September 9, 2025

Christopher J. Kirkpatrick
Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, D.C. 20581

Re: Cboe Futures Exchange, LLC Rule Certification
Submission Number CFE-2025-021

Dear Mr. Kirkpatrick:

Pursuant to Section 5c(c)(1) of the Commodity Exchange Act, as amended ("Act"), and Regulation 40.6(a) promulgated by the Commodity Futures Trading Commission ("CFTC" or "Commission") under the Act, Cboe Futures Exchange, LLC ("CFE" or "Exchange") hereby submits a CFE rule amendment ("Amendment") to establish an Inter-Exchange Spread order type involving Cboe Volatility Index ("VIX") options and VIX ("VX") futures. Exhibit 1 to this submission sets forth the rule changes included in the Amendment. The Amendment will become effective on September 23, 2025 ("Effective Date") and will be implemented on a date after the Effective Date to be announced by the Exchange through the issuance of an Exchange notice.

Overview

VIX options are offered for trading on Cboe Exchange, Inc. ("Cboe Options"), an affiliate of CFE that is registered with the Securities and Exchange Commission ("SEC") as a national securities exchange. VX futures are offered for trading on CFE. Both VIX options and VX futures are based on the VIX Index.

CFE is amending its rules to permit Inter-Exchange Spread orders which would be comprised of both VIX options and VX futures legs ("VIX Options/VX Futures Spread Orders"). CFE understands that it is common for market participants to engage in hedging or other trading strategies that involve VIX options and VX futures. However, to execute those strategies, market participants must submit a VIX options order to Cboe Options and separately submit a VX futures order to CFE. For example, market participants may obtain positions in VIX options through a transaction on Cboe Options and hedge those positions by entering into a separate transaction on CFE through its centralized market for VX futures. Separate executions of this sort create additional risks, including the risk that one order will execute while the other does not as well as price risk resulting from the time it takes to complete both transactions. CFE understands that due to those risks and the complexities of these multi-part transactions, market participants may instead transact in the over-the-counter ("OTC") market or not obtain a hedge at all. The Amendment adopts a mechanism to facilitate the execution of these cross-product transactions in a simple, efficient manner that reduces these execution and price risks.

The execution process for an Inter-Exchange Spread Order is patterned after how Cboe Options facilitates the execution of a stock-option order. The execution of the VX futures component of a VIX Options/VX Futures Spread trade on CFE is patterned after the reporting and submission to CFE of a block trade or exchange of contract for related position ("ECRP") transaction entered into off of the Exchange.

As is the case with a block trade or ECRP transaction, an Inter-Exchange Spread trade is a type of off-exchange transaction in a CFE product authorized by CFE rules that is reported to and processed in a similar manner to the manner in which a block trade or ECRP transaction is reported to and processed by CFE. Block trades and ECRP transactions in CFE products are entered into off of CFE and are reported to CFE through a reporting mechanism that does not interact with the CFE order book. The same is the case with VIX Options/VX Futures Spread trades.

An Inter-Exchange Spread Order is a new CFE order type and not a new product. An Inter-Exchange Spread Order will allow for the execution of an Inter-Exchange Spread transaction involving two different products in a single combined transaction. Cboe Options continues to be the listing exchange for VIX options, and CFE continues to be the listing exchange for VX futures. In this regard, an Inter-Exchange Spread transaction is akin to a package transaction in that it involves two components where the execution of each component is contingent on the execution of the other and is priced together as a single transaction with simultaneous or near-simultaneous execution of all components.

As further described below, there is precedent for Inter-Exchange Spread Orders involving securities options regulated by the SEC and futures regulated by the CFTC and CFE believes that permitting Inter-Exchange Spread Orders is consistent with the Act and CFTC regulations.

Cboe Options will also be amending its rules through a rule filing to the SEC in order to allow for VIX Options/VX Futures Spread transactions. CFE will not implement the Amendment until amendments to Cboe Options rules to accommodate VIX Options/VX Futures Spread transactions have become effective.

<u>Primary Rule Changes</u>

- <u>New CFE Rule 406B</u> – CFE is adding new Rule 406B (Inter-Exchange Spread Transactions) to accommodate Inter-Exchange Spread transactions. Below is a description of the provisions included in new Rule 406B along with related information for additional reference.
    - An Inter-Exchange Spread transaction is a transaction involving the simultaneous purchase and/or sale of one or more contracts traded on the Exchange and one or more contracts traded on a different exchange referred to as Spread Product Exchange.
    - Inter-Exchange Spread transactions in a contract traded on the Exchange are not permitted in that contract unless the rules governing that contract specify that Inter-Exchange Spread transactions are permitted in that contract. If Inter-Exchange transactions are permitted in a contract, the rules governing the contract shall set forth the specific requirements applicable to Inter-Exchange Spread transactions involving that contract under the Rules of the Exchange.
        - This provision is written generally to accommodate VIX Options/VX Futures Spread transactions as well as other types of Inter-Exchange Spread transactions that CFE may seek to permit in the future. The only specific type of Inter-Exchange Spread

transaction permitted by this submission is a VIX Options/VX Futures Spread transaction. Action by CFE to permit any additional types of Inter-Exchange Spread transactions would be effectuated through a subsequent rule amendment submission to the Commission.

- Inter-Exchange Spread Orders and transactions are processed differently than Spread Orders and transactions solely involving contracts traded on the Exchange, and thus Exchange rules relating to the processing of those Spread Orders and transactions do not apply to Inter-Exchange Spread Orders and transactions unless otherwise indicated in the rules.

- CFE Trading Privilege Holders ("TPHs"), their Related Parties, and other CFE Market Participants are required comply with the CFE rules and applicable law in relation to Inter-Exchange Spreads and with the rules of a Spread Product Exchange in relation to Inter-Exchange Spreads involving contracts traded on that Spread Product Exchange. Any violation of any of these provisions is also a violation of Rule 406B.

- Prohibited activity encompassed under CFE rules in relation to any CFE contract may also occur through any trading, practice, or conduct in any Inter-Exchange Spread in that contract, including on a Spread Product Exchange, that would be prohibited under CFE rules if it were done in that contract on CFE.

- TPHs, their Related Parties, and other CFE Market Participants are required to make available to CFE upon request in a form and manner prescribed by the Exchange and within the time frame designated by the Exchange information and their books and records regarding their activities in and related to Inter-Exchange Spreads, including on a Spread Product Exchange.

- <u>New CFE Rule 1202(s) (VIX Options/VX Futures Spreads)</u> – The Amendment adds new Rule 1202(s) to provide that VIX Options/VX Futures Spread transactions are a permitted type of Inter-Exchange Spread transaction under Rule 406B and to address specific requirements applicable to VIX Options/VX Futures Spread transactions. Below is a description of the other provisions included in new Rule 1202(s) along with related information for additional reference.

  - A VIX Options/VX Futures Spread transaction may be entered into on Cboe Options through mechanisms provided for under Cboe Options rules.

    - Cboe Options plans to initially permit VIX Options/VX Futures Spread Orders to be entered into through any one or more of the following mechanisms applicable to complex orders. A complex order is equivalent to a spread order.

      - The incoming order is matched against responses or other contra-side interest in a Complex Order Auction ("COA"), which is an auction process for complex orders.

      - The incoming order is matched against an order resting on the Complex Order Book ("COB"), which is an electronic order book for complex orders. The COB is utilized for incoming complex orders with user instructions not to initiate a COA or not eligible for COA and the remainder of any COA-eligible orders not matched by COA.

        - Paired (buy and sell) orders are submitted and matched against each other or against responses via the Complex Automated Improvement Mechanism ("C-AIM"). C-AIM is an auction process for a complex order submitted by an agent that the agent seeks to match against principal interest or a solicited complex order.

        - The incoming order is represented by a broker on the Cboe Options trading floor and matched with bids or offers on the trading floor from Cboe Options market-makers or other brokers through open outcry trading protocols. Cboe Options market-makers may also enter into VIX Options/VX Futures Spread trades with each other on the Cboe Options trading floor through open outcry trading protocols.

    - The consummation of the futures component of a VIX Options/VX Futures Spread trade on CFE would occur in the same manner regardless of which of these mechanisms is utilized on Cboe Options.

    - A VIX Options/VX Futures Spread order must be a Day order and may not be a Good-til-Cancelled or Good-til-Date order.

- Cboe Options and CFE may impose system limitations on the total number of VIX options and/or VX futures legs that may be included in a VIX Options/VX Futures Spread Order. Any such limitations shall be disseminated in a form and manner that Cboe Options and CFE determine.

- In order to submit a VIX Options/VX Futures Spread Order directly to Cboe Options or to be a party to a VIX Options/VX Futures Spread transaction on Cboe Options, the submitter or party to the transaction must be a Cboe Options User as defined under Cboe Options rules.

    - A Cboe Options User includes Cboe Options Trading Permit Holders ("Cboe Options TPHs"), including Cboe Options TPH brokers acting on behalf of sponsored users or customers.

    - CFE TPHs or market participants will be able to submit a VIX Options/VX Futures Spread order to Cboe Options:

        - if that CFE TPH or market participant is also a Cboe Options TPH; or

        - through a broker that is a Cboe Options TPH or is able to route the order through another broker that is a Cboe Options TPH.

- Any party that acts as a broker in relation to a VIX Options/VX Futures Spread Order must be registered as a Broker-Dealer and as a Futures Commission Merchant ("FCM") or Introducing Broker ("IB") or otherwise be permitted under applicable law to act in that capacity. Any individual associated with a broker that is involved in the handling of a VIX Options/VX Futures Spread Order must have any required security industry and futures industry registrations.

    - Any Cboe Options TPH that electronically submits a VIX Options/VX Futures Spread order as principal would be required to be registered with the SEC as a Broker-Dealer as a prerequisite to becoming a Cboe Options TPH and would not be required to have any futures industry registrations since there is not a futures industry registration requirement for principals that trade futures electronically.

- Any individual that enters into a VIX Options/VX Futures Spread trade on the Cboe Options trading floor in a principal capacity would be required to be a Cboe Options market-maker associated with a Broker-Dealer registered with the SEC and to have any required securities industry registrations (such as a Securities Trader that has passed the Series 57 exam) as a prerequisite of being able to trade on the Cboe Options trading floor and would not be required to have any futures industry registrations.

  - The CFTC Floor Trader registration category does not apply because a VIX Options/VX Futures Spread trade is being entered into on Cboe Options and not in a pit or other place provided by a contract market for the meeting of persons similarly engaged under the Floor Trader definition since the Cboe Options trading floor is being provided by a national securities exchange and not a contract market. (See Section 1a(23) of the Act and CFTC Regulation 1.3.)

- Any submitter of a VIX Options/VX Futures Spread Order to Cboe Options or party to a VIX Options/VX Futures Spread transaction on Cboe Options that is not also a CFE TPH must have a brokerage agreement in place with a routing broker ("Routing Broker") designated by Cboe Options for the reporting of VX futures legs of VIX Options/VX Futures Spread transactions to CFE and register with Cboe Options to enter into VIX Options/VX Futures Spread transactions utilizing the Routing Broker. A Routing Broker is required to be a CFE TPH that is registered as an FCM or IB.

  - Cboe Options will establish an arrangement with one or more Routing Brokers to route to CFE for execution the VX futures component of VIX Options/VX Futures Spread trades entered into on Cboe Options by parties that are not CFE TPHs.

  - Cboe Options will provide the Routing Broker with the information to transmit to CFE on behalf of a party to a VIX Options/VX Futures Spread trade that is not a CFE TPH.

- Any VIX Options/VX Futures Spread Order is required to include the following information relating to the VX futures component of the Order: (i) Contract identifier and quantity of each VX futures leg and whether the leg is buy or sell; (ii) Order Entry Operator ID; (iii) executing firm ID ("EFID"); (iv) account; (v) Clearing House origin code (C for Customer or F for Firm); (vi) Customer Type Indicator code; (vii) manual order indicator; and (viii) any other information required by CFE. Each cancellation and modification of a VIX Options/VX Futures Spread Order is required to include the following information relating to the VX futures component of the Order: (i) Order Entry Operator ID; (ii) EFID; (iii) manual order indicator; and (iv) any other information required by CFE.

- The VX futures leg(s) of a VIX Options/VX Futures Spread Order must provide between a minimum 10% and a maximum 125% risk offset to the VIX options leg(s) of the order with the same expiration date in the manner described below:

  - There is no limit on the number of VIX options or VX futures legs that comprise a VIX Options/VX Futures Spread Order as long as any system limitation on the number of legs and the above risk offset requirement is satisfied.

  - The risk offset is measured based on the delta values of VIX options and VX futures legs of a VIX Options/VX Futures Spread Order with the same expiration date.

- The delta value of a VIX options leg is a calculation of the expected change in the price of that VIX options contract given a $1.00 change in the price of the VX futures contract with the same expiration. The delta value of a VX futures leg is 1.

- A long position (buying a VIX option call/selling a VIX option put/buying a VX future) has a positive delta value. A short position (selling a VIX option call/buying a VIX option put/selling a VX future) has a negative delta value.

- The delta value of a VIX options leg is multiplied by 100. The delta value of a VX futures leg is multiplied by 1,000.

  - These multipliers conform to the multipliers for these products in that the multiplier of a VIX options contract is 100 and the multiplier of a VX futures contract is 1,000.

- The risk offset requirement is satisfied if after grouping together each VIX options leg and VX futures leg of a VIX Options/VX Futures Spread Order with the same expiration:

  - the VIX options leg(s) in each grouping have a delta direction that is opposite the delta direction of the VX futures leg(s) in that grouping; and

  - the overall delta of each grouping among all of the VX futures and VIX options legs in that grouping has a value that is equal to or between -0.10 and -1.25.

- For purposes of determining whether the risk offset requirement is satisfied:

  - Each VIX options leg is grouped together with the VX futures leg with the same expiration date as the expiration date of the VIX options leg.

  - If there is more than one VIX options leg in a grouping, the delta of those VIX options legs is determined.

  - If there is more than one VX futures leg in a grouping, the delta of those VX futures legs is determined.

  - The VIX options leg(s) in each grouping must have:

    - a positive delta value if the VX futures leg(s) in that grouping have a negative delta value; or

    - a negative delta value if the VX futures leg(s) in that grouping have a positive delta value.

  - The overall delta of each grouping among all of the VX futures legs and VIX options legs in that grouping is determined by taking the sum of the delta values of the VX futures legs in that grouping and dividing it by the sum of the delta values of the VIX options legs in that grouping.

- The overall delta of each grouping among all of the VX futures legs and VIX options legs in that grouping must have a value that is equal to or between -0.10 and -1.25.

- If a VX futures leg is not grouped together with any VIX options leg, that grouping does not satisfy the risk offset requirement.

- If a VIX options leg is not grouped together with any VX futures leg, that grouping does not satisfy the risk offset requirement.

- Every VIX Options/VX Futures Spread Order message, except for auction responses, must include reasonable delta values for each of the VIX options legs included in the VIX Options/VX Futures Spread Order.

- The Cboe Options trading system will validate that the risk offset requirement is satisfied for each trading day for a VIX Options/VX Futures Spread strategy type as defined by the VIX options legs and VX futures legs included in that strategy. The validation will be based on the delta values provided in the first VIX Options/VX Futures Spread Order message received by the Cboe Options trading system during that trading day for that strategy type which passes the validation. Until that validation is satisfied, the Cboe Options trading system will reject any VIX Options/VX Futures Spread Order for that strategy type that does not satisfy the risk offset requirement. Although a VIX Options/VX Futures Spread Order may be accepted for processing and execution, providing unreasonable delta values may be subject to appropriate disciplinary action.

  - If the Cboe Options trading system determines that a VIX Options/VX Futures Spread strategy satisfies the risk offset requirement, it accepts all VIX Options/VX Futures Spread Orders for that strategy for the remainder of that trading day. This prevents a situation in which a VIX Options/VX Futures Spread Order for a specific strategy is accepted on a trading day but cannot execute against VIX Options/VX Futures Spread Orders for the same strategy submitted later during that trading day because delta values have changed since the initial VIX Options/VX Futures Spread Order was submitted.

- Below is an example of a risk offset calculation for a VIX Options/VX Futures Spread Order that satisfies the risk offset requirement.

  A VIX Options/VX Futures Spread Order is submitted with the following components:

  Selling 1 VX future expiring on 12/17/25 with a delta of -1
  Buying 2 VX futures expiring on 1/21/26 with a delta of 1
  Buying 20 VIX option calls expiring on 12/17/25 with a delta of 0.40
  Buying 35 VIX options puts expiring on 1/21/26 with a delta of -0.60

  The 1 short VX future expiring on 12/17/25 is grouped with the 20 long VIX options expiring on 12/17/25 (Grouping 1)

  The 2 long VX futures expiring on 1/21/26 are grouped with the 35 short VIX options expiring on 1/21/26 (Grouping 2)

In determining the delta of each grouping, the VX futures side is the numerator in the calculation representing the risk offset and the VIX options side is the denominator in the calculation against which there is a risk offset.

The delta of Grouping 1 is (-1 x 1,000)/(20 x .40 x 100) = -1,000/800 = -1.25

The delta of Grouping 2 is (2 x 1,000)/(35 x -0.60 x 100) = -2,000/2100 = -0.95

Both groupings satisfy the risk offset requirement since the VIX options leg in each grouping has a delta direction that is opposite the delta direction of the VX futures leg in that grouping and the overall delta of each grouping has a value equal to or between -0.10 and -1.25 and thus so does the VIX Options/VX Futures Spread Order.

- Below is a second example of a risk offset calculation for a VIX Options/VX Futures Spread Order which does not satisfy the risk offset requirement.

  Assume there is an additional VX futures leg in the first example so that a VIX Options/VX Futures Spread is submitted with the following components:

  Selling 1 VX future expiring on 12/17/25 with a delta of -1
  Buying 2 VX futures expiring on 1/21/26 with a delta of 1
  Buying 20 VIX option calls expiring on 12/17/25 with a delta of 0.40
  Buying 35 VIX options puts expiring on 1/21/26 with a delta of -0.60
  Buying 1 VX future expiring on 2/18/26

  The risk offset requirement is not satisfied since the additional VX futures leg has no offsetting VIX options leg.

- Below is a third example of a risk offset calculation for a VIX Options/VX Futures Spread Order which also does not satisfy the risk offset requirement.

  Assume there is an additional VIX options leg in the above example so that a VIX Options/VX Futures Spread is submitted with the following components:

  Selling 1 VX future expiring on 12/17/25 with a delta of -1
  Buying 2 VX futures expiring on 1/21/26 with a delta of 1
  Buying 20 VIX option calls expiring on 12/17/25 with a delta of 0.40
  Buying 35 VIX options puts expiring on 1/21/26 with a delta of -0.60
  Selling 20 VIX options calls expiring on 2/18/26 with a delta of 0.50

  The risk offset requirement is not satisfied since the additional VIX options leg has no offsetting VIX futures leg

- The Exchange believes that including the risk offset requirement described above will provide market participants with sufficient flexibility to execute legitimate hedging and trading strategies subject to reasonable parameters to minimize the potential for VIX Options/VX Futures Spread transactions executed for the sole purpose of bypassing CFE's centralized market.

- The risk offset requirement described above is the initial risk offset requirement applicable to VIX Options/VX Futures Spread Orders. This risk offset requirement may be adjusted as Cboe Options and CFE gain experience with the use of the VIX Options/VX Futures Spread Order type by market participants. Any change to this risk offset or to the other specific requirements applicable to VIX Options/VX Futures Spread transactions in new Rule 1202(s) would be effectuated through a subsequent rule amendment submission to the Commission.

- The risk offset requirement may be different for Inter-Exchange Spread Orders involving other products based on the characteristics of, and interrelationship between, those products.

o The pricing of the VX futures component of a VIX options/VX Futures Spread transaction must comply with the following pricing parameter:

- The minimum increment of the net price and of the individual VX futures legs of a VIX Options/VX Futures Spread transaction is .01 index points.

  - The minimum increment of the individual VIX options legs of a VIX Options/VX Futures Spread transaction is $.01.

  - The pricing of the VIX options component of a VIX Options/VX Futures Spread transaction must comply with any other pricing parameters provided for under Cboe Options rules.

o If a party to a VIX Options/VX Futures Spread transaction entered into on Cboe Options is a both a Cboe Options User and a CFE TPH:

- that party's side of the VX futures component of the transaction is reported to CFE on behalf of that party in that party's capacity as a CFE TPH; and

- that party is the executing CFE TPH for that side of the VX futures component of the transaction on CFE.

- For purposes of CFE Clearing Member guarantees, the VX futures component of the transaction is treated as a message that has been transmitted to the CFE System by that party in that party's capacity as a CFE TPH through the use of Cboe Options as a conduit for the transmission of that message to the CFE System by that party.

o If a party to a VIX Options/VX Futures Spread transaction entered into on Cboe Options is not both a Cboe Options User and a CFE TPH:

- a Routing Broker reports that party's side of the VX futures component of the transaction to CFE as agent and broker for that party in the Routing Broker's capacity as a CFE TPH; and

- the routing broker is the executing CFE TPH for that side of the VX futures component of the transaction on CFE.

o The submission of the VX futures component of a VIX Options/VX Futures Spread transaction to CFE for execution on CFE must satisfy applicable CFE requirements, such as that:

  - ➢ required information is included in the submission;
  - ➢ submissions for both sides of the VX futures component of the transaction are received by the CFE System within time parameters designated by CFE;
  - ➢ trading in VX futures is not halted or suspended at the time that either side of the VX futures component of the transaction is received by the CFE System; and
  - ➢ each VX futures leg price is priced within any applicable VX futures price limits.

- ▪ The CFE System will reject the submission of the VX futures component of a VIX Options/VX Futures Spread transaction if the submission does not satisfy these requirements or if the VX futures component of the transaction would cause a net long (short) risk control pursuant to CFE Rule 513A(c) to be exceeded.

o If the VX futures component of a VIX Options/VX Futures Spread transaction is accepted by the CFE System:

- ▪ The VX futures component of the transaction is consummated on CFE, CFE sends fill reports for the individual VX futures legs of the trade on CFE as described below, CFE disseminates the individual VX futures legs through CFE market data with an indicator for an Inter-Exchange Spread transaction, and CFE reports the VX futures component of the transaction for clearing as separate transactions in the individual VX futures legs.

  - ➢ If a party to a VIX Options/VX Futures Spread transaction entered into on Cboe Options is both a Cboe Options User and a CFE TPH, CFE sends the fill report for the VX futures legs of the trade for that party to Cboe Options.
  - ➢ If a party to a VIX Options/VX Futures Spread trade entered into on Cboe Options is not both a Cboe Options User and a CFE TPH, CFE sends the fill report for the VX futures legs of the trade to the Routing Broker for that party and the Routing Broker sends the execution information for the VX futures legs of the trade to Cboe Options.

- ▪ The VIX options component of the transaction is consummated on Cboe Options when Cboe Options receives fill reports in conformity with Cboe Options parameters for both sides of the executions of the individual VX futures legs of the trade on CFE.

- ▪ Cboe Options sends fill reports to the Cboe Options executing parties to the trade which include the execution information for both the individual VIX options legs of the trade and the individual VX futures legs of the trade, and Cboe Options reports the VIX options component of the trade for clearing as separate transactions in the individual VIX options legs.

- ▪ If the VX futures component of a VIX Options/VX Futures Spread transaction is not accepted by the CFE System:

  - ➢ The CFE System rejects the submission of the VX futures component of the transaction, reports the rejection of the VX futures component of the transaction as described below, and the VX futures component of the transaction is not consummated.

- If a party to a VIX Options/VX Futures Spread transaction entered into on Cboe Options is both a Cboe Options User and a CFE TPH, CFE reports the rejection of the VX futures component of the trade for that party to Cboe Options.

- If a party to a VIX Options/VX Futures Spread trade entered into on Cboe Options is not both a Cboe Options User and a CFE TPH, CFE sends the rejection of the VX futures component of the trade for that party to the Routing Broker for that party and the Routing Broker sends to Cboe Options the information for the rejection of the VX futures component of the trade for that party.

➢ Cboe Options nullifies the VIX options component of the trade, sends a report of the nullification to the parties to the trade, and the VIX options component of the trade is not consummated.

o Every Person handling, executing, clearing or carrying VIX Options/VX Futures Spread transactions or positions is required to identify and mark as such by appropriate symbol or designation all VIX Options/VX Futures Spread transactions or positions and all orders, records, and memoranda pertaining thereto.

Ancillary Rule Changes

- CFE Rule Chapter 1 (Definitions) – CFE is amending Chapter 1 ("Chapter 1") of the CFE Rulebook to add defined terms for:

  o "Inter-Exchange Spread" which has the meaning set forth in new Rule 406B; and

  o "Spread Product Exchange" which as the meaning set forth in new Rule 406B(a).

- CFE Rule 308 (Consent to Jurisdiction) – Rule 308 provides that any Market Participant that is not a CFE TPH or a Related Party of a TPH is bound by and required to comply with the CFE rules listed in Rule 308(c) to the same extent that a TPH or Related Party is bound by and required to comply with those rules. CFE is revising Rule 308 to add Rule 406B to the CFE rules listed in Rule 308(c) in order to provide that Market Participants are bound by the provisions of Rule 406B.

- CFE Rule 513A (Risk Controls) – Rule 513A(d) (Net Long and Net Short Limits) provides that CFE Clearing Members have the ability to designate net long and net short limits by EFID and product for futures products. The Amendment revises Rule 513A(d) to provide that Inter-Exchange Spread transactions will be subject to and taken into account under the net long and net short limits set by Clearing Members pursuant to this risk control.

- CFE Rule 1202(p) (Daily Settlement Price) – Rule 1202(p) describes how daily settlement prices are calculated for VX futures. The first method for doing so in the hierarchy of methods for doing so described in Rule 1202(p) is through a volume weighted average price ("VWAP") calculation. Only transactions resulting from the execution of simple orders, including simple order transactions that occur when simple orders execute against a spread order, are included in the VWAP calculation and are counted for purposes of determining whether a VWAP transaction minimum and a VWAP contract minimum have been satisfied in order to utilize the VWAP calculation as the daily settlement price. The Amendment revises Rule 1202(p) to make clear that VIX Options/VX Futures Spread transactions are not included in the VWAP calculation or counted for these purposes.

- <u>Policy and Procedure III of the Policies and Procedures Section of the CFE Rulebook (Resolution of Error Trades) ("P&P III")</u> – CFE is amending P&P III to provide that the CFE Trade Desk is authorized to bust or adjust the CFE contract component(s) of an Inter-Exchange Spread transaction in the event that the Spread Product Exchange nullifies or adjusts one or more component(s) of the Inter-Exchange Spread transaction that are executed on the Spread Product Exchange.

    - CFE will retain the exclusive authority with respect to decisions involving the cancellation or adjustment of the VX futures component of a VIX Options/VX Futures Spread trade, including under the above provision.

    - CFE also retains the authority under CFE's error trade policy in P&P III to bust or adjust the VX futures component of a VIX Options/VX Futures Spread trade under other specified circumstances as well. If CFE busts the VX futures component of a VIX Options/VX Futures Spread trade, the trade would not be consummated. These circumstances include, for example:

        - if the VX futures component of a VIX Options/VX Futures Spread trade is not correctly processed by CFE's trading system due to a system malfunction (under P&P III(H));

        - when necessary to mitigate market disrupting events caused by malfunctions in CFE's trading system or errors in orders submitted by CFE TPHs and other market participants (under P&P III(I));

        - if the CFE believes that allowing the VX futures component of a VIX Options/VX Futures Spread trade to stand as executed could have a material adverse effect on the integrity of the market (under P&P III(I)); and

        - if the VX futures component of a VIX Options/VX Futures Spread trade is not accepted for clearing by OCC (under P&P III(J)).

    - CFE and Cboe Options expect to consult and coordinate in connection with decisions involving busting and adjusting Inter-Exchange Spread trades, but each exchange retains the exclusive authority to make, and will make, its own decisions in this regard.

<u>Price Competition</u>

Price competition relating to VIX Options/VX Futures Spreads through the matching mechanisms on Cboe Options will be based on net spread price and will occur in relation to the VIX options leg(s) of the spread because each VIX Options/VX Futures Spread instrument will be associated with a fixed price for each futures leg of the spread. Because the price(s) of the futures leg(s) of the spread are fixed, price competition on the net spread price will be determined by the pricing of the options leg(s) of the spread.

VIX Options/VX Futures Spreads with the same VIX options and VX futures legs but with a different fixed price for any futures leg of the spread will be different spread instruments. Market participants will determine the fixed price(s) for the futures leg(s) of the spread at which they wish to trade and those market participants wishing to trade at a different fixed price for any futures leg of the spread will be trading in a different spread instrument. Accordingly, a VIX Options/VX Futures Spread Order will only interact with contra-side orders, auction responses, or open outcry bids or offers (as applicable, depending upon the applicable Cboe Options mechanism for processing the order) that have the same fixed price(s) for the futures leg(s) of the spread.

Market Data

As part of the processing of VIX Options/VX Futures Spread trades:

- Cboe Options will disseminate through Cboe Options market data the net execution prices of VIX Options/VX Futures Spread trades in their entirety and execution prices of the individual VIX options legs of those trades with an indicator for an Inter-Exchange Spread trade.

- Cboe Options will also disseminate through Cboe Options market data information regarding pending VIX Options/VX Futures Spread Orders.

- The information regarding VIX Options/VX Futures Spread Orders and trades that is disseminated through Cboe Options market data will also be made available at no additional charge to CFE market data subscribers that elect to receive it.

    - This information will be made available to CFE market data subscribers through the creation of a separate market data channel for this information that CFE market data subscribers are permitted to access at no additional charge or in another manner as determined by Cboe Options that provides CFE market data subscribers with access to this information at no additional charge.

    - The dissemination of information regarding VIX Options/VX Futures Spread Orders and trades that is disseminated through Cboe Options market data will be made available to CFE market data subscribers in a manner so that there is not a timing difference between when the data is disseminated to Cboe Options market data subscribers and when the data is disseminated to CFE market data subscribers.

- Additionally, CFE will disseminate through CFE market data the execution prices of individual VX futures legs of VIX Options/VX Futures Spread trades with an indicator for an Inter-Exchange Spread trade.

The information that Cboe Options disseminates regarding pending VIX Options/VX Futures Spread orders will vary depending upon which of the Cboe Options mechanisms is utilized for the matching of the applicable VIX Options/VX Futures Spread Order on Cboe Options. For example, if a VIX Options/VX Futures Spread order rests in the COB, the order would be reflected in top of market and book depth information, as applicable, that Cboe Options disseminates for that VIX Options/VX Futures Spread. As another example, if a VIX Options/VX Futures Spread Order is being matched through a COA or through C-AIM, an auction message regarding the order would be disseminated to subscribers to Cboe Options market data feeds that include COA and C-AIM auction messages.

Both Cboe Options and CFE make their market data available to anyone that wishes to subscribe to receive it. This market data may be obtained directly from Cboe Data Services, LLC ("CDS"), an affiliate of Cboe Options and CFE, that makes market data available for Cboe trading venues. Parties may also subscribe to receive Cboe Options and CFE market data from third party market data vendors that obtain the market data from CDS and disseminate it to their customers that subscribe to it. Various Cboe Options, CFE, and/or CDS market data fees apply to the receipt of this information. As noted above, there will be no additional charge by Cboe Options, CFE, and/or CDS to CFE market data subscribers to receive VIX Options/VX Futures Spread Order and trade information that is disseminated through Cboe Options market data.

Clearing

VIX options and VX futures are both cleared by The Options Clearing Corporation ("OCC").

If a VIX Options/VX Futures Spread trade is consummated, CFE reports the VX futures component of the trade to OCC for clearing as separate transactions in the individual VX futures legs of the trade and Cboe Options separately reports the VIX options component of the trade to OCC for clearing as separate transactions in the individual VIX options legs of the trade. The resulting VX futures positions and VIX options positions clear separately no differently than the manner in which VX futures positions and VIX options positions are currently cleared by OCC.

The clearing of the VIX options component of a VIX Options/VX Futures Spread trade is consummated by the OCC Clearing Members designated by the parties to the trade. The clearing of the VX futures component of the trade is consummated by the OCC Clearing Members designated by a party to the trade if the party is both a Cboe Options User and CFE TPH or by the Routing Broker on behalf of a party to the trade if that party is not both a Cboe Options User and a CFE TPH.

The VX futures and VIX options positions established by a VIX Options/VX Futures Spread trade exist independently, and market participants are free to trade out of a VIX options position resulting from the trade without affecting the VX futures position resulting from the trade and vice versa.

Regulation

The VIX options component of a VIX Options/VX Futures Spread trade will be subject to the regulatory jurisdiction of the SEC, and the VX futures component of a VIX Options/VX Futures Spread trade will be subject to the regulatory jurisdiction of the CFTC. Cboe Options will regulate conduct relating to VIX Options/VX Futures Spread trades with respect to compliance with Cboe Options rules and may bring disciplinary actions for violations of Cboe Options rules. CFE will regulate conduct relating to VIX Options/VX Futures Spread trades with respect to compliance with CFE rules and may bring disciplinary actions for violations of CFE rules. Cboe Options and CFE may each bring disciplinary actions for the same conduct in relation to VIX Options/VX Futures Spread trades that violate both Cboe Options and CFE rules.

CFE will at all times remain responsible for the regulation of CFE's market, for the enforcement of CFE's rules, and for compliance with CFE's obligations under the Act and CFTC regulations. Cboe Options will not be taking on responsibilities from CFE that CFE has as a designated contract market ("DCM") and would not be a regulatory services provider for CFE. The regulatory employees that currently perform cross-market reviews for Cboe Options and CFE will perform the surveillance reviews of VIX Options/VX Futures Spread Orders and related orders and trades for both Cboe Options and CFE. These regulatory staff members report through Cboe Options Regulation and have a dotted reporting line to CFE Regulation. These regulatory staff members are joint employees of CFE and will be under the direction and control of CFE for purposes of performing these functions for CFE.

All Market Participants in VIX Options/VX Futures Spreads will be consenting to, and be subject to, CFE's jurisdiction. Market Participants in VIX Options/VX Futures Spreads will be subject to CFE jurisdiction pursuant to Rule 308(c).

Rule 308(c) provides that: "Any Person initiating or executing a transaction on or subject to the Rules of the Exchange directly or through an intermediary, and any Person for whose benefit such a transaction has been initiated or executed, expressly consents to the jurisdiction of the Exchange and agrees to be bound by and comply with the Rules of the Exchange in relation to such transactions, including, but not limited to, rules requiring cooperation and participation in investigatory and disciplinary processes. Any futures commission merchant, broker-dealer, introducing broker, associated person, or foreign Person performing a similar role, that charges a commission or fee in connection with a transaction on or subject to the rules of the Exchange also expressly consents to the Exchange's jurisdiction. Any Person subject to this Rule 308(c) shall be referred to as a 'Market Participant'."

CFE TPHs are obligated by Rule 308 to comply with all CFE rules. As described above, CFE is amending the list of rules under Rule 308(d) with which Market Participants that are not CFE TPHs are required to comply to include CFE's rule relating to Inter-Exchange Spreads (new Rule 406B). Additionally, the rule that CFE is adding to specifically address VIX Options/VX Futures Spreads (new Rule 1202(s)) will also be one of the rules with which Market Participants that are not CFE TPHs are required to comply under Rule 308(d) since those rules include every Exchange Contract Specification Chapter (which includes the VX futures contract specification rule chapter in Chapter 12 of the CFE Rulebook that includes new Rule 1202(s)). Furthermore, among the many other CFE rules listed in Rule 308(d) with which Market Participants are required to comply is CFE Rule 604 which requires compliance with applicable law, including among other things, the Act and CFTC regulations.

CFE's Inter-Exchange Spread rule in new Rule 406B provides that prohibited activity in relation to Inter-Exchange Spreads includes (i) any conduct that violates CFE's Inter-Exchange Spread rule or any other applicable CFE rule and (ii) any conduct which violates any other applicable regulatory requirements relating to Inter-Exchange Spreads, including applicable law and any applicable Cboe Options rules relating to Inter-Exchange Spreads, which conduct shall be deemed a violation of CFE's Inter-Exchange Spread rule.

New Rule 406B also provides that prohibited activity encompassed under the Rules of the Exchange in relation to any contract may also occur through any trading, practice, or conduct in any Inter-Exchange Spread in that contract, including on a Spread Product Exchange (in this case Cboe Options), that would be prohibited under the Rules of the Exchange if it were done in that contract on CFE.

The CFE rule provisions above will enable CFE to bring a CFE disciplinary action against any Market Participant that engages in violative activity in the market for VIX Options/VX Futures Spreads and/or in the VX futures market. This is in addition to any disciplinary action that Cboe Options may bring relating to that activity under Cboe Options rules.

Access to Information

CFE has rule provisions that enable CFE to request books and records and other information from CFE TPHs, their Related Parties, and Market Participants subject to CFE's jurisdiction, such as CFE Rule 702(b), which enables CFE to obtain information from these parties that is requested by CFE in connection with a regulatory investigation. Rule 702(b) applies to CFE TPHs and their Related Parties. Rule 702(b) is also applicable to Market Participants in VIX Options/VX Futures Spreads that are not CFE TPHs pursuant to Rule 308(d). Rule 308(d) lists the CFE rules with which Market Participants that are not CFE TPHs are required to comply as described above, and Chapter 7 of the CFE Rulebook (which includes Rule 702(b)) is listed under Rule 308(d).

To augment this authority even further, CFE has also added paragraph (e) to new Rule 406B which provides that CFE TPHs, their Related Parties, and Market Participants subject to CFE jurisdiction are required to make available to CFE upon request in a form and manner prescribed by the Exchange and within the time frame designated by the Exchange information and their books and records regarding their activities in and related to Inter-Exchange Spreads, including on a Spread Product Exchange (which in the case of VIX Options/VX Futures Spreads is Cboe Options). All Market Participants in VIX Options/VX Futures Spreads, including those interacting with VIX Options/VX Futures Spreads on Cboe Options, are subject to proposed Rule 406B(e).

The Regulatory teams for Cboe Options and CFE will both have access to the order, trade, regulatory, and other data and information from Cboe Options and CFE relating to Inter-Exchange Spread Orders and trades. The regulatory employees that currently perform automated surveillance and cross-market reviews for Cboe Options and CFE that currently are part of the Cboe Options regulatory team and have a dotted reporting line to CFE Regulation will perform the surveillance reviews of VIX Options/VX Futures Spread Orders and trades for both Cboe Options and CFE.

Cboe Options and CFE (along with other Cboe trading venue affiliates) maintain an Information Sharing Agreement which allows for the sharing of information between Cboe Options and CFE. CFE entered into this Information Sharing Agreement pursuant to CFE Rule 216 (Information-Sharing Agreements) which provides, in pertinent part, that the Exchange may from time to time enter into such agreements with domestic self-regulatory organizations and trading venues providing for the exchange of information and other forms of mutual assistance, including among other things, for financial surveillance, routine audits, market surveillance, investigative, enforcement, and other regulatory purposes as the Exchange may consider necessary or appropriate or as the Commission may require. The type of information that may be shared between Cboe Options and CFE under this Information Sharing Agreement encompasses information relating to Inter-Exchange Spread Orders and trades. The Information Sharing Agreement also provides that a party to the Information Sharing Agreement may provide information received from another party under the Information Sharing Agreement to a governmental agency that requests this information (which would include the CFTC and SEC).

CFE and Cboe Options will provide the CFTC and SEC with information that the CFTC or SEC may request relating to order, transaction, and other activity in VIX Options/VX Futures Spreads, VX Futures, and/or VIX options and the actions of CFE, Cboe Options, and market participants in and relating to VIX Options/VX Futures Spreads, VX Futures, and/or VIX options. To the extent that this information is Cboe Options information and is requested by the CFTC, CFE will either provide this information to the CFTC or cause Cboe Options to do so. Similarly, to the extent that this information is CFE information and is requested by the SEC, Cboe Options will either provide this information to the SEC or cause CFE to do so.

Precedent

In 1988, the SEC approved Cboe Options rules to effectuate a Joint Venture (JV) between Cboe Options (then called Chicago Board Options Exchange, Incorporated) and the Chicago Board of Trade ("CBOT"). (See SEC Release No. 34-26271 at 53 FR 46727 (November 18, 1988) ("SEC JV Approval Order").) CBOT also adopted rules with the CFTC to effectuate the JV. The JV had a number of different components, including among other things:

- The JV provided for a CBOT security index futures product to be traded in a CBOT trading pit located on the Cboe Options trading floor adjacent to trading pits for security index options products traded on Cboe Options.

- The CBOT product was the CBOE 250 Stock Index future. The JV also contemplated the same approach for a CBOT product called the CBOE 50 Stock Index future.

- The adjacent Cboe Options security index options products were Standard & Poor's 100 Stock Index ("OEX") options and Standard & Poor's 500 Stock Index ("SPX") options.

- The JV rules provided for the ability to execute spread transactions involving CBOE 250 or CBOE 50 futures traded on CBOT spread against OEX or SPX options traded on Cboe Options in a single transaction.

- Spreads in these products were executed as a single transaction and were not treated as a new product. Instead, CBOE 250 Stock Index futures continued to be listed for trading on CBOT and OEX and SPX options continued to be listed for trading on Cboe Options.

- Only Cboe Options members were permitted to execute these spread transactions on Cboe Options.

- CBOT Rule 350.02 provided for the following in relation to these spreads:

  "352.02 *Joint Venture* Intermarket and *Inter-Regulatory Spreads* – Notwithstanding any other provisions of these Rules and Regulations to the contrary, the following principles shall apply to spreading transactions involving Joint Venture Products.

  1. Futures spreads involving CBOE 50 and CBOE 250 Stock Index futures contracts may be bid or offered at a differential and if so bid or offered, such spreads may not be separated into their individual components.

  2. *Inter-Regulatory spread strategies involving CBOE 50 or CBOE 250 Stock Index futures spread against Standard and Poor's 100 or Standard and Poor's 500 options traded on the Chicago Board Options Exchange ("CBOE") may be bid or offered at a differential. If such spreads are bid or offered at a differential, they may not be separated into individual parts.* The futures side of such spreads must be priced within the daily quotation range. The price of the options side of such spreads shall not touch the best bid or offer contained in the CBOE order book but may touch but shall not go through the current best bid or offer prevailing in the trading crowd. The prices for both sides of such spreads shall be disseminated immediately and shall be identified as a spread. The price differential shall also be disseminated immediately.

3. *Inter-Regulatory spreads involving CBOE 50 and/or CBOE 250 Stock Index futures contracts spread against Standard and Poor's 100 and/or Standard and Poor's 500 options may be executed in any location in the Standard and Poor's 100 or the Standard and Poor's 500 option pit(s).*

4. Joint Venture inter-regulatory or intermarket spreads may not be used to establish opening prices for Joint Venture futures contracts."

(See the CBOT Rulebook in place as of June 1, 2001 filed as an exhibit to the CBOT SEC Form S-4 filing in connection with CBOT's demutualization in the CBOT Form S-4 filing at https://www.sec.gov/Archives/edgar/data/1161448/000095013101503846/0000950131-01-503846-index.html and CBOT Form S-4 Exhibit 4.4 with the CBOT Rulebook as of June 1, 2001 at https://www.sec.gov/Archives/edgar/data/1161448/000095013101503846/dex44.txt.) (Emphasis added).)

- As reflected in CBOT Rule 352.02, the JV rules provided, among other things, for these spread transactions involving CBOE 250 or CBOE 50 futures and OEX or SPX options to be executed on Cboe Options in the OEX or SPX options trading pit.

- The SEC JV Approval Order states: "The OEX or SPX part of the spread would be subject to the regulatory jurisdiction of the [SEC] while the CFTC would have jurisdiction over the CBOE 250 portion of the spread."

- The JV rules refer to these spread orders as Inter-Regulatory Spread Orders.

- The Cboe Options rule filing to effectuate the JV, among other things, added the following definition of an Inter-Regulatory Spread Order to the Cboe Options rules:

  "An inter-regulatory spread order is an order involving the simultaneous purchase and/or sale of at least one unit in contracts each of which is subject to different regulatory jurisdictions at stated limits, or at a stated differential, or at market prices on the floor of the Exchange."

  (See SEC Release No. 34-26155 at 53 FR 39699, 39699 (October 11, 1988).)

- This same definition of an Inter-Regulatory Spread Order remains in the Cboe Options Rulebook in Cboe Options Rule 1.1. Accordingly, the concept of an Inter-Regulatory Spread Order continues to be recognized by current Cboe Options rules, and a VIX Options/VX Futures Spread Order would be a type of Inter-Regulatory Spread Order under Cboe Options rules expanded to accommodate electronic execution.

- The JV had numerous other components, such as different trading rights that Cboe Options and CBOT members had with respect to the JV products. The key point related to the JV in this context is that there is precedent recognized by the CFTC and SEC for a spread order type involving a futures component and a security options component that is executed as a single transaction on a securities exchange where the order exposure and price discovery occurs on the securities exchange.

- The Philadelphia Stock Exchange ("PHLX") and Philadelphia Board of Trade ("PBOT") had a similar arrangement in which PBOT futures contracts were traded on the PHLX trading floor which provided for a similar spread order type that was originally adopted in 1987 involving PBOT foreign currency futures and PHLX foreign currency options. (See SEC Release No. 34-24235 at 52 FR 9750 (March 26, 1987).)

Benefits to Market

Establishing an Inter-Exchange Spread order type for VIX Options/VX Futures Spread transactions benefits the market in many ways, including among others, that doing so:

- provides for a competitive process for the execution of a VIX options order tied to a VX futures order that includes price competition, order exposure, and price discovery;

- simplifies and makes more efficient the process of executing a VIX options order hedged by a VX futures order by creating a single integrated mechanism for doing so;

- reduces execution risk, legging risk, and the risk of price drift that exists with the current multi-transaction process by, among other things:

  - reducing the risk that one side of the transaction is executed and the other side is not able to be executed; and

  - reducing the risk that the market price or liquidity on one side of the transaction becomes unfavorable during the time it takes to complete both sides of the transaction;

- enhances price transparency and price discovery by providing a mechanism for the pricing of the entire transaction versus the separate pricing that exists in a multi-transaction process;

- expands the ability to engage in hedging transactions which contributes to reducing overall market risk;

- makes it easier to engage in economically beneficial cross-product trades and strategies;

- increases access and removes barriers to entry to engage in cross-product transactions; and

- serves to increase participation in both the VIX options and VX futures markets through cross-product trades and related transactions that flow from those trades in each of those markets.

The Inter-Exchange Spread order type for VIX Options/VX Futures Spread transactions is targeted to hedging transactions and other trading strategies that involve holding both a VIX options position and a VX futures position. These transactions are not accommodated by:

- ECRP transactions which involve a narrower universe of potential transactions; or

- block trades which involve large size transactions only involving VX futures.

The Exchange believes that the increased transaction activity resulting from cross-product VIX Options/VX Futures Spread trades and related transactions that flow from these trades in both the VIX options and VX futures markets will enhance liquidity in those markets to the benefit of participants in both markets.

Potential Use Cases

Potential ways in which market participants may seek to utilize VIX Options/VX Futures Spread Orders include, among others, doing so in lieu of current behavior as described below.

- VIX options market participants may seek to hedge VIX options positions by entering into transactions on CFE's centralized market in VX futures which involve engaging in separate transactions on two different markets.
    - This process results in execution risk, legging risk, and risk of price drift arising from the separation of the execution of the VIX options position and VX futures hedge.
- VIX options market participants may seek to hedge their VIX options positions on Cboe Options using a VIX options combination ("combo") position that has the same economic exposure as a VX futures position and not hedge with VX futures.
    - A VIX options combo transaction consists of the purchase (sale) of a VIX options call and sale (purchase) of a VIX options put with the same expiration date and strike price.
    - It may be more difficult to manage a hedge consisting of VIX options combo positions than a hedge consisting of a delta-one product like VX futures.
- VIX options market participants may also seek to hedge VIX options positions using a VIX options combo position or swap in the OTC market.
    - This process is less transparent and potentially less capital efficient than utilizing VX futures to hedge and introduces single counter-party risk that does not exist with a centrally cleared product like VIX futures, which are cleared by OCC.
    - Market participants are increasingly seeking to move OTC activity onto exchanges for various reasons, such as improved risk management, transparency, more efficient margin treatment, reduced counter-party risk, standardization, efficiency of execution, and increasing regulation of OTC activity.
- Some VIX options market participants may not want to separately utilize VX futures, VIX options combo positions, or OTC VIX options or swaps to hedge because of the complexities involved in doing so.
- Liquidity providers in VIX options on Cboe Options (such as market-makers on the Cboe Options trading floor, electronic market-makers, and off-floor solicited market-makers and liquidity providers) may engage in two multi-part transactions in the course of liquidity provision and risk and capital management:
    - First, the liquidity provider enters into a transaction for a VIX options combo position when providing liquidity for a market participant looking to trade VIX options hedged by a VIX options combo position.
    - Second, the liquidity provider may choose to convert the VIX options combo position into an equivalent futures position by entering into an ECRP transaction and exchanges the VIX options combo position for a VX futures position.

The Exchange believes that allowing market participants like the above to utilize VIX Options/VX Futures Spread Orders will make the trading and hedging process more efficient, reduce risk, and expand access to hedging with VX futures, while doing so through on-exchange trading which enhances price discovery and transparency.

<u>DCM Core Principles</u>

CFE believes that the Amendment is consistent with the DCM Core Principles under Section 5 of the Act for the reasons described above and as further described below. In particular, CFE believes that the Amendment is consistent with:

- DCM Core Principle 2 (Compliance with Rules) in that:
  - CFE will have regulatory jurisdiction over parties that submit VIX Options/VX Futures Spread Orders and execute VIX Options/VX Futures spread trades.
  - Any market participant will have impartial access to submit VIX Options/VX Futures Spread orders through an appropriately registered broker or brokers.
  - CFE rules include existing prohibitions against market manipulation and fraudulent, non-competitive, and disruptive trading practices that will apply to VIX Options/VX Futures Spread Orders and trades.
  - CFE will conduct automated trade surveillance of VIX Options/VX Futures Spread Orders and trades.
  - CFE has an information sharing agreement in place with Cboe Options that will provide CFE with access to VIX options information related to VIX Options/VX Futures Spread Orders and trades.
- DCM Core Principle 3 (Contracts Not Readily Subject to Manipulation) in that:
  - The VIX Index, which is the underlier for both VIX options and VX futures, is a broad-based security index. The VIX Index is a financial benchmark designed to be market estimate of expected volatility of the S&P 500 Index.
  - The S&P 500 Index is a broad-based security index composed of a basket of the stocks of 500 of the largest companies listed on stock exchanges in the United States weighted by market capitalization which is a measure of overall U.S. stock market performance across a broad set of industries and companies.
  - The SEC and CFTC stated in the joint SEC/CFTC order under which the VIX Index qualifies as a broad-based security index that "the Commissions believe that futures contracts on indexes that satisfy the conditions of [the order] should not be readily susceptible to manipulation . . . ." (See SEC Release 34-49469 at 69 FR 16900, 16,901 (March 31, 2004).).
- DCM Core Principle 4 (Prevention of Market Disruption) in that:
  - VIX Options/VX Futures Spread trades will be subject to:

        - trading halt provisions on CFE and Cboe Options, such as market-wide circuit breaker trading halts if the S&P 500 Index declines 7%, 13%, or 20% during regular trading hours;

        - VX futures price limit provisions during extended trading hours which generally prevent trades 70% above and 30% below the prior daily settlement price and will apply to each VX futures leg of a VIX Options/VX Futures Spread trade; and

        - VIX options trading halt provisions during global trading hours, including VIX options trading halts when E-Mini S&P 500 Index futures traded on Chicago Mercantile Exchange are in a limit state.

    - The Exchange believes that these provisions will contribute to reducing the potential risk of market disruption from VIX Options/VX Futures Spread trades.

    - CFE will have the authority to obtain information as needed in the performance of CFE regulatory functions relating to VIX Options/VX Futures Spread Orders and trades through authority under CFE rules.

- DCM Core Principle 5 (Position Limitations or Accountability) in that the VX futures component of a VIX Options/VX Futures Spread trade will be subject to CFE's current position accountability provisions and levels applicable to VX futures.

- DCM Core Principle 6 (Emergency Authority) in that CFE's emergency authority would apply with respect to VIX Options/VX Futures Spread Orders and trades and CFE would confer and coordinate with Cboe Options as appropriate in any exercise of this authority.

- DCM Core Principle 7 (Availability of General Information) in that CFE will describe in its rules pertinent information regarding Inter-Exchange Spreads and the requirements applicable to VIX Options/VX Futures Spread Orders and trades.

- DCM Core Principle 8 (Daily Publication of Trading Information) in that:

    - CFE will disseminate through CFE market data the price and size of each VIX futures leg of a VIX Options/VX Futures Spread trade with an indicator for an Inter-Exchange Spread transaction.

    - CFE will include the trading volume from the VX futures components of VIX Options/VX Futures Spread trades within the VIX futures trading volume information and as a separate daily amount of VX futures trading volume as part of the information that CFE makes publicly available on a daily basis on CFE's website under CFTC Regulation 16.01.

- DCM Core Principle 9 (Execution of Transactions) in that:

    - Core Principle 9 requires a board of trade to provide a competitive, open, and efficient market and mechanism for executing transactions that protects the price discovery process of trading in the centralized market of the board of trade.

    - The CFTC stated the following in relation to Core Principle 9 in its proposed rulemaking in 2010 regarding the core principles applicable to DCMs (which included proposed regulations relating to Core Principle 9 that the CFTC subsequently determined not to adopt at that time):

> "The Commission notes that, *while amended Core Principle 9 recognizes the primacy of trading on the centralized market for price discovery, it does not bar off exchange transactions. Congress reaffirmed that the rules of the DCM may authorize bona fide off-exchange transactions. Thus, in implementing the provisions of the Dodd-Frank Act, the Commission seeks to protect the price discovery process of trading on the DCM's centralized market while permitting DCMs to authorize off-exchange transactions where necessary and appropriate for bona fide business purposes.* Accordingly, the Commission's proposal provides for permissible off-exchange transactions, but only to the extent that such transactions do not compromise the price discovery process of trading in the centralized market. If off-exchange transactions become the exclusive or predominant method of establishing or offsetting positions in a particular market, the price discovery process in the centralized market will be jeopardized." (See CFTC Notice of Proposed Rulemaking Regarding Core Principles and Other Requirements for Designated Contract Markets at 75 FR 80572, 80588 (December 22, 2010) (Emphasis added).)

- A competitive, open, and efficient market and mechanism for executing VIX Options/VX Futures Spreads will exist through the execution mechanisms for VIX Options/VX Futures Spread transactions.

- The price discovery process of trading in CFE's centralized market will not be detrimentally impacted.

  - The Exchange does not expect that VIX Options/VX Futures Spreads will become a predominant method of executing VX futures transactions.

  - VIX Options/VX Futures Spread transactions will have risk offset requirements to minimize the potential for VIX Options/VX Futures Spread transactions to be executed for the sole purpose of bypassing CFE's centralized market.

- VIX Option/VX Futures Spreads have a bona fide business purpose to provide for a more efficient mechanism to execute cross-product transactions in a manner that reduces risk to market participants and facilitates hedging and other trading strategies.

- Core Principle 9 also provides that a board of trade may authorize under its rules certain enumerated types of off-exchange transactions for bona fide business purposes, including among others, an exchange of futures in connection with a cash commodity transaction. The Exchange believes that VIX Options/VX Futures Spreads fit within this type of transaction.

- Although Core Principle 9 was not in place at the time of the JV, CFTC Regulation 1.38 was in place at that time and contained comparable provisions to those included in current Core Principle 9.

- Regulation 1.38 currently provides, and provided at that time, in pertinent part, that:

> *"All purchases and sales of any commodity for future delivery*, and of any commodity

option, on or subject to the rules of a contract market *shall be executed openly and competitively by open outcry or posting of bids and offers or by other equally open and competitive methods*, in the trading pit or ring or similar place provided by the contract market, during the regular hours prescribed by the contract market for trading in such commodity or commodity option: Provided, however, That *this requirement shall not apply to transactions which are executed non-competitively in accordance with written rules of the contract market* which have been submitted to and approved by the Commission, specifically providing for the non-competitive execution of such transactions." (Emphasis added)

- Since the CFTC permitted CBOT to provide for inter-regulatory spreads and Regulation 1.38 was in place at the time, this suggests that the CFTC was comfortable that inter-regulatory spreads were not inconsistent with Regulation 1.38 (and thus were not inconsistent with comparable provisions to those included in current Core Principle 9).

- The CFTC further demonstrated that it found inter-regulatory spreads to be acceptable in its proposed rulemaking in 2008 regarding Regulation 1.38 and Core Principle 9.

- Although this rulemaking was ultimately not adopted, the CFTC proposed in it to revise Regulation 1.38 and the Acceptable Practices and Guidance under Core Principle 9 to explicitly recognize inter-exchange spread transactions as one of the types of transactions that may be executed off the centralized market of a DCM.

- This proposed rulemaking was issued twenty years after the JV when electronic trading was prevalent in the futures markets reflecting that the concept of an inter-exchange spread has applicability in the context of both open outcry trading and electronic trading.

- Specifically, the CFTC proposed in the 2008 rulemaking to amend Regulation 1.38(b)(1) to read as follows:

  Notwithstanding paragraph (a) of this section, transactions may be executed off the centralized market, including by transfer trades, office trades, block trades, *inter-exchange spread transactions*, or trades involving the exchange of futures for commodities or for derivatives positions, *if transacted in accordance with written rules of a contract market that provide for execution away from the centralized market and that have been certified to or approved by the Commission*. Every person handling, executing, clearing, or carrying the trades, transactions or positions described in this paragraph shall comply with the rules of the appropriate contract market and derivatives clearing organization, including to identify and mark by appropriate symbol or designation all such transactions or contracts and all orders, records, and memoranda pertaining thereto. (See CFTC Notice of Proposed Rulemaking Regarding Execution of Transactions: Regulation 1.38 and Guidance on Core Principle 9 at 73 FR 54097, 54104 (September 18, 2008) ("Core Principle 9 NPRM") (Emphasis added).)

- Additionally, the CFTC proposed in the Core Principle 9 NPRM to include an Acceptable Practice and Guidance under Core Principle 9 which read as follows:

  - Acceptable Practice:

    "Allowable trades. *Acceptable transactions off the centralized market include:*

> transfer trades, office trades, block trades, *inter-exchange spread transactions* or trades involving the exchange of futures for commodities or for derivatives positions, *if transacted in accordance with written rules of a contract market that specifically provide for execution away from the centralized market and that have been certified to or approved by the Commission*. (Core Principle 9 NPRM at 73 FR 54097, 54105) (Emphasis added)

- Guidance:

> *In order to facilitate the execution of transactions, transactions may be executed off the centralized market, including by* transfer trades, office trades, block trades, *inter-exchange spread transactions*, or trades involving the exchange of futures for a commodity or for a derivatives position, *if transacted in accordance with written rules of a contract market that specifically provide for execution of such transactions away from the centralized market and that have been certified to or approved by the Commission*. (Core Principle 9 NPRM at 73 FR 54097, 54104) (Emphasis added)

- Based on the foregoing, the Exchange believes the CFE is authorized to permit Inter-Exchange Spreads under Core Principle 9 in that they are authorized and governed by CFE rules, they have a bona fide business purpose, the Exchange does not expect them to become a predominant method of executing VX Futures transactions or to compromise the price discovery process of trading in CFE's centralized market, and they have previously been recognized as an acceptable form of off-exchange transaction that may be authorized by a DCM.

- A VIX Options/VX Futures Spread transaction may be entered into on Cboe Options through mechanisms provided for under Cboe Options rules. However, neither the VIX options component of the trade nor the VX futures component of the trade is consummated until the VX futures component of the trade is reported to and executed on CFE and unless the trade satisfies separate requirements under CFE rules.

- The consummation of the VX futures component of a VIX Options/VX Futures Spread trade on CFE will be patterned after the reporting and submission to CFE of a block trade or ECRP transaction. Like a block trade or ECRP transaction, CFE will treat the VX futures component of a VIX Options/VX Futures Spread trade as an off-exchange transaction. Thus, a VIX Options/VX Futures Spread trade is not a block trade or an ECRP transaction but rather is another type of off-exchange transaction that is patterned after and treated similarly to a block trade or an ECRP transaction.

- With a block trade or ECRP transaction, the transaction is executed away from CFE as an off-exchange transaction, but the transaction needs to be reported to CFE and pass certain validations required by CFE rules in order for the transaction to be consummated. For example, submissions for both sides of the transaction must be received by CFE within designated time parameters, submissions for both sides of the transaction must include required information, the applicable CFE product must not have been halted or suspended at the time of agreement to the transaction, and each side of the CFE component of the transaction must be within the CFE net long/net short risk control set by the CFE Clearing Member that will clear that side of the transaction. If any of these validations is not passed, CFE rejects the block trade or ECRP transaction submission and the transaction is not consummated. These validations are in addition to requirements that must be satisfied under CFE rules relating to these types of transactions, such as reporting time frames and pricing parameters.

- Similarly, with a VIX Options/VX Futures Spread trade, the transaction will be entered into on Cboe Options and away from CFE as an off-exchange transaction, but the VX futures component of the transaction needs to be reported to CFE and pass certain validations required by CFE rules in order for the VX futures component of the trade to be executed on CFE and for the VIX Options/VX Futures Spread trade to be consummated. If any of these validations is not passed, CFE rejects the submission of the VX futures component of the trade and both the VX futures and VIX options components of the trade are not consummated.

- The requirements provided for under CFE rules that a VIX Options/VX Futures Spread trade must satisfy in order to be consummated include, among others:

  - Specific information required by CFE must be included in the orders being executed as part of the VIX Options/VX Futures Spread trade.

    - In particular, any VIX Options/VX Futures Spread Order is required to include the following information relating to the VX futures component of the Order: (i) Contract identifier and quantity of each VX futures leg and whether the leg is buy or sell; (ii) Order Entry Operator ID; (iii) EFID; (iv) account; (v) Clearing House origin code (C for Customer or F for Firm); (vi) Customer Type Indicator code; (vii) manual order indicator; and (viii) any other information required by CFE.

    - Similarly, each cancellation and modification of a VIX Options/VX Futures Spread Order is required to include the following information relating to the VX futures component of the Order: (i) Order Entry Operator ID; (ii) EFID; (iii) manual order indicator; and (iv) any other information required by CFE.

  - The VIX Options/VX Futures Spread trade must satisfy the risk offset requirement for these transactions in that the VX futures leg(s) of a VIX Options/VX Futures Spread Order must provide between a minimum 10% and a maximum 125% risk offset to the VIX options leg(s) of the order with the same expiration date in the manner provided for under CFE rules.

  - Each side of the VX futures component of a VIX Options/VX Futures Spread trade must be within the CFE net long/net short risk control set by the CFE Clearing Member that will clear that side of the transaction.

  - Submissions for both sides of the VX futures component of a VIX Options/VX Futures Spread trade must be received by CFE within designated time parameters.

  - Submissions for both sides of the VX futures component of a VIX Options/VX Futures Spread trade must include required information.

  - VX futures must not be halted or suspended at the time that either side of the VX futures component of the VIX Options/VX Futures Spread trade is received by the CFE System.

- Additionally, there are other requirements as described above included in CFE rules which apply to VIX Options/VX Futures Spread trades. For example:

    - Any party that acts a broker in relation to a VIX Options/VX Futures Spread Order must be registered as a Broker-Dealer and as an FCM or IB or otherwise be permitted under applicable law to act in that capacity.

    - Any individual associated with a broker that is involved in the handling of a VIX Options/VX Futures Spread Order must have any required security industry and futures industry registrations.

    - Consistent with CFTC Regulation 1.38, CFE rules regarding Inter-Exchange Spreads require every person handling, executing, clearing, or carrying Inter-Exchange Spread trades or positions to identify and mark as such by appropriate symbol or designation all Inter-Exchange Spread trades or positions and all orders, records, and memoranda pertaining thereto.

- Accordingly, like with block trades and ECRP transactions, CFE has rule provisions which govern the manner in which VIX/VX Futures Spread trades may be consummated and reported to CFE.

- DCM Core Principle 10 (Trade Information) in that CFE will maintain information relating to the VX futures legs of VIX Options/VX Futures trades as part of its audit trail and this information will be accessible to CFE Regulation for regulatory purposes.

- DCM Core Principle 11 (Financial Integrity of Transactions) in that:

    - The VX futures legs of VIX Options/VX Futures Spread trades will be cleared by OCC, which is registered with the CFTC as a derivatives clearing organization ("DCO") and is subject to the provisions of the Act and CFTC regulations relating to DCOs.

    - Each VX futures transaction, including a VX futures transaction that occurs as part of a VIX Options/VX Futures Spread trade, is guaranteed by a CFE Clearing Member.

    - The VX futures legs of VIX Options/VX Futures Spread trades are subject to CFE's net long/net short pre-trade risk control set by CFE Clearing Members that will enable Clearing Members to facilitate the management of their financial risk in relation to the VX futures component of VIX Options/VX Futures Spread trades by the CFE TPHs for which they act as a Clearing Member.

- DCM Core Principle 12 (Protection of Markets and Market Participants) in that CFE rules include existing prohibitions against abusive practices, including abusive practices committed by a party acting as an agent for a participant, that will apply in relation to VIX Options/VX Futures Spread Orders and trades.

- DCM Core Principle 13 (Disciplinary Procedures) in that CFE maintains disciplinary procedures and rules that authorize CFE to discipline TPHs, their Related Parties, and other CFE Market Participants that commit CFE rule violations, including any rule violations relating to VIX Options/VX Futures Spread Orders and trades.

- DCM Core Principle 14 (Dispute Resolution) in that CFE rules provide a mechanism for TPHs, their Related Parties, and other CFE Market Participants to arbitrate disputes that arise out of transactions executed on or subject to the rules of CFE, which will apply with respect to VIX Options/VX Futures Spread Orders and trades.

- DCM Core Principle 16 (Conflicts of Interest) in that:

  - CFE and Cboe Options expect to consult and coordinate in connection with decisions involving VIX Options/VX Futures Spread trades, but each exchange retains the exclusive authority to make, and will make, its own decisions in this regard.

  - Therefore, there will not need to be a resolution of any difference in decisions or approach as each exchange retains the ability to make its owns decisions and to act independently as to its own products and market.

  - That said, CFE believes that there are unlikely to be situations in which CFE and Cboe Options are not in agreement as to how best to approach a particular situation or issue with regard to VIX Options/VX Futures Spread trades. Among other commonalities, CFE and Cboe Options are each wholly owned by the same parent company; have the same composition of their respective Boards of Directors, which meet jointly; and share the same executive management, including the same Chief Executive Officer, President, General Counsel, Chief Regulatory Officer, and Chief Compliance Officer.

- DCM Core Principle 18 (Recordkeeping) in that CFE's recordkeeping procedures, established pursuant to CFTC Regulation 1.31, will apply with respect to CFE records relating to VIX Options/VX Futures Spread Orders and trades, including trade records and investigatory and disciplinary files.

- DCM Core Principle 19 (Antitrust Considerations) in that:

  - The creation of the VIX Options/VX Futures Spread Order type serves to:

    - increase access and remove barriers to entry to engage in cross-product transactions between VIX options and VX futures; and

    - increase participation in both the VIX options and VX futures markets through cross-product trades and related transactions that flow from those trades in each of those markets.

  - The increased access serves to increase competition within the VIX options and VX futures markets and the increased transaction activity and liquidity serves to increase competition with competitive products offered on other futures and options exchanges and in the OTC market.

- DCM Core Principle 20 (System Safeguards) in that:

  - CFE will conduct internal testing and testing with Cboe Options and external parties prior to the implementation of the changes to the CFE System necessary to accommodate VIX Options/VX Futures Spread Orders and trades.

- CFE maintains system safeguards controls and procedures for its operations and automated systems that will be utilized to facilitate the processing of VIX Options/VX Futures Spread trades.

CFE believes that the impact of the Amendment will be beneficial to the public and market participants. CFE is not aware of any substantive opposing views to the Amendment. CFE hereby certifies that the Amendment complies with the Act and the regulations thereunder. CFE further certifies that CFE has posted a notice of pending certification with the Commission and a copy of this submission on CFE's website (http://www.cboe.com/us/futures/regulation/rule_filings/cfe/) concurrent with the filing of this submission with the Commission.

Contact Information

Questions regarding this submission may be directed to Arthur Reinstein at (312) 786-7570. Please reference our submission number CFE-2025-021 in any related correspondence.

Cboe Futures Exchange, LLC

/s/ Catherine Clay

By: Catherine Clay
Senior Managing Director

EXHIBIT 1

The Amendment, marked to show additions in underlined text and deletions in ~~stricken~~ text, consists of the following:

* * * * *

Cboe Futures Exchange, LLC
Rulebook

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CHAPTER 1
DEFINITIONS

* * * * *

Inter-Exchange Spread

The term "Inter-Exchange Spread" has the meaning set forth in Rule 406B.

* * * * *

Spread Product Exchange

The term "Spread Product Exchange" has the meaning set forth in Rule 406B(a).

* * * * *

308. Consent to Exchange Jurisdiction

(a) By accessing, or entering any Order into, the CFE System, and without any need for any further action, undertaking or agreement, a Trading Privilege Holder or Authorized Trader agrees (i) to be bound by, and comply with, the Rules of the Exchange, the Rules of the Clearing Corporation and Applicable Law, in each case to the extent applicable to it, and (ii) to become subject to the jurisdiction of the Exchange with respect to any and all matters arising from, related to, or in connection with, the status, actions or omissions of such Trading Privilege Holder or Authorized Trader.

(b) Any Trading Privilege Holder or Authorized Trader whose Trading Privileges are revoked or terminated, whether pursuant to Rule 307 or Chapter 7, shall remain bound by the Rules of the Exchange, the Rules of the Clearing Corporation and Applicable Law, in each case to the extent applicable to it, and subject to the jurisdiction of the Exchange with respect to any and all matters arising from, related to, or in connection with, the status, actions or omissions of such Trading Privilege Holder or Authorized Trader prior to such revocation or termination.

(c) Any Person initiating or executing a transaction on or subject to the Rules of the Exchange directly or through an intermediary, and any Person for whose benefit such a transaction has been initiated or executed, expressly consents to the jurisdiction of the Exchange and agrees to be bound by and comply with the Rules of the Exchange in relation to such transactions, including, but not limited to, rules requiring cooperation and participation in investigatory and disciplinary processes. Any futures commission merchant, broker-dealer, introducing broker, associated person, or foreign Person performing a similar role, that charges a commission or fee in connection with a transaction on or subject to the rules of the Exchange also expressly consents to the Exchange's jurisdiction. Any Person subject to this Rule 308(c) shall be referred to as a "Market Participant".

(d) Any Market Participant that is not a Trading Privilege Holder or Related Party is bound by and required to comply with the following Rules of the Exchange for purposes of Rule 308(c) to the same extent that a Trading Privilege Holder or Related Party is bound by and required to comply with those Rules of the Exchange: Rules 219, 303A(d)(iii), 303A(d)(iv), 306, 307, 308, 309, 310(a), 401, 402, 404, 404A, 405, 405A, 406, 406A, 406B, 407, 408, 409, 410, 411, 412, 412A, 412B(b), 413, 414, 415, 416, 417, 418, 419, 420, 501(c), 511, 512A, 516, 517, 601, 602, 603, 604, 606, 608, 609(b), 610, 611, 612, 613, 614, 615, 616, 617, 618, 619, and 620, Chapter 7, Chapter 8, Chapter 9, Chapter 10, Rule 1104, every Exchange Contract Specification Chapter, Exchange Policy and Procedures III, IV, XII, XIX, XX and XVIII and the Exchange Fee Schedule.

(e) For the avoidance of doubt:

(i) Every Authorized Reporter for Exchange of Contract for Related Position transactions and Block Trades shall be deemed a Market Participant.

(ii) A Market Participant is bound by and required to comply with the Rules of the Exchange set forth in Rule 308(d) to the same extent that a Trading Privilege Holder or Related Party is bound by and required to comply with those provisions regardless of whether or not those provisions reference Market Participants.

(f) A Trading Privilege Holder or Market Participant remains obligated to comply with the Rules of the Exchange, the Rules of the Clearing Corporation and Applicable Law, in each case to the extent applicable to that party, regardless of any use of a third party to assist the Trading Privilege Holder or Market Participant with that compliance and regardless of any non-performance by the third party in providing that assistance.

* * * * *

406B. Inter-Exchange Spread Transactions

(a) An Inter-Exchange Spread transaction is a transaction involving the simultaneous purchase and/or sale of one or more Contracts traded on the Exchange and one or more contracts traded on a different exchange (a "Spread Product Exchange").

(b) Inter-Exchange Spread transactions in a Contract traded on the Exchange are not permitted in that Contract unless the rules governing that Contract specify that Inter-Exchange Spread transactions are permitted in that Contract. If Inter-Exchange transactions are permitted in a Contract, the rules governing the Contract shall set forth the specific requirements applicable to Inter-Exchange Spread transactions involving that Contract under the Rules of the Exchange. Inter-Exchange Spread Orders and transactions are processed differently than Spread Orders and transactions solely involving Contracts traded on the Exchange, and thus Exchange rules relating to the processing of those Spread Orders and transactions do not apply to Inter-Exchange Spread Orders and transactions unless otherwise indicated.

(c) Trading Privilege Holders, Related Parties and Market Participants shall comply with the Rules of the Exchange and Applicable Law in relation to Inter-Exchange Spreads and with the rules of a Spread Product Exchange in relation to Inter-Exchange Spreads involving contracts traded on that Spread Product Exchange. Any violation of any of these provisions is also a violation of this Rule 406B.

(d) Prohibited activity encompassed under the Rules of the Exchange in relation to any Contract may also occur through any trading, practice or conduct in any Inter-Exchange Spread in that Contract, including on a Spread Product Exchange, that would be prohibited under the Rules of the Exchange if it were done in that Contract on the Exchange.

(e) Trading Privilege Holders, Related Parties and Market Participants shall make available to the Exchange upon request in a form and manner prescribed by the Exchange and within the time frame designated by the Exchange information and their books and records regarding their activities in and related to Inter-Exchange Spreads, including on a Spread Product Exchange.

* * * * *

513A. Risk Controls

(a) - (c) No changes.

(d) *Net Long and Net Short Limits*.

(i) Clearing Members shall have the ability to designate net long and net short limits by EFID and product for Futures products.

(ii) The number of contracts that are counted against a net limit on contracts bought (or sold) per Business Day is calculated by (i) determining the sum of the total contract size of currently resting buy (or sell) Orders and the total contract size of previous buy (or sell) executions during the Business Day and (ii) reducing that sum by the total contract size of previous executions during that Business Day on the opposite side. Resting Stop Limit Orders are counted as currently resting Orders for this purpose. For Spread Orders, the contract size of each individual leg is counted for this purpose.

(iii) The CFE System shall reject or cancel back to the sender any incoming Order that, if it were to be accepted, would cause a net limit on the number of contracts bought (or sold) per Business Day to be exceeded when added to the number of contracts already counted against the limit. If the CFE System receives a Cancel Replace/Modify Order that, if the cancellation were to be processed and the Order were to be accepted, would cause a net limit on the number of contracts bought (or sold) per Business Day to be exceeded when added to the number of contracts already counted against the limit, the CFE System will process the cancellation and will reject or cancel back to the sender the replacement Order.

(iv) Block Trades, ~~and~~ Exchange of Contract for Related Position transactions and Inter-Exchange Spread transactions shall be subject to and taken into account under net long and net short limits.

(v) Net long and net short limits will collectively apply to non-TAS contracts in VX and VXM futures (with ticker symbols VX and VXM) and will separately collectively apply to TAS contracts in VX and VXM futures (with ticker symbols VXT and VXMT). For this purpose:

(A) Order and execution quantities in VX and VXM contracts will be aggregated. One VXM futures contract shall be deemed to be equivalent to one tenth (0.10) of one VX futures contract.

(B) Order and execution quantities in VXT and VXMT contracts will be aggregated. One VXMT futures contract shall be deemed to be equivalent to one tenth (0.10) of one VXT futures contract.

(vi) When changing a net limit, a Clearing Member may designate whether the change will go into effect immediately or at the beginning of the next Business Day. The new net limit will not be applied to any pending Orders received by the CFE System prior to the effectiveness of the change, except that subsequent executions of those Orders will be counted in connection with determining whether the new net limit would be exceeded by a subsequent Order. If a pending Order is modified subsequent to the effectiveness of a change to a net limit, the new net limit will be applied in relation to the modified Order.

(e) - (o) No changes.

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1202. Contract Specifications

(a) - (o) No changes.

(p) *Daily Settlement Price*. The daily settlement price for a VX futures Contract is calculated in the following manner for each Business Day:

(i) No changes.

(ii) *VWAP*

(A) – (B) No changes.

(C) For purposes of determining a daily settlement price for a VX futures Contract:

(1) The Measurement Interval is the final 60 seconds prior to the Daily Settlement Time for VX futures.

(2) The VWAP Transaction Minimum is 1 Qualifying Transaction.

(3) The VWAP Contract Minimum is 50 Qualifying Contracts Traded.

(4) The following describes the types of transactions that constitute Qualifying Transactions and Qualifying Contracts Traded:

(aa) Only transactions resulting from the execution of simple Orders, including simple Order transactions that occur when simple Orders execute against a Spread Order, are included in the VWAP calculation and are counted for purposes of determining whether the VWAP Transaction Minimum and the VWAP Contract Minimum have been satisfied.

(bb) Transactions involving the execution of a Spread Order against another Spread Order, VIX Options/VX Futures Spread Order transactions, Trade at Settlement transactions, Exchange of Contract for Related Position transactions and Block Trades are not included in the VWAP calculation and are not counted for purposes of determining whether the VWAP Transaction Minimum and the VWAP Contract Minimum have been satisfied.

(D) No changes.

(iii) - (vii) No changes.

(q) - (r) No changes.

(s) *VIX Options/VX Futures Spreads*. VIX Options/VX Futures Spread transactions involving options on the Cboe Volatility Index ("VIX options") traded on Cboe Options and VX futures traded on CFE are a permitted type of Inter-Exchange Spread transaction under Rule 406B and may be executed in accordance with the following provisions.

(i) A VIX Options/VX Futures Spread transaction may be entered into on Cboe Options through mechanisms provided for under Cboe Options rules.

(ii) Cboe Options and CFE may impose system limitations on the total number of VIX options and/or VX futures legs that may be included in a VIX Options/VX Futures Spread Order. Any such limitations shall be disseminated in a form and manner that Cboe Options and CFE determine.

(iii) In order to submit a VIX Options/VX Futures Spread Order directly to Cboe Options or to be a party to a VIX Options/VX Futures Spread transaction on Cboe Options, the submitter or party to the transaction must be a Cboe Options User as defined under Cboe Options rules.

(iv) Any party that acts as a broker in relation to a VIX Options/VX Futures Spread Order must be registered as a Broker-Dealer and as a Futures Commission Merchant or Introducing Broker or otherwise be permitted under Applicable Law to act in that capacity. Any individual associated with a broker that is involved in the handling of a VIX Options/VX Futures Spread Order must have any required security industry and futures industry registrations.

(v) Any submitter of a VIX Options/VX Futures Spread Order to Cboe Options or party to a VIX Options/VX Futures Spread transaction on Cboe Options that is not also a CFE Trading Privilege Holder must have a brokerage agreement in place with a routing broker (a "Routing Broker") designated by Cboe Options for the reporting of VX futures legs of VIX Options/VX Futures Spread transactions to CFE and register with Cboe Options to enter into VIX Options/VX Futures Spread transactions utilizing the Routing Broker. A Routing Broker is required to be a CFE Trading Privilege Holder that is registered as a Futures Commission Merchant or Introducing Broker.

(vi) Any VIX Options/VX Futures Spread Order shall include the following information relating to the VX futures component of the Order: (i) Contract identifier and quantity of each VX futures leg and whether the leg is buy or sell; (ii) Order Entry Operator ID; (iii) EFID; (iv) account; (v) Clearing House origin code (C for Customer or F for Firm); (vi) Customer Type Indicator code; (vii) manual order indicator; and (viii) any other information required by CFE. Each cancellation and modification of a VIX Options/VX Futures Spread Order shall include the following information relating to the VX futures component of the Order: (i) Order Entry Operator ID; (ii) EFID; (iii) manual order indicator; and (iv) any other information required by CFE.

(vii) The VX futures leg(s) of a VIX Options/VX Futures Spread Order must provide between a minimum 10% and a maximum 125% risk offset to the VIX options leg(s) of the Order with the same expiration date in the manner described below:

(A) There is no limit on the number of VIX options or VX futures legs that comprise a VIX Options/VX Futures Spread Order as long as any system limitation on the number of legs and the above risk offset requirement is satisfied.

(B) The risk offset is measured based on the delta values of VIX options and VX futures legs of a VIX Options/VX Futures Spread Order with the same expiration date.

(1) The delta value of a VIX options leg is a calculation of the expected change in the price of that VIX options contract given a $1.00 change in the price of the VX futures contract with the same expiration. The delta value of a VX futures leg is 1.

(2) A long position (buying a VIX option call/selling a VIX option put/buying a VX future) has a positive delta value. A short position (selling a VIX option call/buying a VIX option put/selling a VX future) has a negative delta value.

(3) The delta value of a VIX options leg is multiplied by 100. The delta value of a VX futures leg is multiplied by 1,000.

(C) The risk offset requirement is satisfied if after grouping together each VIX options leg and VX futures leg of a VIX Options/VX Futures Spread Order with the same expiration:

(1) the VIX options leg(s) in each grouping have a delta direction that is opposite the delta direction of the VX futures leg(s) in that grouping; and

(2) the overall delta of each grouping among all of the VX futures and VIX options legs in that grouping has a value that is equal to or between -0.10 and -1.25.

(D) For purposes of determining whether the risk offset requirement is satisfied:

(1) Each VIX options leg is grouped together with the VX futures leg with the same expiration date as the expiration date of the VIX options leg.

(2) If there is more than one VIX options leg in a grouping, the delta of those VIX options legs is determined.

(3) If there is more than one VX futures leg in a grouping, the delta of those VX futures legs is determined.

(4) The VIX options leg(s) in each grouping must have:

(aa) a positive delta value if the VX futures leg(s) in that grouping have a negative delta value; or

(bb) a negative delta value if the VX futures leg(s) in that grouping have a positive delta value.

(5) The overall delta of each grouping among all of the VX futures legs and VIX options legs in that grouping is determined by taking the sum of the delta values of the VX futures legs in that grouping and dividing it by the sum of the delta values of the VIX options legs in that grouping.

(6) The overall delta of each grouping among all of the VX futures legs and VIX options legs in that grouping must have a value that is equal to or between -0.10 and -1.25.

(7) If a VX futures leg is not grouped together with any VIX options leg, that grouping does not satisfy the risk offset requirement.

(8) If a VIX options leg is not grouped together with any VX futures leg, that grouping does not satisfy the risk offset requirement.

(E) Every VIX Options/VX Futures Spread Order message, except for auction responses, must include reasonable delta values for each of the VIX options legs included in the VIX Options/VX Futures Spread Order.

(F) The Cboe Options trading system will validate that the risk offset requirement is satisfied for each trading day for a VIX Options/VX Futures Spread strategy type as defined by the VIX options legs and VX futures legs included in that strategy. The validation will be based on the delta values provided in the first VIX Options/VX Futures Spread Order message received by the Cboe Options trading system during that trading day for that strategy type which passes the validation. Until that validation is satisfied, the Cboe Options System will reject any VIX Options/VX Futures Spread Order for that strategy type that does not satisfy the risk offset requirement. Although a VIX Options/VX Futures Spread Order may be accepted for processing and execution, providing unreasonable delta values may be subject to appropriate disciplinary action.

(viii) The minimum increment of the net price and of the individual VX futures legs of a VIX Options/VX Futures Spread transaction is .01 index points.

(ix) If a party to a VIX Options/VX Futures Spread transaction entered into on Cboe Options is a both a Cboe Options User and a CFE Trading Privilege Holder:

(A) that party's side of the VX futures component of the transaction is reported to CFE on behalf of that party in that party's capacity as a CFE Trading Privilege Holder; and

(B) that party is the executing CFE Trading Privilege Holder for that side of the VX futures component of the transaction on CFE.

For purposes of CFE Clearing Member guarantees, the VX futures component of the transaction shall be treated as a message that has been transmitted to the CFE System by that party in that party's capacity as a CFE Trading Privilege Holder through the use of Cboe Options as a conduit for the transmission of that message to the CFE System by that party.

(x) If a party to a VIX Options/VX Futures Spread transaction entered into on Cboe Options is not both a Cboe Options User and a CFE Trading Privilege Holder:

(A) a Routing Broker reports that party's side of the VX futures component of the transaction to CFE as agent and broker for that party in the Routing Broker's capacity as a CFE Trading Privilege Holder; and

(B) the routing broker is the executing CFE TPH for that side of the VX futures component of the transaction on CFE.

(xi) The submission of the VX futures component of a VIX Options/VX Futures Spread transaction to CFE must satisfy applicable CFE requirements, such as that required information is included in the submission, submissions for both sides of the VX futures component of the transaction are received by the CFE System within time parameters designated by CFE, trading in VX futures is not halted or suspended at the time that either side of the VX futures component of the transaction is received by the CFE System, and each VX futures leg price is priced within any applicable VX futures price limits. The CFE System will reject the submission of the VX futures component of a VIX Options/VX Futures Spread transaction if the submission does not satisfy these requirements or if the VX futures component of the transaction would cause a net long (short) risk control pursuant to Rule 513A(c) to be exceeded.

(xii) If the VX futures component of a VIX Options/VX Futures Spread transaction is accepted by the CFE System:

(1) The VX futures component of the transaction is consummated on CFE, CFE sends fill reports for the individual VX futures legs of the trade on CFE as described below, CFE disseminates the individual VX futures legs through CFE market data with an indicator for an Inter-Exchange Spread transaction, and CFE reports the VX futures component of the transaction for clearing as separate transactions in the individual VX futures legs.

(aa) If a party to a VIX Options/VX Futures Spread transaction entered into on Cboe Options is both a Cboe Options User and a CFE Trading Privilege Holder, CFE sends the fill report for the VX futures legs of the trade for that party to Cboe Options.

(bb) If a party to a VIX Options/VX Futures Spread trade entered into on Cboe Options is not both a Cboe Options User and a CFE Trading Privilege Holder, CFE sends the fill report for the VX futures legs of the trade to the Routing Broker for that party and the Routing Broker sends the execution information for the VX futures legs of the trade to Cboe Options.

(2) The VIX options component of the transaction is consummated on Cboe Options when Cboe Options receives fill reports in conformity with Cboe Options parameters for both sides of the executions of the individual VX futures legs of the trade on CFE.

(3) Cboe Options sends fill reports to the Cboe Options executing parties to the trade which include the execution information for both the individual VIX options legs of the trade and the individual VX futures legs of the trade, and Cboe Options reports the VIX options component of the trade for clearing as separate transactions in the individual VIX options legs.

(xiii) If the VX futures component of a VIX Options/VX Futures Spread transaction is not accepted by the CFE System:

(1) The CFE System rejects the submission of the VX futures component of the transaction, reports the rejection of the VX futures component of the transaction as described below, and the VX futures component of the transaction is not consummated.

(aa) If a party to a VIX Options/VX Futures Spread transaction entered into on Cboe Options is both a Cboe Options User and a CFE Trading Privilege Holder, CFE reports the rejection of the VIX futures component of the trade for that party to Cboe Options.

(bb) If a party to a VIX Options/VX Futures Spread trade entered into on Cboe Options is not both a Cboe Options User and a CFE Trading Privilege Holder, CFE sends the rejection of the VX futures component of the trade for that party to the Routing Broker for that party and the Routing Broker sends to Cboe Options the information for the rejection of the VX futures component of the trade for that party.

(2) Cboe Options nullifies the VIX options component of the trade, sends a report of the nullification to the parties to the trade, and the VIX options component of the trade is not consummated.

(xiv) Every Person handling, executing, clearing or carrying VIX Options/VX Futures Spread transactions or positions shall identify and mark as such by appropriate symbol or designation all VIX Options/VX Futures Spread transactions or positions and all orders, records and memoranda pertaining thereto.

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III. Resolution of Error Trades (Rule 416)

A. - K. No changes.

L. ***Busting or Adjusting Contract Component(s) of Inter-Exchange Spread Transaction***

The Trade Desk is authorized to bust or adjust the Contract component(s) of an Inter-Exchange Spread transaction in the event that the Spread Product Exchange nullifies or adjusts one or more component(s) of the Inter-Exchange Spread transaction that are executed on the Spread Product Exchange.

~~L~~M. ***Notice of Trade Busts and Adjustments***

The Exchange shall disseminate notice of any bust of a trade pursuant to this Policy and Procedure III through Exchange Market Data. The Exchange shall provide notice of any adjustment of a trade pursuant to this Policy and Procedure III to the parties to that trade.

~~M~~N. ***Cancellation of Orders Due to System Malfunction***

The Trade Desk is authorized to cancel Orders as it deems necessary to maintain a fair and orderly market if a technical or systems issue or malfunction occurs with the CFE System. The Trade Desk shall disseminate notice to impacted Trading Privilege Holders of any cancellation of Orders pursuant to this Part M.

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