

CBOE Regulatory Circular RG16-203

Date: December 22, 2016

To: CBOE Trading Permit Holders

From: Market Operations

RE: Operational Procedures for Open Outcry “Compression Forum”

Summary

Chicago Board Options Exchange, Incorporated (“CBOE” or the “Exchange”) has adopted new Rule 6.56 relating to Compression Forums.¹ Beginning this month, the Exchange will conduct open outcry “compression forums” at the end of every month to facilitate closing-only transactions in series of S&P 500 Index options (“SPX” - ticker symbols SPX and SPXW). Compression forums will be held in the front of the SPX trading crowd from 10:00 am CT to 2:00 pm CT on the final three business days of each calendar month. Trading Permit Holders (“TPHs”) may submit lists of certain open SPX positions to the Exchange that they wish to close during the compression forums for that month, which the Exchange will then aggregate in a single list containing those series for which opposite (long/short) counterparty interest was submitted to the Exchange. TPHs that wish to take advantage of the compression-list position fee rebate in any given month must submit compression position lists to the Exchange before the end of Regular Trading Hours on the fourth-to-last business day of the month. The Exchange will rebate a TPH’s transactions fees for transactions executed in compression forums involving a position submitted to the Exchange on the TPH’s list for that month.

The Exchange’s first compression forums will be held on December 28, 29, and 30, 2016 from 10:00 am CT to 2:00 pm CT in the front of the SPX trading crowd. Compression position lists must be submitted to the Exchange, in the manner described below, by no later than 3:15 pm CT on December 27, 2016.

List Submission & Publication

Any TPH may submit a list of SPX positions to the Exchange for compression provided that the submitted positions have either: (1) a required capital charge equal to the minimum capital charge under the risk-based haircut calculator in the Clearing Corporation rules or (2) a delta of ten (10) or less may be included on compression position lists submitted to the Exchange. Required capital charges and delta should be calculated at or near 2:30 pm CT on the day that the list is submitted to the Exchange (i.e. the fourth-to-last business day of the calendar month). TPHs also may choose to have their Clearing TPHs or the Clearing Corporation submit lists of eligible SPX positions on their behalf.

Compression position lists must be submitted via email to the Exchange at compressiontrades@cboe.com as password protected .XLS file attachments. The email should clearly indicate the name of the TPH that is submitting the list of positions or name of the TPH on behalf of which the positions are being submitted and provide the contact information of a designated individual at the TPH to whom questions may be directed. TPHs that do not wish to be identified should clearly indicate their desire to remain anonymous in the body of the email. In no case will a TPH be identified as having submitted a particular position or group of positions to the Exchange. **A second email with the .XLS file password must also be sent to the Exchange at the same email address (compressiontrades@cboe.com).**

¹ Available at <http://www.cboe.com/publish/RuleFilingsSEC/SR-CBOE-2016-090.pdf>.

.XLS file attachments should contain the following fields for each position listed:

- **TPH/MARKET PARTICIPANT**;
- **TICKER SYMBOL** (SPX/SPXW);
- **EXPIRATION** (expressed as MM/DD/YY);
- **STRIKE**;
- **CALL/PUT**;
- **SIZE** (number of contracts with long positions expressed as positive numbers and short positions expressed in parentheses).
- **DELTA** (expressed as a number from 0-100 when calculated at or near 2:30 pm CT on the day that the list is submitted to the Exchange (i.e. the fourth-to-last business day of the month));
- **MIDPOINT** (the bid/ask midpoint of the option at or near 2:30 pm on the day that the list is submitted to the Exchange);
- **UNDERLYING** (the SPX level at or near 2:30 pm CT on the day that the list is submitted to the Exchange (i.e. the fourth-to-last business day of the month));
- **DATE/TIME/TIME ZONE** (the date and time that delta was calculated expressed as MM/DD/YY HH:MM AM/PM XT (for example 12/27/16 02:30 PM CT)); and
- **ORIGIN CODE (C/F/MM)**.

For multi-leg positions, the following additional field should be completed:

- **LEG I.D.** (a specific numeric identifier should be used to mark multiple rows of the .XLS file as legs of a multi-leg position (for example, if the leg series of a multi-leg box position are listed on four separate rows, the LEG I.D. columns for each of the four rows would contain the same numeric identifier unique to those four lines)).

Prior to the open of trading on the third-to-last business day of each calendar month (i.e. the first day of the month on which a compression forum is held), the Exchange will make available to all TPHs on its website at <http://www.cboe.com/micro/spx/compression-forum.aspx> an aggregate two-sided list of compression-list positions for those series for which open interest has been submitted to the Exchange on both sides, including the aggregate size of the open interest that has been submitted on each side of each series ("compression-list positions file").

In addition, each TPH that submits a compression positions list to the Exchange will receive a compression-list positions file containing a list of the TPHs that contributed to the file, including contact information for each TPH's designated point of contact. This list will not identify TPHs that have expressly indicated a desire to remain anonymous.

Communications re: Compression Positions

TPHs may communicate with other TPHs to determine: (1) a TPH's open single-leg or multi-leg SPX positions, including side and size, and/or (2) whether a TPH anticipates participating in a compression forum at a particular date and time. During these communications, TPHs may not discuss or agree to execute a compression trade at a particular price. Compression trade prices may only be represented in a compression forum.

Participation

Compression forums are open to all TPHs, including TPHs that submitted compression position lists to the Exchange and those that did not, and regardless of whether any of the positions that a TPH has submitted to the Exchange appear on the final compression-list positions file disseminated by the Exchange.

Trading Rules

Only closing transactions may be executed in a compression forum. With respect to multi-leg positions, all legs must be closing. Additionally, transactions during compression forums may be in penny increments. Other than these two things, compression trades must be conducted pursuant to all regularly applicable SPX trading rules, including, among others, solicitation, crossing, order allocation and priority, and trade reporting rules (e.g. Rules 6.9, 6.43, 6.45B(b), 6.51, 6.58, 6.74). Compression trades must be represented in the compression forum in the same manner as they would in normal SPX trading. Compression trades involving simple orders cannot trade through the displayed best bid or offer (“BBO”) for the series and must be at a price better than any customer order resting in the book. Compression trades involving complex orders that qualify for complex order priority (i.e. in a ratio of 3-to-1 or less) cannot trade through the derived net market for the series and, if there is a customer order resting in the book on each leg, must better the price of the customer order on at least one leg.

Operational Procedures

Compression trades may be executed normally in open outcry. Tools such as PULSe, FBW, PAR, proprietary Market-Maker terminals, the Order Management Terminal (“OMT”), and the CBOE Trade Match System/Continuous Trade Match Web-based Interface (“CTMi”) may be used for order entry, executing and/or trade recording purposes. Single-leg SPX orders, however, cannot be executed in penny increments on PAR. TPHs may submit Market-Maker trades via the Market-Maker Terminal interface to the Exchange or may utilize CTMi to input trades into clearing. All normally applicable rules with respect to use of CTMi under Rule 6.67 will remain in effect during compression forums, including, but not limited to Exchange-notification rules for price changes and with respect to adjustments made to accommodate trading in penny increments in SPX under Rule 6.56. TPHs must submit a list of all trade executions that take place in the open outcry compression forums by e-mailing compressiontrades@cboe.com.²

Fee Rebate

Pending regulatory approval, the Exchange will rebate all transaction fees, including the Index License Surcharge, for transactions in compression forums involving SPX and SPXW positions on compression position lists submitted to the Exchange by the applicable deadline. To receive a rebate, a rebate request with supporting documentation must be submitted to the Exchange within three business days of the transactions.

Additional Information:

For more information regarding compression trades and compression forums generally, please refer to Rule 6.56 and SR-CBOE-2016-090, available at <http://www.cboe.com/publish/RuleFilingsSEC/SR-CBOE-2016-090.pdf>.

Questions regarding this circular and Rule 6.56 may be directed to the Regulatory Interpretations and Guidance team at RegInterps@cboe.com and by telephone at (312) 786-8141.

Operational questions regarding this circular may be directed to the CBOE PAR Officials at 312-786-8727 or barry@cboe.com. Technical issues can be directed to the CBOE Helpdesk at 312-786-7100 or helpdesk@cboe.com.

² Trade executions must be submitted within three (3) days and in the same format in which compression positions lists are submitted.