



BZX Regulatory Circular 19-022

Date: September 6, 2019

To: Options Members

From: Regulatory Division and Market Structure and Functionality

RE: Changes to Market Maker Appointment and Quoting Obligations on BZX Options – Beginning October 1, 2019

Updates BZX Regulatory Circulars 19-013 and 19-018

This circular is being issued to notify BZX Exchange, Inc. (“BZX Options”) Members that, beginning October 1, 2019, the changes to the Market Maker quoting obligations and registration process previously announced in BZX Regulatory Circular 19-013 will become effective.

The following highlights key changes to the applicable rules, including a side-by-side comparison of certain changes on page 5.¹ Please note this circular only summarizes some of the changes being made. Refer to the rule filings and full text of the revised rules for additional details.

Class Appointments

BZX Options is conforming their respective rules related to Market Maker registrations to those of C2 Options and EDGX Options. Specifically, BZX Options Rule 22.3(a) is 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 are being amended to conform to the definition contained in C2 Options Rule 1.1 and EDGX Options Rule 16.1, 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 to register for series will be modified to provide for class level appointments rather than series level registrations. See [Cboe Trade Desk Update C2019090600](#) for more information regarding the appointment process.

Please be advised that all existing BZX Options Market Maker series registrations, including any registrations uploaded on September 30th, will be deleted overnight prior to the effective date. Accordingly, BZX Options Market Makers wishing to be appointed in any options class on October 1, will be required to upload new class appointments via the Cboe Customer Web Portal or Secure Web API on the morning of October 1 between the hours of 2:00 AM and 9:00 AM Eastern. See also Cboe Trade Desk Update C2019090600 (referenced above).

¹ See Rule Filings [SR-CboeBZX-2019-025](#) and [SR-CboeBZX-2019-043](#).

Continuous Quoting Obligation

The continuous quoting obligations in BZX Options Rule 22.6(d) are being revised to mirror the current obligations on C2 Options and EDGX Options. As revised, a Market Maker on BZX 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.

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 on a daily basis. 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.

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)

² See the rule filing SR-CboeBZX-2019-025 cited in Note 1 for an expanded illustration.

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: $(77709 + 70983 + 0) / (116478 + 84515 + 46513) = 148692/247506 = 60.08\%$, which is above the minimum required percentage of 60%.

This continuous quoting obligation changes will be effective for BZX Options effective October 1, 2019.

Market Maker Class Appointment Limits

BZX Options Rule 22.2(c) is being amended to permit the 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 Exchange will not impose any such limitations until it has submitted objective standards for imposing the limits to the SEC for its approval.

These class appointment limit provisions will be effective for BZX Options effective October 1, 2019.

Report Cards Available

The following regulatory report cards for BZX will be available on the [Cboe Customer Web Portal](#)³ for the October 1, 2019 trade date:

- Continuous Quoting Series Summary Surveillance
- Continuous Quoting Firm/Class Summary Surveillance

Regulatory report cards are intended to provide firms with data that assists with supervising compliance with applicable Exchange Rules. The reports will generally be created daily and available for download on a T+2 basis. See [BZX Regulatory Circular 19-018](#) for more detail regarding these reports (as announced for C2 and EDGX Options).

Additional Information

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

BZX Options Market Makers wishing to notify the Regulatory Division of issues impacting their ability to meet their quoting obligations may do so via email at optionsurveillance@cboe.com. Market Makers should include a description of the issue that may prevent them from meeting their quoting obligations and specify the impacted market(s). See also [BZX Regulatory Circular 19-017](#).

³ Account administrators for a firm may grant access to the report cards via the User Management tool within the Cboe Customer Web Portal.

	Under current BZX Options Rules	C2 Options and EDGX Options Rules as of 5/10/2019 Proposed BZX Options Rules beginning October 1, 2019
Registration/Appointment	Registration by series (see Rule 22.3)	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 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)	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 includes the GTH session for applicable classes on C2 Options and EDGX Options.
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 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