



Cboe Options Regulatory Circular RG18-022

Date: July 6, 2018

To: Trading Permit Holders

From: Regulatory Division

RE: Rule Filing Amending Definition of Strategy Orders and Incorporating Exclusion from Strategy Order Cut-Off Time for Bona Fide Market-Making Process for Submission of Written Policies and Procedures to Regulatory Division

As announced in Cboe Options Regulatory Circular [RG18-019](#), Cboe Options recently amended Interpretation and Policy .01 to Cboe Options Rule 6.2 (see Cboe Options Rule Filing [SR-CBOE-2018-045](#)). The proposed changes will be effective for the July 18, 2018 expiration of Cboe Volatility Index (VIX) derivatives and Cboe Russell-2000 Volatility Index futures.

A summary of the rule filing, as well as a process for Market-Makers to submit written policies and procedures to the Regulatory Division, follows.

Definition of Strategy Orders

The Exchange is modifying the definition of “strategy orders” under Rule 6.2.01(a) to clarify that strategy orders are all orders for participation in the modified opening procedure that are related to positions in, or a trading strategy involving, *expiring* volatility index options or (security) futures, and any change to or cancellation of any such order. This revision codifies the Exchange’s existing interpretation that the definition only applies to expiring volatility index options or (security) futures positions or trading strategies (and not other, non-expiring options or futures). The characteristics of strategy orders under the Rule remain the same.

Exclusion for Bona Fide Market-Making Activity

Proposed new paragraph (c) to Cboe Options Rule 6.2.01 will provide that a Market-Maker with an appointment in a class with constituent option series may submit bids and offers in those series for bona fide market-making purposes in accordance with Cboe Options Rule 8.7 and the Securities Exchange Act of 1934 for its market-maker account prior to the open of trading for participation in the modified opening procedure. Proposed paragraph (c) also provides that the Exchange will deem these bids and offers to be non-strategy orders, and will not deem them to be changes to or cancellations of previously submitted strategy orders, if:

- The Trading Permit Holder with which the Market-Maker is affiliated establishes, maintains, and enforces reasonably designed written policies and procedures (including information barriers, as applicable), taking into consideration the nature of the Trading Permit Holder’s business and other facts and circumstances, to prevent the misuse of material nonpublic information (including the submission of strategy orders); and

- When submitting these bids and offers, the Market-Maker has no actual knowledge of any previously submitted strategy orders.

In other words, the rule filing provides that, if a Market-Maker submits bids or offers in constituent options on a volatility index derivative settlement day, and if such bids and offers are for its market-maker account and submitted for purposes of its market-making activities on the Exchange (including in accordance with Market-Maker obligations, such as to offset imbalances or provide competitive pricing), the Market-Maker may submit those bids and offers any time prior to the open of trading, including both before and after the strategy order cut-off time. As long as the Trading Permit Holder has appropriate procedures in place both to prevent the Market-Maker from knowing about the submission of strategy orders by other persons within the Trading Permit Holder organization with which it is affiliated, and to prevent other persons from knowing about the Market-Maker's submission of bids and offers, the Exchange will not review such bids and offers for either potential impermissible entry of strategy orders, or cancellations of or modifications to previously submitted strategy orders.

Submission of Written Policies and Procedures

The bona-fide market-making exclusion from the definition of strategy orders described above requires that a TPH have written policies and procedures. The rule does not require TPH to submit policies and procedures to the Exchange for approval. However, please note that TPHs who have questions or would like to discuss their written policies and procedures with the Regulatory Division are encouraged to do so by contacting the Regulatory Division at Rule6.2@cboe.com or (312) 786-8141.

The email address may also be used to submit policies and procedures for review and feedback by the Regulatory Division. TPHs may also submit updated policies and procedures to the Regulatory Division whenever changes to the nature of their business occur or other facts and circumstances change such that new policies and procedures are warranted.

Additional Information

For questions regarding this circular, please contact the Regulatory Division as noted above or Regulatory Interpretations at RegInterps@cboe.com or (312) 786-8141.