CHICAGO BOARD OPTIONS EXCHANGE

Regulatory Circular RG07-24

Date: February 13, 2007

To: Members

From: Regulatory Services Division

RE: Simple Auction Liaison (SAL), Hybrid Agency Liaison (HAL), Complex Order Auction (COA) and Automated Improvement Mechanism (AIM) Systems

Under CBOE Rule 6.13A – Simple Auction Liaison ("SAL"), Rule 6.14 – Hybrid Agency Liasion ("HAL"), Rule 6.53C – Complex Order Auction (COA) and Rule 6.74A – Automated Improvement Mechanism ("AIM") certain eligible orders entered into the Exchange's Hybrid system are electronically exposed to certain market participants for a specified time period (hereinafter referred to as the "auction period") prior to the electronic execution of all or part of the eligible order. Interpretations and Policies .01 and .02 of Rules 6.13A and 6.14 and Interpretations and Policies .04 and .05 of Rule 6.53C state that a pattern or practice of submitting unrelated orders that cause an auction period to conclude early or the dissemination of information regarding auctioned orders to third parties will be deemed conduct inconsistent with just and equitable principals of trade and a violation of Exchange Rule 4.1 and other Exchange Rules. Further, Interpretations and Policies .02 of Rule 6.74A states that a pattern or practice of submitting unrelated orders that cause the auction period to conclude early or a pattern or conduct where the Initiating Member breaks-up an Agency Order into separate orders for two (2) or fewer contracts for the purpose of gaining a higher allocation percentage on the execution of an AIM order will be deemed conduct inconsistent with just and equitable principals of trade and violation of Exchange Rule 4.1 and other Exchange Rules.

The availability of market sensitive information during each auction period, coupled with the additional prohibitions associated with SAL, HAL, COA and AIM described above, raises certain regulatory concerns. As such, all members who have access to the SAL, HAL, COA and/or AIM features in the Hybrid system (hereinafter referred to as "access members") should determine whether written procedures and policies need to be established or existing procedures and policies need to be amended to ensure adherence to the aforementioned provisions of Exchange Rules. In making this determination, access members should, upon taking into consideration the type(s) of business activities they engage in, not only assure themselves that the aforementioned Rule provisions are adequately addressed within that member's written procedures and policies, but should also take into consideration whether being an access member would necessitate heightened supervision, monitoring of trade activity or order entry or the implementation of other internal controls to further serve to detect and deter conduct in violation of the subject Rules. Be advised that any access member found to have violated the aforementioned Rule provisions may be subject to additional disciplinary action if such access member failed to establish, maintain and enforce adequate procedures and policies related to SAL, HAL, COA and/or AIM.

Questions regarding this circular may be directed to Karen Charleston at (312) 786-7724 or Steve Slawinski at (312) 786-7744 in the Department of Market Regulation.