

Regulatory Circular RG95-42

DATE: April 26, 1995

TO: Market-Makers and Market-Maker Organizations

FROM: Market Performance Committee

RE: Exchange Rules 8.3 (Appointment of Market-Makers) and
8.7 (Obligations of Market-Makers)

The Securities and Exchange Commission recently approved amendments to CBOE Rule 8.3, wherein the maximum number of trading stations to which a market maker's appointment may relate has been expanded from five (5) trading stations to ten (10) stations across the floor. This increase in the number of stations that can be included in a market maker's appointment will become effective on May 1, 1995, and will impact the manner in which compliance with Rules 8.3, 8.7, and the NASD short sale exemption are calculated (see Regulatory Circulars #RG94-64 and #95-24). Additionally, with the advent of appointment expansion, the Market Performance Committee has determined that there will no longer be a need to assign a weighting factor to any option classes.

The Market Performance Committee, which is responsible for monitoring market-maker trading requirements (both the 75% Distribution and the 25% In-Person requirements) as outlined in Exchange Rules 8.3 and 8.7, is issuing this memorandum to highlight member obligations under the rules relating to both the distribution and in-person trading requirements. This memorandum also outlines the Committee's enforcement policies. However, please be advised that this memorandum is not intended to be a comprehensive description of all the rules and requirements relating to the appointment and general obligations of Market-Makers and is merely intended to summarize certain of these rules and requirements.

MARKET-MAKER TRADING DISTRIBUTION REQUIREMENTS

Exchange Rule 8.3(c) reads as follows:

- (c) Absent an exemption by the Market Performance Committee, an appointment of a Market-Maker shall be limited to the options classes trading at no more than ten trading stations on the Exchange trading floor.

Exchange Rule 8.7, Interpretation .03 and .03(A) read as follows:

- .03 For purposes of Rule 8.7, the following percentage requirements apply to Market-Maker trading activity for each quarter of a calendar year, except for unusual circumstances as determined by the Market Performance Committee. The Market Performance Committee may assign a weighting factor based on volume to one or more classes or series of option contracts

in connection with these requirements.

(Weighting Factors are discussed on Page 3, under the heading "General Information with Regard to Both Requirements".)

.03(A) Respecting distribution of trading activity, at least 75% percent of a Market-Maker's total contract volume must be in option classes to which he has been appointed pursuant to Rule 8.3. Trading in nonappointed classes of options at the request of a Floor Official, Order Book Official or Board Broker shall be deemed to be trading in appointed classes for purposes of this Interpretation.

Committee Policy Regarding Blanket Appointments

In addition to the ten station appointment, the Committee has the authority to include an option class in every market-maker's appointment.

Committee Policy Regarding Appointment Changes

Market-Makers will be allowed to change their appointment once each month during the quarter. This change will be made retroactively to the first day of the month that the change is made. It should be noted that if a market-maker does not have a full complement of option classes in his appointment (i.e., he has appointments in less than ten stations), he may make additions to his appointment retroactively to the first day of the month and such addition will not count as the monthly change.

Committee Policy Regarding Index Appointments

For purposes of this rule, when a market-maker selects either OEX or SPX as an appointed station, both OEX and SPX will be included in that appointment and considered as one trading station.

MARKET-MAKER IN-PERSON TRADING REQUIREMENT

Exchange Rule 8.7, Interpretation .03(B) reads as follows:

.03(B) Respecting the manner in which Market-Maker transactions may be executed, a Market-Maker must execute in-person, and not through the use of orders, at least 25 percent of his total transactions, provided, however, that for any calendar quarter in which a Market-Maker receives Market-Maker treatment for off-floor orders in accordance with Rule 8.1, in addition to satisfying the requirements of paragraph A of this Interpretation .03, the Market-Maker must execute in person and not through the use of orders, at least 80 percent of his total transactions. The off-floor orders for which a Market-Maker receives Market-Maker treatment shall be subject to the obligations of Rule 8.7(a) and in general shall be effected for the purpose of hedging, reducing risk of, rebalancing or liquidating open positions of the Market-Maker. The Market Performance Committee may exempt one or more options classes from this calculation.

Committee Policy Regarding Exemptions from the In-Person Requirement to In-Crowd Floor Brokers

The Committee has determined that in-crowd floor brokers who meet the below criteria could be exempted from meeting the in-person requirement with regard to their market-maker activity. The criteria are as follows:

- the floor broker must be an effective member who is an active broker in a trading crowd on the floor of the Exchange
- the submission of an affidavit to the Committee stating that the floor broker is trading in his market-maker account solely for his own benefit and does not share the profits or losses with any other person.

Submission of this affidavit must be made prior to the quarter for which the floor broker is seeking an exemption. These exemptions will be granted for each quarter the floor broker meets the above noted criteria. The floor broker must immediately notify the Committee at any time his profits/losses are shared with another party.

GENERAL INFORMATION WITH REGARD TO BOTH REQUIREMENTS

For purposes of both the 75% Distribution Requirement and the 25% In-Person Requirement, the Market Performance Committee has determined to eliminate assigning a weighting factor to the option classes on the Exchange which are ranked in the lower one-half of all classes in terms of contract volume level. Therefore, effective May 1, 1995, there will not be a weighting factor assigned to any of the option classes traded on the Exchange. The assignment of a weighting factor may be readdressed at any time in the future.

Compliance With Requirements

Compliance with both the trading distribution and the in-person requirements will be monitored and enforced by the Market Performance Committee. Failure to comply with these requirements may result in sanctions being imposed by the Committee. Members who repeatedly fail to meet the requirements will be subject to sanctions which may include suspension of a market-maker's registration for a period of time to be determined by the Committee. It should be noted that, in appropriate cases, violations of these rules, like all Exchange rules, may be the subject of disciplinary proceedings under Chapter XVII of the Exchange rules.

Questions regarding the general obligations of Market-Makers under Rules 8.3 and 8.7 should be directed to Cynthia Mullen at (312)786-7725.