



400 S. La Salle
Chicago, IL 60605

Information Circular IC05-97

Date: August 10, 2005

To: Members, Member Firms, Member Organizations and Hybrid Quote Vendors

From: Trading Operations

Re: Hybrid Opening System Enhancement

The CBOE is anticipating SEC approval of a rule change that will allow use of a new Hybrid opening method. This method will be used in all classes upon approval, and this circular is offered in advance of activation so that members and vendors will be prepared.

The opening range will no longer be restricted to the DPM quote range. The new method to calculate the opening range will be as follows:

- The midpoint of the Best Bid/Best Offer (including quotes and 'I' orders) minus one half the Opening Exchange Prescribed Width (OEPW) to calculate the bid for the opening range.
- The midpoint of the Best Bid/Best Offer (including quotes and 'I' orders) plus one half the OEPW to calculate the offer for the opening range.

This method will allow a series to open within the newly created range regardless of whether or not the DPM has a market entered, or if the price is within the DPM's entered quote. However, there must be a legal width, two-sided market, sent by a single trader¹, in order for the series to successfully open.

Old Methodology

XYZ Aug. 10calls DPM quote 1.00-1.20 50x50
 MM quote .95-1.15 50x50
 RMM quote .90-1.10 50X50

Valid Opening Price Range is 1.00 – 1.20 (DPM quote)
100 lot market order to sell

In order to open, there had to be enough size (i.e. 100 contracts) bid for or inside the DPM's bid. The MM or RMM could have raised its bid to 1.00, or the DPM could have increased its size for 1.00 or lowered its bid.

New Methodology

XYZ Aug. 10calls DPM quote 1.00-1.20 50x50
 MM quote .95-1.15 50x50
 RMM quote .90-1.10 50X50

Valid Opening Price Range is .925 – 1.175 (see formula below)
100 lot market order to sell

There is enough liquidity to open at .95, and .95 is within the valid opening price range. So, the opening trade will be at .95.

Formula = Mid-point of best bid/ask (including quotes and I-orders only) plus/minus half the OEPW. In the above example, assuming an OEPW of .25... 1.05 plus/minus .125 = .925 – 1.175

Questions concerning this circular should be directed to the CBOE Direct Help Desk at (866) 728-2263 or helpdesk@cboe.com.

¹ Quotes in all series from all members and DPMs must always be within the legal limits, and all members must meet their quoting obligations regardless of any system settings. Please refer to *Rule 8.7 Obligations of Market-Makers* and *Rule 44.14 SBT DPM Obligations* for more information.