



EXECUTE SUCCESS<sup>SM</sup>

## Regulatory Circular RG15-014

**Date:** January 29, 2015

**To:** Trading Permit Holders

**From:** Business Development Division

**RE:** Extended Trading Hours Frequently Asked Questions Circular No. 3

This Regulatory Circular updates Regulatory Circulars RG14-018, RG14-036, RG14-043 and RG14-092

Chicago Board Options Exchange, Incorporated ("CBOE") has received Securities and Exchange Commission ("SEC") approval of its rule filing to introduce Extended Trading Hours ("ETH") for options on the S&P 500 Index (SPX/SPXW) and on the CBOE Volatility Index (VIX). Please see:

<http://www.cboe.com/publish/RuleFilingsSEC/SR-CBOE-2014-062.pdf>

<http://www.cboe.com/publish/RuleFilingsSEC/SR-CBOE-2014-062.a1.pdf>

<http://www.cboe.com/publish/RuleFilingsSEC/SR-CBOE-2014-062.a2pdf>

CBOE intends to launch ETH following SEC approval of proposed rules of The Options Clearing Corporation ("OCC") related to ETH, which is expected later this quarter. **Assuming SEC approval of the pending OCC rules in mid-February, CBOE intends to commence trading in the ETH session on Monday, March 2, 2015 for VIX and Monday, March 9, 2015 for SPX/SPXW (please see Regulatory Circular RG15-013 for additional operational details and testing dates for ETH). Trading hours will be from 2:00 a.m. to 8:15 a.m. Central time ("CT").** This circular contains additional information related to ETH. CBOE may modify this information as it deems necessary or appropriate; modifications will be announced in additional Regulatory Circulars. For more information, as well as links to circulars and press releases regarding ETH, please visit the ETH webpage at [www.cboe.com/ETH](http://www.cboe.com/ETH).

### Additional Information:

Please direct questions as follows:

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Regulatory:	Regulatory Interpretations and Guidance Hotline	312-786-8141	<a href="mailto:reginterps@cboe.com">reginterps@cboe.com</a>

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## FAQ

**Registration****1. When will the Registration Services Department (“RSD”) issue ETH Trading Permits?**

*RSD is now accepting requests for ETH Trading Permits. To obtain an ETH Market-Maker or Electronic Access Trading Permit (“EAP”), a Trading Permit Holder (“TPH”) must submit 1) an ETH Trading Permit & Bandwidth Packet Additions/Removals form, 2) the CBOE Login Request Form asking for an acronym/login unique to ETH and, if the request is for a Maker-Maker Trading Permit, whether the Market-Maker acronym will be added to a TPH joint account (e.g., a Q account), and 3) the Single Entity Broker Dealer Joint Account Activation/Termination form. These materials are available in the EXTENDED TRADING HOURS FORMS section on the CBOE TPH Forms library at <https://www.cboe.org/members/generalinfo/memberforms.aspx>.*

*ETH Trading Permits that are requested prior to the ETH launch date will be issued on the business day prior to the launch date or the date on which the TPH intends to begin trading during ETH. ETH Trading Permits that are requested on or after the ETH launch date will be issued on the business day prior to the trading date on which the TPH intends to begin trading during ETH. The Exchange intends to set the initial limit of ETH Trading Permits at 900 Market-Maker Trading Permits and 150 EAPs.*

**2. When a TPH requests an ETH Trading Permit, what “Effective Date” should be inserted on the forms?**

*Prior to the ETH launch date, the TPH should insert either “Commencement Date of ETH” or the date on which it intends to begin trading during ETH as the effective date for the requested ETH Trading Permit. Thereafter, the TPH should insert the date on which it intends to begin trading during ETH as the effective date for the requested ETH Trading Permit. RSD will make the ETH Trading Permit available for the ETH trading session on the requested effective date and send an e-mail to the TPH noting that the ETH Trading Permit has been issued for that date.*

**3. Are the CBOE Registration requirements (e.g., General Securities Representative (GS), Proprietary Trader (PT) and Proprietary Trader Principal (TP)) for TPH staff in ETH the same as those for TPH staff during Regular Trading Hours (“RTH”)?**

*Yes, the registration requirements for ETH are the same as those for RTH.*

**4. How can a person or organization participate in ETH?**

*A person or organization, whether U.S. or non-U.S. based, may participate in ETH as a TPH, a customer of a TPH or a sponsored user of a TPH, as described below:*

**A) TPHs**

*Rule 3.4 provides qualifications for a TPH that does not maintain an office in the United States responsible for preparing and maintaining financial and other reports required to be filed with the SEC and CBOE, in addition to the qualifications for persons and organizations to become TPHs set forth in Rules 3.2 and 3.3, respectively.<sup>1</sup> Additionally, pending SEC approval of proposed Rule 3.4A, to become a TPH, a person or organization:*

<sup>1</sup> Specifically, Rule 3.4 requires a foreign TPH to (i) prepare these financial and other reports, and maintain a general ledger chart of account and any description thereof, in English and U.S. dollars; (ii) reimburse the Exchange

- *must be domiciled in (with respect to individuals), or organized under the laws of (with respect to organizations), a jurisdiction expressly approved by CBOE;*
- *will be subject to the jurisdiction of U.S. federal courts and Illinois state courts; and*
- *prior to acting as agent for a customer, must be permitted to provide information regarding the customer and the customer's trading activities to the Exchange in response to a regulatory request for information (including receiving written consent from a customer if such consent is required by applicable law, rule or regulation).*

*Pending SEC approval, proposed changes to Rule 6.23A will provide that TPHs may only directly access the Exchange's trading system from a jurisdiction expressly approved by the Exchange.*

*Therefore, each TPH must be domiciled in or organized under the laws of, and may only directly access the Exchange (including the London hub) for trading purposes from, a jurisdiction approved by CBOE (see the following question for a current list of approved jurisdictions). This requirement is not intended to restrict a TPH branch that is located in a non-approved jurisdiction from sending an order to a TPH branch in an approved jurisdiction for submission to CBOE. CBOE reminds TPHs that the submission of orders from foreign jurisdictions must comply with all applicable legal and regulatory requirements.*

*Any person or organization that is a TPH that wants to trade during ETH must obtain an ETH Trading Permit, as described above.*

#### **B) Non-TPHs**

*A non-TPH may send in orders for execution on CBOE during ETH through a third-party agent that is a TPH (including a TPH that is an affiliate of the non-TPH) and has an ETH EAP.*

#### **C) Sponsored Users**

*A non-TPH may become a sponsored user of a TPH pursuant to Rule 6.20A. Sponsored users may obtain electronic access to the Exchange's system for trading purposes, but only if such access is authorized in advance by a sponsoring TPH in accordance with that rule and complies with all applicable laws, rules and regulations (including the Market Access Rule). The sponsoring TPH would retain responsibility for all orders of users it sponsors. Sponsored users may not be Market-Makers. Similar to TPHs, and pending SEC approval of proposed changes to Rule 6.20A, sponsored users must satisfy the proposed qualification set forth in paragraph A above and may only directly access the Exchange (including the London hub) for trading purposes from a jurisdiction approved by CBOE (sponsoring TPHs must ensure the sponsored users' compliance with these requirements). To participate in ETH, a sponsored user would need to be sponsored by a TPH with an ETH EAP.*

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for any expense incurred in connection with examination of the TPH to the extent that such expenses exceed the cost of examining a TPH located within the United States; and (iii) ensure the availability of an individual fluent in English knowledgeable in securities and financial matters to assist the representatives of the Exchange during examinations.

**5. What are the jurisdictions in which TPHs may be domiciled or under the laws of which TPHs may be organized, as applicable, or from which TPHs may directly access the Exchange?**

*As of the date of this Regulatory Circular, the following is a list of jurisdictions in which TPHs may be domiciled or under the laws of which TPHs may be organized, as applicable, or from which TPHs may directly access the Exchange (including the London hub for trading purposes (a cross connection from Equinix LD4 in Slough, England to the CBOE Command Center at Equinix NY4 in Secaucus, NJ), as the hub provides direct access to CBOE's trading system):*

- British Virgin Islands
- Cayman Islands
- Gibraltar
- Ireland
- Isle of Jersey
- Luxembourg
- Poland
- United Kingdom
- United States

**6. Will a TPH be able to request additional ETH Trading Permits and/or bandwidth packets during ETH (e.g., at 2:00 a.m. CT)?**

*No. A TPH will be able to request additional ETH Trading Permits and/or bandwidth packets only during RTH. To request an additional ETH Trading Permit and/or bandwidth packet, a TPH must submit the ETH Trading Permit & Bandwidth Packet Additions/Removals form indicating the date on which it intends to begin trading during ETH (see Question #2).*

**7. Will a TPH be able to change bandwidth allocations during ETH?**

*No. A TPH must request ETH bandwidth changes during RTH, which changes will take effect for the next ETH trading session.*

**Trading Procedures<sup>2</sup>**

**8. What will the continuous electronic quoting obligations and minimum-size and bid-ask differential requirements be for Market-Makers during ETH?**

*An ETH Market-Maker must maintain continuous electronic quotes in 60% of the series in its appointed class(es) that expire in less than nine months for 90% of the time when the ETH Market-Maker is quoting in that class during the ETH session (which is the same as the continuous electronic quoting obligation during RTH). LMMs must satisfy this continuous electronic quoting obligation, but must also satisfy a heightened quoting standard to receive a monthly rebate (see CBOE Rule 6.1A).*

*At this time, the Exchange has determined that during ETH, there will be no bid-ask differential requirement and the minimum quote size requirement will be one.*

**9. What type of ETH Trading Permit is required for a RTH Market-Maker that intends to send only proprietary orders during ETH?**

*A RTH Market-Maker that is not an ETH Market-Maker during ETH will be able to directly submit proprietary orders during ETH over its own connection if it obtains an ETH EAP and satisfies applicable registration requirements (see Question #3). RTH Trading Permits will not enable*

<sup>2</sup> Market-Makers should consider the impact of any of their ETH trading activity on all applicable Exchange and SEC rules (e.g., SEC Rule 15c3-1 – Net capital requirements for brokers and dealers).

access to ETH. Alternatively, a RTH Market-Maker will be able to route orders for execution during ETH through a third-party agent that is a TPH and has an ETH EAP.

**10. How will the in-person percentage requirements apply to a RTH Market-Maker that is also an ETH Market-Maker?**

*In contrast to the Market-Maker electronic quoting obligations discussed in Question #8, the in-person percentage calculation set forth in Rule 8.7.03(B) (currently applicable only to SPX and SPXW) will combine transactions across both trading sessions to determine compliance with that Rule.*

*For purposes of the in-person percentage calculation, transactions by the ETH Market-Maker will be considered in-person provided that the ETH Market-Maker is quoting and otherwise meets its Market-Maker obligations and enters its orders directly, not through a third party.*

**11. How will the in-person percentage requirements apply to a RTH Market-Maker that is not also an ETH Market-Maker?**

*As stated in Question #10, the in-person percentage calculation set forth in Rule 8.7.03(B) (currently applicable only to SPX and SPXW) will combine transactions across both trading sessions to determine compliance with that Rule.*

*An order submitted during ETH by the RTH Market-Maker in its RTH appointed class will be considered an “off-floor order” for purposes of Rule 8.7.03 (See 6.1A(e)(iv)).*

**12. Will a TPH that is a Market-Maker during both ETH and RTH be able to utilize the same account (e.g., Q account) in both trading sessions?**

*Yes, a Market-Maker will be able to use the same account during both RTH and ETH. However, the Market-Maker trading acronym for RTH will be different than its trading acronym for ETH.*

**13. Does a TPH need to have a specific Letter of Guarantee on file from a Clearing TPH for ETH?**

*To trade during ETH, a TPH must be guaranteed by a Clearing TPH that has an ETH Trading Permit. Specifically:*

- *A TPH that intends to operate as a Market-Maker during ETH must submit a Market-Maker Letter of Guarantee specifically identifying its ETH Market-Maker acronym; or*
- *A TPH that intends to operate in a trading capacity other than as a Market-Maker during ETH must submit a Connectivity Guarantee for Login Access (Connectivity Guarantee); however, if a TPH already has a Connectivity Guarantee on file with the Exchange with a Clearing TPH that has an ETH Trading Permit, there is no need to submit another Connectivity Guarantee.*

**14. Does a TPH need to have a separate “Notification of Identified Designated Give Ups Form” on file for ETH?**

*Yes, a TPH must have a separate Notification Form on file for ETH, which identifies an OCC clearing number for a Clearing TPH that has an ETH Trading Permit (see Rule 6.21 and RG14-128). The form is to be submitted to [giveups@cboe.com](mailto:giveups@cboe.com) and must be signed by an authorized signatory of the TPH. If a TPH has not submitted a Notification Form by ETH launch date, the TPH will only be able to give up its ETH Guarantor until and unless the TPH submits a Notification Form identifying Designated Give Ups for ETH.*

**15. What origin code designations will be available during ETH?**

*A TPH must use an origin code designation corresponding to its registration. Please see RG13-038 for a list and description of origin codes. Users are reminded that all orders, including those entered during ETH, count for purposes of the professional order calculation in Rule 1.1(ggg). Users are further reminded that the W code must be applied to professional orders in both SPX/SPXW and VIX during ETH.*

**Product Information****16. Will expiring SPX/SPXW and VIX option series be available for trading during the ETH session on their respective expiration days?**

*No, final trading for expiring a.m.-settled SPX or VIX options will occur during the RTH session on the trading day prior to the expiration day. For example, trading in VIX March 2015 options ends with the RTH session on Tuesday, March 17, 2015, which is the trading day prior to expiration on Wednesday, March 18, 2015. In other words, expiring series will not trade during the ETH session that occurs on their expiration days.*

**17. On VIX settlement days, will the SPX/SPXW option series used to determine the settlement value for the VIX index at the open of RTH be available for trading during ETH the same business day?**

*Yes. All SPX/SPXW option series used to determine the VIX settlement value at the open of RTH that would normally be available for trading during RTH will be available during ETH the same business day (i.e., the ETH session that immediately precedes the RTH session during which the VIX settlement value is determined). However, orders entered in ETH will not participate in the RTH opening VIX settlement process. On VIX settlement days, TPHs must route orders intended for participation in the opening VIX settlement process to the RTH session and not the ETH session.*

**18. Will the same products be available during ETH and RTH, and how may TPHs obtain the product list?**

*The same products will be available in ETH and RTH. However, TPHs may download product information for the ETH session from the ETH CSM server prior to an ETH session, and separately may download product information for the RTH session from the RTH CSM server prior to an RTH session. The product identification numbers will be consistent across both sessions.*

**Other****19. Will the Regulatory Interpretations and Guidance (“RIG”) Hotline be available during ETH?**

*The RIG hotline will be answered between 8:30 a.m. and 4:30 p.m. CT. Any calls received outside of these hours will go to the RIG voice mailbox and be acknowledged the following business day.*

**20. Will there be an ETH session on a holiday for which there is no RTH session?**

*No, there will not be an ETH session on a business day on which there is no scheduled RTH session.*