



BZX Regulatory Circular 19-011
C2 Options Regulatory Circular 19-013
EDGX Regulatory Circular 19-011

Date: April 17, 2019

To: Members and Trading Permit Holders

From: Regulatory Division and Market Structure and Functionality

RE: Proposed Changes to Market-Maker Appointment and Quoting Obligations on BZX Options, C2, Options and EDGX Options

Cboe BZX Exchange, Inc. (“BZX Options”), Cboe C2 Exchange, Inc. (“C2 Options”), and Cboe EDGX Exchange, Inc. (“EDGX Options”) have submitted rule change filings to harmonize certain Market Maker appointment and quoting obligations across the three affiliated exchanges.¹ Pending review by the U.S. Securities and Exchange Commission (“SEC”), **the proposed rule changes will go into effect May 10, 2019.**

The following highlights key changes to the applicable rules, including a side-by-side comparison of certain changes on page 4. Please refer to the rule filings and full text of the revised rules for additional details.

Class Appointments

Effective May 10, 2019, BZX Options and EDGX Options are conforming their rules related to Market Maker registrations to those of C2 Options. Specifically, BZX Options Rule 22.3(a) and EDGX Options Rule 22.3(a) are being amended to allow a registered Market Maker to select *appointments* to *classes*, rather than *registering* for individual *series*. Various references within the rules will be updated to account for these changes.

In addition, the definitions of “class” or “class of options” under BZX Options Rule 16.1 and EDGX Options Rule 16.1 are being amended to conform to the definition contained in C2 Options Rule 1.1, and will mean “all option contracts with the same unit of trading covering the same underlying security or index.” As a result, *all calls and puts* with the same unit of trading covering the same underlying security will be considered within the same class for purposes of a Market Maker’s appointments.

The process currently used on BZX Options and EDGX Options to register for series will be modified to provide for class level appointments rather than series level registrations. See Cboe Tradedesk Update C2019041701 for more information regarding the appointment process.

¹ See Rule Filings [SR-CboeBZX-2019-025](#), [SR-C2-2019-007](#), and [SR-CboeEDGX-2019-021](#). Please note that no changes are being proposed to the Cboe Exchange, Inc. (“Cboe Options”) Market Maker obligations at this time.

Continuous Quoting Obligation

Effective May 10, 2019, the continuous quoting obligations in BZX Options Rule 22.6(d), C2 Options Rule 8.6(d) and EDGX Options Exchange Rule 22.6(d) are being revised. As revised, a Market Maker on BZX Options, C2 Options, or EDGX Options must enter continuous bids and offers (in accordance with the applicable rules) in 60% of the cumulative number of seconds, or such higher percentage as the Exchange may announce in advance, for which that Market Maker's appointed classes are open for trading, excluding any adjusted series, any intra-day add-on series on the day during which such series are added for trading, any Quarterly Options Series, and any series with an expiration greater than 270 days. (Note that the Exchange intends to propose that the cumulative number of seconds will include the Global Trading Hour (GTH) session, once launched, for applicable classes on C2 Options and EDGX Options. This GTH component will be subject to separate C2 Options and EDGX Options rule change filings with the SEC becoming effective.)

Specifically, the Exchange will calculate this requirement by taking the total number of seconds the Market Maker disseminates quotes in each appointed class, *excluding* any adjusted series, any intra-day add-on series on the day during which such series are added for trading, any Quarterly Options Series, and any series with an expiration greater than 270 days, and dividing that time by the eligible total number of seconds each appointed class is open for trading that day. *Quoting will not be required in every appointed class.* Rather, the continuous quoting obligation will apply to all of the Market Maker's appointed classes collectively. The Exchange will determine compliance with the continuous quoting obligation on a monthly basis; however, that does not relieve a Market Maker from meeting this obligation on a daily basis, nor will it prohibit the Exchange from taking disciplinary action against a Market Maker for failing to meet the obligation each trading day.

An example of the new calculation is presented below:²

Market Maker A ("Firm A") has selected an appointment to quote option class U, in which options U1, U2, U3, U4, and U5 are open for trading. Firm A also has selected appointments in options classes V and W.

Option U1 opened at 09:30:00 and closed at 16:00:00

Firm A initiated two-sided quotes in U1 at 09:35:30 and continuously maintained two-sided quotes until they were purged.

Firm A purged its quotes at 15:55:40

Firm A's total quoted time for U1 is: $15:55:40 - 09:35:30 = (15-9)*3600 + (55-35)*60 + (40-30) = 22810$ (seconds)

Total available quote time for U1 is: $16:00:00 - 09:30:00 = (15-9)*3600 + (60-30)*60 + (00-00) = 23400$ (seconds)

Option U2 opened at 09:30:00 and closed at 16:00:00

Firm A initiated two-sided quotes in U2 at 10:05:30 and continuously maintained two-sided quotes until they were purged.

² See the rule filings cited in Note 1 for an expanded illustration.

Firm A purged quote at 15:05:40

Firm A's total quoted time for U2 is: 15:05:40-10:05:30 = $(14-10)*3600 + (65-05)*60 + (40-30) = 18010$ (seconds)

Total available quote time for U2 is: 16:00:00-09:30:00 = $(15-9)*3600 + (60-30)*60 + (00-300) = 23400$ (seconds)

Assume:

Firm A's total quoted time for U3 is: 13784 (seconds)

Total available quote time for U3 is: 22878 (seconds)

Firm A's total quoted time for U4 is: 23105 (seconds)

Total available quote time for U4 is: 23400 (seconds)

Firm A's total quoted time for U5 is: 0 (seconds)

Total available quote time for U5 is: 23400 (seconds)

Total time Firm A quoted class U: $22810 + 18010 + 13784 + 23105 + 0 = 77709$ (seconds)

Total available quote time for class U: $23400 + 23400 + 22878 + 23400 + 23400 = 116478$ (seconds)

Similarly assume:

Total time Firm A quoted class V: 70983 (seconds)

Total available quote time for class V: 84515 (seconds)

Total time Firm A quoted class W: 0 (seconds)

Total available quote time for class W: 46513 (seconds)

The total quoting percentage for Firm A is: $(77709 + 70983 + 0) / (116478 + 84515 + 46513) = 148692/247506 = 60.08\%$

Market Maker Class Appointment Limits

Effective May 10, 2019, BZX Options Rule 22.2(c) and EDGX Options Rule 22.2(c) are being amended to permit the respective Exchange to impose a limit on the number of Market Makers in a particular class if that Exchange determines based on System constraints, capacity restrictions, or other factors relevant to protecting the integrity of the System. The respective Exchange will not impose any such limitations until it has submitted objective standards for imposing the limits to the SEC for its approval.

Additional Information

Any questions regarding this Regulatory Circular may be referred to Regulatory Interpretations at RegInterps@cboe.com or 312-786-8141.

	Under Current Rules			
	BZX Options	EDGX Options	C2 Options	Proposed Harmonized Rules beginning 5/10/2019
Registration/Appointment	Registration by series (see Rule 22.3)	Registration by series (see Rule 22.3)	Appointment by class (see Rule 8.2)	Appointment by class
Definition of Class	All option contracts of the same type and style covering the same underlying security (see Rule 16.1)	All option contracts of the same type and style covering the same underlying security (see Rule 16.1)	All options contracts with the same unit of trading covering the same underlying security or index (see Rule 1.1)	All option contracts with the same unit of trading covering the same underlying security or index
Percentage of Series to be Continuously Quoted on a daily basis	At least seventy-five percent (75%) of the options series in which the Market Maker is registered; “continuous” = two-sided quotes for 90% of the time that the Market Maker is required to provide quotes in an appointed series (see Rule 22.6)	At least seventy-five percent (75%) of the options series in which the Market Maker is registered; “continuous” = two-sided quotes for 90% of the time that the Market-Maker is required to provide quotes in an appointed series (see Rule 22.6)	Continuous bids and offers in series in its appointed classes on a daily basis in 60% of the series of each appointed class for 90% of the trading day (see Rule 8.6)	Continuous bids and offers in 60% of the cumulative number of seconds, or such higher percentage as the Exchange may announce in advance, for which that Market Maker’s appointed classes are open for trading Note: The cumulative number of seconds will include the GTH session, once launched, for applicable classes on C2 Options and EDGX Options (subject separate rule change filings becoming effective)
Exclusions from the continuous quoting requirement	Any Quarterly Option Series, any adjusted option series, and any series with an expiration of nine months or greater. (see Rule 22.6)	Any Quarterly Option Series, any adjusted option series, and any series with an expiration of nine months or greater. (see Rule 22.6)	Any adjusted series, any intra-day add-on series on the day during which such series are added for trading, and any series with an expiration of nine months or more (see Rule 8.6)	Any adjusted series, any intra-day add-on series on the day during which such series are added for trading, any Quarterly Option Series, and any series with an expiration of greater than 270 days