



Cboe Options Regulatory Circular RG18-028

Date: August 24, 2018

To: Trading Permit Holders

From: Regulatory Division

RE: Solicited Transactions

The following is a summary of Cboe Options Rule 6.9, *Solicited Transactions*. This Rule: (i) sets forth priority for solicited transactions on the Exchange; and (ii) prohibits Trading Permit Holders (“TPH”) and associated persons from trading based on knowledge of an imminent undisclosed solicited transaction. This summary is intended as a quick reference guide. Please refer to the Rule for additional information.

Rule 6.9 Solicited Transaction Priority Reference Guide

Under Rule 6.9, a TPH or TPH organization representing an order respecting an option traded on the Exchange (referred to as an “original order”) may solicit a TPH or TPH organization or a public customer or broker-dealer (referred to as a “solicited person”) to transact in-person or by order (referred to as a “solicited order”) with the original order. In addition, whenever a floor broker who is aware of, but does not represent, an original order solicits one or more persons or orders in response to an original order, the person solicited and any resulting orders are solicited persons or solicited orders subject to the Rule.

Original orders and solicited orders are subject to certain conditions under Rule 6.9 that vary depending on whether all the terms and conditions of the original order were disclosed to the trading crowd prior to or after the solicitation. Those conditions are summarized below.

Solicitation Occurs AFTER Disclosure of the Original Order to Trading Crowd

The following depicts the priority given to a solicited person or order under the circumstances set forth in Rule 6.9(a), (b) and (c), each which involve scenarios where the terms and conditions of the original order are disclosed to the crowd *prior to* the solicitation and the original order is *continuously represented* in the crowd throughout the solicitation process.

Rule	Solicited Order	Priority
6.9(a)	The solicited order matches the disclosed original order’s limit and improves the best bid or offer in the crowd	The solicited person or order has priority over all non-solicited market-makers and floor brokers representing non-solicited discretionary orders in the crowd (subject to customer limit order book priorities set forth in Rule 6.45)

Example:

Floor Broker ABC is holding a broker-dealer (“B/D”) order to buy 1,000 SPX 21SEP18 2250 Calls for \$583.00. After systematizing the order pursuant to Rule 6.24, he requests a quote from the crowd for the 2250 Calls. In response, the crowd market is \$582.00-\$584.00, 5000-up. Floor Broker ABC then verbally represents all terms and conditions of the order in the crowd, including the 1,000-contract size of the order and limit price of \$583.00 to buy.

Thereafter, while continuously representing the original order in the crowd throughout the solicitation process without any change in terms and conditions, Floor Broker ABC solicits and systematizes an order received from off-floor Market Maker XYZ to sell 1,000 SPX 21SEP18 2250 Calls at \$583.00 and announces the offer in the crowd. Assuming there are no priority customer orders in the customer limit order book, the solicited order for Market Maker XYZ has priority over all other orders in the crowd as the solicited order matched the disclosed original order’s limit and improved the best offer in the crowd.

Rule	Solicited Order	Priority
6.9(b)	The solicited order improves the best bid or offer in the crowd and later the disclosed original order’s limit is changed to meet/match the solicited order’s bid or offer	 <p>Prior to executing/crossing the modified original order with the solicited person or order, the TPH initiating the original order must announce to the crowd all terms and conditions of the original order as modified, and</p> <p>Bids or offers thereafter made in the crowd will have priority pursuant to Rule 6.45 and may trade with the original order, as modified, in the sequence in which they are made (subject to customer limit order book priorities set forth in Rule 6.45)</p>

Example:

Floor Broker ABC is holding a B/D order to buy 1,000 SPX 21SEP18 2250 Calls for \$583.00. After systematizing the order pursuant to Rule 6.24, he requests a quote from the crowd for the 2250 Calls. In response, the crowd market is \$582.00-\$584.00, 5,000-up. Floor Broker ABC then verbally represents all terms and conditions of the order in the crowd, including the 1,000-contract size of the order and limit price of \$583.00 to buy.

Thereafter, while continuously representing the original order in the crowd, Floor Broker ABC solicits and systematizes an order received from off-floor Market Maker XYZ to sell 1,000 SPX 21SEP18 2250

Calls, but the order is at \$583.50. The original B/D agrees to modify his order’s limit to \$583.50. Floor Broker ABC systematizes the order modification then announces to the crowd all terms and conditions of the order as modified. Market Makers DEF and GHI both respond with offers for 350 at \$583.50. Floor Broker ABC responds with the solicited order to sell 1,000 at \$383.50.

Assuming there are no priority customer orders in the customer limit order book, Market Makers DEF and GHI have priority to trade against the modified original order in the sequence in which their responses were made. Each will sell 350 contracts for \$583.50. The solicited order for off-floor Market Maker XYZ represented by Floor Broker ABC will sell the remainder of 300 contracts at \$583.50.

Example:

Floor Broker ABC is holding a B/D order to buy 1,000 SPX 21SEP18 2250 Calls for \$583.00. After systematizing the order pursuant to Rule 6.24, he requests a quote from the crowd for the 2250 Calls. In response, the crowd market is \$582-\$584, 5,000-up. Floor Broker ABC then verbally represents all terms and conditions of the order in the crowd, including the full size of the order and limit price of \$583.00 to buy.

Thereafter, while Floor Broker ABC is continuously representing the original order in the crowd, *Floor Broker TUV* solicits and systematizes an order received from off-floor Market Maker XYZ to sell 1,000 SPX 21SEP18 2250 Calls, but the order is at \$583.50. Floor Broker TUV announces an order to sell 1,000 at \$583.50 in the crowd. Floor Broker ABC contacts the original B/D, who agrees to modify his original order’s limit to \$583.50. Floor Broker ABC systematizes the order modification then announces to the crowd all terms and conditions of the original order as modified. Floor Broker TUV and Market Makers GHI, JKL and MNO all respond at the same time with offers for 1,000 at \$583.50.

Assuming there are no priority customer orders in the customer limit order book, Floor Broker TUV, Market Makers GHI, JKL and MNO would normally have priority in the sequence in which their responses were made after the announcement of the modified original order by Floor Broker ABC pursuant to Rule 6.45(b). As further detailed in Rule 6.45(b), however, if the offers were made at the same time, or if Floor Broker ABC cannot reasonably determine the sequence in which they were made, the modified original order would be allocated equally among the offers for which the sequence could not be determined. In this case, TUV, GHI, JKL and MNO would each be allocated 250 contracts at \$583.50.

Rule	Solicited Order	Priority
6.9(c)	The solicited order matches the crowd market and later the disclosed original order’s limit is changed to meet/match the best bid or offer	Non-solicited market makers and floor brokers representing non-solicited discretionary orders in the crowd have priority over the solicited person or order at the best bid or offered price (subject to the customer limit order book priorities set forth in Rule 6.45).

Example:

Floor Broker ABC is holding a B/D order to buy 1,000 SPX 21SEP18 2250 Calls for \$583.00. After systematizing the order pursuant to Rule 6.24, he requests a quote from the crowd for the 2250 Calls. In response, the crowd market is \$582.00-\$584.00, 5,000-up. Floor Broker ABC then verbally represents all terms and conditions of the order in the crowd, including the full size of the order and limit price of \$583.00 to buy.

Thereafter, while Floor Broker ABC is continuously representing the original order in the crowd, *Floor Broker TUV* solicits and systematizes an order received from off-floor Market Maker XYZ to sell 1,000 SPX 21SEP18 2250 Calls, but the order is at \$584.00. Floor Broker TUV announces an order to sell 1,000 at \$584.00 in the crowd. Floor Broker ABC contacts the original B/D, who agrees to modify his original order's limit to \$584.00 and announces the modified bid to the crowd. Assuming there are no public customer orders in the customer limit order book, the non-solicited market makers and floor brokers with non-solicited discretionary orders have priority over the solicited order for Market Maker XYZ held and represented by Floor Broker TUV. Assuming there is sufficient participation by the other in-crowd market participants, Market Maker XYZ would not receive any portion of the allocation in this example.

Solicitation Occurs PRIOR TO Disclosure of the Original Order to Trading Crowd

Rule	Solicited Order		Priority
6.9(d)	Terms and conditions of the original order are not disclosed to the crowd prior to the solicitation.		Non-solicited market makers and floor brokers with non-solicited discretionary orders have priority over the solicited person or order to trade at the best bid or offered price (subject to the customer limit order book).

Example:

Floor Broker ABC receives and systemizes a B/D order to buy 1,000 SPX 21SEP18 2250 Calls for \$583.00. Before verbally representing the order in the crowd, he solicits off-floor Market Maker XYZ and receives an order to sell 500 SPX 21SEP18 2250 Calls at \$583.00. Floor Broker ABC thereafter requests a quote from the crowd for the 2250 Calls. In response, the crowd market is \$582.00-\$584.00, 5,000-up.

Floor Broker ABC then verbally represents all terms and conditions of the order in the crowd, including all terms and conditions of the order, including the 1,000-contract size of the order and limit price of \$583.00. Market Makers DEF and GHI both respond with offers 500 at \$583.00. Floor Broker ABC responds with the solicited order to sell for 500 at \$583.00.

Assuming there are no public customer orders in the customer limit order book, the non-solicited

market makers and floor brokers with non-solicited discretionary orders have priority over the order for Market Maker XYZ held by Floor Broker ABC. In this example there is sufficient participation by Market Makers DEF and GHI such that the solicited order for Market Maker XYZ represented by Floor Broker ABC would not receive any portion of the allocation.

Note that knowledge of an original order may be imputed to floor brokers or other associated persons of the same firm. Orders solicited by related floor brokers or associated persons before all terms and conditions of an order are disclosed to the trading crowd may be subject to Rule 6.9(d), unless otherwise demonstrated (e.g., the firm has written information barriers in place).

Trading Based on Knowledge of Imminent Undisclosed Transactions

Rule 6.9(e) states that TPHs and their associated persons, who have knowledge of all material terms and conditions of an original order and a solicited order that matches the original order's limit, the execution of which are imminent, are prohibited from entering an order in the same option class, underlying security, or any related instrument as an option that is the subject of the original order until and only if:

- (i) all the terms and conditions of the original order and any changes in the terms and conditions of which that TPH or associated person has knowledge are disclosed to the crowd; or
- (ii) the solicited trade can no longer reasonably be considered imminent in view of the passage of time since the solicitation.

Be advised that solicitations or activity involving the misuse of non-public information concerning an imminent transaction is restricted under Cboe Options Rule 4.1, *Just and Equitable Principles of Trade*, and as described in Cboe Options Regulatory Circulars [RG99-224](#) and [RG99-225](#).¹

Key Points to Remember

- As noted in Rule 6.9.01, the Rule applies to all solicited orders, including, but not limited to, facilitation orders and orders resulting from solicitations of public customers, non-Trading Permit Holder broker-dealers, Trading Permit Holders and TPH organizations, and market-makers.
- General solicitations of interest that do not specify all material terms, or other solicitations that do not result in express or tacit agreement on all material terms of a trade, including price, do not give rise to trading restrictions under Rule 6.9. However, whenever a floor broker who is aware of, but does not represent, an original order solicits one or more persons or orders in response to an original order, the persons solicited and any resulting orders are solicited persons and solicited orders subject to Rule 6.9.
- The phrase "terms and conditions" refers to class; series; volume; option price; any contingencies; and any components related to the order (e.g., stock, options, futures, or other

¹ See also Rule 6.9.06. Regulatory Circular RG99-225 is a re-issuance of Regulatory Circular RG94-76, which is referenced in Rule 6.9.06.

related instruments). Class is deemed to be disclosed to the trading crowd if it is apparent that the crowd is aware of which class is being traded.

- Pursuant to Rule 6.24 order, cancellation of, or change to an order transmitted to the Exchange must be systematized before it is sent to the Exchange or upon receipt on the floor.
- It is a violation of Rule 6.20(b) and/or 6.74 to effect or attempt to effect a transaction with no public outcry (e.g., “silent cross”).
- Rule 6.9 does not give the original order priority over other bids/offers that are present in the crowd during the time the original order is represented in the crowd (see below for instances involving an original order that is subject to the crossing/facilitation procedure in Rule 6.74(b)).
- Rules 6.9 and 6.74 do not permit “cross-only” transactions. The rules relating to both “solicited” and “crossing” transactions are designed to ensure that all market participants have an equal opportunity to participate in trades, fostering the objective of open outcry in a competitive market.
 - Rule 6.9(a) gives the solicited order priority over the crowd if the solicitation comes *after* disclosure of the original order to the crowd and the solicited order improves the market and matches the original order's limit.
 - Rule 6.74(b) gives the original order, as defined in Cboe Options Rule 6.9, priority at the same bid or offer as the crowd if the original order improves the market when represented as being "subject to facilitation," if the original order is for the account of a public customer and all components of the original order are disclosed to the crowd.
- Unlike Rule 6.74(b), Rule 6.9 includes broker-dealer orders as original orders. Note Rule 6.74(b) is only applicable to public customer (i.e., non-broker-dealer) orders that are subject to "facilitation."
- Paragraph (d) of Rule 6.74 supersedes the priority provisions of paragraph (d) of Rule 6.9 in those situations when the floor broker representing an eligible order determines to take advantage of the crossing provisions of Rule 6.74(d). Specifically, while Rule 6.9(d) provides that non-solicited market makers and floor brokers holding non-solicited discretionary orders in the crowd will have priority over the solicited person or the solicited order to trade with the original order at the best bid or best offered price, Rule 6.74(d) provides the solicited person or order with priority over all other parties (other than certain public customer orders) for either 20% or 40% of the contracts remaining in the order, as determined by the Exchange, after those certain public customer orders have been satisfied. See Rule 6.74(d) and Regulatory Circular [RG16-179](#) for additional information.

Additional Information

See attached for complete rule text of Cboe Options Rule 6.9. For questions related to this circular, please email RegInterps@cboe.com or call (312) 786-8141.

Cboe Options Rule 6.9, *Solicited Transactions*

A Trading Permit Holder or TPH organization representing an order respecting an option traded on the Exchange (an “original order”), including a spread, combination, or straddle order as defined in Rule 6.53, a stock-option order as defined in Rule 1.1(ii), a security future-option order as defined in Rule 1.1(zz), or any other complex order as defined in Rule 6.53C, may solicit a Trading Permit Holder or TPH organization or a public customer or broker-dealer (the “solicited person”) to transact in-person or by order (a “solicited order”) with the original order. In addition, whenever a floor broker who is aware of, but does not represent, an original order solicits one or more persons or orders in response to an original order, the persons solicited and any resulting orders are solicited persons or solicited orders subject to this Rule. Original orders and solicited orders are subject to the following conditions.

(a) Disclosed original order and matching solicited order that improves the market. If the terms and conditions of the original order are disclosed to the trading crowd prior to the solicitation and the original order is continuously represented in the crowd throughout the solicitation process without any change in the terms and conditions of the order, and if the solicited person or the solicited order matches the original order’s limit and improves the best bid or offer in the trading crowd, then the solicited person or the solicited order will have priority over nonsolicited market makers and floor brokers representing non-solicited discretionary orders in the trading crowd and may trade with the original order at the improved bid or offered price subject to customer limit order book priorities set forth in Rule 6.45.

(b) Disclosed original order that is later modified to meet a solicited order improving the market. If the terms and conditions of the original order are disclosed to the trading crowd prior to the solicitation and the original order is continuously represented in the crowd throughout the solicitation process, and if the solicited person or the solicited order improves the best bid or offer in the crowd but does not match the original order’s limit, and if thereafter the original order is modified to match the solicited order’s bid or offer, then the following principles apply:

(i) prior to executing the modified original order with the solicited person or solicited order or crossing the modified original order with the solicited order, the Trading Permit Holder initiating the original order must announce to the trading crowd all the terms and conditions of the original order as modified, and

(ii) bids or offers thereafter made in the crowd will have priority pursuant to Cboe Options Rule 6.45 and may trade with the original order as modified, in the sequence in which they are made.

(c) Disclosed original order that is later modified to meet a solicited order not improving the market. If all the terms and conditions of the original order are disclosed to the trading crowd prior to the solicitation and the original order is continuously represented in the crowd throughout the solicitation process, and if the solicited person or the solicited order’s bid or offer matches but does not improve the best bid or offer in the trading crowd and does not meet the original order’s limit, and if thereafter the original order is modified to match the best bid or offer, then non-solicited market-

makers and floor brokers with non-solicited discretionary orders in the trading crowd will have priority over the solicited person or the solicited order and may trade with the modified original order at the best bid or offered price subject to customer limit order book priorities set forth in Rule 6.45.

(d) Undisclosed original order. If the terms and conditions of the original order are not disclosed to the trading crowd prior to the solicitation, then, prior to crossing the original order with the solicited order or executing the original order with the solicited person or his agent, the Trading Permit Holder initiating the original order or his agent must disclose all the terms and conditions of the original order to the trading crowd. Non-solicited market-makers and floor brokers holding non-solicited discretionary orders in the trading crowd will have priority over the solicited person or the solicited order to trade with the original order at the best bid or offered price subject to customer limit order book priorities set forth in Rule 6.45.

(e) Trading based on knowledge of imminent undisclosed solicited transaction. It will be considered conduct inconsistent with just and equitable principles of trade and a violation of Rule 4.1 for any Trading Permit Holder or person associated with a Trading Permit Holder, who has knowledge of all material terms and conditions of an original order and a solicited order, including a facilitation order, that matches the original order's limit, the execution of which are imminent, to enter, based on such knowledge, an order to buy or sell an option of the same class as an option that is the subject of the original order, or an order to buy or sell the security underlying such class, or an order to buy or sell any related instrument until either (i) all the terms and conditions of the original order and any changes in the terms and conditions of the original order of which that Trading Permit Holder or associated person has knowledge are disclosed to the trading crowd or (ii) the solicited trade can no longer reasonably be considered imminent in view of the passage of time since the solicitation. For purposes of this paragraph (e), an order to buy or sell a "related instrument," means, in reference to an index option, an order to buy or sell securities comprising ten percent or more of the component securities in the index or an order to buy or sell a futures contract on any economically equivalent index. With respect to an SPX option, an OEX option is a related instrument, and vice versa.

(f) All orders initiated as a result of a solicitation must be marked in a manner and form prescribed by the Exchange and announced via Regulatory Circular.

. . . Interpretations and Policies:

.01 This Rule applies to all solicited orders, including, but not limited to, facilitation orders and orders resulting from solicitations of public customers, non-Trading Permit Holder broker-dealers, Trading Permit Holders and TPH organizations, and market-makers.

.02 A Trading Permit Holder initiating an original order is not required to announce to the trading crowd that another person has been solicited to participate in the order. The initiating Trading Permit Holder, however, must disclose to the trading crowd all the terms and conditions of the original order, and any modifications, as prescribed in this Rule.

.03 In respect of any solicited order that is a spread, straddle or combination order as defined in Rule 6.53, or any other complex order as defined in Rule 6.53C, the terms “bid” and “offer” as used in subparagraphs (a)-(d) of this Rule 6.9 mean “total net debit” and “total net credit,” respectively.

.04 Except as provided in Rule 6.9(a), the procedures set forth in Rule 6.74 (Crossing Orders) govern the crossing of original orders with facilitation orders or solicited orders as determined by the Exchange pursuant to Rule 6.74(d).

.05 The provisions of Rule 6.45 govern the priority of bids and offers, including the priority of a bid or an offer in relation to an original order on the same side of the market. For example, an original order to buy an option contract will take priority over other bids at the same price only as provided in Rule 6.45.

.06 Disclosing all the terms of the original order and any changes in the terms and conditions of the original order to the crowd prior to effecting a trade does not provide a safe harbor from possible violations of front-running prohibitions. Front-running is considered to be a violation of Exchange Rule 4.1, Just and Equitable Principles of Trade, as described in Exchange Regulatory Circular RG94-76.

.07 The phrase “terms and conditions,” as used in this rule with respect to an order that is subject to facilitation, refers to class; series; volume; option price; any contingencies; and any components related to the order (e.g., stock, options, futures or other related instruments or interests). However, the class will be deemed to be disclosed to the trading crowd if it is apparent that the crowd is aware of which class is being traded, (e.g., if the pit in which the transaction occurs is designated for one option class only, or if the class is the only one in the trading post trading at the disclosed strike price, then it would be apparent which option class is being traded).