



EXECUTE SUCCESSSM

Regulatory Circular RG15-024

Date: February 18, 2015

To: Trading Permit Holders

From: Regulatory Services Division

RE: Extended Trading Hours Risk Disclosure

Chicago Board Options Exchange, Incorporated ("CBOE" or the "Exchange") intends to launch Extended Trading Hours ("ETH") on Monday, March 2, 2015 for options on the CBOE Volatility Index (VIX) and Monday, March 9, 2015 for options on the S&P 500 Index (SPX/SPXW). ETH will be from 2:00 a.m. to 8:15 a.m. Central time on Monday through Friday. As discussed in rule filing [SR-CBOE-2014-062](#), which was approved by the Securities and Exchange Commission ("SEC"), certain trading risks may exist during ETH.

ETH Trading Risks

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

- the current underlying index value may not be updated during ETH;
- lower liquidity during ETH may impact pricing;
- higher volatility in ETH may occur;
- wider spreads may occur during ETH;
- trading halts may be triggered by a number of circumstances during ETH if the Exchange determines that such action is appropriate in the interests of a fair and orderly market and to protect investors. The Exchange may consider various factors when making such determinations, including if the price limits on futures exchanges have been activated, if trading in related futures halts, or if there are other unusual conditions or circumstances detrimental to the maintenance of a fair and orderly market (such as if the underlying primary securities market was halted at the close of the previous trading day or significant events occur during ETH) (see Rule 24.7);
- it may not accept an order from a customer for executing during ETH without making certain disclosures to the customer (as further described below); and
- if it recommends transactions to a customer during ETH, the Trading Permit Holder must make a determination that the recommendation is suitable for the customer (see Rule 9.9).

Customer Disclosure

Pursuant to Rule 6.1A(j), no Trading Permit Holder may accept an order from a customer for execution during ETH without disclosing to that customer that trading during ETH 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 this rule 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 ETH as compared to Regular Trading Hours ("RTH"), including fewer Market-Makers quoting during ETH. 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 ETH as compared to RTH. As a result, your order may only be partially executed, or not at all, or you may receive an inferior price during ETH as compared to RTH.
- **Risk of Changing Prices.** The prices of securities traded during ETH may not reflect the prices either at the end of RTH, or upon the opening of RTH the next business day. As a result, you may receive an inferior price during ETH as compared to RTH.
- **Risk of News Announcements.** Normally, issuers make news announcements that may affect the price of their securities after RTH. Similarly, important financial information is frequently announced outside of RTH. These announcements may occur during ETH, 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 ETH 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 ETH. Since the underlying index or portfolio value and IIV are not calculated or widely disseminated during ETH, an investor who is unable to calculate implied values for certain products during ETH may be at a disadvantage to market professionals. Additionally, securities underlying the indexes or portfolios will not be regularly trading as they are during RTH, or may not be trading at all. This may cause prices during ETH to not reflect the prices of those securities when they open for trading.

Additional Information

Please contact the Regulatory Interpretations and Guidance Hotline at reginterps@cboe.com or (312) 786-8141 for 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 ETH. Copies of the ODD are available from your broker, by calling 1-888-OPTIONS, or from The Options Clearing Corporation ("OCC"), One North Wacker Drive, Suite 500, Chicago, Illinois 60606.

The SEC recently approved OCC rules related to ETH, including requirements to act as a clearing firm during ETH. Please contact OCC's Member Services Help Desk at (800) 544-6091 or (800) 621-6072, or via e-mail at memberservice@theocc.com for questions or additional information regarding OCC's ETH requirements.