



400 S. La Salle
Chicago, IL 60605

Date: 5/28/02
To: Members and Member Organizations
From: Legal Division
Re: Removal of Unreliable Quotes from NBBO

Regulatory Circular RG02-35

Effective Wednesday, May 29, 2002, the CBOE will exclude from its NBBO calculation those quotes disseminated by other exchanges with "F" (non-firm) indicators. Another market's quotes may be excluded from the NBBO ONLY under the following two circumstances: (a) where a market confirms that its quotes are not firm based upon direct communication to CBOE from the market or the dissemination through OPRA of a message indicating that disseminated quotes are not firm; or (b) where a market directly communicates to CBOE or otherwise confirms that it is experiencing systems or other problems affecting the reliability of its disseminated quotes.

The exclusion of "F" quotes from NBBO calculation affects three scenarios:

1. RAES will not be blocked by an "F" quote from an away market

Example: CBOE 1.00 – 1.20; Away Market 1.10 – 1.30 "F"

The Away Market quote, when properly excluded, will not be included in CBOE's calculation of the NBBO. A RAES-eligible sell order will automatically execute at 1.00.

2. RAES will not step-up to an "F" quote from an away market

Example: CBOE 1.00 – 1.20; Away Market 1.05 – 1.25 "F"

The Away Market quote, when properly excluded, will not be included in CBOE's calculation of the NBBO. A RAES-eligible sell order will automatically execute at 1.00.

3. RAES will not be blocked when CBOE locked or inverted by an "F" quote from away market

Example: CBOE 1.00 – 1.20; Away Market .70 – .90 "F"

The Away Market quote, when properly excluded, will not be included in CBOE's calculation of the NBBO. A RAES-eligible sell order will automatically execute at 1.00.

In all instances where Exchange Floor Officials exclude another market or any of its quotes from the determination of the NBBO due to quote unreliability, the Exchange Control Room will promptly notify the market of the action and continue to actively monitor the reliability of the excluded quotes in consultation with Floor Officials. Any determination to exclude a market or any of its quotes will expire at the end of the trading day, or at such time as the quotes were confirmed by the market to be reliable again – whichever occurs first.

Please contact Andrew Spiwak (786-7483) or Steve Youhn (786-7416) of the Exchange's Legal Division with any questions.