



## Regulatory Circular RG05-18

**To: Members and Member Firms**

**From: Index Floor Procedure Committee  
Equity Options Procedure Committee**

**Date: February 11, 2005**

**Re: Changes to Split-Price Priority Rule for Orders for at least 100 Contracts**

Effective immediately for orders of at least 100 contracts, a member who buys (sells) at least 50 contracts at a particular price shall have priority over all others, including the limit order book, in purchasing (selling) up to an equivalent number of contracts of the same order at the next lower (higher) price. For orders less than 100 contracts, orders in the book still have priority. The revised rule language is below.

**Example:** Market is \$1.00 – 1.20, 100-up, which is all customer interest in the book. Floor broker enters crowd with order to buy 200. Market-Maker (MM) A is alone in responding “Sell 100 at \$1.15 and 100 at \$1.20 for a net price of \$1.175.” Because MM A improved the quoted price by offering at \$1.15, he has priority over all orders in the book at 1.20 for 100 contracts.

The minimum order size is 100 contracts. New Interpretations and Policies .01 reminds floor brokers of their obligation to ensure compliance with Section 11(a) of the Exchange Act. Questions regarding this rule may be addressed to any member of IFPC or EOPC or Steve Youhn in the Legal Division at (312) 786-7416.

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### **Rule 6.47. Priority on Split Price Transactions Occurring in Open Outcry**

(a) Purchase or sale priority. If a member purchases (sells) one or more option contracts of a particular series at a particular price or prices, he shall, at the next lower (higher) price at which a member other than the Board Broker or Order Book Official is bidding (offering), have priority in purchasing (selling) up to the equivalent number of option contracts of the same series that he purchased (sold) at the higher (lower) price or prices, but only if his bid (offer) is made promptly and the purchase (sale) so effected represents the opposite side of a transaction with the same order or offer (bid) as the earlier purchase or purchases (sale or sales). This paragraph only applies to transactions effected in open outcry.

(b) Purchase or sale priority for orders of 100 contracts or more. If a member purchases (sells) fifty or more option contracts of a particular series at a particular price or prices, he shall, at the next lower (higher) price have priority in purchasing (selling) up to the equivalent number of option contracts of the same series that he purchased (sold) at the higher (lower) price or prices, but only if his bid (offer) is made promptly and the purchase (sale) so effected represents the opposite side of a transaction with the same order or offer (bid) as the earlier purchase or purchases (sale or sales). The appropriate Exchange committee may increase the “minimum qualifying order size” above 100 contracts for all products under its jurisdiction. Announcements regarding changes to the minimum qualifying order size shall be made via Regulatory Circular. This paragraph only applies to transactions effected in open outcry.

(c) Two or more members entitled to priority. If the bids or offers of two or more members are both entitled to priority in accordance with paragraph (a) or paragraph (b), it shall be afforded them insofar as practicable, on a pro-rata basis.

Interpretations and Policies.....

**.01** Floor brokers are able to achieve split price priority in accordance with paragraphs (a) and (b) above. Provided, however, that a floor broker who bids (offers) on behalf of a non-market-maker CBOE member broker-dealer (“CBOE member BD”) must ensure that the CBOE member BD qualifies for an exemption from Section 11(a)(1) of the Exchange Act or that the transaction satisfies the requirements of Exchange Act Rule 11a2-2(T), otherwise the floor broker must yield priority to orders for the accounts of non-members.