Cboe

SPX Conversion to Hybrid Platform - Update

Overview

This notice updates and replaces Exchange Notice SPX to Hybrid Conversion dated Feb 1, 2018.

Effective April 30, 2018, Cboe Exchange, Inc. ("Cboe Options") will convert A.M.-settled SPX options series currently traded on the Hybrid 3.0 trading platform during Regular Trading Hours (RTH) to the standard Hybrid trading platform.   The symbol for these series will remain SPX.

Details

Effective upon conversion:

➢ TPH organizations that have been appointed as Lead Market-Makers (LMMs) for the SPX group of series are Belvedere Trading LLC, Citadel Securities LLC, CTC LLC, and IMC Financial Markets. (Please note that the P.M.-settled SPXW group of series, which already trade on the standard Hybrid trading platform, will continue to utilize a competing Market-Maker structure without any LMMs.)

➢ Electronic quotes in symbol SPX will be allowed from all Cboe Options Market-Makers with an SPX/SPXW appointment.

➢ Market-Makers will be permitted to quote in SPX, SPXW or both, with the continuous electronic quoting obligations independently applied to each symbol. For example, a Market-Maker who chooses to quote only SPX must meet the continuous electronic quoting obligations for symbol SPX. A Market-Maker who chooses to quote only SPXW must meet the continuous electronic quoting obligations for symbol SPXW. A Market-Maker who chooses to quote both SPX and SPXW must meet the continuous electronic quoting obligations for each symbol. For additional information on continuous electronic quoting requirements, please refer to Cboe Options Rule 8.7(d). Pending regulatory review, SPX LMMs will also be required to satisfy the continuous electronic quoting requirements in Cboe Options Rule 8.7(d), but not the heightened continuous electronic quoting obligations in Cboe Options Rule 8.15(b)(i). LMMs will be eligible for waivers of certain monthly fees if they satisfy heightened business commitments, as described in Exchange Notice Solicitation for SPX LMMs During RTH, published on February 27. Proposed updates to rules regarding Market-Maker continuous electronic quoting obligations were announced in Regulatory Circular RG18-008.

- Market-Maker QRM risk protections will cause a user's quotes to be cancelled in both SPX and SPXW if a QRM limit is reached in either symbol.

- After the opening of each option, new minimum Market-Maker electronic quote size requirements will be in place for SPX. Intraday initial quote sizes for electronic quotes will be based on a premium and expiration basis. The proposed specific Initial Quote Sizes were announced in Regulatory Circular RG18-009.

- Market-Maker in-crowd requirements for interaction with the SPX simple order book, complex order book (COB), and electronic auctions will no longer apply (i.e., electronic trading without the requirement to have an in-crowd participant will be permitted under Cboe Options Rule 8.3(c) in symbol SPX, as in any other Hybrid class).

- Orders from all origin codes/capacities will be allowed to rest in the SPX simple order book and COB, both pre-open and during intra-day trading, with the exception of complex orders with an origin code/capacity of M or N, which will not be allowed to rest in COB intraday. Complex M/N orders must be marked OPG in order to rest pre-open and IOC to trade intraday.

- Complex M/N orders without the OPG or IOC contingency will be routed for manual handling unless marked "Electronic Only," in which case any un-executed portion will be automatically cancelled.

- The "professional customer" and "voluntary professional" customer designations (origin code/capacity W) will apply. Prior to the conversion, orders with origin code/capacity W in symbol SPX were treated the same as orders entered with origin code/capacity C.

- Interaction with resting orders and quotes in the SPX simple order book, and with resting orders in the SPX COB will be allowed from all order origin codes/capacities, opposite side quotes, and complex order legs when tradeable.

- Intraday quotes that lock or cross other opposite side quotes will initiate a two millisecond timer during which a locked quote will be disseminated as long as the quote remains locked. Quotes will trade with each other only if locked at the conclusion of the timer.

- Electronic allocation on simple and complex order trades will be pro-rata with no customer priority or Market-Maker participation entitlements.

- Allocation at the conclusion of a Complex Order Auction (COA) will be consistent with Cboe Options Rule 6.53C.

- When trading in open outcry, floor brokers will be required to yield priority to customers in the electronic simple order book or COB at the same price per Cboe Options Rule 6.45(b)(i). Trade allocation for complex orders traded in open outcry will be consistent with Cboe Options Rule 6.45(b)(ii)

- Complex orders that contain both SPX and SPXW legs will be eligible to trade in COA and COB but will not trade with individual leg quotes or orders. Complex orders that are marketable against the individual leg prices will be eligible to route for manual handling or will automatically cancel, depending on order handling parameters and instructions.

- ➤ Marketable simple orders that automatically execute at multiple price levels will initiate a HAL auction once the next available price is beyond a pre-determined "drill-through" amount as described in Regulatory Circular RG16-187.

- ➤ SAL auctions (as described in Cboe Options Rule 6.13A) will be inactivated.

- ➤ "Manual quote" entry from PAR and as detailed under Cboe Options Rule 6.43 will no longer be available.

- ➤ Additional enhancements to the PAR workstation, which is utilized by floor brokers to execute orders in open outcry, will be implemented prior to the SPX migration to Hybrid. These enhancements are intended to improve efficiency of trading simple and complex orders with electronic bids/offers. Details and broker training on these enhancements will be provided prior to the migration.

- ➤ As is the case currently, AIM auctions under Cboe Options Rule 6.74A will not be available in SPX or in SPXW in the RTH session.

- ➤ Market-Maker Wash Trade Prevention (WTP) orders will now be allowed in SPX for orders with origin code/capacity M and N.

SPX Market-Makers and LMMs with an appointment in SPX are required to certify for electronic quoting and to confirm their QRM settings in advance of this conversion. Cboe API group contact information is noted below.

Note that the conversion outlined above applies only to SPX during the RTH session and not to SPX during the global trading hours (GTH) session (referred to as extended trading hours in the Cboe Options Rules, see, e.g., Cboe Options Rule 6.1A), where SPX trades electronically only.

Important: Market-Makers are reminded to manage their QRM and Q-Account settings for symbol SPX, as this will be the first time Market-Makers, other than LMMs, will be permitted to enter electronic quotes in that symbol. LMMs may also want to adjust their SPX QRM settings as their electronic quotes in that symbol will be accessible for the first time upon migration to Hybrid. TPHs are responsible for contacting the Cboe Operations Support Center at helpdesk@cboe.com if they require updates to Market-Maker profile settings, including Q- account / clearing firm relationships, to adjust or set quoting bandwidth, to adjust risk protections, or to firm-specific order routing exceptions that may have been set for SPX in Cboe Options's Order Handling System.

Additional Information

- ➤ Information on all operational settings for Cboe Options may be found at https://www.cboe.org/publish/opsettingsrth/operational-settings-for-rth.pdf .

Questions regarding this subject may be directed to Cboe Trading Systems Development ("TSD"). For additional information regarding operational matters, please contact the Cboe Operations Support Center.

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