

## CBOE Regulatory Circular RG16-105

**Date:** June 1, 2016

**To:** Trading Permit Holders

**From:** Business Development and Regulatory Divisions

**RE:** PAR Enhancement to Support SPX Combo Orders

The Exchange is introducing an enhancement to the PAR Workstation to assist PAR Operators in tracking certain information when using the special trading procedures for SPX Combo Orders under Rule 24.20. An overview of the Rule and PAR enhancement follows.

### SPX Combo Orders (Rule 24.20)

CBOE Rule 24.20 sets out certain special open outcry trading procedures for SPX Combo Orders.<sup>1</sup> Under the Rule, an SPX Combo Order may be transacted in the following manner:

- Step 1, Apply Indicator Upon Systemization: For an order to be eligible for the special open outcry trading procedures contained in the Rule, a TPH must apply an indicator (the COMBO indicator) to the SPX Combo Order upon systemization of the order as provided in Rule 6.24.<sup>2</sup> See Rule 24.20(b)(1).<sup>3</sup>
- Step 2, Represent Order and Establish Original Quotes: When a TPH is holding an SPX Combo Order with the required indicator, the TPH may represent the SPX Combo Order in open outcry as the TPH would represent other complex orders in open outcry in accordance with CBOE Rules (including, for example, Rule 6.42 requirements related to minimum increments for bids and offers and trade reporting; Rule 6.73.05 requirements related to electronically recording the time an order is initially represented in the trading crowd (e.g., using the REP button on PAR); Rule 6.45B(b) requirements related to execution and priority of complex orders; and Rule 6.51 requirements related to trade reporting; etc.). In that regard, a TPH who is holding an SPX Combo Order and bidding or offering in a multiple of the minimum increment on the basis of a total debit or credit for the order may trade with another TPH(s) without giving priority to equivalent bids (offers) in the

---

<sup>1</sup> For purposes of the Rule, an “SPX Combo Order” is defined as an order to purchase or sell one or more SPX option series and the offsetting number of SPX combinations defined by the delta. An “SPX combination” is defined as a purchase (sale) of an SPX call and sale (purchase) of an SPX put having the same expiration date and strike price. A “delta” is defined as the positive (negative) number of SPX combinations that must be sold (bought) to establish a market neutral hedge with one or more SPX option series. See Rule 24.20(a).

<sup>2</sup> Systematically, the COMBO indicator (i) may be entered only on orders for the SPX options class (symbols SPX and SPXW) and (ii) may be included only on orders of three or more legs, two of which comprise an SPX combination. The Exchange will automatically reject an order that includes the COMBO indicator but does not meet these two requirements. Other order eligibility requirements of Rule 24.20 (e.g., the delta requirement) are not systematically-enforced.

<sup>3</sup> In addition, an SPX Combo Order for twelve (12) legs or less must be entered on a single order ticket at time of systemization. An SPX Combo Order for more than twelve (12) legs may be represented and executed as a single SPX Combo Order in accordance with Rule 24.20 if it is split across multiple order tickets and the TPH representing the SPX Combo Order uses the fewest order tickets necessary to systemize the order and identifies for the Exchange the order tickets that are part of the same SPX Combo Order in the manner and form prescribed by the Exchange. See Rule 24.20.01 and Regulatory Circular RG15-092, which sets out the manner and form for identifying this information for the Exchange.

individual series legs that are represented in the trading crowd or in the SPX limit order book so long as (i) no leg of the SPX Combo Order would trade at a price outside the currently displayed bids or offers in the trading crowd or bids or offers in the SPX limit order book; and (ii) at least one leg of the SPX Combo Order would trade at a price better than the corresponding bid or offer in the SPX limit order book. See Rule 24.20(b)(2). If there are multiple TPHs bidding or offering on a total debit or credit basis, priority and allocation is subject to the procedure set out in Rule 6.45B(b).<sup>4</sup>

- Step 3. Subsequently Execute and Report Based on Original Quotes: Notwithstanding any other rules of the Exchange, **if** an SPX Combo Order with the required indicator is **not** executed immediately, Rule 24.20 provides that the SPX Combo Order **may be executed and printed/reported at the prices originally quoted for each of the component option series within 2 hours after the time of the original quotes**. See Rule 24.20(b)(3). Please note that the special trading procedure set out in Step 3 is only available if Steps 1 and 2 have been completed in sequence and only at the prices originally quoted in Step 2.

**Please be reminded that, although other strategies may accomplish a market neutral hedge for SPX options, the special trading procedure applicable to SPX Combo Orders only applies if all the requirements of Rule 24.20 are satisfied. Please also be reminded that Rule 24.20 does not lessen the obligation of TPHs to obtain best execution of options orders for their customers.**

The Regulatory Division monitors TPH trading activity for compliance with Rule 24.20. For example, this includes evaluation of order eligibility and of the handling of SPX Combo Orders over their lifecycle (e.g., from systemization to representation, execution and priority, printing/reporting). TPHs that fail to comply with Rule 24.20 may be subject to disciplinary action. Among other things, executions not meeting the Rule 24.20 requirements may be considered violations of the SPX limit book and/or displayed market priority. For additional information, please refer to Rule 24.20.

### PAR Workstation Enhancement

Beginning the week of May 30, 2016, a new version of PAR will be made available. Users will be advised before the application is loaded to their particular terminals. Support will be provided throughout the rollout.

The complex Dynamic Quotes dialog box that is currently available on a selected/displayed order has been enhanced in response to TPH feedback. A new dialog box has been added that displays the timestamp and the electronic quotes/books for the individual legs of the combo order that were present when the PAR Operator initially pressed the REP button for the order. The initial REP information will be available at all times while the order is on PAR. The new dialog box can be viewed by pressing within the Dynamic Quotes dialog box three times.

This new dialog box feature is intended to assist TPHs in identifying certain information relevant to the prices originally quoted when handling an SPX Combo Order. However, its use alone will not ensure that the special trading procedure requirements of Rule 24.20 have been satisfied. In that regard, please note that there are limitations to the feature. For example, the dialog box will only identify the electronic quotes and books that existed at the time the REP button is initially pressed. The new dialog box will not reflect interest represented in the trading crowd or in the electronic complex order book. In addition, although it may generally occur close in time, the time of the initial REP button press might not necessarily be the same as the time of the original quoted market and, thus, the electronic quote/book information from the time of the initial REP button press that is captured and displayed in the new dialog box may differ from the electronic quote/book information that existed at the time the prices were originally quoted. Also, please

---

<sup>4</sup> Other Rules on open outcry trading priority and allocation may also apply. For instance, Rules 6.9 and 6.74 conditions pertaining to solicited transactions and crossing orders may apply.

be advised that the PAR application will not systematically prevent PAR Operators from manually entering prices that touch or violate customer book levels on legs of a complex trade.

**Additional Information**

Questions regarding the operational topics in this circular may be directed to the CBOE Reporting Desk at 312-786-8580 or [reportingdesk@cboe.com](mailto:reportingdesk@cboe.com). Questions regarding the rule or regulatory matters may be directed to CBOE Regulatory Interpretations at [reginterps@cboe.com](mailto:reginterps@cboe.com) or 312-786-8141.