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Cboe Derivatives Digest

1 message

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Mon, Jul 31, 2023 at 1:25 PM



July 31, 2023



**Arianne
Adams**

SVP, Head of
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Client Services

To our Cboe community

I hope everyone is enjoying the summer—even if it feels like it's flying by too fast! This has been a busy summer at Cboe, filled with new product launches, volume growth, advocacy and of course, continued innovation.

Notably, in June there were multiple records in our U.S. options proprietary products suite. We continue to see growing interest in options trading across the board, but especially in same-day options trading, or 0DTE.

Our team is working diligently to provide more insight into the options market landscape and continue raising awareness about the fantastic utility of options. Read on for more details about an upcoming whitepaper from Senior Derivatives Analyst Jonathan Zaionz. Through detailed data analysis, Jonathan provides an excellent overview of SPX options growth in recent years, use cases, quote quality and cost of trading driving the interest in SPX and 0DTE.

In other news, we [recently launched](#) options on Cboe® iBoxx® iShares® \$ High Yield Corporate Bond Index futures (futures ticker: IBHY) and Cboe® iBoxx® iShares® \$ Investment Grade Corporate Bond Index futures (futures ticker: IBIG). Designed to leverage the deep and liquid iShares ETF ecosystem, these contracts provide investors with a simple, and capital-efficient way to express a view, enhance trading strategies or manage exposure to the broad U.S. high yield and investment grade corporate bond market. We are so excited about the potential of this functionality and the utility they provide those trading credit. We also plan to extend trading hours for IBHY and IBIG futures to nearly 24-hours per weekday in August.

In early 2024 we plan to launch VIX options on futures as we continue to seek new ways to help investors trade volatility. In the meantime, I'm happy to share that VIX options volume continues to accelerate as investors find value in the entire S&P 500 product ecosystem offering during varying market conditions with various products that Cboe offers.

Last but not least, I am thrilled to share that Mandy Xu has joined Cboe as the Head of Derivatives Market Intelligence. She will produce actionable insights and analysis on derivatives market themes and flows, with a focus on Cboe's leading suite of volatility products. We are so excited to welcome Mandy to the team and looking forward to sharing more insights and analysis from her soon.

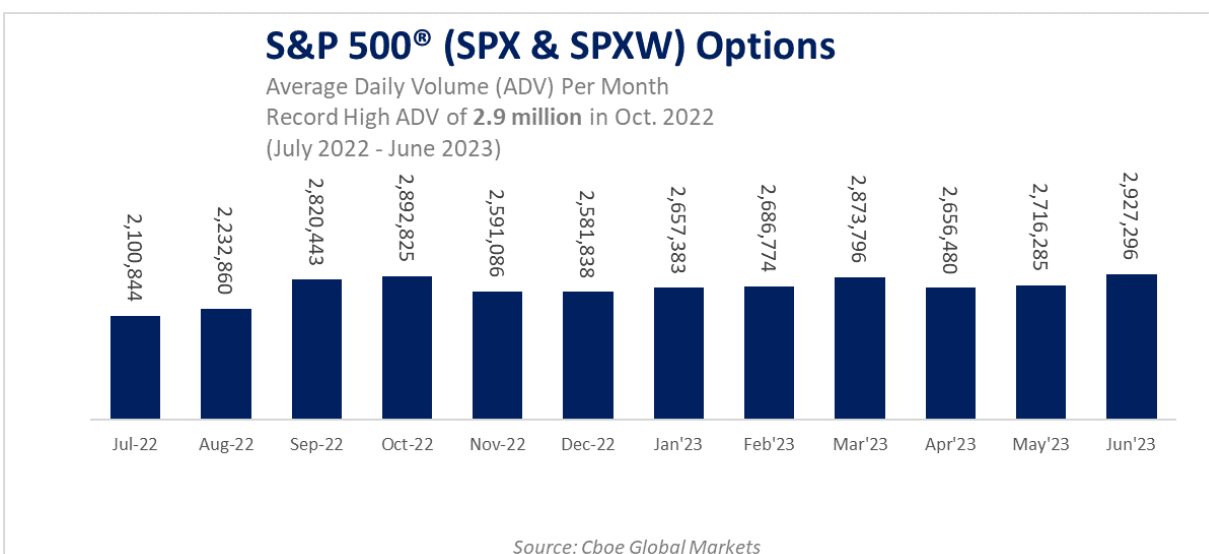
Below, we share more about the initiatives I mentioned, as well as an update on our protected options rule filing, drill-through price protection and cash-settled ETF FLEX options. As always, thank you for your continued partnership and feedback about how we can enhance your trading experience. Please reach out to any of us at any time, we love to hear from you.

Arianne Adams
SVP, Head of Derivatives and Global Client Services

The Latest from Cboe

Record Volumes in Cboe's U.S. Options Proprietary Products Suite

Cboe's U.S. options proprietary product suite reached a combined average daily volume (ADV) of 3.9 million contracts in June, the highest month on record. S&P 500 Index (SPX) options hit a quarterly ADV record and a monthly ADV record, while Mini S&P 500 Index (XSP) options monthly ADV was the highest its been since January 2021 and Russell 2000 Index (RUT) options monthly ADV was the highest since November 2021. Find more Cboe volume data.



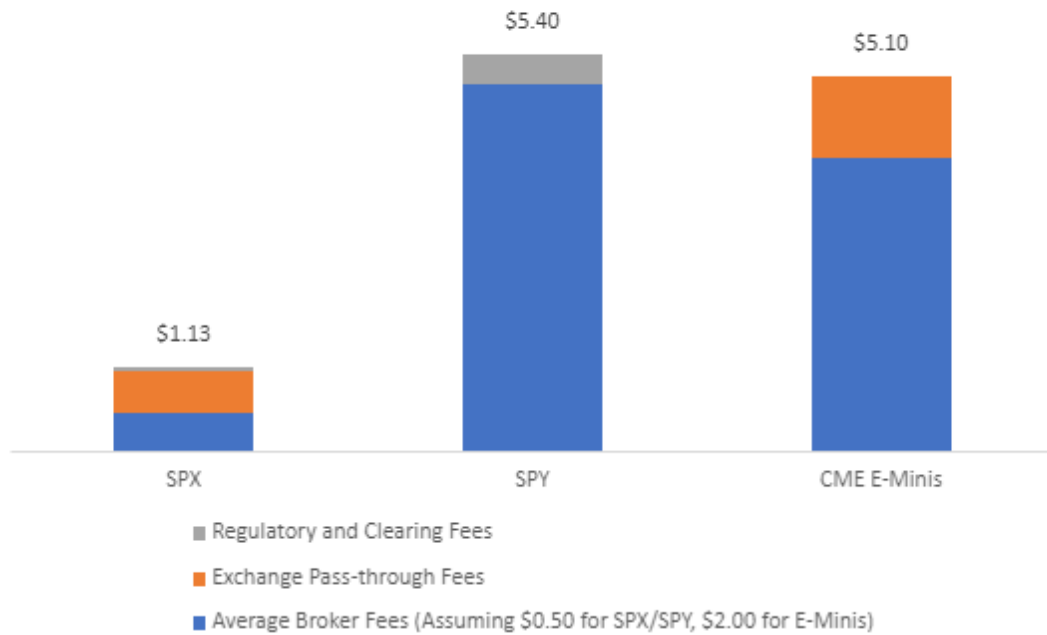
Whitepaper: The Rise of SPX and 0DTE Options

In an upcoming whitepaper, Jonathan Zaionz, Senior Derivatives Analyst, takes a deep dive into the growth in SPX options over the last three years and discusses everything from volume by time to expiry to quote quality and comparable costs to trade SPX vs other S&P500

products. Consider this your ultimate guide to the current SPX options landscape. Subscribe and be one of the first to receive a copy.

Typical Customer Fees for Notional Exposure of the SPX Index:

(Source: Broker Websites)



Introducing Floor Orders with up to 100 Legs

In August Cboe plans to roll out an enhancement that will expand the number of legs permitted on complex orders routed to the trading floor from 16 to 100. This enhancement is being implemented in response to demand from customers who send multi-leg orders that exceed the current allowance. This will make the execution and processing of these orders more efficient.

Featured Insights

Options Industry Midyear Review: Index Products Lead Growth

Henry Schwartz, Vice President, Client Engagement, reviews how the options industry fared in the first six months of the year and analyzes what year-to-date performance indicates for the next six months.

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Noteworthy at Cboe

Drill-Through Price Protection Update

In August, Cboe will implement enhanced protection for Stop, Stop Limit and market orders. This feature works by briefly pausing the execution of an order or bundle of orders, rather than allowing them to execute immediately at extreme prices. After exhausting the initial displayed liquidity, the protected orders are posted in the book at a price that is only slightly more aggressive than the initial National Best Bid or Offer (NBBO). This pause allows liquidity to replenish and trade with the protected orders at a more favorable price. The feature will also eliminate most Obvious Error reviews by

preventing the extreme execution prices that trigger such claims. The new feature will be available in all products on all four of Cboe's option exchanges, but it is particularly effective in supporting people trading S&P 500 Index Weeklys options at zero-days to expiry. Traders often enter Stop and Stop Limit orders to manage their positions, resulting in many such orders resting in the same product. Those orders are often triggered simultaneously based on a single market data event, such as a trade or quote update, resulting in a bundle of orders being released into the market all at once.

One Step Closer to Protected Options Approval

Cboe has been awaiting FINRA approval of its proposed rule change to allow for protected options, or margin relief, which is now open for comments until August 19, 2023. If approved, this rule change would allow writing Mini S&P 500 Index options (XSP) versus a long position in SPDR® S&P 500® ETF Trust (SPY). As a reminder, there is no margin requirement on a short call that meets the definition of "covered." Given that there is virtually no greater risk in an XSP call written against SPY than there is in writing a "covered" call, we believe such XSP options should be treated as covered for margin purposes, rather than treated as uncovered and subject to a short option margin requirement. We are optimistic that the proposal has reached this final stage and will keep you informed as the deadline expires in September.

Cash-Settled ETF FLEX Options

Beginning August 1*, exercises and assignments for the new cash-settled FLEX ETF options will settle in cash (as opposed to physical underlying shares), with the settlement amount based on the difference between the closing price of the underlying security on the date of exercise and the strike price of the option. These cash-settled FLEX ETF options will have the same system functionality as regular FLEX options, including support for fixed or percent strike and premium, and execution via open outcry or electronic FLEX AIM, SAM and single-sided auction processes. Delta Adjusted at Close (DAC) will also be available for electronic processing of cash-settled FLEX ETF options. Cash-settled FLEX ETF options are not fungible with non-FLEX options. [Read more.](#)

*Pending regulatory review

New Position Limit Methodology

Cboe has developed a proposal to modernize position limit methodology, which was last updated 18 years ago. The current methodology utilizes underlying trading volume and shares outstanding as criteria to determine the size category into which each company fits. The highest category is currently 250,000 contracts—with some exceptions for certain high-volume and widely-held products. To reduce the impact on industry participants, the new proposal retains the same criteria but applies them differently and creates three higher categories of 500,000, 1 million and 2 million contracts. Cboe vetted the concept exhaustively with Trading Permit Holders (TPHs), institutional customers, clearing firms, prime brokers, industry associations and the OCC, receiving broad support.

AIM Auto-Match Enhancement

AIM is Cboe's popular electronic crossing auction, which pairs a customer order with a committed liquidity provider's contra order. The contra order guarantees the customer an execution at no worse than the auction starting price, which is included on the contra order. The contra can also include a secondary limit or market price if they choose to auto-match a more aggressive price submitted by a competitor who responds to the auction. AIM orders are currently rejected if the starting price is outside the NBBO. The enhancement, expected in August, now considers the auto-match price and will allow the auction to start as long as that price would satisfy NBBO requirements. This enhancement improves the experience for our TPHs who send the AIM orders, as they receive allocation entitlements on AIM executions. It also benefits the end customer, as most AIM auctions, especially for small retail orders, receive execution prices near the midpoint of the NBBO.

What's happening at Cboe



Cboe and Goldman Sachs Jointly Sponsor GS ETFs Racing Team

Cboe is a joint sponsor of the Goldman Sachs ETFs Racing Team, which brings together women cyclists to compete across North America. Read the cyclists' stories on LinkedIn!

[LEARN MORE](#)



RMC Registration Closes September 15

The premier Risk Management Conference will be held in Austin, Texas in October. Register now to get up to speed on the latest products and strategies for managing risks, enhancing yields and managing volatility. Register now.

[LEARN MORE](#)

Worth Reading

Here are a few articles and news updates worth checking out!

[Axios](#) | Investors are the least fearful they've been since COVID hit

[The Trade](#) | Over 75% of prop trading firms saw volatility trading strategies out-perform other markets in 2022

[Barrons](#) | Volatility Is an Asset Class. Here's How to Manage It.

[Reuters](#) | Options Hedges Against a Break in U.S. Stock Market Calm at Record High

Stay in the Know



The Tradable Credit Ecosystem is Expanding

Mandy Xu and David Litchfield discuss options on Cboe® iBoxx® iShares® Corporate Bond Index Futures.

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How can we help you?

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