



**Regulatory Circular 04-04**

**TO: ALL BOX PARTICIPANTS**  
**FROM: BOX Regulation**  
**DATE: November 17, 2004**

**RE: \$5 Spread Rule**

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The SEC approved the \$5 Spread Rule for BOX, which relaxes the quotation spread for Market Makers. Pursuant to this Rule Amendment, BOX Market Makers may quote in their assignments all series with a \$5 maximum bid/ask spread. The text of the amended Rule is provided in full below.

Please note, however, that the intent of the \$5 Spread Rule is **not** to adversely affect the quality of the market at opening with wide quotes when the opening rotation algorithm attempts to find a single price at the opening for each option class. As such, all market makers are still required to submit quotes in accordance with the standard maximum spread requirements as outlined in Chapter VI, Section 5 (a) (vii) of BOX Rules at the opening rotation. Following the opening rotation, market makers may then relax their quotations as outlined in the amended BOX Rule below.

Chapter VI, Sec. 5 (a) (vii) now states the following:

Price options fairly by, among other things, bidding and offering so as to create differences of no more than \$5 between the bid and the offer following the pre-opening phase for each options contract. During the pre-opening phase, spread differentials shall be no more than \$.25 between the bid and offer for each options contract for which the bid is less than \$2, no more than \$.40 where the bid is at least \$2 but does not exceed \$5, no more than \$.50 where the bid is more than \$5 but does not exceed \$10, no more than \$.80 where the bid is more than \$10 but does not exceed \$20, and no more than \$1.00 where the bid is \$20 or greater, provided that BOX may establish differences other than the above for one or more options series. The bid/offer differentials stated above shall not apply to in-the-money options series where the underlying securities market is wider than the differentials set forth above. For these series, the bid/ask differential may be as wide as the quotation on the primary market of the underlying security.

Should you have any questions regarding the above BOX Rule Amendment, you may contact either Eric Johnson, Sr. Analyst (781-759.1423) or Annah Kim (781.759.1420).