



Cboe Equities Exchanges Introduce Strategy Level Risk Controls

Reference ID: C2020042900

Overview

Applicable Cboe Exchanges: BYX Equities, BZX Equities, EDGA Equities, EDGX Equities

Effective May 15, 2020 for Cboe EDGA Equities (“EDGA”) Exchange and **May 22, 2020** for Cboe BYX Equities (“BYX”), BZX Equities (“BZX”), and EDGX Equities (“EDGX”) Exchanges, Cboe will introduce strategy level risk controls, *subject to regulatory review*.

With this new functionality firms will be able to configure multiple intraday gross and/or net notional risk limits by defining one or more *RiskGroupIDs* that are tied to a given MPID. Currently, *RiskGroupIDs* are supported on equity purge ports, and on the effective date, the same *RiskGroupID* may be used for both purge requests and to define strategy level risk control limits. This combination allows for proactive and reactive risk management and may be useful for firms running multiple strategies at a given time, those operating multiple groups under a single MPID with disparate risk profiles, or for Sponsoring Members managing risk on behalf of their Sponsored Access customers.

Purge Port Requirement

In order to ensure that Members enable both layers of risk protection (mass cancellation and order-by-order), strategy level risk controls require at least one BOE/FIX purge port. For every purge port that a Member obtains, the Member will receive the ability to define risk limits for 10 distinct *RiskGroupIDs* through the Cboe Web Portal or the Secure Web API. For example, if a Member has five equity purge ports on the BZX Exchange, then that Member may define risk limits for up to 50 *RiskGroupIDs* on the BZX Exchange. A Member that attempts to upload more strategy level risk limits than are allowed will be blocked from doing so by the Customer Web Portal or Secure Web API.

Technical Details

Risk Group IDs

The *RiskGroupID* (FIX Tag 7699) will be a 2 byte unsigned integer (1-65535) which trading or clearing firm users will be able to specify when uploading risk profiles via the Customer Web Portal or the Secure Web API. Risk profiles uploaded via the Customer Web Portal may be applied immediately or staged for the next trading session. Any profiles uploaded via the Secure Web API after 6:30 am ET will apply the following day.

Cancel/Reject Behavior

When a risk limit threshold is breached, the Cboe system will cancel all open orders and reject all new orders. In order for trading to resume, the user group that controls the risk limits **must** use the Customer Web Portal to raise the existing gross or net notional limits.

All risk limit evaluation is performed by a process that consumes a trade by trade feed consisting of activity from all matching units. When a risk breach is detected, that process immediately sends a message to all matching units in the environment to reject new orders and cancel existing orders. As a result, risk limits are enforced on a best efforts basis.

Should a purge request with lockout enabled be issued for a *MPID/RiskGroupID* combination, the sending Member will need to reset by sending the appropriate *RiskReset* (FIX Tag 7692) and *RiskGroupID* (FIX Tag 7699) values on a New Order message.

Risk Group Validation

A new port attribute, Risk Group ID(s), is being added to ensure any orders sent on an order entry session contain a Risk Group ID. This optional field will be configured as a comma-separated string of values and if enabled will cause orders sent down the port to be rejected if the *RiskGroupID* is blank or doesn't match one of the configured values.

Risk Threshold Alerts

With this change Cboe is adding the ability to receive Risk Threshold Warning messages over a FIXDrop session. This is a new message type (35=RT), which if enabled will allow users to receive information over a FIXDrop session when an *MPID/Risk Group ID* exceeds 50%, 70%, 90%, and 100% of a defined risk level.

Testing Opportunities

This functionality is currently available in the BYX, BZX, EDGA, and EDGX certification environments.

Additional Information

For additional information see the following technical specifications.

- [US Equities Risk Management Specification](#)
- [US Secure Web API](#)
- [US Customer Web Portal Specification](#)
- [US Equities Risk Management FAQ](#)

Please contact the Cboe Trade Desk for support or with any questions.

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Cboe Trade Desk

913.815.7001

tradedesk@cboe.com