



Information Circular No. IC09-24

Date: March 24, 2009

To: Members and Member Organizations

From: Market Quality and Allocation Committee

Re: Solicitation for On-Floor Lead Market Makers (LMMs)

In connection with the Off-Floor DPM program, the CBOE has recently amended its rules to allow for an On-Floor Lead Market Maker (LMM) to be appointed in equity option classes allocated to an Off-Floor DPM. Therefore, the Market Quality and Allocation Committee (the "Committee") is accepting applications for those member organizations that are interested in becoming On-Floor Lead Market Makers (LMMs). On-Floor LMMs will be eligible to receive a participation entitlement as described in Rule 8.15B(c) with respect to orders represented in open outcry, but will not be eligible to receive a participation entitlement for trades executed electronically.<sup>1</sup>

Pursuant to Exchange Rule 8.15A, the Committee may consider the following factors in selecting an LMM:

- Adequacy of capital
- Experience in trading equity options
- Presence in the trading crowd
- Adherence to Exchange Rules
- Ability to meet the obligations specified in Rule 8.15(A)(b)

On-Floor LMMs do not have the electronic quoting obligations of a DPM, including a 100% continuous quoting obligation at the open and a 90% continuous quoting obligation throughout the trading day, but must abide by the obligations set forth in Exchange Rule 8.7, including the following:

- Respond to any open outcry request for quote by a member or PAR Official with a two-sided market complying with the current quote width requirements of Rule 8.7(b)(iv) for a minimum of ten contracts for non-broker-dealer orders and one contract for broker-dealer orders.
- Comply with the bid/ask differential requirements of Rule 8.7(b)(iv).
- Assure that each of its displayed market quotations is honored for at least the number of contracts prescribed pursuant to Rule 8.51.

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<sup>1</sup> To be entitled to a participation entitlement, the LMM must be quoting at the best bid/offer on the Exchange and the LMM may not be allocated a total quantity greater than the quantity for which the LMM is quoting at the best bid/offer on the Exchange. The participation entitlement is based on the number of contracts remaining after all public customer orders in the book at the best bid/offer on the Exchange have been satisfied.

- Although an On-Floor LMM does not have the electronic quoting obligations of a DPM, if the On-Floor LMM trades more than 20% of the On-Floor LMM's contract volume electronically in an appointed Hybrid class during any calendar quarter, commencing the next calendar the On-Floor LMM will be subject to the electronic quoting obligations of a Market-Maker under Rule 8.7(d)(ii), including the requirement to maintain continuous quotes in 60% of the series of the appointed class that have a time to expiration of less than nine months.

Additionally, On-Floor LMMs must provide a continuous presence in the trading crowd throughout the entire trading day.

On-Floor LMMs must perform the above obligations for a period of one expiration month commencing on the first day following an expiration. For additional information and requirements, please refer to the Exchange Rules noted above and to Rule Change No. SR-CBOE-2009-006, located at [www.cboe.org/legal](http://www.cboe.org/legal).

Members wishing to participate in the LMM program should obtain an application from the Department of Market Quality Assurance located on the 5<sup>th</sup> Floor, CBOE. **All applications must be returned no later than Friday, April 3, 2009.**

Any questions regarding this Circular may be directed to Allison Kile ([kilea@cboe.com](mailto:kilea@cboe.com) or 312-786-7210).