CBOE Regulatory Circular RG13-012
C2 Regulatory Circular RG13-003

Date: January 18, 2013
To: Trading Permit Holders
From: Business Development Division
RE: Re-location of PM-Settled S&P 500 Index Options (SPXPM) From C2 to CBOE

Pending regulatory approval, effective February 19, 2013, the trading venue for SPXPM options will be changed from C2 to CBOE. This change is designed to create an opportunity for increased access through CBOE's established broker network and marketplace to the PM-settled SPXPM product.

What's Changing?

The SPXPM options currently listed on C2 will be de-listed from C2 after the close of business on expiration Friday, February 15, 2013, and will be listed on CBOE on the Hybrid platform as of the start of trading on the next business day, Tuesday, February 19, 2013.[1] The trading symbol and underlying index for these options will continue to be SPXPM.

The trading symbol and underlying for existing CBOE SPX, SPXW and SPXQ options will remain unchanged and are not impacted by the re-location of SPXPM.

Order Cancellation

After the close of business on February 15, 2013, C2 will cancel all resting GTC orders in SPXPM. Trading Permit Holders may enter such orders on CBOE under trading symbol SPXPM on February 19, 2013.

Opening Rotation

- The Hybrid Opening System (HOS) will be used for opening rotations in SPXPM.

Order Handling

- Orders eligible for electronic and manual handling in SPXPM will include: DAY, GTC, Market, Limit, All-or-None, Market-On-Close, On-The-Open-Only, Immediate-Or-Cancel, Fill-Or-Kill, STP and STP-LMT. Additionally, Not Held and Discretionary orders may be entered for manual handling.
- Reserve orders will not be permitted in SPXPM. The CBOE system will not reject such orders. Accordingly, users must take care not to send them to comply with the requirement to not enter such orders in SPXPM as this may cause a regulatory alert.
- Valid origin codes will be C (Public Customer); W (Professional Customer/Voluntary Professional); B (Broker/Dealer); F (Clearing Trading Permit Holder Proprietary); M (CBOE Market-Maker); N (Non-CBOE/Away Market-Maker); J (Joint Back Office); and L (Wholly-Owned Broker Subsidiary).
- Routing parameters will be set to maximize automated handling. TPHs interested in having their firm-specific parameters set differently must e-mail their request to the CBOE Help Desk at helpdesk@cboe.com.
- Additional order protections such as "drill-through" limits, limit price reasonability checks, and opening and intra-day "Exchange Prescribed Width" (OEPW and EPW) settings will be announced in separate circulars prior to February 19, 2013.
- FLEX Options on SPX with a PM-settlement will continue to trade under the symbol 4SPX.

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[1] CBOE and C2 will be closed on Monday, February 18, 2013 in observance of Presidents' Day.

Allocation Algorithm
- The allocation algorithm for regular SPXPM simple electronic and COB executions, other than those in AIM and COA (see below) will be price-time, with no customer priority or participation entitlements. Public customer book priority must still be observed for all open outcry trades.
- The allocation for COA executions will be in accordance with Rule 6.53C.

AIM (Automated Improvement Mechanism)
- AIM will be active for simple and complex SPXPM orders. Note that the Solicitation Auction Mechanism (SAM) will not be active.
- The auction timer will be 1000 milliseconds, except for simple Public Customer-to-Public Customer transactions, which will cross immediately. **IMPORTANT**: Unlike those for simple orders, complex Public Customer-to-Public Customer transactions will be exposed to an auction.
- For simple orders submitted into AIM, standard price increments (i.e., $0.05 under $3.00, and $0.10 above $3.00) will be required for all primary orders, match/contra orders and auction responses. Limits with smaller increments will be rejected.
- For complex orders submitted into AIM, the minimum price increment on all primary orders, match/contra orders and auction responses will be $0.05 for all price ranges. Limits with smaller increments will be rejected.
- Auction responses will be permitted from Market-Maker Permit Holders with an SPXPM class appointment and brokers acting as agent on behalf of orders resting at the BBO.
- The AIM matching algorithm will be price-time, with public customer priority and a 40% entitlement for the contra order, if on the final execution price.

Complex Orders
- The COA (Complex Order Auction) and COB (Complex Order Book) will be active for SPXPM orders with up to four legs, where the ratio of the quantity on the largest to smallest leg does not exceed 3-to-1.
- The minimum price increment for all complex orders and COA auction responses will be $0.05.
- COB will accept ALL order origins during pre-open, opening rotation and after opening rotation.
- COA will be active for all origins other than M and N.
- The COA timer will be set to 250 milliseconds.
- Orders resting in the COB after opening rotation will be eligible to initiate a "Re-COA" (see Regulatory Circular RG12-007 for more details on Re-COA).
- Multi-class complex orders between the SPXPM option class and SPX/SPXW/SPXQ option class will be eligible to route to PAR for handling in open outcry, but will not be eligible for COA or COB.

Market-Maker Class Appointments
- Market-Maker Permit Holders will be required to have an SPXPM class appointment to submit electronic quotes or auction responses in SPXPM options.
- **IMPORTANT**: An SPXPM class appointment will not permit a Market-Maker to trade in open outcry in SPX, SPXQ, or SPXW since all are part of the Hybrid 3.0 SPX class.
- Pursuant to current rules, Market-Maker Permit Holders with an SPX class appointment but no SPXPM class appointment, will be permitted to trade SPXPM in open outcry but will not be permitted to submit electronic quotes or auction responses in SPXPM options.
- The appointment cost for SPXPM will be 0.0 through February 28, 2013 and 1.0 beginning March 1, 2013, requiring a full CBOE Market Maker Trading Permit.
- There will be no Designated Primary Market-Makers (DPMs), Preferred Market-Makers (PMMs) or Lead Market-Makers (LMMs) in SPXPM.
- Please note that TPHs will be required to add the SPXPM appointment via the appointments website at https://appointments.cboe.com and may do so as early as 5:00 P.M. CT on Friday, February 15, 2013.
- The SPXPM Fee Schedule will be announced in a separate circular prior to February 19, 2013.

Electronic Quoting Obligations
- In accordance with CBOE Rule 8.7, Market-Makers with an SPXPM class appointment will be required to provide continuous electronic quotes in 60% of the non-adjusted options series that have a time to expiration of less than 9 months. Currently, "continuous" is defined as 99% of the time that Market-Makers are required to provide electronic quotes on a given trading day pursuant to Rule 1.1(ccc).
- The initial minimum requirement for electronic quotes will be ten (10) contracts.
- The maximum bid/ask differentials will be announced in a separate circular prior to February 19, 2013.

The grid below provides answers concerning Market-Maker appointments and activity.

Activity	MMs with SPX Appointment Only	MMs with SPXPM Appointment Only	MMs with Both SPX & SPXPM Appointments
Can MMs trade **SPX/SPXQ** in open outcry?	Yes	No	Yes
Can MMs quote **SPX/SPXQ** electronically?	N/A (only LMMs may submit electronic quotes)	No	N/A (only LMMs may submit electronic quotes)
Can MMs respond to **SPX/SPXQ** auctions?	Yes, if physically present in the trading crowd	No	Yes, if physically present in the trading crowd
Can MMs rest pre-open Book/COB orders in **SPX/SPXQ**?	Yes (OPG required)*	Yes (OPG required)*	Yes (OPG required)*
Can MMs rest intra-day Book/COB orders in **SPX/SPXQ**?	No	No	No
Can MMs trade intra-day against Book/COB orders in **SPX/SPXQ**?	Yes, if physically present in the trading crowd (IOC required)	No	Yes, if physically present in the trading crowd (IOC required)
Can MMs trade **SPXW** in open outcry?	Yes	No	Yes
Can MMs quote **SPXW** electronically?	Yes	No	Yes
Can MMs respond to **SPXW** auctions?	Yes	No	Yes
Can MMs rest pre-open Book orders in **SPXW**?	Yes*	Yes*	Yes*
Can MMs rest pre-open COB orders in **SPXW**?	Yes (OPG required)*	Yes (OPG required)*	Yes (OPG required)*
Can MMs rest intra-day Book orders in **SPXW**?	Yes*	Yes*	Yes*
Can MMs rest intra-day COB orders in **SPXW**?	No	No	No
Can MMs trade intra-day against Book orders in **SPXW**?	Yes*	Yes*	Yes*
Can MMs trade intra-day against COB orders in **SPXW**?	Yes (IOC required)*	Yes (IOC required)*	Yes (IOC required)*
Can MMs trade **SPXPM** in open outcry?	Yes	Yes	Yes
Can MMs quote **SPXPM** electronically?	No	Yes	Yes
Can MMs respond to **SPXPM** auctions?	No	Yes	Yes
Can MMs rest pre-open Book orders in **SPXPM**?	Yes*	Yes*	Yes*
Can MMs rest pre-open COB orders in **SPXPM**?	Yes*	Yes*	Yes*
Can MMs rest intra-day Book orders in **SPXPM**?	Yes*	Yes*	Yes*
Can MMs rest intra-day COB orders in **SPXPM**?	Yes*	Yes*	Yes*
Can MMs trade intra-day against Book orders in **SPXPM**?	Yes*	Yes*	Yes*
Can MMs trade intra-day against COB orders in **SPXPM**?	Yes*	Yes*	Yes*
Appointment Tier	1.0	1.0	2.0

*Available to all CBOE MMs

Additional Information:

Questions regarding the operational topics in this circular may be directed to:

o   Anthony Montesano at 312-786-7365 or montesan@cboe.com or

o   The CBOE Help Desk at 866-728-2263 or helpdesk@cboe.com.

Questions regarding appointment changes may be directed to:

o   Allison Kile at 312-786-7210 or mqa@cboe.com

Questions regarding regulatory interpretations may be directed to:

o   RegInterps at 312-786-8141 or reginterps@cboe.com