Cboe Options Regulatory Circular 19-025

Date: **July 12, 2019**

To: **Trading Permit Holders**

From: **Regulatory Division**

RE: **Systemization Requirements and Proprietary Systems Requirements – Identification of Order Entry Systems (due September 13, 2019)**

Cboe Exchange, Inc. ("Cboe Options" or the "Exchange) is issuing this Regulatory Circular to remind Trading Permit Holders ("TPHs") of the requirements to systematize orders pursuant to Cboe Options Rule 6.24, *Required Order Information,* and to provide TPHs with additional information regarding Exchange approval of proprietary systems that receive orders on the Exchange trading floor.

Additionally, as part of the migration of the Cboe Options trading platform to Bats technology expected to occur on October 7, 2019, Cboe Options is requiring all TPHs that systematize orders on the Exchange trading floor to provide the Regulatory Division with confirmation of the Exchange and/or propriety systems the TPH intends to use following the migration. The system identification form is attached hereto and should be submitted via email to Rule624@cboe.com by **September 13, 2019**.

Order Systemization Requirements
The Exchange has undertaken with other options exchanges to develop a Consolidated Options Audit Trail System ("COATS"). Pursuant to Cboe Options Rule 6.24(a)(1), each order, cancellation of, or change to an order transmitted to the Exchange must be "systematized", in a format approved by the Exchange, either before it is sent to the Exchange or upon receipt on the floor of the Exchange. An order is systematized if: (i) the order is sent electronically to the Exchange; or (ii) the order that is sent to the Exchange non-electronically (*e.g.*, telephone orders) is input electronically into the Exchange's systems contemporaneously upon receipt on the Exchange, and prior to representation of the order. It is the responsibility of the TPH receiving a non-electronic order on the floor of the Exchange to systematize the order and record any event in the lifecycle of the order (e.g., cancellation or change).

TPHs may either use pre-approved Exchange systems (e.g., PULSe or PAR) or may seek approval from the Exchange to use a proprietary or third-party system ("proprietary system") on the trading floor as described in further detail below.

Approval of Proprietary Systems
Pursuant to Cboe Options Rule 6.24.06, any proprietary system approved by the Exchange for use on the Exchange's trading floor that receives orders will be considered an Exchange system for purposes of Cboe Options Rule 6.24(a)(1). Cboe Options Rule 6.24.06 also provides that any proprietary system approved by the Exchange shall have the functionality to comply with the requirements of COATS.

TPHs seeking approval of a proprietary system are required to demonstrate to the Exchange the proprietary system's ability to comply with the requirements of COATS. Among other things, this includes a requirement that the TPH executes a form, which is attached to this Regulatory Circular,

acknowledging the proprietary system's ability to comply with COATS prior to its approval for use on the Exchange floor. TPHs should consult the Floor Broker Order File Record Layout manual for complete details regarding the order formatting requirements for proprietary systems. To initiate the approval process for an on-floor proprietary system, please email Rule624@cboe.com.

Additional Information

For questions regarding the Floor Broker Order file layout or how to submit the file to the Exchange, please contact the Trade Desk at tradedesk@cboe.com or 913-815-7001.

For any other questions, please contact Cboe Regulatory Interpretations at RegInterps@cboe.com or 312-786-8141.

TRADING PERMIT HOLDER IDENTIFICATION OF SYSTEMS
<u>**FOR USE ON THE EXCHANGE TRADING FLOOR PER CBOE OPTIONS RULE 6.24**</u>

As part of the migration of the Cboe Exchange, Inc. ("Cboe Options" or the "Exchange") trading platform to Bats technology, Cboe Options requests that Trading Permit Holders ("TPHs") identify all systems that the TPH intends to use on the Exchange trading floor to systematize orders. TPHs that only use PULSe and/or PAR are required to submit this form only. TPHs that intend to use a system(s) other than or in addition to PULSe and/or PAR are required to specify the system(s) in the "Other" field below and complete the attached Acknowledgement Regarding the Use of Proprietary Systems to Systematize Orders as Required by Cboe Options Rule 6.24 attached hereto. Only one form per TPH organization is required.

TPH (organization) Name: _____

Please indicate all applicable systems below.

[ ] PULSe

[ ] PAR

[ ] Other: _____

[ ] Other: _____

[ ] Other: _____

Dated:_____   By:_____
                                     Authorized Signature

                                     _____
                                     Print Name

                                     _____
                                     Title

**ACKNOWLEDGEMENT REGARDING THE USE OF PROPRIETARY SYSTEMS
TO SYSTEMATIZE ORDERS AS REQUIRED BY CBOE OPTIONS RULE 6.24**

Cboe Exchange, Inc. ("Cboe Options" or the "Exchange") Rule 6.24(a)(1) requires that each order, cancellation of, or change to an order transmitted to the Exchange must be "systematized", in a format approved by the Exchange, either before it is sent to the Exchange or upon receipt on the Exchange's trading floor. An order is systematized if: (i) the order is sent electronically to the Exchange; or (ii) the order that is sent to the Exchange non-electronically (*e.g.*, telephone orders) is input electronically into the Exchange's systems contemporaneously upon receipt on the Exchange, and prior to representation of the order.

Cboe Options Rule 6.24.06 also provides that any proprietary system that is used to receive or systematize orders must be approved by the Exchange for use on the Exchange's trading floor and will be considered an Exchange system for purposes of Cboe Options Rule 6.24. Any proprietary system approved by the Exchange shall have the functionality to comply with the requirements of the Consolidated Options Audit Trail System ("COATS"). A proprietary system that is used to receive or systematize orders will be deemed to have the functionality to comply with the requirements of COATS and Cboe Options Rule 6.24 and therefore be approved if it meets the following requirements and specifications:

1. <u>Record Format.</u> The proprietary system must record the data pertaining to each order, cancellation of, or change to an order in a format specified by the Exchange. (*See* <u>Floor Broker Order File Record Layout</u> manual for complete details.)

2. <u>File Transmission.</u> The order data captured by the proprietary system must be transmitted to the Exchange on a daily basis in a form and manner and at such time as prescribed by the Exchange. (*See* <u>Floor Broker Order File Record Layout</u>.)

3. <u>Synchronized Time Clocks.</u> Pursuant to Cboe Options Rule 6.86(a)(ii), the proprietary system's time clocks shall be synchronized at a minimum to within a one second tolerance of the time maintained by the National Institute of Standards and Technology ("NIST") atomic clock, and must maintain such synchronization.

    a.   The proprietary system must capture a time synchronized to the NIST atomic clock for the following events:
        i.   the date and time an order is systematized in accordance with Rule 6.24;
        ii.   the date and time an order is executed in full or partially;
        iii.   the date and time that the terms of an order are modified, and
        iv.   the date and time an order is cancelled.

The use of a proprietary system by a Trading Permit Holder ("TPH"), associated persons and others at any time shall comply with Cboe Options Rule 6.24, applicable state and federal laws and the rules, policies, and procedures of the Securities and Exchange Commission ("SEC").

In accordance with applicable Cboe Options rules, the operation and use of all aspects of the proprietary system by a TPH shall be subject to inspection and audit by the Exchange at any time. The TPH shall furnish to the Exchange such information concerning the proprietary system or its use as the Exchange may from time to time request.

TPH (organization) Name: _____

TPH hereby acknowledges that its proprietary system must be approved by the Exchange and comply with the requirements of Cboe Options Rule 6.24.

Dated:_____   By:_____
                                    Authorized Signature

                                    _____
                                    Print Name

                                    _____
                                    Title