



CBOE Regulatory Circular RG16-205

Date: December 29, 2016

To: Trading Permit Holders

From: Business Analysis Department

RE: 2017 Liquidity Provider Sliding Scale Changes

As introduced in CBOE Regulatory Circular RG16-198 (<http://www.cboe.com/publish/RegCir/RG16-198.pdf>), the Exchange will be incorporating a new “Adjustment Table” for all Market-Maker (Origin Code “M”) transaction fees in all multiply listed options classes (i.e., all symbols excluding Underlying Symbol List A and Mini-Options), effective January 3, 2017, subject to Securities and Exchange Commission (“SEC”) review. This circular explains in more detail the application of the Adjustment Table, which will introduce transaction fee adjustments based on a Market-Maker’s electronically executed volume from posted liquidity (i.e. “Make Rate”), delivering lower transaction fees to Market-Makers who provide greater levels of executable posted liquidity.

The base pricing method for Market-Maker transaction fees in all multiply listed classes in 2017 will remain the Liquidity Provider Sliding Scale (“LP Sliding Scale”), the tiers, rates and structure of which are unchanged from 2016. Additionally, for Market-Makers that qualify for the Affiliated Volume Program (“AVP”), those rebates will continue to be based only on the LP Sliding Scale rates, exclusive of the Adjustment Table. The Adjustment Table, shown below, will be in addition to or subtracted from the base rate as determined by the LP Sliding Scale, and the Adjustment Table rate itself will be determined by a Market-Maker’s Make Rate which will set their “Performance Tier”.

Performance Tier	Make/Take Penny/Non-Penny Adjustments Increase/(Decrease)					
	Make Rate (% based on prior month)		Maker Adjustment		Taker Adjustment	
	Maker % From	Maker % To	Penny Classes	Non- Penny Classes	Penny Classes	Non- Penny Classes
1	0%	50%	(\$0.00)	(\$0.00)	\$0.04	\$0.08
2	51%	75%	(\$0.00)	(\$0.00)	\$0.03	\$0.06
3	76%	85%	(\$0.00)	(\$0.00)	\$0.02	\$0.04
4	86%	90%	(\$0.00)	(\$0.00)	\$0.01	\$0.02
5	91%	100%	(\$0.01)	(\$0.00)	\$0.00	\$0.00

Make Rates

The Performance Tier is independent from a Market-Maker’s tier level for transaction fees on the LP Sliding Scale and is not determined by total traded volume. Rather, the Performance Tier is set by the “Make Rate” from the previous month across all multiply listed classes and volume traded by a Market-Maker using the following formula:

- total electronic automatic execution (“auto-ex”) volume resulting from that Market-Maker’s resting quotes or single sided quotes/orders that were executed by an incoming order or quote, DIVIDED BY
- the Market-Maker’s total auto-ex volume (i.e., volume that resulted from that Market-Maker’s resting quotes/orders and volume that resulted from that Market-Maker’s quotes/orders that removed liquidity).

For purposes of the Performance Tier calculation, auto-ex is defined as non-auction, non-opening rotation, non-complex (i.e. simple), electronic (not open-outcry) volume. Once a Market-Maker's Make Rate has been determined for a given month, the corresponding Performance Tier will apply for the next month only. For example, the Performance Tier rates that will be applied in February 2017 will be based on a Market-Maker's Make Rate volume from January 2017. Similarly, the Performance Tier that would apply for a Market-Maker in March 2017, would be based off the Market-Maker's Make Rate for February 2017 and so forth.

Maker and Taker Adjustments

The Adjustment rate will only apply to electronic (non-open outcry), non-complex (i.e. simple), multi-list volume other than a) trades on the open and b) original paired orders entered and executed via the Automated Improvement Mechanism ("AIM"). The Adjustment Rate will apply to all auto-ex volume plus all electronic auction responses, including AIM responses, which are not included in the calculation of the Make Rate. For purposes of applying the rate(s) from the adjustment table, the following are considered Maker or Taker:

MAKER

- Executed MARKET-MAKER volume from that MARKET-MAKER's RESTING quotes or orders
- Executed MARKET-MAKER volume from that MARKET-MAKER's RESPONSES to auctions (i.e., AIM, HAL, and/or HALO Responses)

TAKER

- Executed MARKET-MAKER volume from that MARKET-MAKER REMOVING other market participants' resting quotes or orders
- Executed MARKET-MAKER volume from that MARKET-MAKER's PRIMARY ORDERS in UNPAIRED auctions (HAL, HALO)

All open-outcry, Qualified Contingent Cross ("QCC") orders, and complex order volume (except when a complex order executes against resting single leg markets, the latter of which would be included as MAKER volume both for the calculation of the Performance Tier and application of the adjustment rate) are exempt from both the Make Rate calculation and from the application of the Maker/Taker Adjustments.

On December 29, 2016, each Market-Maker Trading Permit Holder currently receiving their daily Market-Maker Sliding Fee Scale Report via email will notice the addition of measures of both their previous month's Make Rate, for determination of their respective Performance Tier and corresponding adjustment rates, as well as their current month's daily Make Rate measure, which would be used to determine their Performance Tier for the following month. This will allow all Market-Makers to ensure awareness of their Performance Tier and Adjustment Table rate(s) from month to month.

Additional Information:

For additional information on the calculation of the performance tier and application of the adjustment table as defined in this circular, please contact Alicia Goldberg at (312) 786-7585 or goldberg@cboe.com or Jennifer Gillund at (312) 786-7771 or gillundj@cboe.com.