

If one or more incoming RFQ responses could execute against a market order as well as any limit orders that were already on the SBT book at a particular price and the incoming responses are of large enough quantity to fill all of the older limit orders, all of those orders would be filled at the price of the older limit orders.¹¹² If the responses could execute against a market order and one or more older limit orders, but the responses are not of large enough quantity to fill all of the older limit orders, the market order would be filled at the minimum price interval ahead of the older limit orders.¹¹³

c. Market Orders During Trading Halts

If trading were halted in a series while a market order for an option in that series were on hold waiting for RFQ responses, CBOE*direct* would operate as follows:

- If the market order were a good-'til-canceled order, the System would hold and execute it at the next opening (whether on the same day or the next day).
- If the market order were a day order, the System would execute it at reopening if trading resumed on the same day.
- If trading did not resume on the same day, the System would purge the market order as part of the end-of-day procedures.¹¹⁴

2. Limit Order Processing

Non-broker-dealer marketable limit orders to buy or sell options on CBOE*direct* will not be automatically executed by the System at prices inferior to the best bid or offer on another national securities exchange, as those best prices are identified in the System.¹¹⁵ Broker-dealer limit orders, non-broker-dealer limit orders that are not marketable, and limit orders in options that are not traded on another national securities exchange will be processed as follows.

As presently configured, CBOE*direct* will process limit orders by matching them against the best prices available in the SBT book under the priority rules set forth in CBOE rule 43.1. If no booked order matched the incoming limit order, the limit order would be held in the SBT book and could trade against later-submitted orders.¹¹⁶

In the future, CBOE*direct* will be enabled to provide additional protection

for limit orders by allowing a limit order to be executed only if there is a legal width market in that series.¹¹⁷ If a legal width market did not exist but the limit order could otherwise execute against the best bid or offer, the System would put the order in queue and send an RFQ.¹¹⁸ The RFQ would include the order quantity but not whether the order was a buy or sell. Quote responses would be exposed in the SBT book as they were received. The System would execute the limit order if:

- During the RFQ response time, the best quote becomes a certain prescribed percentage (e.g., 75%, as set by the appropriate SBT Trading Committee¹¹⁹ of a legal width market;¹²⁰
- The System receives a market or limit order (independent of the RFQ responses) on the opposite side that would match the original limit order, and a legal width market exists;¹²¹
- A certain prescribed percentage of the SBT market makers that currently are receiving RFQs (the percentage to be set by the appropriate SBT Trading Committee¹²²) respond to the RFQ, or when the RFQ period expires and there is at least one quote response.¹²³

If a limit order for a certain series were queued, subsequent limit orders for the same series and side would be queued behind the first order to ensure that they were processed in time sequence.¹²⁴ Subsequent market orders for the same series and side also would be queued.¹²⁵ If a legal width market remained upon completion of the limit order processing, the market order would be executed against orders resting in the SBT book.¹²⁶ If a legal width market did not exist, market order processing would begin in accordance with market order processing rules, discussed above.¹²⁷

¹¹⁷ See CBOE rule 43.8A(a).

¹¹⁸ See CBOE rule 43.8A(b). The SBT trader that submitted the limit order could override the RFQ and enter the limit order into the SBT book. See *id.*

¹¹⁹ CBOE has represented that it would announce the percentage set by the committee in an information circular. December 5 conversation.

¹²⁰ See CBOE rule 43.8A(d)(1). The original limit order then would trade with the best priced quote or order on the SBT book. See *id.*

¹²¹ See CBOE rule 43.8A(d)(2). The original limit order then would trade with the incoming market or limit order. See *id.*

¹²² CBOE has represented that it would announce the prescribed percentage that would trigger this provision in an information circular. December 5 conversation.

¹²³ See CBOE rule 43.8A(d)(3). The original order then would trade with the best priced quote or order on the SBT book. See *id.*

¹²⁴ See CBOE rule 43.8A(e).

¹²⁵ See *id.*

¹²⁶ See *id.*

¹²⁷ See *id.*

3. Contingency Orders

CBOE*direct* currently can handle all-or-none, fill-or-kill, immediate-or-cancel, stop, and stop limit orders. The System is not yet ready to process opening-only, minimum volume, and market-on-close orders,¹²⁸ although such orders are contemplated by the proposed CBOE*direct* rules, once the System is enabled to handle them.¹²⁹ Contingency orders (except for opening-only orders) would not participate in the opening trade or in the determination of the opening price.¹³⁰

A contingency order (except for an immediate-or-cancel order or a stop limit order the stop price of which has been hit) would be placed last in priority order, regardless of when it was entered into the SBT System.¹³¹ If customer priority were afforded to a particular option class, a public customer contingency order would have priority over a non-public-customer contingency order but would be behind all other orders.¹³²

4. Spread Orders

Once the SBT System has been so enabled and the Commission has approved the necessary rules, SBT traders would have the ability to enter spread orders, the legs of which are options of the same underlying security.¹³³ However, spread orders may not be entered on the System at this time.

H. Facilitation and Solicitation of Orders by SBT Brokers

On the SBT System, an SBT broker would not be permitted to execute as principal an order that it represents as agent unless the agency order were first exposed on the System for at least 30 seconds, or the broker utilizes the applicable crossing procedure described below.¹³⁴ In addition, an SBT broker would be required to expose on the System an order that it represented as agent for at least 30 seconds before such order could be executed in whole or in part by orders solicited from members or non-member broker-dealers to transact with such order.¹³⁵ Described below are an interim crossing procedure and a permanent crossing procedure, which would replace the interim procedure at some time in the future.¹³⁶

¹²⁸ See Amendment No. 4.

¹²⁹ See CBOE rule 43.9.

¹³⁰ See CBOE rule 42.3(a).

¹³¹ See CBOE rules 43.1(c) and 43.9.

¹³² See CBOE rule 43.1(c).

¹³³ See CBOE rule 43.6(a).

¹³⁴ See CBOE rule 43.12(a).

¹³⁵ See CBOE rule 43.12(b).

¹³⁶ See CBOE rules 43.12A and 43.12B. CBOE rule 43.12C(a) provides that it would be a violation of

¹¹² See CBOE rule 43.7(a)(3)(B)(ii)(aa).

¹¹³ See CBOE rule 43.7(a)(3)(B)(ii)(bb).

¹¹⁴ See CBOE rule 43.7(d).

¹¹⁵ See CBOE rule 43.8.

¹¹⁶ See *id.*