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Information Circular IC05-112

To: Members and Member Firms

From: Trading Operations

Re: PAR AutoLink and COB

The AutoLink (AL) project will introduce new linkage automation to generate outbound linkage orders, with rollout to PAR workstations beginning on August 24, 2005. Additionally, this PAR release will include complex order enhancements for order handling and the Complex Book (COB), which are outlined on the second page. For AutoLink, an AutoLink Timer will allow a customer order to be selected within a defined period of time and represented in the crowd from PAR. If an order has not been selected within this initial period, AL will automatically generate outbound PA linkage orders simultaneously to multiple NBBO exchanges. Multiple PA orders may be generated on behalf of a single customer order. Each PA order will be sized for the quote size of the destination market and priced at the NBBO price. The destination exchanges will be chosen by PAR based on a preset exchange destination list. AL can attempt to send PA orders to NBBO destinations multiple times if CBOE does not join the NBBO price. If customer volume remains, a number of PAR AL routing rules will determine how and when secondary PA orders can be sent, based on the PA responses from the away markets. Some situations will still allow the customer order to remain on PAR for manual handling after AL routing concludes. After each round of AL orders returns all PA responses, PAR will evaluate the NBBO to determine customer order eligibility for trading or booking at CBOE. If CBOE joins or becomes the NBBO, PAR will evaluate for Auto T/A eligibility and reroute the customer to trade against the hybrid quote. Other scenarios may allow the customer order to book.

Trading & Clearing Linkage P/A and Related Customer orders

A DPM Clearing Account will be used for clearing AutoLink PA orders traded at an away exchange, just as manual PA orders are handled currently. The PA fill report will automatically trade against the customer order on PAR. The executing broker to the customer trade at CBOE will be designated as "XLK". The contra side to the customer trade can be set up as either a Z badge acronym assigned to the DPM or a market maker acronym of the DPM. Additionally, a DPM may elect to set up a separate Clearing Account ("L" account) for their linkage trades.

PAR Parameters – set by each PAR broker under the Linkage tab

1. The "Enable AutoLink" parameter must be checked to ensure the functionality is on.
2. The AutoLink Timer will be deferred, once a customer order is selected on PAR. A crowd trade can take place even if the endorsement takes longer than the Timer period to complete. If the order is released without a trade, it will immediately autolink. EOPC has set the AutoLink Timer at 5 seconds.
3. The Max Timer establishes how long AL will run for each customer order and continue with the autolink processing before stopping for manual attention. The Max Timer starts when the AL Timer expires and a PA order is generated. A button on PAR will be provided to manually restart the Autolink process, if needed. EOPC has set the Max Timer at 25 seconds.
4. The Default Exchange Destination List is a PAR preset list of exchanges to determine the sequence in which PA orders will be generated to the NBBO markets. The PAR broker can reset the default sequence. As each PA order is generated, PAR will select the next NBBO exchange in the list to send to. The first PA will be sized up to the quote size of the first NBBO exchange. If the customer order still has volume remaining, a second NBBO market will be selected for the second PA, and a third PA if the customer size still is not satisfied. Additionally, a Class Override List can be set up for an individual option class, allowing a different sequence for NBBO exchange selection.

5. PAR has added new designs for the AL functionality. New orange color-coding for AL will inform when a customer order is "in process" with pending PA orders, and a final change to the highlighting when AL ends (ALX). The Linkage Support Group will provide AutoLink training as each workstation is updated.

6. The "Whole Order Processing" parameter, as specified by EOPC, will be set to route AutoLink orders sized for the quote size at the NBBO market. This should ensure the AL order (and customer volume) are afforded autoex treatment by the NBBO exchange.

7. Contingency orders eligible for AutoLink are IOC, MIT, and STP when triggered; not eligible are MOC, CLO, FOK, AON, and MIN (these orders will not autolink but may be linked away manually in certain cases).

8. PAR History will be updated to log all outbound linkage orders, in addition to a reference between the originating order and AL orders. Autolink attempts rejected by TPF (including reject codes) will now get logged in PAR History for review later. Also the NBBO will be logged when the AL process ends. AutoLink orders will get special notation in ORS Inquiry (IQOD) and the Linkage Log on the TNT. For the IQOD function, each linkage order (AL or manual) currently includes NBBO price, the exchanges at the NBBO price, and now will also include NBBO sizes for each exchange. This NBBO size information will only show up on the PA orders, not the customer order.

Other Functionality with this PAR version

9. Principal orders manually generated on behalf of BD or Firm orders from PAR will provide a corresponding reference in IQOD between the originating order and the P order (like we currently do for PA). Autolink is NOT available for Broker Dealer or Firm orders with this release, only for customer orders.

10. The PAR T/A & T/B buttons are no longer available for inbound linkage orders routed to PAR. If not traded from PAR within the 12-second timer, linkage orders will reroute against the hybrid quote where it will either trade or cancel.

11. ALL ORS orders (not just linkage) will record the NBBO price (but not size) upon receipt, as activity segments in the IQOD. Also, CBOE quote price and size will be logged.

Complex Orders on PAR

12. The following enhancements have been made to enable PAR brokers to interact with the complex order book (COB) in COB-eligible classes:

- a. Orders sent to PAR will display the spread market quote when selected. An asterisk will indicate the relevant side of the quote.
- b. For selected order tickets, a new button (TSB) can request and display the current Top of the Spread Book.
- c. The T/A button may be used to trade complex orders, including those at the market or with contingencies, against the displayed leg markets or the COB (if better than the displayed leg markets).
- d. Customer, Firm, and BD orders may all be booked from PAR.
- e. Complex orders partially traded on PAR may be booked, provided the original order ratio is maintained.
- f. The IQOD has been enhanced to display additional routing information, including the top of the spread book.

Brokers will be informed when this complex order functionality is available.

Linkage Transaction Fees

Transaction fees charged by the away markets for AutoLink orders will be the responsibility of the DPM. The Financial Planning Committee will specify CBOE transaction fees and the DPM linkage rebate program.

For questions concerning the new AutoLink functionality, or the Linkage Plan in general, please contact Tim Watkins at 312-786-7172 or Roger Mulcahy at 312-786-7280. Also, please contact Monica Wiedlin-Torres at 312-786-7368 for any questions about the complex order enhancements.