

Regulatory Circular RG 96-24

Date: February 27, 1996

To: The Membership

From: Regulatory Services Division

Re: Binding Contracts and Multi-Market Orders

On November 27, 1995, the SEC approved an amendment to Rule 6.48 - Contract Made on Acceptance of Bid or Offer, which sets forth certain obligations of CBOE members who effect option transactions which are part of a "package" stock-option order involving transactions in CBOE's options market and in another market, a multi-market order. These obligations apply to stock-option orders which do not involve index options.

Under the new section (b) of Rule 6.48, option transactions which are part of a multi-market order become binding only when the following conditions are met:

1. The member initiating the order must disclose to the trading crowd all legs of the order at the time the order is announced and the marketplace(s) and price(s) at which the non-option leg(s) of the order is to be filled.
2. At the time of the execution of the options leg of the multi-market order, the initiating member and any member that is a contra-party on the non-option leg(s) must take steps to concurrently transmit the non-option leg(s) to the agreed upon marketplace for execution.

Under new section 6.48(c), failure to fulfill either of these obligations shall be considered as conduct inconsistent with just and equitable principles of trade and a violation of Rule 4.1. Notwithstanding this new rule, multi-market orders remain subject to priority principles as defined in Rule 6.45 Priority of Bids and Offers.

Under Rule 6.48(b)(ii), the options leg of a multi-market order may be cancelled by any participant in the trade only if market conditions at the non-CBOE market(s) prevent the execution of the non-option portion of the trade at the agreed upon prices. The types of market conditions that would prevent the execution at the agreed upon prices include, but are not limited to, a sudden change in the price of the underlying security prior to the execution of the stock trade, or a trading halt or systems failure that prevents immediate execution of the non-option portion of the trade at the agreed upon price.

This circular is not a comprehensive description of the requirements of the amendments to Rule 6.48 and members are advised to read the full text of Rule 6.48 for more detail. Questions with regard to multi-market orders may be directed to Barbara Casey, Vice President, Market Regulation at (312) 786-7712.