To: **CBOE Membership**

From: **Legal Division**

Date: **October 9, 2003**

Re: **Adjustment and Nullification of Obvious Price Errors in Hybrid**

The SEC yesterday approved a CBOE rule regarding the adjustment and nullification of obvious pricing errors. Effective today, Hybrid trades may be adjusted or nullified when the execution price of the trade is higher or lower than the Theoretical Price for the series by an amount equal to at least **two times the maximum bid/ask spread** allowed for the option under Rule 8.7(b)(4).[1] The Theoretical Price, with respect to an erroneous bid (offer) entered on CBOE, is the last bid (offer) just prior to the trade from the non-CBOE exchange with the most volume in the option for that day. If there are no quotes for comparison purposes, then the Theoretical Price of an option is as determined by two Trading Officials.

Additionally, as indicated in Regulatory Circular RG03-90, Trading Officials can adjust or nullify Hybrid trades caused by a "verifiable disruption or malfunction in the use or operation of any **<u>Exchange</u>** automated quotation, dissemination, execution, or communication system."

Any member that believes he/she has participated in a transaction that occurred at an obviously erroneous price or that resulted from a verifiable Exchange systems problem must notify trading officials (i.e., TFL or floor officials) within **<u>15 minutes</u>** of the execution in question. In most instances, trading officials will be expected to render a decision immediately upon determining the facts of the particular situation, and no later than within 60 minutes of receipt of initial notification.

Any questions regarding application of the rule, including whether a specific system is considered to be an Exchange "quotation, dissemination, execution, or communication" system, should be directed to Joanne Moffic-Silver, General Counsel, CBOE at (312) 786-7462, Andrew Spiwak (312) 786-7483 or Steve Youhn at (312) 786-7416.

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[1] The maximum bid/ask spreads are as follows:
- $0.25 for options where the bid is under $2,
- $0.40 for options where the bid is at least $2 but does not exceed $5
- $0.50 for options where the bid is above $5   but does not exceed $10
- $0.80 for options where the bid is above $10 but does not exceed $20
- $1.00 for options where the bid is above $20