

whereby orders are evenly assigned to Market-Makers logged onto the In-Person Wheel for up to five contracts per Market-Maker for each order.

(iii) The term "Linkage Order" means an order routed to the Exchange through the Options Intermarket Linkage pursuant to the Plan for the Purpose of Creating and Operating an Intermarket Options Linkage.

(b) LOU Eligibility.

The following criteria must be met for an order to be eligible for LOU:

(i) The order must be a market order or marketable limit order that is not for an account in which a member, or any non-member broker-dealer (including foreign broker-dealer) has an interest *except as provided under Interpretation .02 of this Rule*;

(ii) The order must be of a size greater than the RAES eligibility limit for the subject option series as established pursuant to Rule 6.8(c);

(iii) the order may not be a Linkage Order;

(iv) at the time the order is received, the Exchange must be disseminating a quote at the national best bid or offer (NBBO) for the appropriate side of the market;

(v) at the time the order is received, the Exchange's disseminated quote may not be a manual quote;

(vi) the order must be in an option class which is designated as subject to the terms of Rule 6.8.B concerning booked orders; and,

(vii) the order must be in an option class designated by the appropriate FPC as subject to this Rule 6.10.

The senior person then in charge of the Exchange's Control Room shall have the authority to turn off LOU with respect to a class of options if there is a system malfunction that affects the Exchange's ability to disseminate or update market quotes.

(c) Order Receipt.

(i) Orders Equal to or Smaller than the Exchange's Disseminated Quotation Size. When LOU receives an order smaller than the Exchange's disseminated quotation size, the system will automatically stop the order against the Exchange's disseminated market. The order will then be automatically routed for representation in the crowd to allow for price improvement and to allocate the order to members of the trading crowd pursuant to paragraph (d) below.

(ii) Orders Larger than the Exchange's Disseminated Quotation Size. When LOU receives an order larger than the Exchange's disseminated quotation size, the system will automatically stop a portion of the order against the Exchange's disseminated market up to

the Exchange's disseminated size. The stopped portion of the order will then be automatically routed for representation in the crowd to allow for price improvement and to allocate the order to members of the trading crowd pursuant to paragraph (d) below. Simultaneously, the balance of the order that was not stopped at the Exchange's disseminated price will be routed for normal order handling.

(d) Execution and Allocation. Upon receipt, the LOU order (or the stopped portion of the LOU order) shall be announced and exposed to the crowd to allow for price improvement. Any portion of a LOU order that does not receive price improvement will be allocated as follows:

(i) The LOU order will be assigned in open outcry consistent with Rule 6.45 and Rule 8.87. To the extent an order is not fully assigned in open outcry, the remaining portion of the order will be assigned to Market-Makers via the In-Person Wheel. If a portion of the LOU order still remains after the In-Person Wheel allocations are exhausted, the balance of the order shall be assigned in accordance with the RAES trade allocation methodology in effect for the subject option class pursuant to Rule 6.8, Interpretation and Policy .06.

(e) Obligations of Participating Market-Makers. Any Market-Maker who is present in the trading crowd and who makes markets in a particular security traded in that crowd, must be logged onto the In-Person Wheel for that security.

. . . Interpretations and Policies

.01 The provisions of Rule 8.17 regarding stopping of option orders shall not apply to orders received pursuant to this Rule 6.10.

.02 *Broker-Dealer Access to LOU.* The appropriate FPC may determine, by class and/or series to allow the following broker-dealer orders to be eligible for LOU, provided that such broker-dealer orders will not be stopped pursuant to this Rule against orders in the limit order book:

(a) broker-dealer orders, or

(b) broker-dealer orders that are not for the accounts of market-makers or specialists on an exchange who are exempt from the provisions of Regulation T of the Federal Reserve Board pursuant to Section 7(c)(2) of the Securities Exchange Act of 1934.

* * * * *

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the CBOE included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The CBOE has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

On July 11, 2002, the Securities and Exchange Commission ("Commission") approved a CBOE rule change to establish the Large Order Utility ("LOU").⁵ Through LOU, eligible orders larger than CBOE's maximum RAES limit for the relevant option are stopped at the Exchange's disseminated price up to the size of the Exchange's disseminated quote, and are subsequently routed to the trading crowd for allocation and possible price improvement in open outcry. Because CBOE has recently expanded the RAES system (Rule 6.8) to allow broker-dealer orders to trade on RAES,⁶ the Exchange now seeks to similarly expand Rule 6.10 to allow LOU to handle broker-dealer orders.

As proposed, Rule 6.10 would be modified to provide that the appropriate Floor Procedure Committee may allow the following two broker-dealer order categories to be eligible for LOU on a class or series basis: (1) All broker-dealer orders, and (2) all broker-dealer orders except orders for the accounts of market makers or specialists. These orders would receive full LOU treatment except that they would not receive LOU treatment when CBOE's NBBO quote is represented by an order on CBOE's limit order book. Currently, broker-dealer orders eligible for RAES do not automatically execute against the limit order book. Therefore, the Exchange does not believe it is appropriate, at this time, to allow broker-dealer orders such capability through LOU.

2. Statutory Basis

The Exchange believes that the proposed rule change will help a

⁵ See Securities Exchange Act Release No. 46185 (July 11, 2002), 67 FR 47585 (July 19, 2002).

⁶ See Securities Exchange Act Release No. 46598 (October 3, 2002), 67 FR 63478 (October 11, 2002).