



**Cboe Options Regulatory Circular RG18-037
CFE Regulatory Circular RG18-015**

Date: October 16, 2018

To: Volatility Index Derivative Market Participants

From: Regulatory Division, Market Structure Department and Research and Product Development

RE: Approved Changes to Modified Opening Procedure for Series Used to Calculate the Exercise or Final Settlement Value of Expiring Volatility Index Derivatives (Interpretation and Policy .01 to Cboe Options Rule 6.2) – Effective October 17, 2018

Updates Cboe Options Regulatory Circular RG18-036 and CFE Regulatory Circular RG18-014

Cboe Exchange, Inc. (Cboe Options) and Cboe Futures Exchange, LLC (CFE) (collectively, the Exchanges) are issuing this joint regulatory circular to notify market participants that the rule filing described in [Cboe Options Regulatory Circular RG18-036](#) and [CFE Regulatory Circular RG18-014](#) have been approved by the SEC. **The amendments to Cboe Options Rule 6.2, as further described below, will be effective for the October 17, 2018 settlement.**

By way of background, Cboe Options Rule 6.2 pertains to the Hybrid Opening System (HOSS). Interpretation and Policy .01 to Cboe Options Rule 6.2 sets forth a modified opening procedure for series used to calculate the exercise or final settlement value of expiring volatility index derivatives. This is referred to as the “Modified HOSS” opening procedure.

As described in the approval order ([here](#)) Cboe Options Rule 6.2.01 has been modified to: (1) amend and clarify the definition of a strategy order; (2) permit the entry of orders that offset imbalances after the strategy order cut-off time; and (3) clarify other definitions related to the Modified HOSS opening procedure. The amendment is further described below.

Definition of Strategy Orders

Cboe Options is modifying the definition of a “strategy order” under Cboe Options Rule 6.2.01(a). Effective October 17, 2018, Cboe Options will deem individual orders (considered collectively) that a market participant submits for participation in the modified opening procedure to be a “strategy order,” based on related facts and circumstances considered by the Cboe Options, only if the orders:

- (1) relate to the market participant’s positions in expiring volatility index derivatives;
- (2) are for option series with the expiration that will be used to calculate the exercise or final settlement value, as applicable, of the applicable volatility index derivative;
- (3) are for option series with strike prices approximating the range of series that are later determined to constitute the constituent option series for the applicable expiration;

- (4) are for put (call) options with strike prices equal to or less (greater) than the “at-the-money” strike price; and
- (5) have quantities approximating the weighting formula used to determine the exercise or final settlement value, as applicable, in accordance with the applicable volatility index methodology.

As is currently required, market participants will be required to submit strategy orders (which orders must be entered into Cboe Options by a Cboe Options Trading Permit Holder), and any changes to or cancellations of strategy orders, prior to the strategy order cut-off time as determined by Cboe Options, unless otherwise permitted by the rule (see proposed Rule 6.2.01(c)). (As of the date of this circular, the strategy order cut-off time is 8:20 a.m. CT per Cboe Options Regulatory Circular [RG17-006](#).)

Non-Strategy Orders, including Orders to Offset Imbalances after the Strategy Order Cut-Off Time

New paragraph (a) to Cboe Options Rule 6.2.01 includes the definition of a “non-strategy order,” which is any order (including an order in a constituent option series) a market participant submits for participation in the modified opening procedure that is not a strategy order (or a change to or cancellation of a strategy order). Examples of non-strategy orders include, but are not limited to:

- (1) a buy (sell) order in a constituent option series if an expected opening information message (EOI) disseminated no more than two minutes prior to the time a market participant submitted the order included a sell (buy) imbalance and the size of the order is no larger than the size of the imbalance in the EOI, regardless of whether the market participant previously submitted a strategy order or has positions in expiring volatility index derivatives; or
- (2) a Market-Maker bid or offer in a constituent option series, as set forth in proposed paragraph (e) of Interpretation and Policy .01 (new paragraph (e) was previously paragraph (c) of Interpretation and Policy .01 and remains unchanged by the changes described herein; see Cboe Options Regulatory Circular [RG18-022](#) for more information regarding this paragraph).

As is currently required, market participants will be required to submit non-strategy orders (which orders must be submitted to Cboe Options by a Cboe Options Trading Permit Holder) prior to the non-strategy order cut-off time as determined by Cboe Options (see proposed Cboe Options Rule 6.2.01(d)). (As of the date of this circular, the non-strategy order cut-off time is the opening of trading.)

Other Definitions

In addition to the definitions of strategy order and non-strategy order described above, the rule change moved all defined terms in Interpretation and Policy .01 to proposed paragraph (a), added certain defined terms, and revised and clarified existing defined terms as each is used in Interpretation and Policy .01. The remaining definitions contained in new paragraph (a) are as identified below:

Volatility Index Derivatives: The term “volatility index derivatives” means index options listed for trading on Cboe Options (as determined under Rule 24.9(a)(5) and (6)), (security) futures listed for trading on an affiliated designated contract market, or over-the-counter derivatives

overlying a volatility index whose exercise or final settlement values, as applicable, are calculated pursuant to, or by reference to, as applicable, the modified opening procedure described in Interpretation and Policy .01.

Exercise Settlement Value Determination Day: The term “exercise settlement value determination day” means a day on which the Cboe Options determines the exercise or final settlement value, as applicable, of expiring volatility index derivatives.

Constituent Option Series: The term “constituent option series” means all option series listed on Cboe Options that are used to calculate the exercise or final settlement value, as applicable, of expiring volatility index derivatives.

Additional Information

For questions regarding this circular, please contact Regulatory Interpretations at RegInterps@cboe.com or (312) 786-8141.