



400 S. La Salle
Chicago, IL 60605

Regulatory Circular RG09-84

Date: August 14, 2009

To: Members

From: Trading Operations

Re: New Option Linkage Implementation

New Option Linkage will begin routing on Monday, August 31, 2009. In coordination with all option exchanges, CBOE will accept and trade inbound Intermarket Sweep Orders (ISO). We will begin a transition period at the end of September for the generation of outbound ISOs. During this interim period, CBOE will continue usage of the OLA Hub for outbound routing. The new option linkage plan is modeled after Reg NMS for stock. Each exchange will utilize standard "front-door" routing mechanisms through established firms for sending linkage orders. The OLA Hub technology will eventually be eliminated, along with the old plan origin types of P/A, P, and S. ISOs will route with the same origin as the underlying order. Once CBOE migrates to the new outbound routing mechanism, firms can route their customer orders to CBOE, and our exchange processes will send ISOs to sweep better-priced markets when necessary. Remaining customer balance will simultaneously trade at CBOE's price. Alternately, a firm can elect to generate ISOs to all marketable priced exchanges. With this alternate routing method, all ISOs must be marked appropriately.

Trade-Through Protection is required for each exchange's displayed Top-of-Book. This is defined as the Protected Quote for each exchange, including full disseminated size of the Protected Bid or Protected Offer. Per the new plan, members should not cause trade-throughs, and should not create locked or crossed markets.

- CBOE has developed enhanced processing for HAL in support of the new plan ("HAL2"). HAL2 responses are allowed at any price equal to or better than the CBOE price. Responses priced at the NBBO or better will trade immediately, meaning the first responder could trade all. Any remaining balance at the end of the HAL2 timer will trade against the remaining responses or route to better prices at away exchanges via ISOs, as appropriate.
- The generation of outbound ISOs will ship limit orders marked as ISO to all away exchanges displaying Protected Quotes priced better than CBOE. ISO fills will be applied to the underlying order, creating a corresponding trade at CBOE. If the ISO cannot trade at the destination exchange, the ISO will be canceled. This canceled volume will be treated similar to a new order being received. It will be evaluated for NBBO pricing with possible ISO routing to new markets, or it could be booked or traded at the CBOE price.
- The corresponding trade at CBOE for an underlying order executed via ISO will clear at OCC, but the CBOE trade will not send a last sale to OPRA. ISO last sales will be disseminated only at the exchange where the ISO was executed.
- CBOE will contract with multiple routing firms to act as linkage providers on behalf of our customers. These firms will route our outbound ISOs (destinations determined by CBOE), return the ISO fills, and act as clearing agent for the linkage trades at both exchanges.
- PAR will provide a new process of Sweep and Return, allowing PAR brokers the ability to submit an order to sweep away markets. The remaining volume will be returned to PAR.
- CBOE plans to route ISOs on behalf of any origin, including customer, firm, broker dealer, and market maker.
- The CBOE Rollout Plan for outbound routing is planned to begin at the end of September with a short period of migration to our "front-door" linkage provider firms on a class by class basis. The migration dates will be announced under a separate circular. CBOE will continue to route linkage orders via the OLA Hub until each class migrates to new plan routing through a linkage provider firm.

- Transaction fees for non-customer orders that CBOE links to away exchanges will be passed back to the originating order firm. These fees will include away exchange, OCC clearance, routing, and CBOE transaction fees. Additionally for PAR Sweep and Return trades, linkage fees may be passed through to the executing floor broker. The assessment of the PAR fees will be decided after the initial implementation is completed.

New order types defined:

An **Intermarket Sweep Order (ISO)** is a limit order priced to trade a Protected Quote. The member submitting the ISO must simultaneously send ISOs to sweep all better priced markets. CBOE will accept ISOs to sweep CBOE's displayed price and will execute ISOs irrespective of the NBBO. After trading, any remaining volume on the ISO will be canceled, or if no IOC designation is present, the ISO remainder can be booked. It is assumed all better prices at away exchanges have been simultaneously swept by the firm submitting the ISOs. The last sale for an ISO trade will be marked on the OPRA tape as "S" for sweep; any remaining portion traded from our book will be marked like a normal trade.

Regulatory requirements for maintaining data by firms submitting their own ISOs should include but not be limited to reports which show the order routing history of the ISOs. These reports should contain but not be limited to order identifier numbers, price, quantity, order entry time, time of execution, and place of execution. These reports will be maintained in a manner and form prescribed by SEC Rules 17a-3 and 17a-4.

AIM ISO is an AIM crossing transaction where the sender must sweep all better priced protected quotes on away exchanges. The primary order (PO) will trade any interest in our book better than the matching order (MO) price. The AIM ISO auction is handled the same as a regular AIM auction, except last sales disseminated to OPRA will be marked "S" for sweep. This designation also applies to any AIM ISO trades with the book effected simultaneous with the commencement of the auction.

Sweep and AIM is an AIM crossing transaction that instructs CBOE to sweep all better priced protected quotes at away exchanges at the same time as the commencement of the AIM auction. The primary order (PO) must be marked with special instruction "A:AIS" in the Optional Data field. A matching order (MO) must also be sent. The starting auction price of both orders may be priced outside of the NBBO. CBOE will simultaneously route ISOs to all better priced markets and sweep all contracts in CBOE's book priced better than the MO price. Concurrent with the generation of ISOs and with trading CBOE's book, the AIM auction will begin. Any ISO executions from the away exchanges will be applied to the PO.

CBOE-Only order will only trade or book at CBOE. If linkage routing is required, the order will be canceled.

Contacts for New Option Linkage:

For business questions regarding linkage, please contact Tim Watkins at (312) 786-7172, Roger Mulcahy at (312) 786-7280, or the CBOE Help Desk at (312) 786-7100. For questions relating to ISO format or to set up testing, please contact CBOE's API Group at (312) 786-7300. For questions relating to HAL or AIM, please call Anthony Montesano at (312) 786-7365, Mike Trees at (312) 786-8408, or Greg Burkhardt at (312) 786-7531.

Related information

The website for new option linkage – SEC plan approval:

<http://www.sec.gov/rules/sro/nms/2009/34-60405.pdf>

The website for new option linkage – CBOE rule filing:

<http://www.sec.gov/rules/sro/cboe/2009/34-60187.pdf>

<http://edocket.access.gpo.gov/2009/pdf/E9-15992.pdf>