

underlying stock and the primary market wants to allow time for the dissemination of such news. For the same reason, the CBOE believes it generally is appropriate in that circumstance to halt trading in the overlying stock option.

CBOE also proposes to amend Rules 6.3(a)(iii) and 6.4(a)(ii) to clarify that these rules are only applicable to non-option securities. Securities other than options include, for example, securities traded at CBOE that are subject to Chapter 30 of the CBOE Rules. Securities presently subject to Chapter 30 include stock, warrants (which term includes currency and index warrants except as otherwise expressly provided or as the context otherwise requires), UIT interests, and such other securities instruments and contracts as the Board of Directors may from time to time declare subject to Chapter 30. The Exchange believes 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.

C. Circuit Breaker Halts and Subsequent Reopening Rotations

The proposal also would rescind Rule 6.3A, which provides for a trading halt in all equity and index options when there has been a floor-wide New York Stock Exchange ("NYSE") halt or suspension as a result of activation of circuit breakers on the NYSE. The CBOE believes that this rule is unnecessary because the only circumstances under which Rule 6.3A could apply are situations that Rule 6.3B already expressly governs. Presently, there are only two circuit breakers that lead to a New York Stock Exchange floor-wide halt; when there has been a decline in the Dow Jones Industrial Average of 250 or more points below the previous day's closing value, and when on the same day there is a cumulative decline 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. The effect of this proposal is that after a circuit breaker halt, 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 generally resume after a circuit breaker halt, subject only to the 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) are among the factors considered in the decision to suspend or halt trading, but these factors do 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.

The rescission of Rule 6.3A also removes the current requirement that, if trading is halted due to activation of circuit breakers, reopening rotations *shall* be held. Rule 6.3A 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 rotations 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 senior Exchange official could authorize the order Book Officials to deviate from normal reopening rotation procedures

by 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 floorwide 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 Exchange believes that 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.

D. Corresponding Amendments to Regulatory Circulars

1. Regulatory Circular RG94-17

The Exchange also proposes to amend Regulatory Circular RG94-17, which addresses inter-exchange procedures in volatile markets, to make the content of the circular consistent with the proposed amended Interpretation .02 to Rule 6.3B. Regulatory Circular RG94-17 discusses the CBOE's procedures during a halt in options trading due to a DJIA drop of 250 or more points below the previous day's closing trading value, or a cumulative drop of 400 points in the DJIA on the same day. Pursuant to the proposed change to Interpretation .02 to Rule 6.3B, after the expiration of the one or two hour period set forth in Rule 6.3B, a reopening rotation would be held in each class of options unless two Floor Officials (or an Order Book Official acting upon authorization from a senior Exchange official) conclude a different method of reopening is appropriate. Additionally, Regulatory Circular RG95-17 would be amended to delete the requirements contained in Rule 6.3A that, before reopening after a circuit breaker halt, the Exchange must verify that (1) there is no halt or suspension in effect in the primary market where the underlying stock is traded and (2) with respect to an index option, there is no halt or suspension in the primary market of the securities constituting 50% of the index.

2. Regulatory Circular RG93-58

The CBOE further proposes to amend Regulatory Circular RG93-58, which addresses trading halt policy for options on individual equity securities, to make the circular consistent with the proposed amendment to Rule 6.3.⁹ Regulatory Circular RG93-58 would be further amended to state that it does not address the Exchange's trading halt

⁹Regulatory Circular RG93-58 is a reprint of Regulatory Circular RG92-40, dated July 8, 1992.