



Cboe Options Regulatory Circular RG18-009

Date: March 6, 2018

To: Trading Permit Holders

From: Regulatory Division and Cboe Trading Systems Development

RE: Bid-Ask Differentials and Initial Quote Size for SPX Options Trading on the Hybrid Trading Platform

Partially Updates Cboe Options Regulatory Circular RG16-073

The following are proposed bid-ask differentials, initial quote size, and continuous quoting requirements for electronic quotes in the SPX group of option series (a.m.-settled with third-Friday of the month expiration) once trading of those SPX options begins on the Hybrid Trading System (“Hybrid”). The below requirements are subject to SEC review of a Cboe Exchange, Inc. (“Cboe Options” or “Exchange”) rule change filing. The Exchange anticipates trading of SPX options on Hybrid to begin in the 2nd quarter of 2018. Additional information will be provided in future Exchange notices.

Bid-Ask differentials and initial quote size requirements for open outcry quotes in SPX options series and for electronic quotes and open outcry quotes in SPXW option series remain the same (see Cboe Options Rule 8.7(d) and [Cboe Options Regulatory Circular RG16-073](#)).

Market-Maker Obligations for the First 90 Days after SPX Begins Trading on Hybrid

Pursuant to Cboe Options Rule 8.7(d), the following obligations will apply to Market-Maker quotes in the SPX group of series for the first 90 days after SPX begins trading on Hybrid.

Electronic Quote Widths: See Chart 1 below.

Continuous Electronic Quoting Obligation: Market-Makers will not be obligated to quote electronically in any designated percentage of series within the SPX group.

Initial Electronic Quote Size: See Chart 2 below for intraday initial quote size requirements. Initial quote size for all opening rotation bids and offers will be set at one (1).

Continuous Open Outcry Quoting Obligation: In response to any RFQ by a Floor Broker, in-crowd Market-Makers must provide a two-sided market complying with the bid-ask differential and initial quote size requirements set forth in [Cboe Options Regulatory Circular RG16-073](#).

Market-Maker Obligations AFTER the First 90 Days SPX is Trading on Hybrid

Pursuant to Cboe Options Rule 8.7(d), after the 90-day introductory period, a Market-Maker's obligations in the SPX group of options series depends on the volume the Market-Maker traded electronically in that group of series during the preceding calendar quarter (i.e., less than or equal to 20%, or more than 20%).

Market-Maker Trades LESS than or EQUAL to 20% of the Market-Maker's SPX Contract Volume Electronically

If a Market-Maker trades less than or equal to 20% of the Market-Maker's SPX volume electronically in a calendar quarter,¹ then the obligations on page one above continue to apply (see also Cboe Options Rule 8.7(d)(i)).

Market-Maker Trades MORE than 20% of the Market-Makers Volume in SPX Group of Series Electronically

Once a Market-Maker trades more than 20% of the Market-Maker's contract volume in the SPX electronically in a calendar quarter, the following obligations will ALWAYS apply to the Market-Maker in the SPX group of option series (see also Cboe Options Rule 8.7(d)(ii)).

Quote Width: See Chart 1 below.

Continuous Electronic Quoting Obligation:² A Market-Maker is required to maintain continuous electronic quotes (as defined in Cboe Options Rule 1.1(ccc)) in 60% of the non-adjusted option series that have a time to expiration of less than nine months.

Initial Quote Size: See Chart 2 below for intraday initial quote size requirements. Initial quote size for all opening rotation bids and offers will be set at one (1).

Continuous Open Outcry Quoting Obligation: In response to any RFQ by a Floor Broker, in-crowd Market-Makers must provide a two-sided market complying with the bid-ask differential and initial quote size requirements set forth in [Cboe Options Regulatory Circular RG16-073](#).

¹ If a Market-Maker exceeds the 20% threshold during the first calendar quarter, the obligations will become effective during the next calendar quarter, but no earlier than 90 days after the SPX group of series begins trading on Hybrid (e.g., if, hypothetically, SPX begins trading on Hybrid May 1, 2018 and a Market-Maker executes more than 20% of its contract volume in SPX electronically during the 2nd quarter, the heightened electronic quoting obligations of 8.7(d)(ii) will begin July 30, 2018, even though the next calendar quarter began July 1, 2018).

² Pursuant to Cboe Options Rule 8.7(d)(ii)(B), a Market-Maker is required to maintain continuous electronic quotes (as defined in Rule 1.1(ccc)) in 60% of the non-adjusted option series of the Market-Maker's appointed classes that have a time to expiration of less than nine months. Under Cboe Options Rule 1.1(ccc) a Market-Maker is deemed to have provided "continuous electronic quotes" if the Hybrid Market-Maker provides electronic two-sided quotes for 90% of the time that the Hybrid Market-Maker is required to provide electronic quotes in an appointed option class on a given trading day during the applicable trading session. Compliance with this quoting obligation applies to all of a Hybrid Market-Maker's appointed classes collectively (with respect to each Market-Maker type as the Hybrid Market-Maker is approved to act).

Chart 1 - Maximum Bid-Ask Differentials for Electronic Quotes in the SPX Group of Option Series (Intraday and Opening Rotation)

Quote Bid	Maximum Differential	
	Expiration ≤ 462 Days	Expiration > 462 Days
.00-100.00	\$10.00	\$20.00
100.01-200.00	\$16.00	\$32.00
Greater than 200.00	\$24.00	\$48.00

The above electronic bid-ask differentials do not apply to at-the-money or in-the-money series where the quote width calculated by the Exchange or its agent for the SPX Index is wider than the differentials set forth above. For these series, the bid-ask differential may be as wide as the quote width calculated by the Exchange or agent, as applicable.

Chart 2 - Initial Quote Size for Electronic Quotes in SPX Options Series (Intraday Only)

Quote Bid	Days to Expiration				
	≤ 7 Days	8 – 91 Days	92 – 188 Days	189 – 461 Days	≥ 462 Days
.00 – 15.00	25	100	60	40	25
15.01 – 40.00	20	75	45	30	20
40.01 – 75.00	15	45	25	20	15
75.01 – 100.00	10	30	20	15	10
Greater than 100.00	10	15	10	10	5

Initial quote size for all opening rotation bids and offers will be set at one (1).

Market-Maker Requirement to Maintain Fair and Orderly Markets

Market-Makers are reminded that pursuant to Cboe Options Rule 8.7(b), and in the course of maintaining a fair and orderly market, a Market-Maker is expected to, among other things, compete with other Market-Makers to improve markets in all series of options classes comprising the Market-Maker’s appointment and update market quotations in response to changed market conditions in the Market-Maker’s appointed classes.

Additional Information

For questions regarding operational matters related to this circular, please email tsdmgt@cboe.com.

For questions regarding applicable rules related to this circular, please email RegInterps@cboe.com or call (312) 786-8141.