

## Regulatory Circular RG14-159

**Date:** November 11, 2014

**To:** Trading Permit Holders

**From:** Regulatory Services Division

**RE:** In-Person Requirements for Market-Makers in Hybrid 3.0 Products (symbol SPX)

Interpretation and Policy .03B to Chicago Board Options Exchange, Incorporated (the “Exchange” or “CBOE”) Rule 8.7 requires that each Market-Maker in Hybrid 3.0 classes execute in person, and not through the use of orders represented in open outcry, at least 25 percent of the Market-Maker's total transactions, provided, however, that for any calendar quarter in which a Market-Maker receives Market-Maker treatment for off-floor orders in accordance with Rule 8.1, the Market-Maker must execute in person, and not through the use of orders executed in open outcry, at least 80 percent of the Market-Maker's total transactions. Note that orders routed directly to the CBOE trade engine on behalf of a Market-Maker physically in the crowd for the purpose of affecting an electronic trade, may be considered as in-person transactions.

Beginning November 24, 2014, the Exchange will provide a web-based surveillance report to allow Trading Permit Holders (“TPHs”) to monitor compliance with the in-person requirement described in the above paragraph (“In-Person Report”).<sup>1</sup> The In-Person Report is available on the CBOE Permit Holder website at <https://www.cboe.org/wbs/scripts/login.aspx>. Further detail regarding the report is provided on the website. The web-based surveillance report is provided to TPHs as a resource and should not be solely relied upon for monitoring compliance with CBOE Rules.

In addition to the above requirements, Interpretation and Policy .03B to Rule 8.7 further states, “the off-floor orders for which a Market-Maker receives Market-Maker treatment shall be subject to the obligations of Rule 8.7(a) and in general shall be effected for the purpose of hedging, reducing risk of, rebalancing or liquidating open positions of the Market-Maker.” A determination by the Exchange of whether off-floor orders were effected for the purposes of hedging, reducing risk or, rebalancing or liquidating open positions shall be made on a case-by-case basis (e.g., based on facts and circumstances, opening transactions across multiple option series may be considered an appropriate hedge as it relates to Interpretation and Policy .03B to Rule 8.7.)

The Regulatory Services Division reserves the right to contact TPHs regarding any transaction in determining whether it complies with Interpretation and Policy .03B to Rule 8.7.

### Additional Information:

Please contact the Regulatory Interpretations and Guidance team at [RegInterps@cboe.com](mailto:RegInterps@cboe.com) or (312) 786-8141 for additional information.

<sup>1</sup> The data from the CBOE Web Based Surveillance Reports Website is provided “as is” without warranty of any kind, either express or implied. Neither CBOE nor any person or entity affiliated with CBOE shall have any liability for any inaccuracies, omissions, human or machine errors, or other irregularities in the data. Any exceptions contained in this data resulting from trading activity in contravention of CBOE Rules may result in regulatory or formal disciplinary action, but the existence of an exception in this data does not necessarily reflect a determination by CBOE that such a violation has occurred.