

Official determines to be appropriate under the circumstances. The appropriate Floor Procedure Committee may provide for the opening rotation to be conducted by use of the Exchange's Rapid Opening System as set forth in Rule 6.2A or the Exchange's Hybrid Opening System as set forth in Rule 6.2B. The Order Book Official, with the approval of two Floor Officials, may deviate from any rotation policy or procedure issued by the appropriate Floor Procedures Committee when they conclude in their judgment that such action is appropriate in the interests of a fair and orderly market.

#### Interpretations and Policies

.01 No Change.

.02 Modified Opening Rotation—In conducting the opening rotation in S&P 100 options, certain option series having the nearest expiration may be opened as described in Interpretation .01 to Rule 6.2 ("main rotation"). The remaining series having the nearest expiration and other series having more distant expirations may be divided into one or more zones and be opened simultaneously with the main rotation by an Order Book Official in the following manner. One or more Lead Market Makers (LMM) in each zone shall be responsible for quoting a two-sided market in each of the series assigned to the zone. The markets will generally be set without prior indication of the imbalances to be facilitated. Only in the case of extreme market conditions or an extremely large imbalance of opening orders may the Order Book Official indicate the direction or size of the order imbalance. Upon receiving the LMM market, the Order Book Official will state the net imbalance in each series to the LMM who shall buy or sell it.

Instead of the procedure described in the paragraph above, the opening rotation in S&P 100 options may be conducted using the Exchange's Rapid Opening System. *Index options that trade on the Hybrid System must utilize the Hybrid Opening System, as described in CBOE Rule 6.2B.*

Upon conclusion of the main rotation, the Order Book Official conducting the main rotation will declare open trading in all series. Such declaration shall apply to the main rotation and to all zones which have completed opening rotation. Open trading in the series assigned to the zones shall not commence before the Order Book Official conducting the main rotation has made such declaration.

Market-Makers who wish to participate in the opening of series in which they do not hold LMM or SMM

appointments may transmit written non-cancelable proprietary and Market-Maker orders to the LMM in that zone ten minutes prior to the opening of trading. The participation on the opening imbalance will not exceed the participation of a Supplemental Market-Maker ("SMM") in that zone.

.03 No Change.

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#### Rule 24.15 [RAES Operations in] Automatic Execution of Index Options

The operations of the Retail Automated Execution System (RAES) for index options *not trading on the Hybrid System* are subject to Rule 6.8. *Rule 6.13 governs the automatic execution of index options trading on the Hybrid System.*

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#### Rule 24.19 Multi-Class Broad-Based Index Spread Orders

(a) No change.

(b)(i)–(iii) No change.

(iv) The priority of bids or offers received from the primary trading station will be determined, with respect to each other, by the terms of paragraphs (a) and (b) of Rule 6.45 *for non-Hybrid classes or by paragraphs (a)–(d) of Rule 6.45A for Hybrid classes*. Bids or offers received promptly from the other trading crowd may participate equally with equal bids or offers from the primary trading station that were received prior to the bids or offers from the other trading station. The meaning of promptly will be determined according to the size of the order and other relevant circumstances.

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#### 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 Exchange 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 Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant parts of such statements.

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

In May of 2003, the Commission approved the Hybrid System.<sup>6</sup> The Hybrid System merges the electronic and open outcry trading models, offering market participants the ability to stream electronically their own firm disseminated market quotes representing their trading interest. Currently, the Exchange trades only equity options on the Hybrid System. The purpose of this rule filing is to provide for the trading of index options and options on exchange traded funds ("ETFs") on the Hybrid System.

#### Uniformity of Operation Between Equity and Index Options and Options on ETFs

The Exchange proposes that the Hybrid System will function in the exact same manner in index classes and options on ETFs as it does in equity option classes, the operation of which was described in detail in the Hybrid Release. All of the Hybrid rules, including CBOE Rules 6.13 and 6.45A, would apply to the indexes and options on ETFs in the exact same manner they apply to options on equities. As such, incoming electronic orders in index/ETF options would be eligible for automatic execution pursuant to CBOE Rule 6.13 and would be allocated via the Ultimate Matching Algorithm ("UMA"). Open outcry trades would be allocated pursuant to CBOE Rule 6.45(b) and the Quote Trigger and Quote Lock features of CBOE Rules 6.45A(c) and (d) would apply to index/ETF option trading. Index and ETF option market makers would be subject to the same market maker obligations as their equity brethren. The only rule changes necessary to accommodate Hybrid trading in index options are minor and non-substantive in nature, as described below.<sup>7</sup>

#### Changes to Index CBOE Rules 24.13, 24.15, and 24.19

CBOE proposes to amend CBOE Rule 24.13.02 clarifying that the Hybrid Opening System ("HOSS") will be utilized for all index classes trading on the Hybrid System.<sup>8</sup> The proposed rule

<sup>6</sup> See Securities Exchange Act Release No. 47959 (May 30, 2003), 68 FR 34441 (June 9, 2003) ("Hybrid Release").

<sup>7</sup> Equity option trading rules govern ETF trading.

<sup>8</sup> Currently, options on indexes and ETFs generally open in accordance with the opening procedures described in CBOE Rule 6.2A, Rapid Opening System. The HOSS rules were approved in the Hybrid Release.