



Market Operations
400 S. LaSalle Street

Chicago, Illinois 60605

Regulatory Circular RG99-231

Date: December 17, 1999
To: CBOE Members and Member Firms
From: Market Operations
Re: RAES NBBO Step-up Pricing Corrections

This circular is intended to clarify that pursuant to its new broader authority under Interpretation .02 to Rule 6.8 (as recently approved by the SEC under SR-CBOE-99-57)¹ the Equity Floor Procedure Committee has determined not to change the types of kickouts from RAES that are currently in effect as approved in SR-CBOE-99-56. Specifically, the system in place will continue to reject orders from RAES in the case of the two situations described in the examples below. The Committee will continue to discuss whether to institute further changes based upon its authority under Interpretation .02 to Rule 6.8 as approved in SR-CBOE-99-57. If the Committee determines to make further changes it will notify members by way of a regulatory circular. Note: In connection with the examples below, currently RAES automatic step-up to the NBBO has been established at one tick by the Equity Floor Procedure Committee. 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.

Example 1: RAES is not allowed if NBBO step-up would invert the CBOE market

CBOE market is 5 - 5 1/8
AMEX market is 4 5/8 - 4 7/8
NBBO is (CBOE) 5 - 4 7/8 (AMEX)
RAES automatic step-up is set to 2 ticks

BUY orders would be blocked from RAES because the execution price, 4 7/8 (after stepping up 2 ticks), would be less than the CBOE bid. These orders will route to PAR as "NBBO REJECTS". It should be noted that the RAES trade would be allowed if the execution price, after stepping up, EQUALS the CBOE bid. Also, in the above example, SELL orders would be allowed to execute in RAES.

Example 2: RAES will not be allowed to execute BUY orders for less than SELL orders

CBOE market is 5 - 5 1/8
AMEX market is 4 5/8 - 5
PCX market is 5 1/8 - 5 1/2
NBBO is (PCX) 5 1/8 - 5 (AMEX)
RAES automatic step-up is set to 1 tick or more

¹ SR-CBOE-99-57 provides the appropriate Floor Procedure Committee authority to have orders in designated series of option classes to be rerouted for manual handling in the event the NBBO for one of the designated series is crossed (bid higher than the offer) or locked (bid and offer equal). The Floor Procedure Committee may determine to have the orders for a particular series within a designated class of options executed on RAES notwithstanding the fact that the NBBO is either crossed or locked. Also, the appropriate Floor Procedure Committee may determine to have the orders rerouted for manual handling only when the CBOE RAES market becomes crossed or locked as a result of applying the step-up amount.

Both BUY and SELL orders would be blocked from RAES because their respective execution prices, 5 for the BUY order and 5 1/8 for the SELL order (after stepping up), would result in an inversion. These orders will route to PAR as “NBBO REJECTS”.

It should be noted that these changes will not prevent customers from BUYING(SELLING) on RAES, and then immediately SELLING(BUYING), on another exchange, at a HIGHER(LOWER) price.