CBOE
CHICAGO BOARD OPTIONS EXCHANGE

Regulatory Circular RG11-025

To: Trading Permit Holders
From: Trading Operations
Date: February 8, 2011
Re: Splitting of Stock/Option Market Orders

On February 9, 2011, CBOE will activate an enhancement to the processing of stock/option complex orders with a price of "market". Details are as follows:

At the conclusion of a Complex Order Auction (COA), eligible stock/option market orders that cannot be filled in whole or a permissible ratio within the CBOE BBO and stock NBBO may be split into individual component market orders. In such cases, market orders for the component option and stock legs will be sent to CBOE and CBSX, respectively. The component orders will be processed by CBOE and CBSX consistent with the processes for handling simple market orders, including that the orders may be linked to away exchanges in an attempt to obtain NBBO pricing and that the orders may potentially fill at multiple prices.

Example:

Leg Detail	CBOE/CBSX	Away Exchange
Buy 500 shares	10.00 – 10.10 200x200	10.00 – 10.09 1000x1000
Sell 5 Options	1.00 – 1.10 2x100	1.05 – 1.10 10x10

The valid execution price range for this spread is 8.90 – 9.09 and the order will be auctioned via COA. Assuming no responses, the order will be split into two component market orders and sent to CBOE and CBSX, respectively. In this example: 500 shares would be purchased for 10.09, and 5 options would be sold at 1.05 (resulting in a net price of 9.04).

Parameters will restrict the scenarios under which an order will be split, as follows:
1) The maximum eligible order quantity is 1000 for the stock leg, and 10 for the option leg.
2) The displayed quantity for the stock NBBO must be at least 1000 (even if the quantity on the stock leg of the order is less).
3) Orders with a sell option leg will split only if the option NBBO bid for the series is $0.25 or higher and the displayed NBBO bid size is sufficient to satisfy the entire quantity for that leg of the order.
4) Orders will not split if auctioned within 3 minutes of the close.

Questions regarding this matter may be directed to Doreen Scholla at 312-786-7529/ scholla@cboe.com, Anthony Montesano at 312-786-7365/montesan@cboe.com or the Help Desk at 866-728-2263/helpdesk@cboe.com.