

## Regulatory Circular RG16-037

**Date:** February 18, 2016

**To:** Trading Permit Holders

**From:** Business Development Division

**RE:** Enhanced Complex Order Price Protections

---

### This circular updates RG08-140

Chicago Board Options Exchange, Incorporated ("CBOE") will introduce new price protection checks for complex orders pursuant to CBOE Rule 6.53C. The roll-out will begin with BC 97 effective Monday, February 22, 2016 and is scheduled to be completed by March 1, 2016.

These enhanced order protections will not apply to orders directly routed to PAR or OMT but will apply to all other complex orders, including ratios, those submitted via AIM, SAM and QCC, auction responses, all origin codes and all order contingencies.

**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.

### Complex Order Protections

**Debit/credit protection** - An order will be rejected if a strategy is defined as debit (credit) and the limit price is credit (debit). This protection also cancels a market order for a credit strategy if the execution price would be debit. This applies to complex orders, including buy-writes, that can be defined as debit (credit). Those that cannot be defined as such are defined as "neutral" and bypass this check, as do multi-class spreads and calendar spreads in European-style indices. Prior to this enhancement, debit/credit protection only applied to verticals, butterflies and skewed butterflies.

Strategies will be organized into leg pairs and loners and defined as credit (orders to sell) or debit (orders to buy) by applying the following rules:

- 1) A pair is a buy call and sell call or a buy put and sell put and is defined as debit (credit) when buying (selling) the more expensive option of the two.
- 2) A loner is a single option that cannot be paired with another option and will always be a debit (credit) when buying (selling).
- 3) Two calls with the same expiration date and different strikes - An order to buy (sell) the lower strike and sell (buy) the higher strike will be defined as debit (credit).

For example: Buy XYZ JAN 10 Calls, Sell XYZ JAN 15 Calls = Debit

- 4) Two puts with the same expiration date and different strikes - An order to buy (sell) the lower strike and sell (buy) the higher strike will be defined as credit (debit).

For example: Buy XYZ JAN 10 Puts, Sell XYZ JAN 15 Puts = Credit

- 5) Two calls (puts) with the same strike and different expiration dates - An order to buy (sell) a call (put) option with a far-term expiration and sell (buy) an option with a near-term expiration will be a debit (credit).

For example: Sell XYZ JAN 10 Puts, Buy XYZ FEB 10 Puts = Debit

- 6) A call butterfly - An order to buy (sell) the wings and sell (buy) the body is a debit (credit).

For example: Buy 1 XYZ JAN 10 Call, Sell 2 XYZ JAN 15 Calls, Buy 1 XYZ JAN 20 Call = Debit

- 7) A skewed call butterfly – An order to buy (sell) the wings and sell (buy) the body where the body is skewed toward the wing with the higher strike is a debit (credit).

For example: Buy 1 XYZ JAN 10 Call, Sell 2 XYZ JAN 20 Calls, Buy 1 XYZ JAN 25 Call = Debit

- 8) A put butterfly - An order to buy (sell) the wings and sell (buy) the body is a debit (credit).

For example: Buy 1 XYZ JAN 10 Put, Sell 2 XYZ JAN 15 Puts, Buy 1 XYZ JAN 20 Put = Debit

- 9) A skewed put butterfly – An order to buy (sell) the wings and sell (buy) the body where the body is skewed toward the wing with the lower strike is a debit (credit).

For example: Buy 1 XYZ JAN 10 Put, Sell 2 XYZ JAN 15 Puts, Buy 1 XYZ JAN 25 Put = Debit

- 10) An order for which all pairs and loners are debit (credit) is a debit (credit).

For example: Pair - Buy 1 XYZ JAN 10 Call, Sell 1 XYZ JAN 20 Call = Debit

Loner - Buy 1 XYZ FEB 20 Put = Debit

Strategy = Debit

- 11) A strategy order that does not contain all debit or all credit pairs and loners is undefinable (neutral) and will skip this complex order protection.

For example: Pair - Buy 1 XYZ JAN 10 Call, Sell 1 XYZ JAN 20 Call = Debit

Loner- Sell 1 XYZ 20 FEB Put = Credit

Strategy = Undefinable (neutral)

**An Acceptable Price Range (APR)** - Verticals, true butterflies and box spreads will be rejected if the limit price, either debit or credit, is above the APR. The lower range of the APR is zero and the upper range of the APR is the strike price difference of the strategy plus 1%, with a minimum of \$.03 and a maximum of \$.50. Also, a market order to buy (debit strategy) will be cancelled if the execution price would be above the APR.

**Acceptable Price Range Examples:****Example 1:**

A \$5 vertical has an APR from \$0.00 to \$5.05. The upper APR range (\$5.05) is the difference in the strike price + (strike price difference  $\times$  1%) as the (strike price difference  $\times$  1%) is within the required minimum of \$.03 and maximum of \$.50.

**Example 2:**

A \$1 vertical has an APR from 0 to \$1.03. The upper APR range (\$1.03) is the difference in the strike price + the minimum of \$.03 as the (strike price difference  $\times$  1%) is less than the required minimum of \$.03.

**Example 3:**

A \$100 vertical has an APR from 0 to \$100.50. The upper APR range (\$100.50) is the difference in the strike price + the maximum of \$.50 as the (strike price difference  $\times$  1%) is greater than the required maximum of \$.50.

**Additional Information**

Please contact the CBOE API Group at 312-786-7300 or [api@cboe.com](mailto:api@cboe.com) for a more detailed description of the new reject messages or to schedule testing and the CBOE Help Desk at 866-728-2263 or [helpdesk@cboe.com](mailto:helpdesk@cboe.com) for further information regarding operational matters.