



Regulatory Circular

RG05-66

August 8, 2005

To: Members and Member Firms

From: Index Floor Procedure Committee
SPX Floor Procedure Committee

Re: SEC Approval of 1000 Spoke RAES Wheel

The Securities and Exchange Commission recently approved a CBOE rule filing (SR-CBOE-2005-24) which allows the appropriate Floor Procedure Committee ("appropriate FPC") to implement a new order assignment procedure for RAES referred to as the "1000 Spoke RAES Wheel". The 1000 Spoke RAES Wheel ("Wheel") would replace any current RAES allocation structure in those classes where the appropriate Floor Procedure Committee determines to apply it.

Summary of the 1000 Spoke Wheel Assignment Methodology

Under CBOE Rule 6.8.06(d), which sets forth the procedures for the Wheel, the appropriate FPC determines whether the assignment of RAES orders to logged-in Market-Makers is based on the percentage of a Market-Maker's contracts traded in that index option class (excluding RAES contracts traded) compared to all Market-Maker contracts traded (excluding RAES contracts) during the review period, or the percentage of the Market-Maker's in-person agency¹ contracts traded in that class (excluding RAES contracts traded) compared to all Market-Maker in-person agency contracts traded (excluding RAES contracts) during the review period. The review period will be set by the appropriate FPC and it may be for any period not in excess of 10 trading days within the previous 30 calendar days. The trading days within the review period may be for non-consecutive trading days. The percentage distribution will be calculated at the conclusion of each trading day and will be applied to the Wheel distribution on the following trading day. This means that a particular Market-Maker's entitlement will change every day based upon the percentage of contracts (all contracts (excluding RAES contracts) or in-person agency contracts (excluding RAES contracts), as applicable) that Market-Maker traded in the previous review period.

Generally, this means, for example, that if a particular Market-Maker traded 2% of all the contracts (excluding RAES contracts) in an index option class for a particular review period at the conclusion of a trading day, then that Market-Maker would be assigned 2% of the RAES contracts on the following trading day.

¹ Agency contracts are any contracts represented by an agent (booked orders and orders represented by brokers) and do not include contracts traded between Market-Makers in person in the trading crowd.

New Market-Makers

Any Market-Maker that logs onto RAES during a particular review period will be guaranteed an entitlement during that review period of 1 spoke. Similarly, an existing Market-Maker who was on vacation for the whole of the previous review period, and who thus had no trading history during that review period would receive a 1 spoke allocation if he or she logged on RAES during the review period immediately following his or her return.

Spoke Size

The Wheel can be envisioned as having a number of spokes, each generally representing .1 percent of the total participation of all Market-Makers in the class. Thus, a Market-Maker will generally be assigned 1 spoke for each .1 percent of his or her Market-Maker participation during the review period. If the spoke size is 1 contract and all Market-Makers who traded contracts in that option class during the review period are logged on RAES, and no other Market-Makers are logged on, the Wheel would consist of 1000 contracts, representing 100 percent of all Market-Maker activity during the review period. The Committee may also establish a spoke size greater than 1 contract. Setting the spoke size to 5 contracts, for example, would redefine the Wheel for a particular option class as a Wheel of 5000 contracts. Although increasing the spoke size means the Wheel would not revolve as quickly through the logged on Market-Makers, the participation percentage of the individual Market Makers does not change.

Wedge Size

A wedge is the maximum number of spokes that may be assigned to a Market-Maker in any one "hit" during a rotation of the Wheel. The purpose of the wedge is to break up the distribution of contracts into smaller groupings to reduce the exposure of any one Market-Maker to market risk. If the size of the wedge is smaller than the number of spokes to which a particular Market-Maker may be entitled based on his or her participation percentage, that Market-Maker would receive one or more additional assignments during one revolution of the Wheel. For example, in the case where 1 spoke is equal to 1 contract and the Market-Maker's participation percentage is 5 percent (5 percent of 1000 spokes, which equals 50 contracts if each spoke equals 1 contract) and the wedge size is 5, that Market-Maker first would be assigned 5 contracts on the Wheel and would then receive additional allocations of 5 contracts at a different place on the Wheel during the same revolution of the Wheel. The wedge size is variable at the discretion of the appropriate FPC.

Questions concerning this circular may be directed to Greg Burkhardt, Trading Systems Support, at (312) 786-7531.