



Cboe Options Regulatory Circular RG18-012

Date: April 10, 2018

To: Trading Permit Holders

From: Regulatory Division and Derivatives Market Structure and Functionality

RE: Bid-Ask Differential, Initial Quote Size, and Continuous Quoting Requirements for SPX Options Trading on the Hybrid Trading Platform

Replaces Cboe Options Regulatory Circular RG18-009 & Partially Updates Cboe Options Regulatory Circular RG16-073

The following are bid-ask differentials, initial quote size, and continuous quoting requirements for Market-Maker quotes in the SPX group of option series (a.m.-settled with third-Friday of the month expiration) once trading of those SPX options begins on the Hybrid Trading System (“Hybrid”). Trading of SPX options on Hybrid will begin **April 30, 2018**.¹

This circular replaces Cboe Options Regulatory Circular RG18-009. In addition, the bid-ask differential and quote size requirements for intraday open outcry quotes in the SPX group of option series have been included here for ease of reference (these open outcry requirements will remain the same). Information on bid-ask differentials and quote size requirements for electronic and intraday open outcry quotes in the SPXW group of option series has also been included for ease of reference (these requirements, as well as continuous electronic quoting requirements, will remain the same).²

Market-Maker Obligations for the First 90 Days after the SPX Group Begins Trading on Hybrid

Pursuant to Cboe Options Rule 8.7(d), the following obligations will apply to Market-Maker quotes in the SPX group of series for the first 90 days after SPX begins trading on Hybrid.

Electronic Quote Widths: See Chart 1 below for maximum electronic quote widths for the SPX group (intraday and opening rotation).

Continuous Electronic Quoting Obligation: Market-Makers will not be obligated to quote electronically in any designated percentage of series within the SPX group.

¹ The SPX options classes currently consists of two groups of option series: the **SPX** group (a.m.-settled with third-Friday-of-the-month expiration) and the **SPXW** group (p.m.-settled with expirations other than the third-Friday). The SPX group of option series currently trades on the Hybrid 3.0 Platform (“Hybrid 3.0”) and is moving to Hybrid. The SPXW group of option series already trades on Hybrid.

² The bid-ask differentials, initial quote size and continuous electronic quoting requirements for the **SPXW** group of series are not changing as a result of the move of the **SPX** group of series to Hybrid. For information on the **SPXW** requirements, please refer to Cboe Rule 8.7(d) and [Cboe Options Regulatory Circular RG16-073](#). As noted in an [Exchange Notice \(issued March 23, 2018\)](#), Market-Makers will be permitted to quote in SPX, SPXW or both, with the continuous electronic quoting obligations independently applied to each symbol.

Initial Electronic Quote Size: Initial minimum quote size for all opening rotation bids and offers, and intraday electronic bids and offers received by the System no later than 3000 milliseconds after a series opens, will be set at one (1) contract for the series within the SPX group. See Chart 2 below for intraday initial minimum quote size requirements that apply for intraday electronic bids and offers after the 3000-millisecond time period.

Continuous Open Outcry Quoting Obligation: In response to any RFQ by a Floor Broker, in-crowd Market-Makers must provide a two-sided market complying with the maximum bid-ask differential and minimum quote size requirements set forth in [Cboe Options Regulatory Circular RG16-073](#).

Market-Maker Obligations AFTER the First 90 Days the SPX Group is Trading on Hybrid

Pursuant to Cboe Options Rule 8.7(d), after the 90-day introductory period, a Market-Maker's obligations in the SPX group of options series depends on the volume the Market-Maker traded electronically in that group of series during the preceding calendar quarter (i.e., less than or equal to 20%, or more than 20%).

Market-Maker Trades LESS than or EQUAL to 20% of the Market-Maker's Volume in SPX Group of Series Electronically

If a Market-Maker trades less than or equal to 20% of the Market-Maker's SPX group series volume electronically in a calendar quarter,³ then the obligations above continue to apply (see also Cboe Options Rule 8.7(d)(i)).

Market-Maker Trades MORE than 20% of the Market-Maker's Volume in SPX Group of Series Electronically

Once a Market-Maker trades more than 20% of the Market-Maker's contract volume in the SPX electronically in a calendar quarter, the following obligations will ALWAYS apply to the Market-Maker in the SPX group of option series (see also Cboe Options Rule 8.7(d)(ii)).

Electronic Quote Width: See Chart 1 below for maximum electronic quote widths for the SPX group (intraday and opening rotation).

Continuous Electronic Quoting Obligation:⁴ A Market-Maker is required to maintain continuous electronic quotes (as defined in Cboe Options Rule 1.1(ccc)) in 60% of the non-adjusted option series that have a time to expiration of less than nine months.

³ If a Market-Maker exceeds the 20% threshold during the first calendar quarter, the obligations will become effective during the next calendar quarter, but no earlier than 90 days after the SPX group of series begins trading on Hybrid (e.g., if, hypothetically, SPX begins trading on Hybrid April 30, 2018 and a Market-Maker executes more than 20% of its contract volume in SPX electronically during the 2nd quarter, the heightened electronic quoting obligations of 8.7(d)(ii) will begin July 30, 2018, even though the next calendar quarter began July 1, 2018).

⁴ Pursuant to Cboe Options Rule 8.7(d)(ii)(B), a Market-Maker is required to maintain continuous electronic quotes (as defined in Rule 1.1(ccc)) in 60% of the non-adjusted option series of the Market-Maker's appointed classes that have a time to expiration of less than nine months. Under Cboe Options Rule 1.1(ccc) a Market-Maker is deemed to have provided "continuous electronic quotes" if the Hybrid Market-Maker provides electronic two-sided quotes for 90% of the time that the Hybrid Market-Maker is required to provide electronic quotes in an appointed option

Initial Electronic Quote Size: Initial minimum quote size for all opening rotation bids and offers, and intraday electronic bids and offers received by the System no later than 3000 milliseconds after a series opens, will be set at one (1) contract for the SPX group. See Chart 2 below for intraday initial minimum quote size requirements that apply for intraday electronic bids and offers after the 3000-millisecond time period for the SPX group.

Continuous Open Outcry Quoting Obligation: In response to any RFQ by a Floor Broker, in-crowd Market-Makers must provide a two-sided market complying with the maximum bid-ask differential and minimum quote size requirements set forth in [Cboe Options Regulatory Circular RG16-073](#).

Chart 1 - Maximum Bid-Ask Differentials for Electronic Quotes in the SPX Group of Option Series (Intraday and Opening Rotation)

Quote Bid	Maximum Differential	
	Expiration ≤ 462 Days	Expiration > 462 Days
.00-100.00	\$10.00	\$20.00
100.01-200.00	\$16.00	\$32.00
Greater than 200.00	\$24.00	\$48.00

The above electronic bid-ask differentials do not apply to at-the-money or in-the-money series where the quote width calculated by the Exchange or its agent for the index is wider than the differentials set forth above. For these series, the bid-ask differential may be as wide as the quote width calculated by the Exchange or agent, as applicable.

Chart 2 - Initial Quote Size for Electronic Quotes in SPX Group of Options Series (Intraday Beginning After 3000-Millisecond Time Period Only)

Quote Bid/Offer	Days to Expiration				
	≤ 7 Days	8 – 91 Days	92 – 188 Days	189 – 461 Days	≥ 462 Days
.00 – 15.00	25	100	60	40	25
15.01 – 40.00	20	75	45	30	20
40.01 – 75.00	15	45	25	20	15
75.01 – 100.00	10	30	20	15	10
Greater than 100.00	10	15	10	10	5

The initial quote size for a bid in the SPX group of options series is based on the premium price of the

class on a given trading day during the applicable trading session. Compliance with this quoting obligation applies to all of a Hybrid Market-Maker's appointed classes collectively (with respect to each Market-Maker type as the Hybrid Market-Maker is approved to act). The continuous electronic quoting obligation may be satisfied by Market-Makers either individually or collectively with the Market-Makers of the same TPH Organization (see [Cboe Regulatory Circular RG18-011](#) for additional information).

Market-Maker's bid, while the initial quote size for an offer is based on the premium price of the Market-Maker's offer. For example, assume it is between 8 and 91 days to expiration and a Market-Maker's electronic quote for a certain SPX series is entered as \$38.90 - \$40.40. The initial bid size must be for at least 75 contracts and the initial offer size must be for at least 45 contracts.

Initial minimum quote size for all opening rotation bids and offers, and bids and offers entered intraday no later than 3000 milliseconds after a series opens, will be set at one (1) contract for the series in the SPX group. After such 3000-millisecond period, once the size of a bid (offer) decrements to zero, or anytime a Market-Maker updates its bid (offer) price, the Market-Maker must replenish the size for the updated bid (offer) to at least the minimum size shown in Chart 2 above.

Maximum Bid-Ask Differentials and Initial Quote Size for Electronic Quotes in the SPXW, and Continuous Open Outcry Quoting Obligations for SPX and SPXW

Bid-Ask differentials and initial quote size requirements for electronic quotes in the SPXW group of option series, as well as open outcry differential and size requirements for quotes in the SPX and SPXW option series will remain the same as announced in [Cboe Regulatory Circular RG16-073](#). The requirements are listed below for reference.

Maximum Bid-Ask Differentials for Electronic Quotes in SPXW (Intraday and Opening Rotation)

Quote Bid	Maximum Differential
.00-100.00	\$10.00
100.01-200.00	\$16.00
Greater than 200.00	\$24.00

Maximum Bid-Ask Differentials for Open Outcry Quotes in SPX and SPXW

Quote Bid	Maximum Differential
.00-1.99	\$1.00
2.00-5.00	\$1.60
5.01-10.00	\$2.00
10.01-20.00	\$4.00
20.01-50.00	\$6.00
50.01-100.00	\$10.00
100.01-200.00	\$16.00
Greater than 200.00	\$24.00

The above bid-ask differentials do not apply to at-the-money or in-the-money series where the quote width calculated by the Exchange or its agent for the index is wider than the differentials set forth above. For these series, the bid-ask differential may be as wide as the quote width calculated by the Exchange or agent, as applicable.

Initial Quote Size

The minimum quote size for all opening rotation and intraday bids and offers for open outcry quotes in SPX and SPXW, and electronic quotes in SPXW, will remain set at one (1) contract.

Market-Maker Requirement to Maintain Fair and Orderly Markets

Market-Makers are reminded that pursuant to Cboe Options Rule 8.7(b), and in the course of maintaining a fair and orderly market, a Market-Maker is expected to, among other things, compete with other Market-Makers to improve markets in all series of options classes comprising the Market-Maker's appointment and update market quotations in response to changed market conditions in the Market-Maker's appointed classes.

Additional Information

For questions regarding operational matters related to this circular, please email the Derivatives Market Structure and Functionality group at msfmgt@cboe.com.

For questions regarding applicable rules related to this circular, please email RegInterps@cboe.com or call (312) 786-8141.