

Regulatory Circular RG16-036

Date: February 18, 2016

To: Trading Permit Holders

From: Business Development Division

RE: Call/Put Price Checks for Quotes and Orders; NBBO Inversion Checks for Quotes

Chicago Board Options Exchange, Incorporated ("CBOE") will introduce new order and quote price checks pursuant to CBOE Rule 6.14. The roll-out will begin with BC 97 effective Monday, February 22, 2016 and is scheduled to be completed by March 1, 2016.

Buy Call Check

A simple limit buy order for a call option will be rejected if the limit price is greater than or equal to the underlying stock last sale price or last underlying index value.

IMPORTANT: If the replace portion of a cancel/replace order fails this check, the entire cancel/replace order will be rejected, and the original order will remain in force.

An individual quote or a quote within a packet will be rejected if the bid for a call option is greater than or equal to the underlying stock last sale price or last underlying index value. If the user has a resting quote for the same series, the resting quote will be cancelled as well.

- This check will apply to all order contingencies, origin codes and in all product states.
- This check will not be applied prior to the regular trading session of the underlying or other times when the underlying stock last sale or last underlying index value is unavailable.
- This check will not be applied for classes with a non-standard delivery (adjusted classes).
- For AIM, SAM and QCC orders, if either the primary or match order fails this check, both orders will be rejected.
- For AIR orders, if the primary order fails this check, both the primary and match orders will be rejected. However, if only the match order fails this check, the primary order will be accepted and the match order will be rejected.
- This check can be disabled by the Help Desk for an individual class or Exchange-wide if necessary.

Buy Put Check

A simple limit buy order for a put option will be rejected if the limit price is greater than or equal to the order's strike price.

IMPORTANT: If the replace portion of a cancel/replace order fails this check, the entire cancel/replace order will be rejected, and the original order will remain in force.

An individual quote or a quote within a packet will be rejected if the bid for a put option is greater than or equal to the quote's strike price. If the user has a resting quote for the same series, the resting quote will be cancelled as well.

- This check will apply to all order contingencies, origin codes and in all product states.
- For AIM, SAM and QCC orders, if either the primary or match order fails this check, both orders will be rejected.

- For AIR orders, if the primary order fails this check, both the primary and match orders will be rejected. However, if only the match order fails this check, the primary order will be accepted, and the match order will be rejected.

Quote NBBO Tick Inversion Check

An individual quote or a quote within a packet will be rejected if it inverts the displayed NBBO by more than 5 ticks. If the user has a resting quote for the same series, that resting quote will be cancelled as well.

- This check will be applied in open trading state only.
- If the NBBO is locked or inverted, the CBOE BBO, if available, will be used.

Away Market Check

An individual quote or a quote within a packet will be cancelled if displaying it would lock or invert the best away market. The quote will first be allowed to execute with opposite-side CBOE interest at prices up to and including the best away price. If the user has a resting quote for the same series, the resting quote will be cancelled as well.

Example: Best away offer 1.20; best CBOE offer 1.19 for 10 contracts; next best CBOE offer 1.20 for 20 contracts. Incoming quote is received 1.20-1.30 100x100. The incoming quote will trade 10 contracts at 1.19 with the 10-lot offer of 1.19 and 20 contracts at 1.20 with the 20-lot offer of 1.20. The remainder of the incoming quote will be cancelled because displaying it would lock the away market.

- This check will not be applied in pre-open, rotation or halt states. However, a quote entered during pre-open or rotation is protected and will be cancelled if it locks/inverts an away market as the Exchange moves into open state.

Additional Information:

Questions regarding the operational topics in this circular may be directed to the CBOE Help Desk at 866-728-2263 or helpdesk@cboe.com.