Regulatory Circular RG 97-03

DATE: January 8, 1997

TO: Equity Trading Crowds

FROM: Equity Floor Procedure Committee

RE: Telephone Order Entry in Equity Trading Crowds

This circular describes a recent change to the Exchange's telephone policy in the equity option classes. The new policy:

1. Permits CBOE market-makers to place orders from off the trading floor over telephone lines directly with floor brokers at the equity option trading posts;
2. Specifies that such phone orders will be treated as off-floor orders for purposes of determining the 80% in-person transaction requirement;
3. Specifies how a floor broker should mark the order ticket for such orders; and
4. Requires the white ticket copy of such phone orders to be submitted to the Trade Match Window.

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Pursuant to authority delegated to it by the Exchange under Exchange Rule 6.23, the Equity Floor Procedure Committee is issuing this circular which supplements and amends Regulatory Circular RG 94-26 which sets forth the policy governing the use of telephones at the equity trading posts.[1] One of the limitations on the use of telephones, as set forth in RG 94-26 (attached), is that the outside telephone lines may not be used to receive orders. The Exchange has now decided that market-makers may place orders from off the floor directly with floor brokers over telephone lines at the equity posts. (Market-makers are already permitted to enter orders while on the floor with floor brokers over intra-floor lines.) The telephone policy will remain unchanged in every other respect.[2] Non-market-makers will not be permitted to place orders from off the floor directly with floor brokers over the telephones located at the equity trading posts.

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[1]This change in the equity telephone policy was filed with the Securities and Exchange Commission as SR-CBOE-96-15 and was recently approved by the SEC. *See* Securities Exchange Act Release No. 34-37876 (October 28, 1996), 61 FR 56728 (November 4, 1996).

[2]Members should refer to the current fee schedule to determine any applicable fees. The fees listed in RG 94-26 may no longer be current.

It should be noted that orders placed over the outside telephone lines will be counted as off-floor orders for purposes of determining if a market-maker is eligible to receive market-maker treatment on orders initiated from off the floor. The in-person transaction requirement set forth in Interpretation .03(B) to Exchange Rule 8.7, *Obligations of Market-Makers*, states that a market-maker must execute at least 80% of the market-maker's transactions in person in the previous quarter in order to have these off-floor trades treated as market-maker trades for purposes of the margin rules and other regulations.

Pursuant to Exchange Rule 6.24(a), the Exchange requires any person receiving an off-floor initiated order from a market-maker over the telephone to mark the order as having been received by phone by writing his or her initials and a "P" on the front of the order as well as marking the order open or close. Market-makers must specify whether the trade is to clear in their “market-maker” (MM) or customer (C) account and the order must be marked accordingly by the floor broker or the person receiving the order. The floor broker or his clerk also is required to record the market-maker’s acronym in the optional data section of the order ticket.

Also, in accordance with CBOE Rule 6.51 (Reporting Duties), the Exchange requires all members and member firms to submit the white ticket copy of a market-maker phone order to the Trade Match Window (located on the first floor) at the end of the trading day.

Questions concerning this matter may be directed to Karen Calvin (312) 786-7759 or Steve Slawinski (312) 786-7744 in the Department of Market Regulation.