



Date: March 23, 2005  
 To: Membership  
 Re: Market Maker Class Appointments

The SEC has published CBOE rule filing SR-CBOE-2004-58, which upon approval will allow trading floor market maker ("MM") members to stream quotes into hybrid enabled classes at their appointed post and station without requiring that they be present in their physical trading crowds. The comment period on this filing expires on Wednesday, March 23<sup>rd</sup> and approval is expected shortly thereafter.

The purpose of this circular is to provide instructions to market makers who intend to stream quotes into hybrid enabled classes as to how they may electronically designate their MM class appointments once the new rule filing is approved. Currently, market makers are allowed to select up to ten trading crowds for inclusion in their MM appointment. Upon the approval of the rule filing, all market makers (including MMs who trade non-hybrid products) will be required to choose a single primary physical trading crowd and to clarify the classes at that crowd which they want included in their appointment.

On March 18, 2005, the Exchange took a statistical snapshot of the trading floor in order to guarantee that each MM receives an appointment in their primary physical trading crowd. For the purpose of grandfathering market makers to a trading crowd, the Exchange will examine a) where a market maker has transacted at least 80% of their in-person MM contracts and transactions in each of the three calendar months immediately preceding the snapshot, and b) where a market maker was physically present and acting in the capacity of a MM on the date of the snapshot.

Upon approval of the rule filing, and based on the above criteria, current on floor market makers will be eligible to stream quotes into classes located at one physical trading crowd only, and the Exchange will provide a mechanism for MM's to designate their new appointment electronically. The following instructions refer to the form, which will be located on the CBOE Member website at <https://www.cboe.org/members/GeneralInfo/MMSelection.aspx>, that must be completed by each market maker and submitted to the Market Quality Assurance Department in order to designate their new MM crowd and class appointments. The procedure will allow a market maker to confirm their appointed trading crowd as well as the individual classes located there that should be included in the market maker class appointment. Market makers are not required to claim all classes at their appointed post and station for inclusion in their appointment. Any classes that are included will be subject to the continuous quoting obligation as defined in CBOE's hybrid rules. In the event that members cannot access the above-noted website, you may contact the Department of Market Quality Assurance at (312) 786-7198 to select and verify your class appointments. Assuming rule approval by the SEC within the next several days, **the deadline for your submission is Thursday, March 31, 2005.**

#### **Instructions for Electronic MM Appointment Submission**

1. Provide your name, acronym, email address, and firm affiliation. Also provide a daytime phone number where you can be reached for questions during business hours. *Once you have received a confirmation email you will no longer be allowed to submit an appointment request to the website for the same acronym. Any additions or corrections to your appointment will have to be done manually by Market Quality Assurance. Please call (312) 786-7198 to make changes.*
2. Select the DPM/crowd from the drop down list. Once chosen, the post and station as well as all classes traded at that location will be provided. In order for you to be eligible for the trading crowd requested, the following criteria must be met based on the statistical snapshot taken:
  - a. 80% of in-person MM contracts and transactions in each of the three calendar months prior to snapshot were in the requested crowd; or

(over)

- b. Market Maker was physically present and acting in the capacity of a MM in requested crowd on the date of the snapshot

Should a member not have met the criteria for appointment in their desired primary trading crowd, or in the event the snapshot does not provide a clear indication of their primary trading crowd, Exchange staff will confer with that member to resolve any issues.

3. From the list of classes, check the box next to all that you would like included in your appointment. **FOR EVERY CLASS THAT IS SELECTED, MARKET MAKERS WILL BE OBLIGATED TO PROVIDE CONTINUOUS TWO-SIDED, MINIMUM 10-UP, LEGAL WIDTH QUOTATIONS IN 60% OF THE SERIES.**
4. Once completed, click on the submit button. An email will be sent to Market Quality Assurance as well as the email address provided above.

Once your appointment has been submitted, Exchange staff will verify that the above criteria have been met and an appointment confirmation will be emailed to you. Please verify that all information on your email is correct since this will be your confirmed appointment. If you have any questions or corrections, please call Market Quality Assurance at (312) 786-7198.

Unless otherwise informed in writing, the Exchange will apply the following standards in recording to whom the market maker class appointments are granted. All designations will be based on the application type of the member as recorded by the CBOE Membership Department.

Unless otherwise reported to the Exchange, all market maker class appointments of “nominee” and/or “registered for” members will be considered granted to the affiliated firm, and all market maker class appointments of “owner”, “lessee” and/or “individual” members will be considered granted to the individual member. If a member and their affiliated firm wish to allocate the class appointments differently than as indicated here, they may report an alternative arrangement, to Daniel Hustad, Vice President of Market Quality Assurance, at (312) 786-7715 to do so.

Upon completion of this process, market makers will be required to continuously quote these classes as specified in the rules, and will be prohibited from sending electronic quotations into any class outside of their appointment without first obtaining the approval of the Exchange to change their appointment.

If a market maker wishes to trade in open outcry in a class outside of the station to which he/she was appointed the MM must first log off the hybrid system in his appointed classes. For example, if a market maker has an appointment and is logged on to several classes in the IBM crowd, and that MM steps into another crowd to trade a class or classes in open outcry, that market maker must be logged off the hybrid system while he/she is trading in open outcry in the other crowd. In no circumstance may a MM trade contemporaneously in two different crowds on a single membership.

**CLASS APPOINTMENTS, WHETHER OBTAINED THROUGH THE GRANDFATHER PROCESS, OR THROUGH THE REMOTE MARKET MAKER APPOINTMENT PROCESS DESCRIBED IN INFORMATION CIRCULAR IC05-24, MAY NOT BE SOLD, SWAPPED, TRANSFERRED OR SURRENDERED TO ANY OTHER MEMBER OR MEMBER FIRM. ALL APPOINTMENTS ARE SUBJECT TO THE TERMS PROVIDED IN CBOE RULES.**

Following confirmation of appointments, the Equity Market Performance Committee (“EMPC”) will periodically conduct evaluations of all market makers to determine whether they have fulfilled performance standards relating to, among other things, market quality (size, width), competition among market makers, observance of ethical standards, administrative factors and quoting frequency. Any market maker who fails to adhere to minimum quoting and market quality requirements may be subject to revocation of a class appointment.

#### **Additional Information**

If you have any questions regarding the program, please contact Daniel Hustad, Vice President of Market Quality Assurance, at (312) 786-7715 or Angela Redell, Director of Market Quality Assurance, at (312) 786-7559. Any questions regarding the rule filing should be directed to Steve Youhn, Senior Managing Attorney, at (312) 786-7416.