The Chicago Board Options Exchange

LaSalle at Jackson
Chicago, Illinois 60604 312 431-5600

FLOOR PROCEDURE COMMITTEE MEETING
February 26, 1980

There was a meeting of the Floor Procedure Committee on Tuesday, February 26, 1980, at 3:30 p.m. in Room 816 of the Union League Club. Present for the meeting were:

Don Moffat, Chairman
Tom Brady
Bob Dolan
Jerry Etshokin
Fred Gahl
Tom Neal
Irwin Ross
Marty Ross
Jim Smith
Barbara Richards, Secretary

Not in attendance were: Bill Floersch, Jeff Kaufmann, Jim Murphy, Al Resser, and Woody Woodward.

The minutes of the February 19 meeting were read and approved.

Discussion: Delay in Implementation of Floor Map

Charles Henry, President of the CBOE, and James Kelley, Executive Vice-President for Floor Operations, addressed the FPC concerning various issues of staff preparedness which had been raised at the previous meeting of the FPC.

Mr. Kelley summarized the factors which led to the polling of the FPC for the purpose of delaying the implementation of the new floor configuration. Mr. Kelley explained that as of January 31, Execution Services staffing was actually four persons over the authorized budget. However, the combination of the following factors led to a decision to approach the FPC to postpone the new floor plan:

a) the regular OBO implementation schedule requiring the location and training of new book personnel, a process which is not susceptible to great acceleration without problems of quality control;

b) the need to staff the eighth floor if a new floor plan were in effect;

c) OSS implementation immobilized a certain number of staff persons so that this number was not available to reassign to high volume areas;

d) the January volume average was 61% over the volume projected for the budgeted staffing levels;

e) the possibility that switches would be thrown to the CBOE in some dually-traded option classes; and

f) the sense that the puts moratorium would not be lifted as quickly as had been speculated in some trade publications.

The cumulative effect of the combination of these factors persuaded staff that there was some risk in implementing the new floor plan on February 19 and that the more prudent course of action was the requested postponement.

Mr. Henry then reviewed the Exchange's efforts to direct attention to discovering the limits of expansion in all areas. Mr. Henry also discussed with the Committee the prospects for the physical expansion of the CBOE: talks with the CBT concerning CBOE occupancy in the new building have been extended; progress on possible acquisition of the railroad property is uncertain, and would require membership approval. In addition, Mr. Henry noted plans for utilization of the remaining space on the eighth floor. Several Committee members urged immediate attention to this area and a quick resolution on some plan to increase available trading space.

Review of Market-Maker Suspension

A draft of a letter to a Market-Maker suspending him for a consecutive three month period for repeated violations of the volume distribution percentage requirements was approved by the FPC with the provision that the reference to ninety day suspension would be changed to clarify the suspension is for a time period of 60 consecutive business days rather than 90 calendar days. This change makes the terms of the suspension consistent with a previous 20 business day suspension. (See Attachment A.)

Use of Trading Rotations Near the Close of a Trading Session

Tom Brady, Vice-Chairman of the FPC and Chairman of the Floor Officials Committee, reported on difficulties experienced by Floor Officials in the application of CBOE Rule 6.2, Interpretation .02, which allows transactions to occur after 3:10 p.m. (Chicago time) if these transactions are effected during a trading rotation. Mr. Brady particularly found the two cut-off times in the Rule, the 3:00 notification deadline required if a fast market rotation were to be used and the 2:45 p.m. time designation in the case of a late opening or reopening in a security, to be cumbersome and detrimental to a Floor Official's ability to make appropriate decisions to assure a fair and orderly market. The Committee reviewed a staff draft amendment of the Interpretation and advised that another draft be done that omitted reference to specific times, and which gave Floor Officials the necessary flexibility to decide to conduct or not to conduct a trading rotation based on market conditions.

Status of Market-Maker and Firm Market Orders on the Opening

(Jim Kelley of CBOE staff was also present for the discussion of this topic. The Committee had been provided with copies of pertinent rules, Floor Reports, and discussion papers concerning the conduct of openings. The question which concerned the committee was the manner in which market orders from firms and Market-Makers should be handled during an opening rotation.)

Mr. Brady explained to the Committee that Floor Officials have been directed to advise members that in cases in which it appears that a single opening price cannot be arrived at, firm market orders and Market-Maker market orders compete on an equal basis with Market-makers in the crowd at the opening price (customer Market orders having priority), and any market order which requires a fill on the opening may then be completed at a higher or lower price, thus forcing a "split opening." Mr. Neal explained that this was the solution favored by the 1979 FPC. It was also pointed out that this was the solution which was consistent with previous Floor Report discussions of opening procedures.

Following a discussion of the problems with the split price opening (for example the problems wire houses have encountered explaining these openings, difficulties which might arise should there be a wide spread in the opening prices, and competitive disadvantages which might occur since one price openings are the norm on other Exchanges), the Chairman asked that Committee members be prepared to continue the consideration of this question at the next FPC meeting.

The meeting was adjourned at 6:20 p.m.

Attachment

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February 29, 1980

Dear

A review of your Market-Maker trading activity for the fourth quarter of 1979 indicates that you have failed to trade 75 percent of your Market-Maker contract volume in your appointed classes as required by Interpretations .03 and .04 to Rule 8.7. Those Interpretations require you to trade no less than 75 percent of your Market-Maker contract volume in appointed classes, with no less than 50 percent in the classes of your Principal Appointment.

You have been cited previously by the Floor Procedure Committee for your failure to comply with the Market-Maker contract distribution requirements for the first and third quarters of 1977, second and third quarters of 1978, and first and third quarters of 1979. Furthermore, you were informed after each of these violations that additional violations might subject you to more severe penalties.

As a result of your most recent violation of Rule 8.7 described above, and in view of your repeated violations of this Rule, the Floor Procedure Committee hereby suspends your Market-Maker registration for 60 consecutive business days. The 60-business-day suspension should be begun within 30 business days of receipt of this notification. In addition, the Committee directs that you cannot serve this 60-business-day suspension and your pending 20-business-day suspension concurrently.

These suspensions of your Market-Maker registration preclude the initiation of any opening Market-Maker transactions and require that any closing transaction be initiated from off the floor and be executed through an agent. Arrangements as to the precise timing of each of these suspensions must be worked out with Linda Koch (431-5671) of the Exchange's Trading Procedure Department as soon as the appeal process, if any, has ended for that case.

Please note that any additional failure to comply with the Market-Maker contract distribution requirements may result in an even more severe penalty.

Yours truly,