



C2 Options Regulatory Circular 19-017 **EDGX Options Regulatory Circular 19-014**

Date: May 30, 2019

To: Trading Permit Holders and Members

From: Regulatory Division

RE: Global Trading Hours Trading Risks and Required Customer Disclosures

Cboe C2 Exchange, Inc. ("C2 Options")¹ and Cboe EDGX Exchange, Inc. ("EDGX Options" or collectively, the "Exchanges")² will add Global Trading Hours ("GTH") for certain products. Initially, a GTH session will be added for options on the Dow Jones Industrial Average ("DJX options") listed on C2 Options effective June 17, 2019 and for options on the Mini-SPX Index ("XSP options") listed on EDGX Options effective June 24, 2019. The GTH session will be from 8:30 a.m. Eastern to 9:15 a.m. Eastern Monday through Friday. Certain risks, discussed in further detail below, may exist during the GTH session. As is also discussed in further detail below, C2 Options Trading Permit Holders ("TPHs") and EDGX Options Members must make certain disclosures to their customers regarding material risks that exist during GTH prior to accepting orders.

GTH Trading Risks

Trading during GTH presents certain risks, including, among other things, that:

- the current underlying index value may not be updated during GTH;
- lower liquidity during GTH may impact pricing;
- higher volatility during GTH may occur;
- wider spreads may occur during GTH; and
- trading halts may be triggered during GTH if the Exchange determines that such action is appropriate in the interests of a fair and orderly market and to protect investors. Generally, the Exchange will consider halting trading during GTH in response to unusual conditions or circumstances detrimental to the maintenance of a fair and orderly market during TPH (see C2 Options Rule 6.32 and EDGX Options Rule 29.10).³

As noted above (and discussed below), TPHs/Members that accept orders from customers for execution in GTH will be required to make certain disclosures to their customers. In addition, if a TPH/Member recommends executing a transaction during GTH to a customer, it must make a determination that the recommendation is suitable for that customer (see C2 Options Rule 9.9 and EDGX Options Rule 26.4).

¹ See Exchange Act Release [34-85788](#) (Rule Filing [SR-C2-2019-009](#)) for additional details.

² See Exchange Act Release [34-85797](#) (Rule Filing [SR-CboeEDGX-2019-027](#)) for additional details.

³ The rules list various factors the Exchanges may consider during Regular Trading Hours and GTH, and for equity options and index options. For additional information, please refer to the respective rule and rule filing.

GTH Required Customer Disclosures

Pursuant to Cboe Options Rule 3.19 and EDGX Options Rule 17.5, no TPH/Member may accept an order from a customer for execution during GTH without disclosing to that customer that trading during GTH involves material trading risks, including the possibility of lower liquidity, high volatility, changing prices, an exaggerated effect from news announcements, wider spreads, the absence of an updated underlying index or portfolio value or intraday indicative value and lack of regular trading in the securities underlying the index or portfolio and any other relevant risk. The disclosures required pursuant to these Rules may take the following form or such other form as provides substantially similar information:

- **Risk of Lower Liquidity.** Liquidity refers to the ability of market participants to buy and sell securities. Generally, the more orders and quotes that are available in a market, the greater the liquidity. Liquidity is important because with greater liquidity it is easier for investors to buy or sell securities, and as a result, investors are more likely to pay or receive a competitive price for securities purchased or sold. There may be lower liquidity during Global Trading Hours as compared to Regular Trading Hours, including fewer Market-Makers quoting during Global Trading Hours. As a result, your order may only be partially executed, or not at all.
- **Risk of Higher Volatility.** Volatility refers to the changes in price that securities undergo when trading. Generally, the higher the volatility of a security, the greater its price swings. There may be greater volatility during Global Trading Hours as compared to Regular Trading Hours. As a result, your order may only be partially executed, or not at all, or you may receive an inferior price during Global Trading Hours as compared to Regular Trading Hours.
- **Risk of Changing Prices.** The prices of securities traded during Global Trading Hours may not reflect the prices either at the end of Regular Trading Hours, or upon the opening of Regular Trading Hours the next business day. As a result, you may receive an inferior price during Global Trading Hours as compared to Regular Trading Hours.
- **Risk of News Announcements.** Normally, issuers make news announcements that may affect the price of their securities after Regular Trading Hours. Similarly, important financial information is frequently announced outside of Regular Trading Hours. These announcements may occur during Global Trading Hours, and if combined with lower liquidity and higher volatility, may cause an exaggerated and unsustainable effect on the price of a security.
- **Risk of Wider Spreads.** The spread refers to the difference between the price for which you can buy a security and the price for which you can sell it. Lower liquidity and higher volatility during Global Trading Hours may result in wider than normal spreads for a particular security.
- **Risk of Lack of Calculation or Dissemination of Underlying Index Value or Intraday Indicative Value (“IIV”) and Lack of Regular Trading in Securities Underlying Indexes.** For certain products, an updated underlying index or portfolio value or IIV will not be calculated or publicly disseminated during Global Trading Hours. Since the underlying index or portfolio value and IIV are not calculated or widely disseminated during Global Trading Hours, an

investor who is unable to calculate implied values for certain products during Global Trading Hours may be at a disadvantage to market professionals. Additionally, securities underlying the indexes or portfolios will not be regularly trading as they are during Regular Trading Hours, or may not be trading at all. This may cause prices during Global Trading Hours to not reflect the prices of those securities when they open for trading.

Additional Information

The Options Disclosure Document (“ODD”) contains general disclosures on the characteristics and risks of trading standardized options, which characteristics and risks will apply to GTH. Copies of the ODD are available on The Options Clearing Corporation’s website [here](#).

Any questions regarding this Regulatory Circular may be referred to Regulatory Interpretations at RegInterps@cboe.com or 312-786-8141.