



400 S. La Salle
Chicago, IL 60605
(312) 786-7172

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Regulatory Circular RG04- 79

To: Members and Member Firms

From: Equity Floor Procedure Committee

Re: Linkage – A Required Part of Customer Order Handling

The Linkage Plan (Plan) is an SEC mandated program to ensure, among other things, that customer orders priced at the National Best Bid Offer (NBBO) actually achieve that trade price. Certain key provisions of the Plan are outlined in CBOE Rules 6.80 through 6.85. If CBOE's quote, at point of order receipt, is not matching the NBBO, the trading crowd or DPM have a choice of options to respond to that order:

1. The trading crowd can step up to the NBBO price and trade the order at CBOE at the better price.
2. The DPM can generate P/A linkage order(s) to the NBBO market. Any P/A order traded at an away market will automatically trade the customer order at CBOE.
3. The DPM or floor broker can use current order routing, "front door", mechanisms to send a BD or market maker order to the NBBO exchange on behalf of the customer order. Any trades at the away market must be manually applied to the customer order at CBOE.

Any of these three choices are acceptable in achieving the NBBO price for the customer order at CBOE. If the crowd declines to step up to the NBBO and front door access is not employed, linkage becomes the required path for order handling.

In connection with the above, please be advised that the Plan also states that members should not trade through an NBBO price at another exchange and that members should avoid locking or crossing markets on other exchanges. A market maker that creates a quote that locks or crosses the market at an opposing exchange should either send a Principal (P) linkage order to the opposing market or change his quote to unlock or uncross.

For non-customer orders, the Plan provides no special P/A order handling. Instead, a Principal (P) order could be generated on behalf of a BD or Firm order from PAR. Current processing will require the PAR broker to manually trade the BD or Firm order once the P order fill is received. Enhancements are in progress to link the P order fill to automatically trade the originating order. Costs associated with sending a P order are not rebated, as is partially done with a P/A order. To compensate for these expenses, the BD or Firm order could be billed for the linkage costs.

At the recent Equity Floor Procedure Committee meeting, it was emphasized that linkage is not an optional practice. It is a required part of customer order handling.

For questions relating to linkage, please contact Tim Watkins at (312) 786-7172, Roger Mulcahy at (312) 786-7280, Craig Johnson at (312) 786-7939, or Jim Corsey at (312) 786-7321.