

underlying security. Trading would cease but the System would continue to accept certain order types (such as market orders, which would be held by the System for participation in the opening of the next SBT session).⁷⁶ At some designated time, as determined by the Exchange, the System would stop accepting orders and would enter into end-of-session procedures as described in CBOE rule 42.4.⁷⁷

6. Fast Markets and Non-Firm Markets

A fast market may be declared in one or more option classes. A fast market may be declared by the System automatically if the System loses an underlying security feed.⁷⁸ A fast market also may be declared by two trading officials whenever, in their judgment, an influx of orders or other conditions or circumstances would impair the operation of a fair and orderly market. In determining whether to declare a fast market, the trading officials may consider, among other things, impending news, increases in trading volume that threaten the capacity of the System, and the loss of an underlying security feed.⁷⁹ Regular trading conditions may be resumed when two trading officials believe that such action is warranted or, if the System had made the fast market declaration, if the underlying security feed has been restored.⁸⁰

CBOE may designate the market in an option to be "non-firm" if two trading officials determine that the level of trading activities or the existence of unusual market conditions is such that the Exchange is incapable of collecting, processing, and making available to quotation vendors the data for the option in a manner that accurately reflects the current state of the market on CBOE*direct*. If a market is declared non-firm, the Exchange would provide notice that its quotations are not firm by appending an appropriate indicator to such quotations, and two trading officials would have the authority to direct that one or more trading rotations be employed or to take such other actions as are deemed necessary in the interest of maintaining a fair and orderly market. The Exchange would monitor the activity or conditions that caused the declaration of a non-firm market, and two trading officials would be

required to review the condition of such market at least every 30 minutes. Regular trading procedures would be resumed by the Exchange when two trading officials determined that the conditions supporting a non-firm market declaration no longer existed. The Exchange would provide notice that its quotations were once again firm by removing the indicator from its quotations. However, if the conditions supporting a non-firm market declaration could not be managed utilizing the prescribed procedures, two trading officials would halt trading in the class or classes so affected.⁸¹

There is a significant difference between a "non-firm" market and a fast market: Only in a non-firm market would responsible brokers and dealers be relieved of their obligations under the Exchange's firm quote rule, as applicable to CBOE*direct*,⁸² and the Commission's firm quote rule.⁸³ In a fast market that is not also a non-firm market, the firm quote obligations would continue to apply.

E. Firm Quote Obligations on CBOE*direct*

Each responsible broker or dealer, as defined in rule 11Ac1-1 under the Act,⁸⁴ must communicate to the Exchange its bids and offers in accordance with rule 11Ac1-1, and a bid or offer submitted by a responsible broker or dealer must be firm pursuant to rule 11Ac1-1 for the number of contracts specified in such bid or offer, subject to certain exceptions.⁸⁵ A responsible broker or dealer would be relieved of its firm quote obligations under rule 11Ac1-1 and Exchange rules if any of the following conditions existed:⁸⁶

- The level of trading activities or the existence of unusual market conditions is such that the Exchange is incapable of collecting, processing, and making available to quotation vendors the data for the option in a manner that accurately reflects the current state of the market on the Exchange and, as a result, the market in the option is declared to be "non-firm" pursuant to CBOE rule 43.14(b);
- A system malfunction or other circumstance impairs the Exchange's

ability to disseminate or update market quotes in a timely and accurate manner;

- A trading rotation is in progress; or
- Any of the circumstances set forth in paragraph (c)(3) of rule 11Ac1-1⁸⁷ exists.

Within 30 seconds of receipt of an order to buy or sell an option series in an amount greater than the size associated with the responsible broker's or dealer's bid or offer, that portion of the order equal to the size associated with the responsible broker's or dealer's bid or offer will be executed, and the bid or offer price will be revised.⁸⁸

F. Trade Nullification

The SBT System rules provide for the ability to nullify a trade through a negotiated or mandated trade nullification procedure.

1. Negotiated Trade Nullification

A CBOE*direct* trade could be nullified if both parties to the transaction agreed to the nullification.⁸⁹ Negotiation could be conducted through the SBT System's messaging facility that would allow a party to exchange messages with its counterparty of a particular trade. The System would preserve the anonymity of the parties, although one party could voluntarily disclose its identity to the other party. When both parties to a trade have agreed to a trade nullification, one party must contact the Help Desk. The Help Desk then would confirm the agreement and promptly nullify the trade, notify the parties involved, disseminate cancellation information in prescribed OPRA format, and re-establish orders and their priorities in the SBT book on a best-efforts basis.

2. Mandated Trade Nullification

An SBT trader may have a trade nullified by two trading officials if a documented request is made within five minutes of execution (or 15 minutes if the request is on behalf of a public customer) and one of five following conditions is met:

- The trade resulted from a verifiable disruption or malfunction of an Exchange execution, dissemination, or communication system that caused a quote/order to trade in excess of its disseminated size (e.g., a quote/order that is frozen, because of an Exchange system error, and traded repeatedly);⁹⁰

⁷⁶ See CBOE rule 42.2(e).

⁷⁷ See *id.* CBOE has represented that it would issue an information circular regarding the designated time that the SBT System would stop accepting orders and enter into end-of-session procedures. December 5 conversation.

⁷⁸ See CBOE rule 43.4(a)(1).

⁷⁹ See CBOE rule 43.4(a)(2).

⁸⁰ See CBOE rule 43.4(a)(1)-(2).

⁸¹ See CBOE rule 43.14(b).

⁸² CBOE rule 43.14(a).

⁸³ 17 CFR 240.11Ac1-1.

⁸⁴ 17 CFR 240.11Ac1-1.

⁸⁵ See CBOE rule 43.14(a). The Commission notes that an SBT market maker is permitted to display a single quote and one or more orders at the same time. All orders and quotes of a responsible broker or dealer that are displayed on CBOE*direct* will be subject to the Commission's Firm Quote rule.

⁸⁶ See CBOE rule 43.14(c)(1).

⁸⁷ 17 CFR 240.11Ac1-1(c)(3)

⁸⁸ See CBOE rule 43.14(c)(2).

⁸⁹ See CBOE rule 43.5(a).

⁹⁰ See CBOE rule 43.5(b)(1). For example, assume that an SBT market maker enters a quote of 4.00-4.30, 20x20. Another SBT trader hits the market maker's bid at 4.00 for the full size of 20 contracts. Also assume that the SBT System fails to remove the market maker's bid from the SBT book, even