Schedule Update - Cboe Options Introduces New Net Price Increments and Enhanced Electronic and Open Outcry Handling for Complex Orders with Non-Conforming Ratios

Reference ID: C2022051201

Overview <mark>(UPDATED)</mark>

Applicable Cboe Exchanges: Cboe Options

~~Effective May 15, 2022,~~ Cboe Options Exchange ("C1") will allow submission of complex options orders with any ratio to have a net price in a $.01 increment, except for orders in SPX/SPXW which must have a net price in a $.05 increment (other than SPX/SPXW boxes/rolls which may have a net price in a $0.01 increment). Further, for electronic and open outcry trades, leg execution prices for all complex orders in all classes, regardless of ratio, will be permitted in $0.01 increments for all classes, including SPX/SPXW. <mark>The effective date has been postponed until a future date. The new effective date will be communicated in an upcoming notice.</mark>

For stock-option orders of any ratio, the net price will be accepted with up to four decimal places. The options legs must print in $.01 increments; and the stock leg may print in increments up to four decimal places.

An overview of the permitted increments and additional trading restrictions/conditions follows. For additional information, please refer to Rule Filing SR-CBOE-2021-046*.

*Securities Exchange Act Release No. 94204 (February 9, 2022) (order approving Rule Filing SR-CBOE-2021-046 and Amendment No 1).

Technical Details <mark>(UPDATED)</mark>

Currently, for electronic eligibility, electronic processing via COA, COB, AIM and SAM is only permitted for applicable conforming Complex Orders with a ratio less than or equal to 3:1 (largest versus smallest option leg); stock-option orders less than or equal to 8:100 shares (smallest option leg versus shares) and 3:1 (largest versus smallest option leg); and Index Combo orders less than or equal to 8:1 combo (smallest non-combo leg versus smallest combo) and 3:1 (largest versus smallest non-combo leg) for index orders with one or more Index Combinations/synthetic futures and at least one additional leg.

Permissible net price increments and component leg execution price increments for electronic and open outcry handling are as follows:

➢ The minimum net price increment for bids and offers on complex orders in SPX/SPXW is $0.05, regardless of ratio, except that bids and offers on boxes/rolls will be permitted with a minimum net price increment of $0.01. Orders routed with an invalid net price increment will be rejected. The execution price for any leg may be in a $0.01 increment, regardless of ratio. This applies to orders executed in open outcry, as well as electronically.

➢ The minimum net price increment for bids and offers on complex option orders in any class other than SPX/SPXW is $0.01, regardless of ratio. The execution price for any leg may be in a $0.01 increment. This applies to orders executed in open outcry, as well as electronically.

➢ The net price for stock-option orders may be up to four decimal places. The execution price for any option leg may be in a $0.01 increment; and the stock leg may print in increments up to four decimal places. This applies to orders executed in open outcry, as well as electronically.

The following additional trading restrictions/conditions will apply to non-conforming Complex Orders with a ratio greater than those applicable to conforming complex orders defined above:

➢ Execution prices for each option leg must be at or inside the NBBO. This applies to orders executed in open outcry, as well as electronically (by contrast, conforming complex orders may potentially qualify for the "Complex Trade" exception to trade through the NBBO under C1 Rules 5.65(d) and 5.66(b)(7).).

➢ Execution prices for each option leg must improve the local BBO by at least $0.01 when there is a Priority Customer Order resting at the BBO on that leg. This applies to orders executed in open outcry, as well as electronically (by contrast, conforming complex orders may potentially trade at the same price as a Priority Customer Order resting at the BBO on a given leg (but not all legs) if certain conditions are satisfied. See, e.g., C1 Rules 5.33(f)(2) and 5.85(b).).

➢ The execution price for the stock leg may be $0.005 outside the NBBO, but only when necessary to eliminate rounding errors versus the net price. The execution price will remain within the Limit Up/Limit Down price bands and will adhere to any restrictions that are in effect.

➢ For orders executed electronically, the above requirements will be systematically enforced by the match engine. For orders executed in open outcry, PAR will provide floor brokers with clear warning messages if a trade would appear to violate the above requirements. In such cases, brokers choosing to proceed with the trade must choose a "reason code" for the action.

IMPORTANT: C1 Rule 5.85(e) specifically addresses a special trading procedure for eligible SPX Combo Orders*. Modifications to the C1 Rules related to the above change in permitted net price increment for non-conforming ratio orders did not modify the net price increment requirements for SPX Combo orders. To be eligible for the special trading procedure in Rule 5.85(e), among other things, SPX Combo orders must meet the definition contained in C1 Rule 5.6(c) and meet ratio requirements of equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.00).

*C1 Rule 5.85(e) affords special relief for execution of orders represented in open outcry on the Exchange trading floor meeting the requirements under the Rule, i.e., permitting an SPX Combo Order to execute and print at the prices originally quoted for each of the component option series within two hours after the time of the original quotes.

Testing Opportunities

This functionality is currently available for testing in the C1 certification environment.

Additional Information

For more information, please refer to the following technical specifications:

- ➢ US Options Complex Book Process

Please contact the Floor Operations team or msfmgt@cboe.com for business questions; reginterps@cboe.com for regulatory questions; or Cboe Trade Desk for support or with any other questions.

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Cboe Trade Desk
913.815.7001
tradedesk@cboe.com