

**Regulatory Circular RG14-092****Date:** June 13, 2014**To:** Trading Permit Holders**From:** Business Development Division**RE:** Extended Trading Hours (ETH) Frequently Asked Questions Circular No.2

This Regulatory Circular updates Regulatory Circulars RG14-018, RG14-036 and RG14-043

As previously announced, Chicago Board Options Exchange, Incorporated (CBOE) intends to introduce Extended Trading Hours (ETH) for options on the S&P 500 Index (SPX and SPXW) and options on the CBOE Volatility Index (VIX), contingent upon completion of systems enhancements and Securities and Exchange Commission (SEC) approval of requisite rules. This circular contains additional information related to ETH, including information regarding the Registration and Application for ETH Trading Permits, the ETH Market Model, Market Data Services and Systems Connectivity. Additionally, CBOE now intends to launch ETH on **Tuesday, October 21, 2014**, and the initial phase of ETH will not include VXST or SPXPM options. CBOE may modify this information as it deems necessary or appropriate, which modifications it will announce in additional Regulatory Circulars.

**Additional Information:**

Please direct questions as follows:

- |                                    |                        |                |  |
|------------------------------------|------------------------|----------------|--|
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| • Market-Makers/Lead Market-Makers | Allison Kile, Director | (312) 786-7210 | <a href="mailto:kilea@cboe.com">kilea@cboe.com</a>             |
| • Market Data (OPRA or CSM)        | Tom Knorrington, VP    | (312) 786-7363 | <a href="mailto:knorrington@cboe.com">knorrington@cboe.com</a> |
| • Connectivity/Testing             | API Group              | (312) 786-7300 | <a href="mailto:api@cboe.com">api@cboe.com</a>                 |
| • General Questions                | Eric Frait, VP         | (312) 786-7747 | <a href="mailto:frait@cboe.com">frait@cboe.com</a> or          |
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**FAQ****Registration****1. Will current CBOE Trading Permit Holders (TPHs) be required to reapply for ETH Trading Permit Holder status?**

*No. Current CBOE TPHs will need only request from the Registration Services Department their desired number of ETH Market-Maker Trading Permit(s) or ETH Electronic Access Trading Permit(s) in order to participate in ETH.*

- 2. Will a CBOE TPH be allowed to operate in ETH in a different trading capacity than it operates during Regular Trading Hours (RTH)? For example, can a TPH that operates only as a Market-Maker during RTH operate only as a proprietary TPH during ETH?**

*Yes, a TPH may operate in one capacity during RTH and a different trading capacity during ETH. The TPH must have a CBOE Organization Application on file with the Exchange with each trading function marked. If the TPH's application does not currently include a trading function it intends to operate under during ETH, the TPH must submit an updated Organization Application to the Registration Services Department that adds that trading function.*

- 3. Will an organization be allowed to operate in ETH only?**

*Yes, as long as the organization is an approved CBOE TPH. If an organization is not currently a CBOE TPH and wants to operate in ETH, the organization must complete the CBOE application process, be approved as a TPH and submit all required documentation.*

- 4. Can a TPH organization be located outside of the United States and operate in ETH?**

*Yes, provided the organization a) is an approved TPH and has submitted all required documentation related to ETH; b) is a registered U.S. broker/dealer; c) meets the additional requirements for a Foreign Trading Permit Holder (CBOE Rule 3.4), including any other requirements that CBOE may adopt in connection with ETH; and d) order flow originates from a foreign jurisdiction that is approved by CBOE (CBOE intends to make available on its website a list of approved jurisdictions). TPH organizations located outside of the United States must comply with any applicable laws, rules and regulations of the foreign jurisdiction(s).*

- 5. Can an individual be a Nominee for a TPH during ETH and be located outside of the United States?**

*Yes, provided the individual is registered as the nominee for an ETH Trading Permit (CBOE Rule 3.8) of a TPH and order flow originates from a foreign jurisdiction that is approved by CBOE.*

- 6. Will there be a fixed or maximum number of authorized trading permits available for ETH?**

*Yes. The Exchange expects that initial limits for ETH trading permits will be 300 ETH Market-Maker Trading Permits (providing both quoting and order entry bandwidth) and 150 ETH Electronic Access Permits (providing order entry bandwidth only). Each ETH trading permit will have the same bandwidth allocation as an RTH trading permit.*

- 7. Will separate ETH Quoting and Order Entry Bandwidth packets, or Order Entry Only Bandwidth packets, be available?**

*Yes. Both types of bandwidth packets will be available for ETH and they will be separate and distinct from the packets used for RTH. ETH packets may not be used during RTH and vice versa.*

**8. What will be the fees for ETH Market-Maker Trading Permits, ETH Electronic Access Permits, ETH Quoting and Order Entry Bandwidth Packets and ETH Order Entry Only Bandwidth Packets?**

*The Exchange will waive all ETH trading permit and bandwidth packet fees for one of each trading permit and one of each bandwidth packet, per affiliated TPH, for the first six calendar months following implementation of ETH. Following that, CBOE intends to assess the following charges:*

- *ETH Market-Maker Trading Permits - \$1,000/month*
- *ETH Electronic Access Trading Permits - \$500/month*
- *ETH Quoting and Order Entry Bandwidth Packet - \$500/month*
- *ETH Order Entry Only Bandwidth Packet - \$250/month*

**9. What is the process to obtain a trading permit for the ETH Session?**

*To obtain an ETH Market-Maker or Electronic Access Trading Permit, a TPH must: 1) submit an ETH Trading Permit & Bandwidth Packet Additions/Removals form; 2) submit the CBOE Login Request Form asking for an acronym/login unique to ETH; 3) submit the ETH Acronym/Login Activation/Termination form specifying the date that the acronym/login is to be activated; 4) if the market maker acronym will be added to a TPH joint account, submit the Single Entity Broker Dealer Joint Account Activation/Termination form; and 5) have on file or provide an applicable clearing firm guarantee, or Market-Maker Letter of Guarantee if the CBOE Login Request Form is for a Market-Maker acronym, or Connectivity Guarantee for Login Access if the CBOE Login Request Form specifies a login for orders only. These materials will be available on the CBOE TPH Forms Library at <https://www.cboe.org/members/generalinfo/memberforms.aspx> as of July 1, 2014.*

**10. What is the process to obtain ETH Quoting and Order Entry Bandwidth Packets or Order Entry Only Bandwidth Packets?**

*To obtain an ETH Quoting and Order Entry or Order Entry Only Bandwidth Packet, a TPH must submit an ETH Trading Permit & Bandwidth Packet Additions/Removals form to the Registration Services Department. This form will be available on the CBOE TPH Forms Library at <https://www.cboe.org/members/generalinfo/memberforms.aspx> as of July 1, 2014.*

**Market Data**

**11. Will ETH market data be available through OPRA?**

*Yes. OPRA will use separate lines to disseminate ETH data. There will also be a session indicator on the message block indicating the ETH session. OPRA will be disseminating additional information regarding these plans in the near future.*

**12. Will CBOE's proprietary data feed (CSM) be available during ETH?**

*Yes. ETH data will be available through CSM on the same line as RTH data but will use a different channel. Additionally, users will be required to complete an ETH CSM certification process in order to be approved to receive ETH data. Please contact Tom Knorring at [knorring@cboe.com](mailto:knorring@cboe.com) for more information, or [api@cboe.com](mailto:api@cboe.com) for certification.*

**13. What fees will CBOE charge for ETH data through CSM?**

*For existing customers that receive RTH data through CSM, CBOE will not impose an additional charge to receive ETH data. For new customers that do not receive RTH data, CBOE will*

*impose a fee of \$500/month, which will be waived for the first six calendar months following the launch of ETH. New customers for either service must complete a CSM agreement at [www.cboemdx.com](http://www.cboemdx.com).*

**14. Where will the ETH CSM data connection be located?**

*ETH CSM data will be available from the NY4 data center in New Jersey and the LD4 data center in London.*

**15. Will any underlying cash index values be disseminated during ETH for SPX or VIX?**

*No, there will be no calculations or disseminations of the underlying index values during ETH.*

**Market Model**

**16. What will be the market model and matching algorithm for SPX and VIX options in ETH?**

*SPX options will trade using a price-time matching algorithm while VIX options will use a size pro-rata matching algorithm. Neither will employ customer priority, Designated Primary Market Maker (DPM) or Preferred Market Maker (PMM) participation rights.*

**17. Will CBOE have any dedicated liquidity providers in ETH for either product?**

*CBOE will appoint up to three (3) Lead Market-Makers (LMMs) in each product for one year terms. All Market-Makers, including LMMs, must maintain continuous two-sided quotes in 60% of the series with less than nine months to expiration in their appointed products for at least 90% of the time they are quoting during ETH and satisfy all other Market-Maker obligations during ETH (see CBOE Rule 8.7). If an LMM meets a heightened continuous quoting standard of at least the lesser of 99% of all series or 100% of all series minus one call-put pair within an appointed product for at least 90% of the time they are quoting during ETH, and ensure that the same percentage of the series in the class open within five minutes of the start of opening rotation, it (and any other LMM that meets the same heightened quoting standard during that month) will receive a pro-rata share of an LMM compensation pool totaling an amount of \$25,000/month per LMM per class. For example, if two LMMs are appointed in SPX, a compensation pool will be established each month totaling \$50,000. If both of the LMMs meet the heightened continuous quoting standard during a month, each will receive \$25,000. If only one LMM meets the heightened continuous quoting standard during a month, that LMM would receive \$50,000 and the other would receive nothing. Further details regarding the ETH LMM appointment process will be forthcoming. Continuous quoting obligations during ETH will be separate from continuous quoting obligations during RTH.*

**18. What other trading functionality will be available in ETH?**

*For both products, CBOE will activate its Automated Improvement Mechanism (AIM) for both simple and complex orders, with a 40% participation entitlement (CBOE Rule 6.74A), as well as its Complex Order Book (COB) and Complex Order Auction (COA) (CBOE Rule 6.53C).*

**19. Will an ETH Market Maker need to have an appointment in an ETH class in order to stream quotes in ETH?**

*Yes. A Market-Maker in ETH will need to have an appointment in any ETH class in which it wants to stream quotes. RTH appointments will not be valid in ETH and vice versa. All Market-Makers with ETH appointments must maintain continuous two-sided quotes in 60% of the series in their appointed products for at least 90% of the time they are quoting during ETH and satisfy*

*all other Market-Maker obligations during ETH (see CBOE Rule 8.7). Continuous quoting obligations during ETH will be separate from continuous quoting obligations during RTH.*

**20. What will be the appointment cost for VIX and SPX in ETH?**

*The appointment cost for each class will be .50 during ETH. Each ETH Market-Maker Trading Permit will entitle the TPH to 1.0 appointment credits (the same as RTH Market-Maker Trading Permits), meaning that an ETH Market-Maker may have appointments in both ETH products with one ETH Market-Maker Trading Permit.*

**21. Will there be a tier appointment surcharge during ETH for either product as exists during RTH?**

*There initially will be no tier appointment surcharge for either product during ETH.*

**22. Will the appointment cost for ETH be combined with the net appointment costs for RTH?**

*No. Each session will have its own trading permits and appointments, which may not be combined. Excess Market-Maker Trading Permit appointment credits in RTH may not be used for ETH, and vice versa.*

**23. How often may the appointment costs for ETH be changed?**

*The appointment costs for ETH will be set by the Exchange and may be adjusted with proper notice, subject to applicable rules. CBOE does not expect to change the ETH appointment costs for at least the first six calendar months following the implementation of ETH.*

**24. When can an ETH Market Maker add and/or remove ETH Appointments?**

*ETH Market Makers may add and remove appointments at any time, subject to the applicable CBOE Rules.*

**25. How will an ETH Market Maker access the Online Appointment System for ETH appointments?**

*Market-Makers will use the same Online Appointment System at <https://appointments.cboe.com> to modify their ETH appointments as they use to modify their RTH appointments. Market-Makers who currently have FIRM access to the Appointment System to modify their RTH appointments will be able to log on with the same user id and password to modify their ETH appointments. Market-Makers who currently have INDIVIDUAL access to the Appointment System to modify their RTH appointments will need to request a new user id to modify their ETH appointments. Requests can be made by contacting the Market Maker and DPM Administration Department at [mqa@cboe.com](mailto:mqa@cboe.com).*

**26. How will an ETH Market-Maker modify its ETH appointments?**

*By accessing the Online Appointment System, under the "Appointments" tab, a user will click on "Current Appointments." Market-Makers with FIRM access will see all RTH and ETH acronyms in the Trader Acronym drop-down window under "Current Appointments." Select the ETH acronym to modify any of the appointments for that acronym. Please note that ETH Market-Makers with Individual access will only see their ETH acronyms in the drop-down window.*

**Systems Connectivity & Testing****27. Will an ETH Market Maker Trading Permit Holder or ETH Electronic Access Permit Holder be required to connect to an ETH Disaster Recovery (DR) site as during RTH?**

*All ETH Market-Makers, including ETH LMMs, who are streaming quotes in such classes, and all TPHs connected to the CBOE primary ETH data center and transacting non-TPH customer business, unless such TPH can demonstrate ready access to the ETH back-up data center through another ETH TPH connected to the ETH back-up data center, will be required to connect to the new ETH DR site. (See CBOE Regulatory Circular RG13-110)*

**28. When may users begin testing connections for ETH?**

*The test environment for ETH functionality is currently open for potential TPHs. For production, a TPH will be assigned a separate CAS/FIX server to be used exclusively for the ETH session. The API Group will coordinate ETH connectivity and login testing for the ETH session. Please contact [api@cboe.com](mailto:api@cboe.com) or (312)786-7300 regarding ETH connectivity and login testing.*

**29. What will be the costs for connectivity in ETH?**

*CBOE will waive connectivity fees for ETH for the first six calendar months for up to three (3) logins on one (1) ETH Market Maker Trading Permit and one (1) ETH Electronic Access Permit, per affiliated TPH. Potential TPHs are reminded that existing Network ports for RTH may also be used for ETH at no additional cost. All users will require new ETH logins, however. Following that period, anticipated rates are as follows:*

- CMI/Fix ETH Login - \$500/month
- ETH Network Port (1 Gbps) NEW USER ONLY - \$500/month
- ETH Network Port (10 Gbps) NEW USER ONLY - \$3,000/month

**Trading Operations****30. Who will be allowed to contact the CBOE Help Desk during ETH?**

*CBOE intends to allow TPH organizations to authorize nominees or other individuals (e.g. employees of a non-TPH affiliate) to contact the CBOE Help Desk directly with questions or problems during ETH.*

**31. What Options Clearing Corporation (OCC) clearing numbers may be given up during ETH?**

*Pending regulatory approval, an ETH TPH organization may only give up an ETH Clearing TPH that it has designated as a "Designated Give-Up" or is the ETH TPH organization's Guarantor. (See SR-CBOE-2014-048 for information regarding CBOE's proposed rule related to give-ups.)*