

CBOE Regulatory Circular RG13-108 CFE Regulatory Circular RG13-025

Date: August 1, 2013

To: CBOE Trading Permit Holders and CFE Trading Privilege Holders

From: Regulatory Services Division

RE: Follow-Up to Trading Privilege Holder Educational Session on CFE Exchange of Contract for Related Position Transactions

The slides for the educational session regarding Exchange of Contract for Related Position (ECRP) transactions that was held on July 31, 2013 are now posted to the CFE website at <http://cfe.cboe.com/aboutcfe/legal/pdfs/ECRPEducation.pdf>.

The session addressed the requirements for ECRP transactions under CFE rules. The futures leg of an ECRP transaction is a CFE off-exchange transaction and occurs outside of CFE's electronic order book. It is separately reported to the CFE Help Desk.

One question that arose during the session related to tied trades (i.e., trades involving both a CFE product and CBOE product). Some tied trades may be accomplished as an ECRP if they satisfy the ECRP requirements. The slides provide an overview of the ECRP requirements and reference applicable CFE rules and circulars as well as related CBOE rules.

The futures portion of other tied trades are permitted to be executed via CFE's electronic order book (or, as a block trade, if it qualifies) and these tied trades do not have to satisfy ECRP requirements. The futures portion of these tied trades needs to satisfy the CFE requirements for trading via CFE's electronic order book (or for a block trade).

Another question that arose during the session related to delta neutral tied trades involving VIX futures and VIX options. A delta neutral transaction involving VIX futures and VIX options may qualify as an ECRP if (i) there is high degree of price correlation between the components so that the futures component of the transaction would serve as an appropriate hedge for the options component and (ii) there is quantitative equivalence between the futures and options components. In other words, transactions with equivalent economic risk and exposure on both the futures and options sides of the transaction may qualify as an ECRP. Parties are expected to be able to reasonably demonstrate that the transaction was delta neutral and satisfies the ECRP requirements.

There will be a follow-up session today in the VIX trading crowd to further discuss questions that have been received.

Additional Information:

Subsequent questions may be directed to the Regulatory Services Division's Interpretation and Guidance Team by phone at (312) 786-8141 or by e-mail to RegInterps@cboe.com.