

CBOE Regulatory Circular RG17-039

Date: March 21, 2017

To: Trading Permit Holders

From: Business Development Division

RE: Customer Priority for TA, TB, and Sweep Functionality on PAR

The Chicago Board Options Exchange, Incorporated (CBOE) is pleased to announce system enhancements to the PAR TB (Trade Book), PAR TA (Trade All) and PAR Sweep functions. By way of background, CBOE's **open outcry** priority and allocation rules generally provide that the highest bid (lowest offer) has priority and, where two or more bids (offers) represent the highest (lowest) price, public customer orders in the electronic book will have first priority, bids (offers) in the crowd will have second priority, and bids (offers) of broker-dealer orders in the electronic book and electronic quotes will have third priority. (See, e.g., CBOE Rule 6.45(b) for additional requirements.) The TB, TA and Sweep functions on PAR can be used to interact with the electronic book when trading in open outcry in accordance with these priority and allocation requirements.

TB

The TB behavior for simple orders on PAR will remain the same, in that, regardless of the electronic matching algorithm, the TB button will only trade with customer book orders. Please note if there are multiple Customer AON (All or None) orders at multiple prices that improve the CBOE displayed market, then a TB transaction could result in unexpected trade volume because AON orders are not part of the published BBO (Best Bid/Offer).

In the updated version, for complex orders, the TB button will be enabled on PAR if there is an opposite side customer order resting in COB (Complex Order Book) that is equal to or better than the best leg market or if the best leg market includes customer orders on all legs.

The new TB functionality for complex orders will trade with the individual legs first if there are customer orders in applicable ratio on each and every leg at the net price of the complex order, then trade with customer COB orders at the net price in price-time sequence.

In cases where the COB improves the legs, TB may trade at multiple net COB price points, but will stop at the first non-customer COB order.

TA

The new TA behavior for simple orders on PAR will prioritize customer book orders over other market participants and then apply the electronic matching algorithm on any remaining quantity. This process will NOT loop through multiple BBO prices, but could trade at multiple prices if there are AON orders at prices better than the BBO; AON orders are not part of the published BBO.

The new TA functionality for complex orders will trade with the individual legs first if there are customer orders in applicable ratio on each and every leg at the net price of the complex order, then trade with customer COB orders at the net price in price-time sequence.

Any remaining quantity on the complex order will be treated like electronically traded complex orders entering the trade engine:

- It may execute against other participants at the best leg market using the electronic matching algorithm.

- Beyond that, any remaining quantity may execute against non-customer COB orders using the electronic matching algorithm for strategies.
- Un-executed remaining quantity will be returned to the originating PAR.

Sweep

The Sweep button will trade a PAR simple order with customer book orders and then use the electronic matching algorithm in effect for the class on remaining quantity at that price. The new Sweep behavior for PAR simple orders could loop through multiple price points until the requested sweep price is attained. Any remaining quantity will be returned to the originating PAR.

Recommendation

PAR brokers are reminded that when trading against the customer book or COB using the TB, TA or Sweep (for simple orders) buttons, it is recommended that a trade quantity be specified. TB, TA or Sweep transactions executed without specifying a quantity will cause the full order quantity to be acted upon and could result in an unexpected execution against hidden reserve quantity. PAR brokers are required to trade against customer book quantity **only**, as opposed to the full reserve order volume, prior to executing the balance of an order at that price in open outcry.

Additional Information

For additional information regarding operational matters, please contact the CBOE Help Desk at helpdesk@cboe.com or 866-728-2263.