



To: Members

From: Market Quality and Allocation Committee (MQAC)

Date: December 16, 2008

Re: Minimum Size Requirement for Quotations

Currently, the initial size of a Market-Maker's, DPM's or LMM's electronic quotation must be for at least 10 contracts, unless the underlying primary market is disseminating a 100-share quote. In that case, the quote size can be as low as one contract.¹ In open outcry, the minimum quotation size is ten contracts for non-broker-dealer orders and one contract for broker-dealer orders. (*See, e.g.*, CBOE Rules 6.2B, 8.7, 8.14, and 8.15A.)

CBOE recently amended its rules pertaining to the minimum size requirement for quotations. In particular, CBOE amended its rules to allow the Exchange to set a minimum quotation size requirement for electronic and open outcry quotes on a class by class basis. The minimum size set by the Exchange must be at least one contract, but cannot exceed 10 contracts. With respect to open outcry trading, the minimum quotation size requirement could be different for non-broker-dealer orders and broker-dealer orders as is currently the case.

At this time, MQAC has determined not to lower the minimum quotation size requirements, and the following requirements apply:

- Electronic quotations (including the opening): 10 contract minimum requirement.
- 1-Up Exception (including the opening): If the underlying primary market disseminates less than a 1000-share quote, the undecrement option quote can be for as low as 1-contract.² The process does not need to be automated.
 - For example, if the underlying primary market is quoting 1500 x 200 shares, the option quote can be as low as 1 x 1 contracts (for calls and puts).
- Open Outcry: 10 contract minimum requirement for non-BD orders, and 1-contract minimum for BD orders.

CBOE's rule filing that implemented these changes is SR-CBOE-2008-107, and is available on CBOE's website. In the event of unusual market conditions, MQAC will consider written requests to modify the above minimum quotation size requirements in a particular option class. Please direct any requests in writing to the Market Quality Assurance Department at mqa@cboe.com.

¹ Pursuant to Rule 6.2B, if the underlying primary market disseminates less than a 1000-share quote immediately prior to the time an opening quote is submitted, the opening quote may be for as low as one contract.

² Previously, the 1-up exception only permitted quoting 1-up if the underlying primary market quoted 100 shares.