CBOE
CHICAGO BOARD OPTIONS EXCHANGE

Regulatory Circular RG04-91

To: **Membership**

From: **Legal Division**

Date: **August 18, 2004**

Re: **Amendment to Obvious Error Rule for "No-Bid at a Nickel" Transactions**

The SEC recently approved an amendment to CBOE's obvious error rule that allows buyers of options that were quoted no-bid at a nickel at the time of execution to request that the trade be nullified if at least one strike price below (for calls) or above (for puts) in the same options class was quoted no-bid at a nickel at the time of execution. The series MUST be offered at a nickel (i.e., a series quoted no-bid at a dime would not qualify).

For example, with the underlying stock trading at $21 during December expiration week, the DEC 30s, 35s and 40s are quoted no-bid at a nickel. A buyer inadvertently purchases the DEC 40 calls at a nickel. Because there is at least one series below the 40s (i.e., the 35s) also quoted no-bid at a nickel, this transaction qualifies for nullification pursuant to the proposed rule.

The "no-bid at a nickel" rule only applies to electronic transactions. It has no applicability to trades occurring in open outcry.

If you have any questions regarding this circular, please contact Trading Floor Liaisons, Floor Officials, or Steve Youhn in the Legal Division at (312) 786-7416.