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Regulatory Circular RG15-074

Date: May 6, 2015

To: Trading Permit Holders

From: Business Development Division

RE: Rule 6.25—Nullification and Adjustment of Options Transactions including Obvious Errors

Effective May 8, 2015, this Regulatory Circular will replace Regulatory Circular RG14-141.

Effective May 8, 2015, Rule 6.25 will be replaced in its entirety by revised Rule 6.25 (See SR-CBOE-2015-039). The purpose of this circular is to highlight particular provisions of revised Rule 6.25. Please see revised Rule 6.25 and SR-CBOE-2015-039 for a complete description of the requirements of Rule 6.25.

Unless otherwise directed by the CBOE Help Desk (the “Help Desk”), Trading Permit Holders (“TPHs”) should not update a trade record in the Continuous Trade Match (“CTM”) system pursuant to Rule 6.25. TPHs directed by the Help Desk to change a trade record in CTM pursuant to Rule 6.25 do not need to follow the procedures set forth in Rule 6.67 or RG15-072. As noted below, however, TPHs have the option to use the CBOE Change Notification Form to notify the Exchange of a mutually agreed nullification or price adjustment.

Mutually Agreed Nullifications or Price Adjustments—Rule 6.25 Preamble:

CBOE Rule 6.19 will be deleted and all mutual agreements to nullify or adjust the price of a particular transaction will be governed by Rule 6.25. Although amended Rule 6.25 does not require a mutually agreed nullification or price adjustment to be authorized by the Exchange, the Help Desk will review the adjusted price to determine if the price would have been permissible considering applicable order books, the NBBO, and the BBO at the time the original transaction was executed. It is considered conduct inconsistent with just and equitable principles of trade for any TPH to use the mutual adjustment process to circumvent any applicable Exchange rule, the Securities Exchange Act of 1934 or any of the rules and regulations thereunder.

Mutually Agreed Nullification or Price Adjustments Notification Procedure¹

Notification of a mutually agreed nullification must be submitted to the Exchange by 7:30 a.m. CT on the first trading day following the execution. Notification may be made by either:

- a) Sending an email to Tradereviewrequests@cboe.com with the following trade details: 1) “Cross/Self-Trade Bust Notification” in subject line (if applicable); 2) Option class/series in subject line; 3) Reason for the price adjustment (if applicable); 4) Whether the TPH making the notification is the buyer or seller; 5) Executing firm and contra firm; 6) Executing broker and contra broker; 7) Trade time; 8) Quantity to be nullified or adjusted; 9) Original trade price; 10) Requested trade price (if applicable); and 11) Trade ID (if available); or

¹ If a TPH seeks to nullify a transaction or adjust the price of a trade pursuant to a Trading Floor Liaison (“TFL”) informing the TPH of a possible trade-through or a TPH seeks to nullify a transaction in which the TPH was on the buy side and sell side of a transaction (i.e., a self-trade), the TPH must follow the procedures set forth in this circular.



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- b) Sending an email to Tradereviewrequests@cboe.com with a completed CBOE Change Notification Form ("CBOE Change Form") attached.²

OPRA and Continuous Trade Match Change Procedure

Upon receipt of the notification, the Exchange will:

- Confirm the agreement with all TPHs who are party to the transaction;
- Disseminate the appropriate cancellation and adjustment information to OPRA if applicable;
- Update CTM, unless otherwise indicated by the Help Desk; in which case, it is the responsibility of the TPHs to update CTM if necessary.

Determination of Theoretical Price—Rule 6.25(b):

The Theoretical Price ("TP") will generally be the NBB (for erroneous sell transactions) or NBO (for erroneous buy transactions) just prior to the trade in question. For orders that are executed at multiple price levels, TP will be the last NBB or NBO just prior to the Exchange's receipt of the order; except, the Exchange will determine TP when:

- The transaction occurs as part of the Opening Process and there is no NBB or NBO just prior to the transaction or the bid/ask differential of the NBB and NBO just prior to the transaction is equal to or greater than an amount set forth below:

Bid Price at Time of Trade	Minimum Amount
Below \$2.00	\$0.75
\$2.00 to \$5.00	\$1.25
Above \$5.00 to \$10.00	\$1.50
Above \$10.00 to \$20.00	\$2.50
Above \$20.00 to \$50.00	\$3.00
Above \$50.00 to \$100.00	\$4.50
Above \$100.00	\$6.00

- There are no quotes or no valid quotes for comparison;
- The bid/ask differential of the NBB and NBO at the time of execution is equal to or greater than the amount set forth above and at some point within 10 seconds prior to the transaction the bid-ask differential of the NBB and NBO was less than the amount set forth above.

Obvious Errors—Rule 6.25(c):

An obvious error occurs when the execution price of a transaction is higher or lower than the TP for the series by an amount equal to at least the amount shown below

Theoretical Price	Minimum Amount
Below \$2.00	\$0.25
\$2.00 to \$5.00	\$0.40
Above \$5.00 to \$10.00	\$0.50
Above \$10.00 to \$20.00	\$0.80
Above \$20.00 to \$50.00	\$1.00
Above \$50.00 to \$100.00	\$1.50
Above \$100.00	\$2.00

² The CBOE Change Form will be located at <https://www.cboe.org/members/generalinfo/memberforms.aspx#misc>.

Obvious Error Notification Timeframes

A party that believes that it participated in a transaction that was the result of an obvious error must contact the Help Desk at 312-786-7914 or Tradereviewrequests@cboe.com:

- Customers—within 30 minutes of the execution.
- Non-Customers—within 15 minutes of the execution.
- Linkage Trades—An away options exchange that received an order and routed it to CBOE for execution (“Linkage Trade”) will have a total of 45 minutes from time of execution for customer transactions, and 30 minutes for non-customer transactions, to notify the Exchange, provided the options exchange that routed the linkage order received a timely filing of an Obvious Error review request (i.e., within 30 minutes for customers and 15 minutes for non-customers).

Adjust or Bust

- Non-Customer transactions will be adjusted and are subject to the below adjustment penalty amount:

Theoretical Price (TP)	Buy Transaction Adjustment – TP Plus	Sell Transaction Adjustment – TP Minus
Below \$3.00	\$0.15	\$0.15
At or above \$3.00	\$0.30	\$0.30

- Non-Customer transactions exceeding 50 contracts are subject to the below size adjustment modifier:

Number of Contracts per Execution	Adjustment – TP Plus/Minus
1-50	N/A
51-250	2 times adjustment amount
251-1000	2.5 times adjustment amount
1001 or more	3 times adjustment amount

- Customer transactions are busted, except where 200 or more customer transactions subject to review are entered within 2 minutes by the same TPH. Then, the trade will be adjusted with the non-customer penalty and size adjustment modifier described above.

Catastrophic Errors—Rule 6.25(d):

A catastrophic error occurs when the execution price of a transaction is higher or lower than the TP for the series by an amount equal to at least the amount shown below:

Theoretical Price	Minimum Amount
Below \$2.00	\$0.50
\$2.00 to \$5.00	\$1.00
Above \$5.00 to \$10.00	\$1.50
Above \$10.00 to \$20.00	\$2.00
Above \$20.00 to \$50.00	\$2.50
Above \$50.00 to \$100.00	\$3.00
Above \$100.00	\$4.00

Catastrophic Error Notification Timeframes

Any party (Customer or Non-Customer) that believes that it participated in a transaction that was the result of a catastrophic error must contact the Help Desk at 312-786-7914 or Tradereviewrequests@cboe.com:

- For transactions during regular trading hours, by 7:30 AM CT the following trading day;
- For expiring options, within 45 minutes of the close; and
- For transactions occurring during Extended Trading Hours ("ETH"), within 2 hours of the close of the ETH session.

Adjust or Bust

- Customer and Non-Customer transactions are adjusted and subject to the below adjustment penalty amount:

Theoretical Price (TP)	Buy Transaction Adjustment – TP Plus	Sell Transaction Adjustment – TP Minus
Below \$2.00	\$0.50	\$0.50
\$2.00 to \$5.00	\$1.00	\$1.00
Above \$5.00 to \$10.00	\$1.50	\$1.50
Above \$10.00 to \$20.00	\$2.00	\$2.00
Above \$20.00 to \$50.00	\$2.50	\$2.50
Above \$50.00 to \$100.00	\$3.00	\$3.00
Above \$100.00	\$4.00	\$4.00

- If an adjustment in accordance with the above table would exceed a Customer's limit price, the transaction will be busted.
- If a Catastrophic Error review is requested and it is determined that a Catastrophic Error has not occurred, the Trading Permit Holder will be subject to a charge of \$5,000.

Significant Market Event—Rule 6.25(e):

The Significant Market Event provisions require options exchanges to coordinate to determine whether to bust or adjust transactions that have been determined to have occurred during a Significant Market Event. A Significant Market Event will be deemed to have occurred if criterion (A) below is met or exceeded or the sum of all applicable event statistics, where each is expressed as a percentage of the relevant threshold in criteria (A) through (D) below, is greater than or equal to 150% and 75% or more of at least one category is reached, provided that no single category can contribute more than 100% to the sum and any category contributing more than 100% will be rounded down to 100%. All criteria set forth below will be measured in aggregate across all exchanges.

- Transactions that are potentially erroneous would result in a total Worst-Case Adjustment Penalty of \$30,000,000, where the Worst-Case Adjustment Penalty is computed as the sum, across all potentially erroneous trades, of:
 - \$0.30; times
 - the contract multiplier for each traded contract; times
 - the number of contracts for each trade; times
 - the appropriate Size Adjustment Modifier for each trade, if any, as defined in Rule 6.25(e)(3)(A).
- Transactions involving 500,000 options contracts are potentially erroneous;
- Transactions with a notional value (i.e., number of contracts traded multiplied by the option premium multiplied by the contract multiplier) of \$100,000,000 are potentially erroneous;
- 10,000 transactions are potentially erroneous.



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Additional Information:

Operational questions may be directed to CBOE Market Services at marketservices@cboe.com or (312) 786-7950. Regulatory questions regarding this circular may be directed to the Regulatory Interpretations and Guidance team at reginterps@cboe.com or (312) 786-8141.