Similiarly, the proposal would state the current practice that, in general, trading in a stock option will be suspended when a regulatory suspension in the underlying stock has occurred in the primary market for that stock. In the case of a regulatory suspension, the Board of Directors is authorized to suspend trading in any security in the interests of a fair and orderly market from an indefinite period.

Rules 6.3 and 6.4 list factors considered in deciding whether to halt or suspend trading. These factors are currently considered in deciding whether to halt trading in the related stock option. Moreover, generally, when a regulatory halt in the underlying stock has been declared in the primary market, the Exchange will decide to halt or suspend trading in the overlying stock option. The Exchange believes that the close relationship between the underlying stock and the pricing of stock options overlying that security typically justify such a result. When a regulatory halt is declared in the underlying stock, it often is because some news is pending regarding the underlying stock and the primary market wants to allow time for the dissemination of such news. For the same reason, it generally is appropriate in that circumstance to halt trading in the overlying stock option. By addition the proposed interpretations to Rules 6.3 and 6.4, CBOE would inform members and the public of the existence of this general practice to halt or suspend trading in a stock option when a regulatory halt in the underlying stock has been declared.

The proposal also would amend Rules 6.3(a)(iii) and 6.4(a)(ii) to clarify that these rules are only applicable in the case of a security other than an option. Securities other than options include, for example, the securities traded at CBOE which are subject to Chapter 30 of the CBOE Rules. Securities presently subject to Chapter 30 are: Stock, warrants (which term includes currency and index warrants except as otherwise expressly provided or as the context otherwise requires), UIT interest, and such other securities instruments, and contracts as the Board of Directors may from time to time declare are subject to Chapter 30. The changes are necessary to clarify that Rules 6.3(a)(iii) and 6.4(a)(ii) do not apply to stock options or any other options traded at CBOE, but only to securities traded at CBOE other than options.

## **Circuit Breaker Halts**

The proposal also would delete Rule 6.3A, which provides for a halt in

trading of all equity and index options when there has been a floor-wide New York Stock Exchange halt or suspension as a result of activation of circuit breakers on the New York Stock Exchange. This rule is unnecessary because the only circumstances under which Rule 6.3A could apply are situations that Rule 6.3B already expressly governs. There are only two circuit breakers that lead to a New York Stock Exchange floor-wide halt—when there has been a Dow Jones Industrial Average drop of 250 or more points below its closing value on the previous trading day and when on the same day there is a cumulative drop of 400 or more points from the previous day's closing value. Rule 6.3B already governs trading halts under both of these circumstances. Under Rule 6.3B, the mandatory circuit breaker halt would terminate automatically after the expiration of the applicable one hour or two hour time period.

The proposal would eliminate the requirements contained in Rule 6.3A that, prior to a reopening rotation, (i) an additional determination must be made that a halt or suspension is not in effect in the primary market where the underlying security for each class of options is traded; (ii) a determination must be made, in the case of index options, that a halt or suspension is not in effect in the primary market of the securities constituting 50% or more of the index value; and (iii) two Floor Officials, in consultation with a designated senior executive officer, must conclude in their judgment that the interests of a fair and orderly market are served by a resumption of trading. After a circuit breaker halt, therefore, trading would resume automatically unless the Exchange affirmatively acted to declare a further halt or suspension pursuant to other rules, such as Rules 6.3, 6.4 or 24.7.

CBOE believes that trading should resume after a circuit breaker halt, subject only to these normal rules regarding trading halts and suspensions. Pursuant to Rules 6.3, 6.4 and 24.7, a halt or suspension in the underlying security (to which Rule 6.3A refers) is among the factors considered in the decision to suspend or halt trading, but this factor does not necessarily require a halt or suspension nor limit the Exchange's ability to exercise judgment in these circumstances. CBOE believes that the interests of a fair and orderly market are better served when the rules allow Exchange officials the discretion to evaluate market conditions and circumstances and to exercise their judgment as to when to halt or suspend trading, without the restrictions on the

exercise of that judgment that are contained in Rule 6.3A.

## Reopening After Circuit Breaker Halt

The proposal also would eliminate the requirement in Rule 6.3A that, if trading is halted due to activation of circuit breakers, reopening rotations shall be held. Rule 6.3A apparently makes a reopening rotation mandatory and prevents Exchange officials from reopening without a rotation. CBOE believes the interests of a fair and orderly market are better served when the rules allow Exchange officials the discretion to evaluate market conditions and circumstances and to exercise their judgment as to whether to reopen with or without a rotation.

Procedures regarding reopening after a halt triggered by circuit breakers will be added by amending Rule 6.3B, Interpretation .02. The amended Interpretation .02 would require a reopening rotation unless two Floor Officials, or an Order Book Official acting on authorization from a senior Exchange official, conclude it is appropriate under the circumstances to employ a different method of reopening, including but not limited to, no rotation, an abbreviated rotation, or a variation in the manner of the rotation. The purpose of amended Interpretation .02 to Rule 6.3B is to grant Floor Officials the discretion to deviate from a typical reopening rotation after the expiration of a circuit breaker halt. Order Book Officials would also have this discretion, but only if a senior Exchange official authorized such discretion. This could be accomplished by the senior Exchange official making a general announcement to all Order Book Officials.

The CBOE believes it is reasonable to presume that a reopening rotation will be held after a circuit breaker halt because, after a floor-wide halt, it is physically difficult to have two Floor Officials available at each trading post to make a decision regarding the resumption of trading. The presumption allows for a universal treatment of the reopening after a circuit breaker halt, yet still permits appropriate Exchange officials to exercise judgment to deviate from this presumed course of action when a different method of reopening is appropriate.

## Corresponding Amendments to Regulatory Circulars

## Regulatory Circular RG94-17

The proposal would amend Regulatory Circular RG94–17, which addresses inter-exchange procedures in volatile markets, to make it consistent