CBOE Regulatory Circular RG17-017

Date: **February 03, 2017**

To: **CBOE Trading Permit Holders**

From: **Business Development Division**

Re: **Operational System Settings for Constituent Options of Volatility Indexes on Expiration Dates for Volatility Index Derivatives**

This circular updates and replaces CBOE Regulatory Circular RG15-112

Chicago Board Options Exchange, Incorporated (CBOE) is reissuing this circular in connection with a change being made to the Acceptable Price Range (APR) settings for classes that are used to calculate the settlement value for volatility index derivatives. Specifically, both the Opening Exchange Prescribed Width (OEPW) and the APR parameters will now be narrowed on days when CBOE option classes are used to calculate exercise settlement values for expiring Volatility Index derivatives. This measure will preclude a series in such classes from opening unless the best CBOE quote bid-ask width is at or within these settings. This change will go into effect for the Wednesday, February 8, 2017 weekly VIX derivatives expiration and will go into effect for the February 15, 2017 standard VIX and RVX derivatives expiration. This change will also apply to all expirations for volatility index derivatives going forward. The narrowed OEPW parameters previously announced in CBOE Regulatory RG15-112 remain the same.

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This circular identifies certain operational system settings for the option classes whose series are used to calculate the exercise settlement value for expiring Volatility Index derivatives on their respective expiration dates, including changes to those settings (which will become effective on the dates set forth below).[1] On all other trading days, the operational system settings for these classes will return to their standard levels as detailed in the CBOE Regulatory Circulars referenced below.

Opening Process
On the expiration dates for Volatility Index derivatives, all constituent option classes/series used to calculate exercise settlement values will use the modified Hybrid Opening System (HOSS) procedures (for detailed information see the Settlement Information for VIX Derivatives webpage). On all other trading days, these classes/series will use either the regular HOSS procedures or the Hybrid Agency Liaison Opening (HAL-O) procedures (see CBOE Rule 6.2B) as previously determined for each class/series.

Pre-Open Reasonability Checks
Currently, incoming limit orders that are overly marketable when compared to the previous day's closing price, or NBBO if available, when received in a pre-open state are rejected. On expiration dates for Volatility Index derivatives, orders in constituent option classes used to calculate exercise settlement values routed prior to the opening are not subject to the pre-open reasonability check.[2]

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[1] Options expire on an expiration date and settle to an exercise settlement value and futures settle on a final settlement date to a final settlement value. For ease of reference, CBOE will use options terminology throughout this circular when referring to the "expiration / final settlement date" and the "expiration / final settlement value" for Volatility Index derivatives.

[2] This applies to the entire class and is not limited solely to the expiration series used to calculate the exercise settlement value.

Opening Exchange Prescribed Width (OEPW) and Acceptable Price Range (APR)

- On the expiration dates for Volatility Index derivatives, the OEPW and APR ranges in the constituent option classes/series used to calculate exercise settlement values will be narrowed to the levels shown in the table below.

- For series that will have an opening trade, the width of the best CBOE quote bid-ask must be no wider than the OEPW* parameter and opening trades must be able to execute at a price within a valid range. The calculation for the valid range is the midpoint of the best CBOE quote bid/ask plus/minus half of the OEPW**.

- A series with no opening trade will be allowed to open as long as the width of the best CBOE quote bid-ask is no wider than the APR parameter.

- The APR will be returned to the standard settings shortly after the open. Please note that until that time Market orders received when the NBBO is wider than the APR will route to PAR or OMT and complex strategy products will be placed "On Hold" if the CBOE BBO for any of the individual legs of the strategy has a bid-ask wider than the APR.

The OEPW and APR parameters on Volatility Index derivative expiration days are as follows:

OEPW and APR on Volatility Index Derivative Expiration Days[3]		
Price	OEPW	APR
0.00 - .25	0.40	0.60
.26 - .50	0.50	0.60
.51 - 1.00	0.60	1.00
1.01 – 1.99	0.70	1.00
2.00 – 5.00	1.00	1.60
5.01 – 10.00	1.20	2.00
10.01 – 20.00	1.60	2.50
20.01 – 30.00	3.00	4.00
30.01 - 40.00	4.00	5.00
40.01 – 50.00	5.00	6.00
50.01 – 100.00	10.00	10.00
100.01 – 200.00	16.00	16.00
> =200.01	24.00	24.00

*To determine the OEPW value for allowed quote bid-ask width, HOSS classes use the best CBOE quote bid price only.
**To determine the OEPW value for the valid range calculation HOSS classes use the midpoint price of the best CBOE quote bid-ask.

Please see the Settlement Information for VIX Derivatives webpage for links to current circulars announcing standard OEPW and APR settings

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[3] As of the date of this circular, these classes include S&P 500 Index Options (Symbols SPX and SPXW) and Russell 2000 Index options (symbol RUT).

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. Questions regarding regulatory matters related to this circular may be directed to the Regulatory Interpretations and Guidance team at reginterps@cboe.com or (312) 786-8141.