Cboe Equities Exchanges Introduce MPID Risk Controls

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Overview

Applicable Cboe Exchanges: BYX Equities, BZX Equities, EDGA Equities, EDGX Equities

Effective April 17, 2020 for Cboe EDGA Equities ("EDGA") Exchange and **April 24, 2020** for Cboe BYX Equities ("BYX"), BZX Equities ("BZX"), and EDGX Equities ("EDGX") Exchanges, Cboe will introduce new MPID risk controls, *subject to regulatory review*.

With this new functionality, firms will be able to establish intraday gross and net notional risk limits based on MPID. Limits are configured by the trading firm by default, but a trading firm may optionally delegate control of risk limits for a particular MPID to its clearing firm via the Customer Web Portal.

Technical Details

User Types

Two user types will exist to manage equities MPID risk controls: **trading firm** user and **clearing firm** user. Generally a firm will act as either a clearing firm or a trading firm, and Account Administrators will be able to easily configure users appropriately to match the firm type. However, some firms may be self-clearing or have both a trading and clearing business, which will require the Account Administrators for each firm to designate individuals as either trading firm users or clearing firm users.

By default, control over all risk limits is provided to the trading firm users only. However, a trading firm user may optionally give control of risk limits for an MPID to the clearing firm users for that MPID.

Risk Limits

The new equity risk controls will allow firms to define the following two types of risk limits.

- **Absolute Gross Notional Value**: A notional value (price * size) for each execution is calculated and summed towards the defined limit.
- **Absolute Net Notional Value**: A notional value (price * size) is calculated for each execution. Buy trades count as positive values and sell trades count as negative values. All values are summed, and when the absolute value of the sum exceeds the defined limit, then the risk limit is breached.

Viewing/Changing Risk Limits

Trading or clearing firm users will be able to upload risk profiles that define risk limit settings in the form of a CSV file via the Risk Management Tool on the Customer Web Portal or via the Secure Web API. Risk profiles may be applied immediately or staged for the next trading session.

Both the trading firm users and clearing firm users for a given MPID may view the limits that are set at any time. However, only one of the two groups will be able to change limits at a given time.

Cancel/Reject Behavior

When a risk limit threshold is breached, the Cboe system will cancel all open orders and reject all new orders. In order for trading to resume, the user group that controls the risk limits **must** use the Customer Web Portal or Secure Web API to raise the existing gross or net notional limits.

All risk limit evaluation is performed by a process that consumes a trade by trade feed consisting of activity from all matching units. When a risk breach is detected, that process immediately sends a message to all matching units in the environment to reject new orders and cancel existing orders. As a result, risk limits are enforced on a best efforts basis.

Email Alerts

Via the Customer Web Portal, firms will have the ability to specify the email addresses which will receive automatically generated email alerts when any MPID reaches 50%, 70%, 90%, or 100% of a defined risk level. Both the trading firm and clearing firm may define a set of email addresses which should receive email alerts for each MPID.

Testing Opportunities

This functionality is currently available in the BYX, BZX, EDGA, and EDGX certification environments.

Additional Information

For additional information see the following technical specifications.

- ➢ US Equities Risk Management Specification
- ➢ US Secure Web API
- ➢ US Customer Web Portal Specification

Please contact the Cboe Trade Desk for support or with any questions.

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