

Regulatory Circular RG 01-06

Date: January 18, 2001  
To: Membership  
From: Equity Floor Procedure Committee  
Re: Orders to Execute Immediate on RAES or Cancel

Rule 6.8 provides that orders that are eligible for routing to RAES may be subject to such contingencies as the appropriate Floor Procedure Committee shall approve. Contingency orders conversely may **not** be entered to RAES unless the applicable Floor Procedure Committee has expressly approved the contingency. EFPC has not approved contingencies that call for the cancellation of an order if it is not immediately executed on RAES. Such a contingency order -- and the creation of such a contingency order by the combination of an order and a cancellation instruction -- therefore is prohibited.

EFPC previously has approved "Immediate or Cancel" and "Fill or Kill" as among the permissible contingencies for orders entered to RAES. Under Rule 6.53, these contingencies are defined in terms of whether the order is executed as soon as it is represented **in the trading crowd** -- not whether it is executed as soon as it is entered to RAES. If an order with an Immediate or Cancel or a Fill or Kill contingency cannot be executed in RAES and therefore is routed to the floor (e.g., pursuant to the NBBO reject feature of RAES), the contingency is still satisfied if the order is executed once it is represented in the trading crowd.

EFPC has not approved entry of an order to RAES with a contingency that requires cancellation of the order if immediate execution **on RAES** does not take place. Accordingly, it is a violation of Rule 6.8 to enter such a contingency order. Similarly, it is a violation to evade this limitation by creating such a contingency order -- *e.g.*, by entering order cancellations soon after the entry of orders to RAES thereby avoiding manual representation of the orders should the orders be rejected from RAES execution. Although it is not a violation to cancel an order soon after it was entered, a pattern or practice of doing so will be evidence of an intent to create an impermissible contingency order for entry to RAES.

In addition, EFPC has determined that such a practice is disruptive to the maintenance of fair and orderly markets. In particular, this practice interferes with the ability to represent and execute orders in the crowd, because of the need to review a large volume of cancel instructions to determine whether there are active orders to which these instructions pertain. This practice therefore violates Exchange Rule 4.1, Just and Equitable Principles of Trade.

Order entry firms that engage in this improper practice may be required to route all of their orders to the order entry firm's booth and additionally, may be subject to more formal disciplinary action.

Questions concerning this Circular should be directed to Karen Calvin in the Department of Market Regulation at 312-786-7759 or to Timothy Thompson in the Legal Department at 312-786-7070.