



Regulatory Circular RG10-117

To: CBSX Market-Makers
From: Trading Operations & Department of Regulated Entities
Date: November 16, 2010
Re: Amendments to CBSX RMM, LMM, & DPM Obligations
Effective December 6, 2010

The SEC recently approved a rule change to adopt enhanced minimum quotation requirements for CBSX Remote Market-Makers, DPMs, and LMMs (collectively “CBSX Market-Makers”). The rule change was proposed in consultation with the other U.S. stock markets and SEC staff in response to the market disruption of May 6.

This circular is being issued to advise CBSX Market-Makers that the rule change will be implemented December 6, 2010. Please also take note that the final approved rule change was modified to provide that the applicable two-sided, minimum size and pricing obligations that apply during CBSX Regular Trading Hours will not commence during any trading day until after the first regular way transaction on the primary listing market in the security, as reported by the responsible single plan processor. (The original proposal had provided that the obligations would apply during CBSX Regular Trading Hours but not commence until after the primary listing market has disseminated an opening quote in the stock.) In addition, the final approved rule change was modified to provide that the obligations will be suspended during a trading halt, suspension, or pause, and will not re-commence until after the first regular way transaction on the primary listing market in the security following such halt, suspension, or pause, as reported by the responsible single plan processor.

For reference, the text of the rule change is attached. For additional information, please refer to rule filing SR-CBOE-2010-087 and associated amendments, located at www.cboe.org/legal. To view the full text of the rules, please go to the following link: http://wallstreet.cch.com/CBOEtools/PlatformViewer.asp?SelectedNode=chp_1_5&manual=/CBOE/rules/cboe-rules/. Further questions may be directed to David Reed at 312-786-8857 or the Department of Regulated Entities at 312-786-7315.

(Updates RG10-99)

Text of the Rule Change

Under the approval, the CBSX Rules have been amended to additionally require the following of CBSX Market-Makers (additions are underlined):¹

Rule 53.23 Obligations of CBSX Remote Market-Makers

* * * * *

... Interpretations and Policies:

.01 A Remote Market Maker shall engage in a course of dealings for its own account to assist in the maintenance, insofar as reasonably practicable, of fair and orderly markets in accordance with this Interpretation and Policy.

(a) Two-Sided and Minimum Size Obligations. For each security in which the CBSX Remote Market-Maker holds an Appointment, the CBSX Remote Market-Maker shall be willing to buy and sell such security for its own account on a continuous basis by entering and maintaining two-sided quotes when the CBSX Remote Market-Maker is quoting in the security during CBSX Regular Trading Hours; provided, however, that such obligations (i) shall not commence during any trading day until after the first regular way transaction on the primary listing market in the security, as reported by the responsible single plan processor, and (ii) shall be suspended during a trading halt, suspension, or pause, and shall not re-commence until after the first regular way transaction on the primary listing market in the security following such halt, suspension, or pause, as reported by the responsible single plan processor (the “Two-Sided Obligation”). The interest eligible to be considered as part of a CBSX Remote Market-Maker’s Two-Sided Obligation shall have a minimum size of at least one normal unit of trading (or a larger multiple thereof); provided, however, that a CBSX Remote Market-Maker may augment its Two-Sided Obligation size to display limit orders/quotes priced at the same price as the Two-Sided Obligation. Unless otherwise designated, a “normal unit of trading” shall be 100 shares. After an execution against the CBSX Remote Market-Maker’s Two-Sided Obligation, a Market Maker must ensure that additional trading interest exists in the Exchange to satisfy the CBSX Remote Market-Maker’s Two-Sided Obligation either by immediately entering new interest to comply with this obligation to maintain continuous two-sided quotations or by identifying existing interest on the Exchange book that will satisfy this obligation.

(b) Pricing Obligations. For NMS stocks (as defined in Rule 600 under Regulation NMS) a CBSX Remote Market-Maker shall adhere to the pricing obligations established under this Interpretation and Policy during CBSX Regular Trading Hours; provided, however, that such obligations (i) shall not commence during any trading day until after the first regular way transaction on the primary listing market in the security, as reported by the responsible single plan processor, and (ii) shall be suspended during a trading halt, suspension, or pause, and shall not re-commence until after the first regular way transaction on the primary listing market in the security following such halt, suspension, or pause, as reported by the responsible single plan processor.

(A) Bid Quotations. At the time of entry of bid interest satisfying the Two-Sided Obligation, the price of the bid interest shall be not more than the Designated Percentage away from the then current National Best Bid, or if no National Best Bid, not more than the Designated Percentage away from the last reported sale from the responsible single plan processor. In the event that the National Best Bid (or, if no National Best Bid, the last reported sale, as applicable) increases to a level that would cause the bid interest of the Two-Sided Obligation to be more than the Defined Limit away from the National Best Bid (or, if no National Best Bid, the last reported sale), or if the bid is executed or cancelled, the CBSX

¹ Please note that no change was necessary to the rule text to related to CBSX LMM obligations because Rule 53.51, CBSX LMM Defined, provides that CBSX LMMs will have the same obligations of CBSX Remote Market-Makers plus those additional obligations of CBSX DPMs.

Remote Market-Maker shall enter new bid interest at a price not more than the Designated Percentage away from the then current National Best Bid (or, if no National Best Bid, the last reported sale), or identify to the Exchange current resting interest that satisfies the Two-Sided Obligation.

(B) Offer Quotations. At the time of entry of offer interest satisfying the Two-Sided Obligation, the price of the offer interest shall be not more than the Designated Percentage away from the then current National Best Offer, or if no National Best Offer, not more than the Designated Percentage away from the last reported sale received from the responsible single plan processor. In the event that the National Best Offer (or, if no National Best Offer, the last reported sale) decreases to a level that would cause the offer interest of the Two-Sided Obligation to be more than the Defined Limit away from the National Best Offer (or if no National Best Offer, the last reported sale), or if the offer is executed or cancelled, the CBSX Remote Market-Maker shall enter new offer interest at a price not more than the Designated Percentage away from the then current National Best Offer (or, if no National Best Offer, the last reported sale), or identify to the Exchange current resting interest that satisfies the Two-Sided Obligation.

(C) The National Best Bid and Offer shall be determined by the Exchange in accordance with its procedures for determining protected quotations under Rule 600 under Regulation NMS.

(D) For purposes of this Interpretation and Policy, the term "Designated Percentage" shall mean the individual stock pause trigger percentage applicable to Rule 6.3C less two (2) percentage points. For times during CBSX Regular Trading Hours when stock pause triggers are not in effect under Rule 6.3C, the Designated Percentage calculation will assume a trigger percentage of 22%. For NMS stocks that are not subject to such stock pause triggers the Designated Percentage will assume a trigger percentage of 32%.

(E) For purposes of this Interpretation and Policy, the term "Defined Limit" shall mean the individual stock pause trigger percentage applicable to Rule 6.3C less one-half (1/2) percentage point. For times during CBSX Regular Trading Hours when stock pause triggers are not in effect under Rule 6.3C, the Defined Limit calculation will assume a trigger percentage of 22%. For NMS stocks that are not subject to such stock pause triggers the Defined Limit calculation will assume a trigger percentage of 32%.

(F) Nothing in this Rule shall preclude a Market-Maker from quoting at price levels that are closer to the National Best Bid and Offer than the levels required by this Interpretation and Policy.

* * * * *

Rule 53.56 CBSX DPM Obligations

* * * * *

... Interpretations and Policies:

.01 A DPM shall engage in a course of dealings for its own account to assist in the maintenance, insofar as reasonably practicable, of fair and orderly markets in accordance with this Interpretation and Policy.

(a) Two-Sided and Minimum Size Obligations. For each security allocated to the CBSX DPM, the CBSX DPM shall be willing to buy and sell such security for its own account on a continuous by entering and maintaining two-sided quotes in accordance with Rule 53.56(a)(4) during CBSX Regular Trading Hours; provided, however, that such obligations (i) shall not commence during any trading day until after the first regular way transaction on the primary listing market in the security, as reported by the responsible single plan processor, and (ii) shall be suspended during a trading halt, suspension, or pause, and shall not recommence until after the first regular way transaction on the primary listing market in the security following such halt, suspension, or pause, as reported by the responsible single plan processor (the "Two-Sided Obligation"). The interest eligible to be considered as part of a CBSX DPM's Two-Sided Obligation shall have a minimum size of at least one normal unit of trading (or a larger multiple thereof); provided, however, that a CBSX DPM may augment its Two-Sided Obligation size to display limit orders/quotes priced at the same price as the Two-Sided Obligation. Unless otherwise designated, a "normal unit of trading" shall be 100 shares. After an execution against the CBSX DPM's Two-Sided Obligation, a Market Maker must ensure that additional trading interest exists in the Exchange to satisfy

the CBSX DPM's Two-Sided Obligation either by immediately entering new interest to comply with this obligation to maintain continuous two-sided quotations or by identifying existing interest on the Exchange book that will satisfy this obligation.

(b) Pricing Obligations. For NMS stocks (as defined in Rule 600 under Regulation NMS) a CBSX DPM shall adhere to the pricing obligations established under this Interpretation and Policy during CBSX Regular Trading Hours; provided, however, that such obligations (i) shall not commence during any trading day until after the first regular way transaction on the primary listing market in the security, as reported by the responsible single plan processor, and (ii) shall be suspended during a trading halt, suspension, or pause, and shall not re-commence until after the first regular way transaction on the primary listing market in the security following such halt, suspension, or pause, as reported by the responsible single plan processor.

(A) Bid Quotations. At the time of entry of bid interest satisfying the Two-Sided Obligation, the price of the bid interest shall be not more than the Designated Percentage away from the then current National Best Bid, or if no National Best Bid, not more than the Designated Percentage away from the last reported sale from the responsible single plan processor. In the event that the National Best Bid (or, if no National Best Bid, the last reported sale, as applicable) increases to a level that would cause the bid interest of the Two-Sided Obligation to be more than the Defined Limit away from the National Best Bid (or, if no National Best Bid, the last reported sale), or if the bid is executed or cancelled, the CBSX DPM shall enter new bid interest at a price not more than the Designated Percentage away from the then current National Best Bid (or, if no National Best Bid, the last reported sale), or identify to the Exchange current resting interest that satisfies the Two-Sided Obligation.

(B) Offer Quotations. At the time of entry of offer interest satisfying the Two-Sided Obligation, the price of the offer interest shall be not more than the Designated Percentage away from the then current National Best Offer, or if no National Best Offer, not more than the Designated Percentage away from the last reported sale received from the responsible single plan processor. In the event that the National Best Offer (or, if no National Best Offer, the last reported sale) decreases to a level that would cause the offer interest of the Two-Sided Obligation to be more than the Defined Limit away from the National Best Offer (or, if no National Best Offer, the last reported sale), or if the offer is executed or cancelled, the CBSX DPM shall enter new offer interest at a price not more than the Designated Percentage away from the then current National Best Offer (or, if no National Best Offer, the last reported sale), or identify to the Exchange current resting interest that satisfies the Two-Sided Obligation.

(C) The National Best Bid and Offer shall be determined by the Exchange in accordance with its procedures for determining protected quotations under Rule 600 under Regulation NMS.

(D) For purposes of this Interpretation and Policy, the term "Designated Percentage" shall mean the individual stock pause trigger percentage applicable to Rule 6.3C less two (2) percentage points. For times during CBSX Regular Trading Hours when stock pause triggers are not in effect under Rule 6.3C, the Designated Percentage calculation will assume a trigger percentage of 22%. For NMS stocks that are not subject to such stock pause triggers the Designated Percentage will assume a trigger percentage of 32%.

(E) For purposes of this Interpretation and Policy, the term "Defined Limit" shall mean the individual stock pause trigger percentage applicable to Rule 6.3C less one-half (1/2) percentage point. For times during CBSX Regular Trading Hours when stock pause triggers are not in effect under Rule 6.3C, the Defined Limit calculation will assume a trigger percentage of 22%. For NMS stocks that are not subject to such stock pause triggers the Defined Limit calculation will assume a trigger percentage of 32%.

(F) Nothing in this Rule shall preclude a Market-Maker from quoting at price levels that are closer to the National Best Bid and Offer than the levels required by this Interpretation and Policy.