

contracts, the market maker will not be in violation of any exchange rule. The CBOE Hybrid System will not accept any market maker quotes without an attached size. Closely related to this change is the proposed change to Interpretation .06 to CBOE Rule 8.7. Because the Hybrid System will not accept one-sided quotes, the current rule would have no applicability to electronic quotes. Accordingly, Interpretation .06 will now only apply to open outcry quotes.

The proposed change to Interpretation .07 to CBOE Rule 8.7 clarifies that this provision only applies in classes in which Hybrid is not operational. Because market makers will have the ability to submit their own quotes, this rule will not have any applicability.

The Exchange proposes to amend Interpretation .11 to clarify its applicability to different systems. New section (a) will only apply to classes on RAES while section (b) will apply to Hybrid classes. Section (b) for the most part is identical to section (a) except for the elimination of the reference to RAES, an elimination necessitated by the fact that RAES will not exist in the Hybrid environment.

Amendment of Additional Rules

The Exchange notes that to accommodate the introduction of Hybrid, it must amend numerous of its existing rules. While CBOE does not believe that the changes to these rules are as substantive as those made to the rules described above, they nevertheless are described below.

Rule 6.2 Trading Rotations

The Exchange amends existing CBOE Rule 6.2 to specifically reference the Hybrid Opening System ("HOSS") in order to indicate that trading rotations may occur via HOSS. The amendment to CBOE Rule 6.2.05 clarifies that the automatic execution feature of Hybrid may be disengaged during any closing rotation.

Rule 6.2A Rapid Opening System

The Exchange amends its ROS rule to clarify it has no applicability to series trading on the CBOE Hybrid Opening System.

Rule 6.2B Hybrid Opening System

This rule governs the opening procedures for the CBOE Hybrid System. HOSS is the Exchange's automated system for initiating trading at the beginning of each trading day. For each class of options contracts that has been approved for Hybrid trading, the System shall conduct an opening rotation, which shall be held promptly

following the opening of the underlying security in the primary market in accordance with the procedures contained in CBOE Rule 6.2B.

Rule 6.7 Exchange Liability

The Exchange amends this rule to clarify its applicability to Hybrid.

Rule 6.8 RAES Operations

The amendment clarifies that the RAES rule has no applicability to options classes traded on the CBOE Hybrid System. For classes not trading on Hybrid, Rule 6.8 will continue to be applicable.

Rule 6.20 Admission to and Conduct on the Trading Floor; Member Education

The Exchange proposes to amend Interpretations .04, .05 and .09 to make them applicable to Hybrid. In this respect, CBOE eliminates in Interpretation .04(i) the reference to CBOE Rule 6.43 as Hybrid allows market participants to effect transactions electronically. Thus, the prohibition against effecting a transaction without public outcry no longer violates CBOE Rule 6.43. The Exchange does not amend that portion of the rule referencing CBOE Rule 6.74.

The change to Interpretation .05 provides Floor Officials with the same authority to nullify transactions occurring in violation of proposed CBOE Rule 6.45A that they currently have with respect to CBOE Rule 6.45 (i.e., non-Hybrid trades).

Current Interpretation .09 provides that Market Performance Committee members have Floor Official responsibilities with respect to enforcing rules relating to RAES. This amendment simply extends that authority to Hybrid.

Rule 6.43 Manner of Bidding and Offering

The proposed amendment to CBOE Rule 6.43(a) gives market participants the ability to enter quotes and orders electronically via Exchange-approved quoting devices. Previously, CBOE Rule 6.43(a) allowed only those bids and offers entered via open outcry. Proposed Rule 6.43(b) preserves the ability of trading crowd members to enter manual quotes in non-Hybrid classes. In classes trading on Hybrid, trading crowd members may enter their own quotes or orders through their own handhelds.¹⁸

¹⁸ An individual market maker may use the same handheld quoting device to enter both quotes and orders.

Rule 6.45 Priority of Bids and Offers—Allocation of Trades

The Exchange proposes two changes to CBOE Rule 6.45. The first change clarifies that the rules of priority in CBOE Rules 6.13 and 6.45A shall operate independent of the priority rules contained in CBOE Rule 6.45. Second, the Exchange amends CBOE Rule 6.45(e) for the purpose of making it easier to read. This section, as amended, is identical to proposed CBOE Rule 6.45A(b)(iii).

Rule 6.47 Priority on Split Price Transactions Occurring in Open Outcry

The changes to CBOE Rule 6.47 clarify that split price priority only applies to those transactions effected in open outcry. There will be no split price priority for electronic transactions.

Rule 6.54 Accommodation Liquidations

The Exchange proposes to add new Section (b) to allow for accommodation liquidations to occur in Hybrid. Given current system limitations, cabinet trades may only occur in open outcry trading and thus will not be eligible for placement into the limit order book.

Rule 7.4 Obligations for Orders

The Exchange proposes to amend CBOE Rule 7.4(a) to expand the types of orders eligible for entry into the electronic book.¹⁹ Proposed paragraph (a)(1) gives the appropriate FPC the ability to determine the categories of orders eligible for entry into the book. This paragraph authorizes market participants to place orders in the book (in those classes in which Hybrid is operational).²⁰ Additionally, this section enables the FPC to allow all BD orders to be book eligible or, as with current RAES access rules for BDs, to allow orders from those BDs that are not market makers or specialists to enter the book. Both methods substantially enhance book access for non-customers.

This proposed rule also preserves that section of the current rule that allows the FPC to determine the manner and form in which orders are submitted.²¹ Similarly, the Exchange deletes the last sentence of current CBOE Rule 7.4(a)(2)

¹⁹ Currently only public customer orders are eligible for entry in the book.

²⁰ In this respect, market participants may place orders in the book. Regarding the entry of orders into the book from market participants in non-designated classes, they will not have "market participant" status and thus will be eligible for book entry only if the FPC has determined that all BD orders are eligible for book entry in that particular class.

²¹ This, for example, would allow the FPC to require orders be submitted electronically into the book.