



## Regulatory Circular 20-034

**Date:** April 29, 2020

**Exchanges:** Cboe Options

**Markets:** Options

**To:** Trading Permit Holders

**Re:** Temporary Electronic Compression Forum Process for SPX Option Class

---

Cboe Exchange, Inc. (“Cboe Options” or the “Exchange”) is issuing this Regulatory Circular to remind Trading Permit Holders (“TPHs”) of the SPX options class (symbols SPX and SPXW) electronic compression forum requirements that are temporarily in place while the trading floor is inoperable.<sup>1</sup>

By way of background, pursuant to Rule 5.24(e)(1)(E), the Exchange has made an electronic compression forum process temporarily available in the same manner as the open outcry compression forum process as set forth in Rule 5.88, subject to certain exceptions described in further detail below. This includes, among other things, a requirement that only closing orders be submitted for execution in the electronic environment (*i.e.*, an order for any series represented in a compression forum must be closing and may only execute against other closing orders; opening orders/transactions are not permitted in an electronic forum). **As noted below, this closing-only requirement is not system-enforced, so TPHs must ensure that all orders are closing when submitting them to the Exchange for compression forum processing.**

### Temporary Compression Forum Process

As a general matter, the temporary electronic compression forum process set out in Rule 5.24(e)(1)(E) operates in the same manner as the open outcry compression forum process as set out in Rule 5.88, except as follows:

- **General:** The general procedures in Rule 5.88(a)(1) through (5) apply unchanged except that:
  - The Exchange will announce the times when a TPH may provide the Exchange with compression-list positions and when the Exchange will make available to all TPHs a compression-list positions file.
  - The Exchange will, for informational purposes, electronically distribute series positions within a strike range determined by the Exchange to each TPH that submitted compression-list positions to the Exchange. The position file will include information for both multi-leg positions<sup>2</sup> and individual series positions within the Exchange-determined strike range.

---

<sup>1</sup> Rule 5.24 was recently amended by Rule Filings [SR-CBOE-2020-026](#) and [SR-CBOE-2020-031](#) to allow for electronic compression forums while the Exchange’s trading floor is inoperable.

<sup>2</sup> For purposes of the temporary procedures under Rule 5.25(e)(1)(E), “multi-leg positions” may include vertical call spreads, vertical put spreads, combos (*i.e.*, purchase (sale) of a call and sale (purchase) of a put with the same expiration date and strike price) and box spreads. See Rule 5.24(e)(1)(E)(iv). By contrast, the “multi-leg positions” definition applicable to the open outcry process in Rule 5.88 does not include combos. See Rule 5.88.01.

- The modified schedule and information on the position files are discussed in Exchange Notices [C2020032600](#) and [C2020033103](#).
- **Electronic Processing:** In lieu of the open-outcry based compression forums under Rule 5.88(a)(6) (where all TPHs are eligible to participate in forums at a specific location on the trading floor on designated days and time periods), a TPH may submit to the Exchange an order in SPX/SPXW option contracts coupled with a contra-side order or orders totaling an equal number of option contracts, which will execute automatically on entry without exposure subject to the following:<sup>3</sup>
  - the TPH must identify the SPX/SPXW orders as being part of an electronic compression forum, which is done by submitting the order using the functionality that would normally be used for an equity option qualified contingent cross (“QCC”);<sup>4</sup>
  - a simple order or complex order executed as part of an electronic compression forum must satisfy certain priority requirements (see “Execution Price and Priority” discussion below);
  - as with the open outcry process, orders must be submitted in the standard increment applicable to SPX/SPXW options under Rule 5.4;<sup>5</sup> and
  - only closing orders may be executed in an electronic compression forum (*i.e.*, an order for any series represented in a compression forum must be closing and may only execute against other closing orders; opening orders/transactions are not permitted in an electronic forum).<sup>6</sup> **This closing-only requirement is not system-enforced, so TPHs must ensure that all orders are closing when submitting them to the Exchange for compression forum processing.**
- **Execution Price and Priority:** For electronic processing, the compression forum price and priority provisions are as follows:
  - **Simple Orders:** A TPH may execute a simple order as part of an electronic compression forum only if the execution price is: (1) not at the same price as a Priority Customer order resting in the Book, and (2) at or between the NBBO.
  - **Complex Orders:** A TPH may execute a complex order as part of an electronic compression forum only if: (1) each option leg executes at a price that complies with Rule 5.33(f)(2), provided that no option leg executes at the same price as a Priority Customer Order in the Simple Book; (2) each option leg executes at a price at or between the NBBO for the applicable series; and (3) the execution price is better than the price of any complex order resting in the COB, unless the submitted complex order is a Priority Customer Order and the resting complex order is a non-Priority Customer

---

<sup>3</sup> See Rule 5.24(e)(1)(E)(iii). Note that execution will occur automatically without exposure. Rule 5.9 (related to exposure of orders on the Exchange) does not apply to executions of SPX/SPXW simple or complex orders submitted into electronic compression forums.

<sup>4</sup> See Rule 5.24(e)(1)(E)(iii)(a). Note that SPX/SPXW orders submitted for processing via the electronic compression forum do not qualify as QCC orders or for QCC trading (e.g. under Rules 1.1 and 5.33(l)(3)) and, vice versa, QCC orders do not qualify as SPX/SPXW compression forum orders or for compression forum processing (under Rules 5.24 and 5.88). It is just that the existing QCC functionality has been temporarily adapted to support the execution of SPX/SPXW electronic compression forum transactions during this time while the floor is inoperable.

<sup>5</sup> See Rule 5.24(e)(1)(E)(iii)(e).

<sup>6</sup> See Rule 5.24(e)(1)(E)(iii)(f).

Order, in which case the execution price may be the same as or better than the price of the resting complex order.

Note the System will cancel an order submitted for execution in an electronic compression forum if it cannot execute in accordance with the execution price and priority requirements described above.<sup>7</sup>

### **Additional Information**

For additional information on compression forum processing and requirements, please refer to the full text of Rules 5.23(e)(1)(E) and 5.88; Rule Filings [SR-CBOE-2020-026](#) and [SR-CBOE-2020-031](#); and Exchange Notices [C2020032600](#), [C2020033103](#) and [C2020040801](#). Any questions on this Regulatory Circular may be directed to Regulatory Interpretations at [reginterps@cboe.com](mailto:reginterps@cboe.com) or 312.786.8141.

---

<sup>7</sup> See Rule 5.24(e)(1)(E)(iii)(d).