CBOE®

Regulatory Circular RG12-040

To: Trading Permit Holders
From: Business Development
Date: March 1, 2012
Re: Complex Order Protections

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This circular announces two pricing features relating to complex orders that are applicable to complex orders in all classes traded on CBOE. Details are as follows:

Complex Order Percentage Distance Drill-Through Protection:

Effective March 2, 2012, the Exchange will re-activate the "percentage distance" drill-through protection feature. Under this feature, at the end of a Complex Order Auction (COA), the execution of complex market and limit orders will be blocked once the fill price would be more than 15% beyond the initial displayed leg price for the strategy. Any remaining balance of such a complex order will be routed to PAR or the booth OMT.

*Example 1:*

Assume a strategy to buy Series 1 and buy Series 2.
CBOE BBO for Series 1 is \$4.90 – \$5.00, size 10x10, and there are additional offers of \$5.75, size 10 and \$5.80, size 100.
CBOE BBO for Series 2 is \$4.90 – \$5.00, size 10X10, and there are additional offers of 5.75, size 10 and 5.80, size 100.
Displayed leg market, based on the above, is \$9.80 – \$10.00.

A complex market order is received to buy 30 Series 1 and buy 30 Series 2 (30 units of the strategy) and a COA is initiated. Assume one auction response is received for 5 units at a price of \$9.90. At the end of the COA, 5 units of the complex order would execute with the auction response at \$9.90, another 10 units with the leg markets at \$10.00, another 10 units with the leg markets at \$11.50. The next available execution price would be \$11.60, which is more that 15% beyond the initial displayed leg market of \$10.00. Thus, the remaining 5 units of the complex order would be routed to PAR or the booth OMT.

Complex Order Market Width Protection:

A complex strategy product will be placed "on hold" if the Exchange BBO for any of the individual legs of the strategy has a bid/ask width that is not within the acceptable price range (APR) setting (announced in Regulatory Circular RG11-149). Complex market and limit orders received for a strategy that is on hold will not be permitted to execute. In such cases, market orders will be routed to PAR or the booth OMT, and limit orders will be queued in the Complex Order Book (COB), until such time as the "on hold" condition for the strategy ends (i.e., because the individual leg market tightens to a width that is within the APR). At that point, limit orders in the COB that are marketable will be permitted to execute.

*Example 2:*

The APR for any series with a bid price between $2.00 - $5.00 is currently set to $5.00 (i.e., a strategy will be “on hold” if a leg of that strategy has a BBO differential greater than $5.00).
CBOE BBO for Series 1 is $4.90 – $5.00, size 10x10.
CBOE BBO for Series 2 is $.10 – $6.00, size 10x10.
A strategy to buy Series 1 and buy Series 2 will be “on hold” because the Series 2 BBO width is wider than the $5.00 APR.

Assume order ABC1 to buy 10 Series 1 and buy 10 Series 2 for $9.90 is resting in the COB. Order ABC2 to sell 5 Series 1 and sell 5 Series 2 at $9.90 is then received. Although tradeable with the resting COB order (ABC1), ABC2 would queue in the COB because the strategy is “on hold.”

Assume the BBO for Series 2 tightens to $4.90 – $5.00 (i.e., the BBO width is now within the APR), eliminating the “on hold” condition. At this point, ABC2 would trade with order ABC1 at a price of $9.90.

Questions regarding this change may be directed to Anthony Montesano at (312) 786-7365/montesan@cboe.com, or the Help Desk at (866) 728-2263/helpdesk@cboe.com.

(Updates Regulatory Circular RG11-154)