



400 S. LaSalle  
Chicago, Illinois 60605  
(312) 786-5600  
FAX (312) 786-7409

Regulatory Circular RG99-219

Date: November 22, 1999  
To: CBOE Members and Member Firms  
From: Trading Operations  
Re: RAES NBBO Step-up When Book-Touches-Market, and  
RAES BTM Rejects for OEX, DJX and IBM

Effective November 23, 1999, the CBOE will implement a software change which will allow RAES-eligible orders to automatically trade against EBOOK when the book represents the best CBOE market. This enhancement is called Automated Book Priority (ABP). Although ABP will not yet be activated for all classes, the implementation of the software will impact RAES NBBO processing, floorwide, as follows:

**NBBO will be checked even when a book order matches the market.**  
Currently (prior to implementation), NBBO is not checked for RAES-eligible orders if the book touches the market. In this case, RAES-eligible orders are routed to PAR as BTM (Book-Touches-Market) rejects, and the orders are not eligible for RAES NBBO step-up.

Once the new software is in production, RAES-eligible orders will be checked against the NBBO, even if the book is matching the market. If the NBBO is 1 tick better than the CBOE market, RAES will execute at the NBBO. If the NBBO is more than 1 tick better, the order will route to PAR as an NBBO REJECT.

**Example:** RAES-eligible BUY order

- CBOE disseminated market is 5 - 5 1/4 because EBOOK has a \$5 1/4 offer.
- AMEX offer is 5 1/8 (i.e. 1 tick better than the CBOE quote).
- RAES automatic "step up" is set to 1 tick

A RAES-eligible BUY order will automatically execute against the wheel at a "stepped up" price of \$5 1/8. Previously, such an order would have routed to PAR as a BTM reject.

Please note that the RAES NBBO step-up feature was modified on September 30, 1999, to protect against situations in which CBOE market makers would be assigned by RAES to BUY for more than they would SELL (refer to Regulatory Circular RG99-193). THESE PROTECTIONS WILL STILL APPLY.

**OEX, DJX and IBM will not allow RAES execution when Book-Touches-Market**

Once the ABP software is implemented, 11/23/99, RAES eligible orders in OEX, DJX and IBM will not be allowed to execute in RAES while the book is matching the market. These orders will route to PAR as "BTM REJECTs". This is similar to the method in which such orders are processed in all other classes. ABP will be activated in individual classes shortly after implementation of the software, as approved by the appropriate floor procedure committees.

If you have any questions, please contact the RAES Supervisors at x4340, the CBOE Help Desk at (312)786-7100, or Anthony Montesano at (312)786-7365.