to trade against EBOOK but was initially queued because an EBOOK clerk had the series reserved for trading when the order was first received.
Page 2, "TR WTH BOOK" = A RAES-eligible order traded against an EBOOK order.
Page 2, "RT ORD RAES" = This message will be displayed, in addition to the above, if the balance of an ABP order trades against the RAES wheel.
Page 2, "RT ORD QUEUE" = The order was eligible to trade against EBOOK, but an EBOOK clerk had the series reserved for trading when the order was received. The order will be released from the queue when the trade is complete. A subsequent activity segment will follow this message.

BERS Response Messages
"<firm branch/sequence number> <ors-id> - ABP" = The entire BERS order was filled by trading against EBOOK.
"<firm branch/sequence number> <ors-id> - RAES" = The entire BERS order was filled by trading against the RAES wheel, or partially against EBOOK, with a balance against the RAES wheel.
"<firm Branch/sequence number> <ors-id> - QUEUE" - The order was eligible to trade against EBOOK, but an EBOOK clerk had the series reserved for trading when the order was entered. The order will be released from the queue and re-routed, once the trade is complete. Check IQOD for final destination.