

# Options Deep Dive Follow-up

CAT NMS, LLC

8/29/19

# Agenda

Clarifications from In-person Deep Dives Deck (Changes are in red)

- Manual Order Handling Scenarios
- Complex Order Scenarios
- Requirements for Orders Resulting from Solicitation Responses
- Equity Leg Phase 2a Reporting Requirements for Tied to Stock orders
- Combination Order Scenario

# Options Workflows

## Unlinked Events in Phase 2b (1/2)

Since only electronic single option orders are reportable beginning in Phase 2b, there are order handling scenarios that will result in unlinked CAT events within a single CAT Reporter, or between sending and receiving firms. The *priorUnlinked* and *nextUnlinked* fields are used to identify that the immediately preceding or following event is not reportable in Phase 2b and is not present for linkage.

An immediately preceding or following event may be:

- A manual event
- A complex order
- A paired order

If the *nextUnlinked* value is not known at the time of order receipt, the Industry Member may populate the *nextUnlinked* flag in a separate Option Order Supplement event.

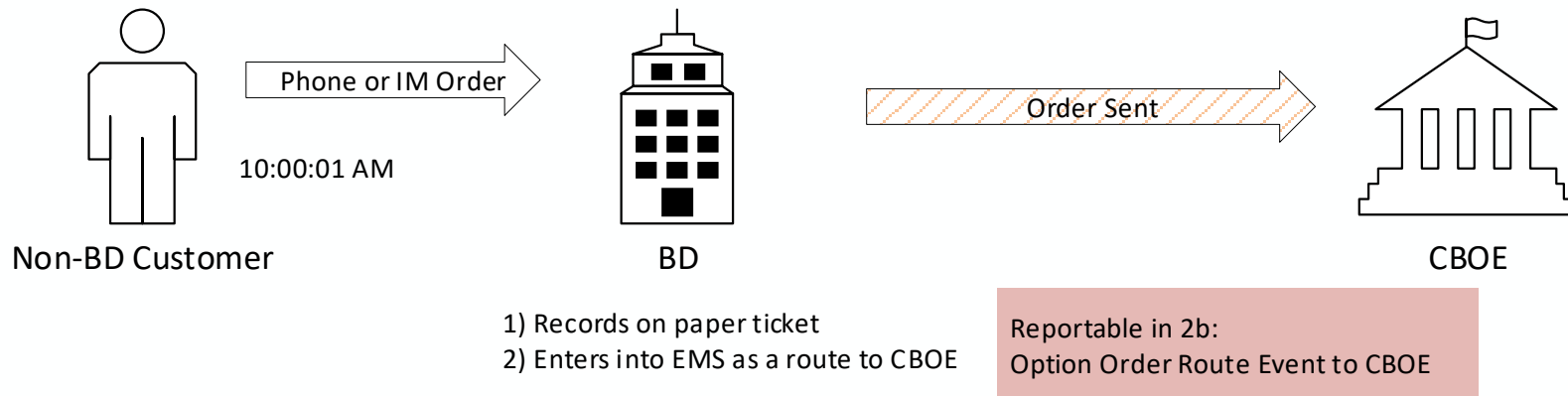
While manual CAT events are not required until Phase 2d, firms may optionally choose to report these events in Phase 2b. If a firm chooses to optionally report manual CAT events in Phase 2b, all reporting must be timely, accurate, and complete.

## Unlinked Events in Phase 2b (2/2)

Field Name	Values	
<b>nextUnlinked</b>	M	Next Manual
	C	Next Complex
	P	Next Paired
	Blank	Not Applicable
<b>priorUnlinked</b>	M	Prior Manual
	C	Prior Complex
	Blank	Not Applicable

One or both of these fields will be on all options event types as conditional. If an event does not have this field populated, linkage will be attempted.

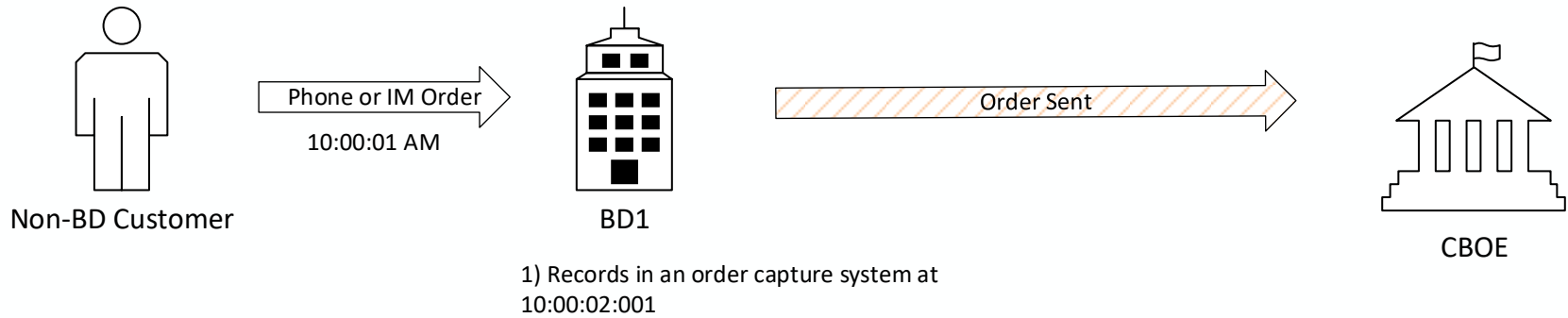
# Manual and Electronic Order Mix: Paper Ticket



**BD does not report a MONO**

**BD reports a MOOR** with the Prior Unlinked Indicator = M

# Manual and Electronic Order Mix: Order Capture System

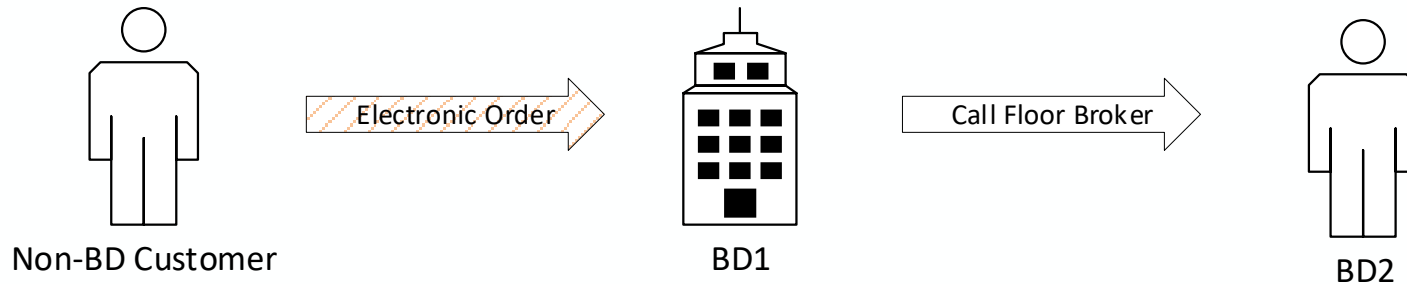


Reportable in 2b:  
Option Order Route Event to CBOE

**BD1 does not report a MONO**

**BD1 reports a MOOR** with the Prior Unlinked Indicator = M

# Manual and Electronic Order Mix: Order Electronically Received Manually Executed



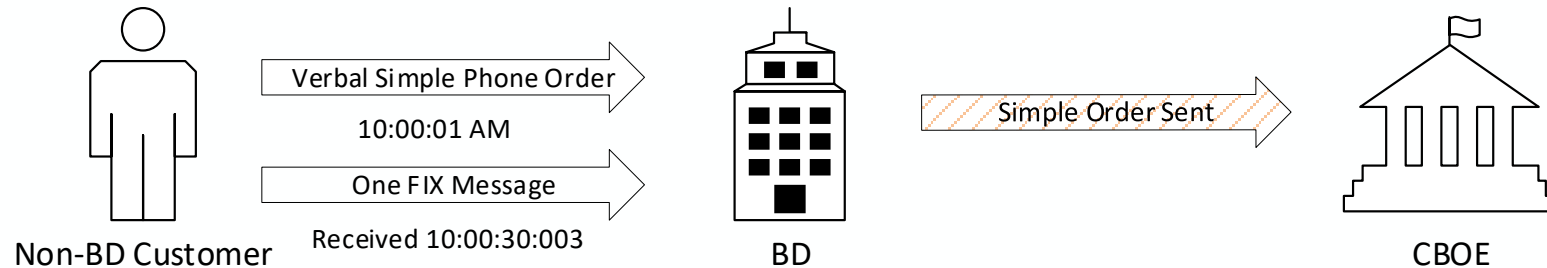
Reportable in 2b:  
New Option Order Event

**BD1** reports a **MONO** with the Next Unlinked Indicator = M

**BD1** does not report a **MOOR**



# Manual and Electronic Order Mix: Phone + FIX Message



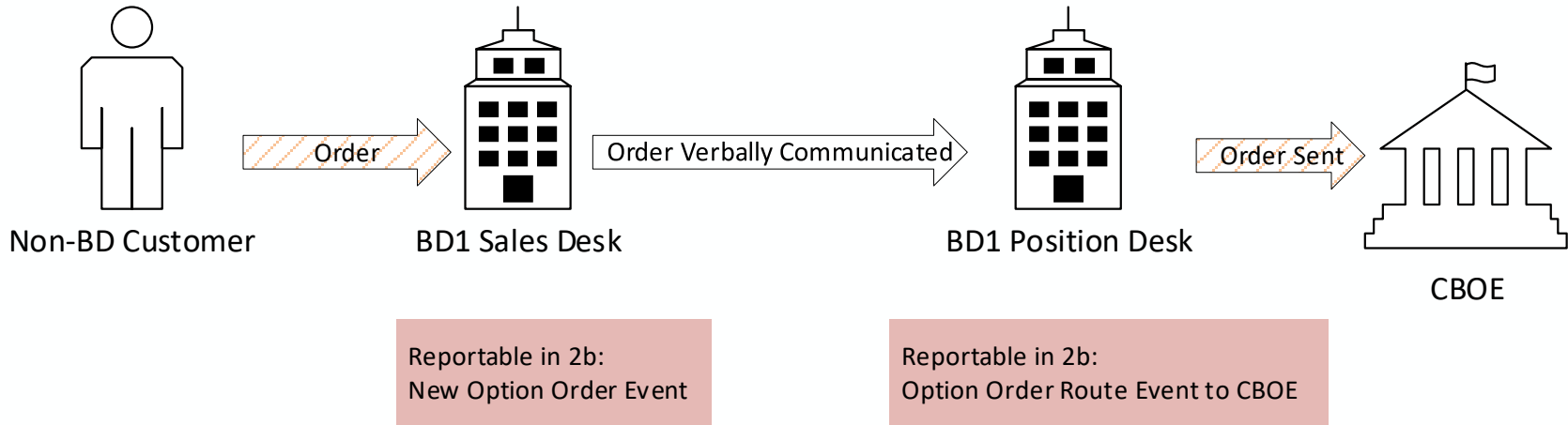
Note: because the order was initially received verbally, this order is out of scope for 2b

Reportable in 2b:  
Option Order Route Event to  
CBOE

**BD does not report a MONO**

**BD reports a MOOR** with the Prior Unlinked Indicator = M

# Manual and Electronic Order Mix: Electronic Order with Manual Handling

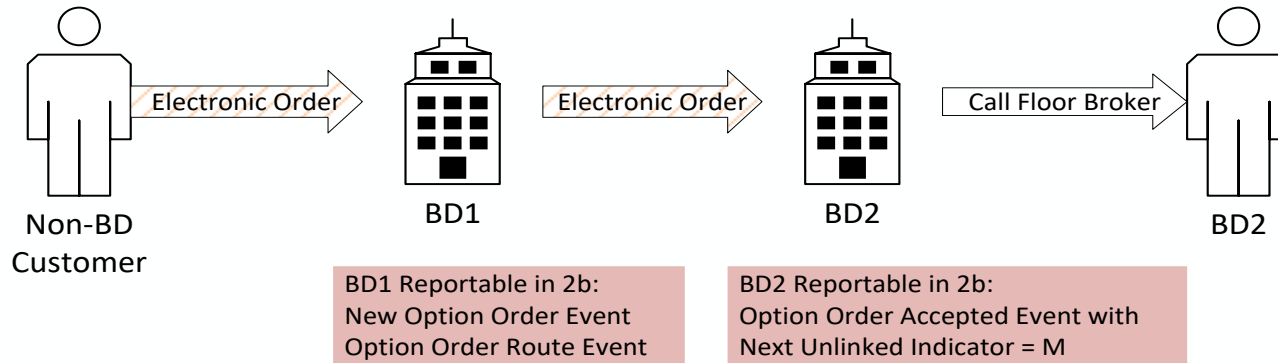


**BD1** reports a **MONO** with a Next Unlinked Indicator = M

**BD1** does not report a **MOIR**

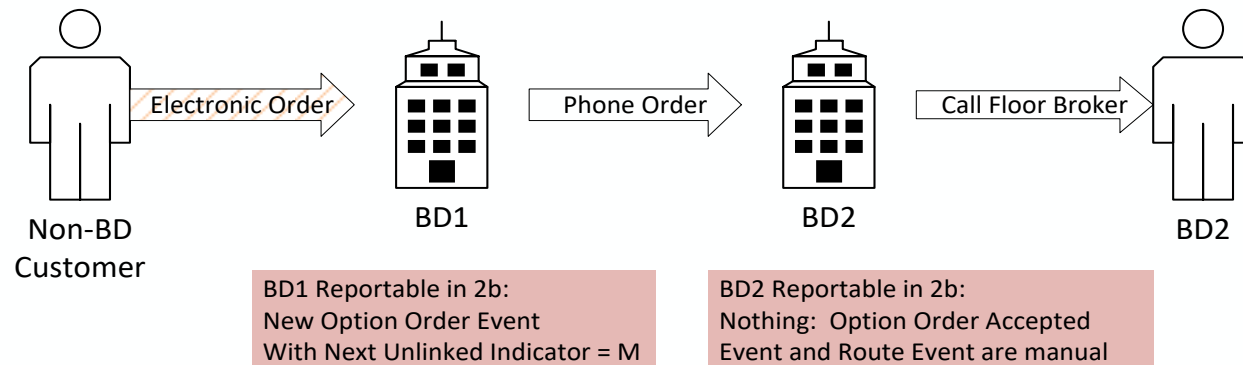
**BD1** reports a **MOOR** with the Prior Unlinked Indicator = M

# Manual and Electronic Order Mix : Order Electronically Received, Manually Executed



BD1 reports a MONO and MOOR

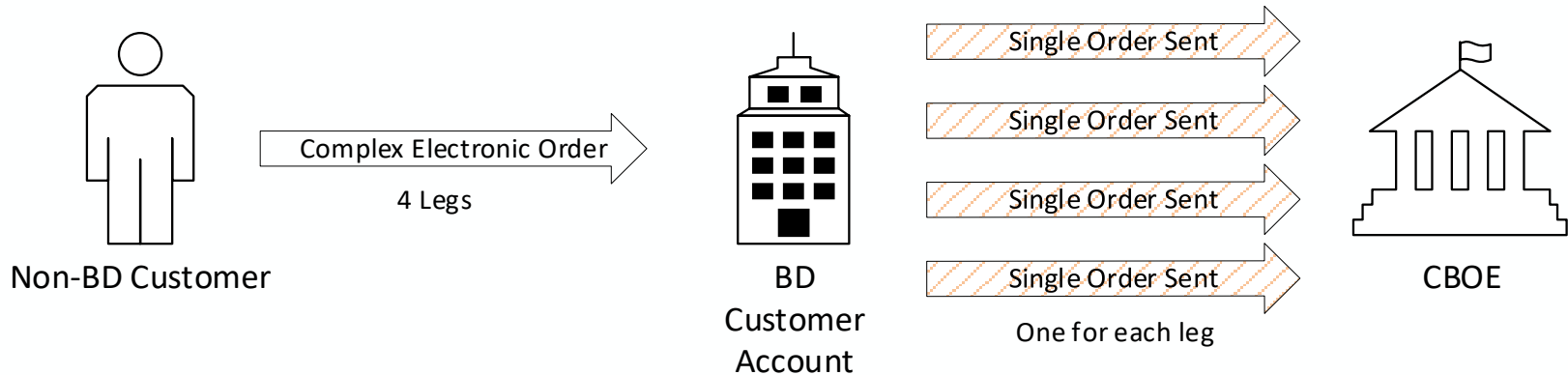
BD2 reports a MOOA with the Next Unlinked Indicator = M



BD1 reports a MONO with Next Unlinked Indicator = M

BD2 does not report a MOOA or MOOR

# Complex Order Split into Individual Legs to be Worked in a Customer Account



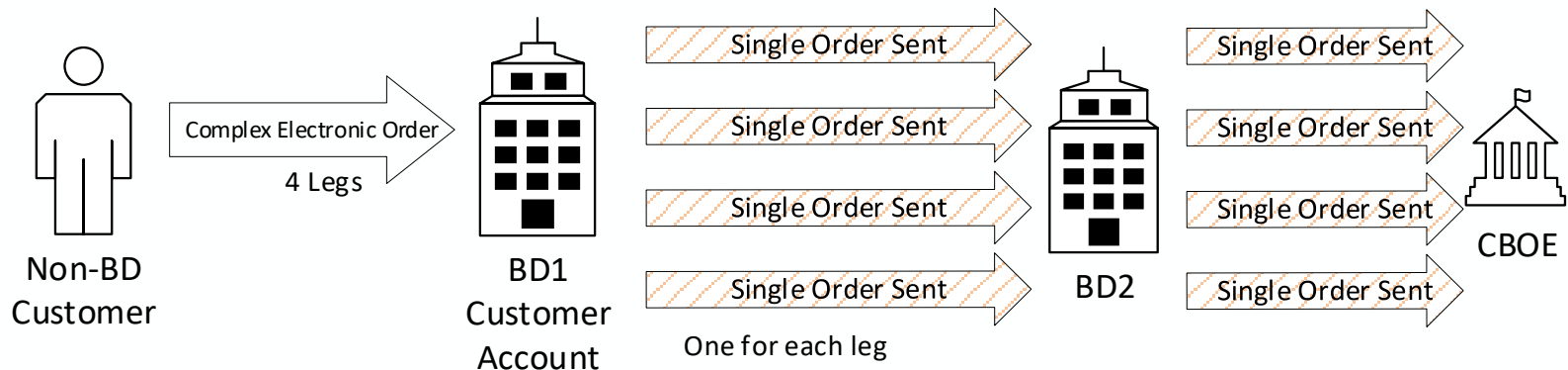
In Phase 2b, these are not linked to the complex order which is not reported. In Phase 2d, the reporting on this will change requiring the single orders to include the complex order ID from the customer order.

Reportable in 2b:  
4 Option Order Route Events

**BD does not report a MONO**

**BD reports 4 MOOR events** with the Prior Unlinked Indicator = C

# Complex Order (Option only legs) Split into Individual Legs to be Worked in a Customer Account



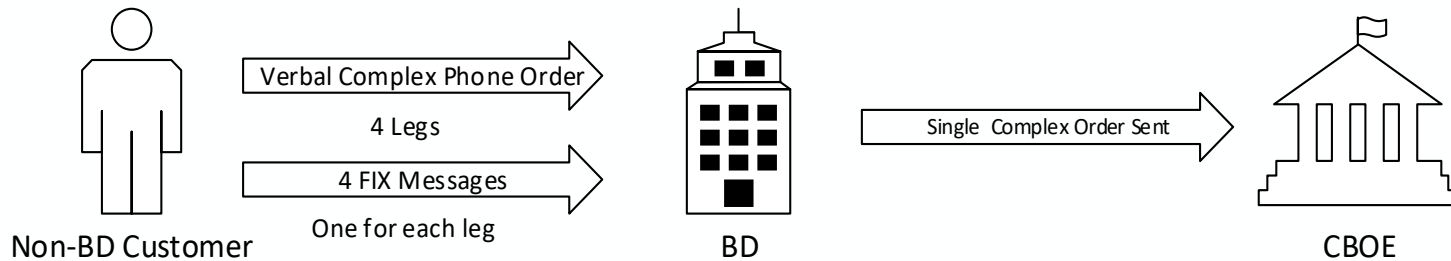
BD1: Reportable in 2b:  
4 Option Order Route Events with  
Prior Unlinked Indicator = C

BD2: Reportable in 2b:  
4 Order Accepted Events  
4 Option Order Route Events

In Phase 2b, these are not linked in any way. In Phase 2d, the reporting on this will change requiring the single orders to include the complex order ID from the customer order.

- **BD1 does not report a MONO**
- **BD1 reports 4 MOOR events with Prior Unlinked Indicator = C**
- **BD2 reports 4 MOOA events**
- **BD2 reports 4 MOOR events**

# Manual and Electronic Order Mix: Verbal Complex Order



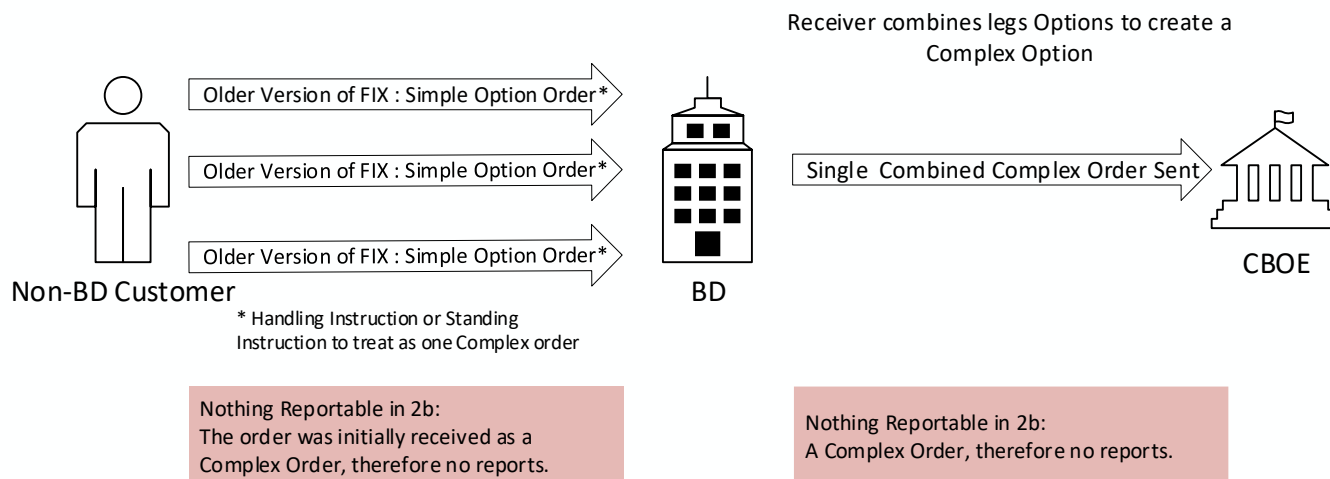
1) Customer verbally places an order for a complex order with 4 legs, but his system can only support sending simple option orders

Reportable in 2b:  
Nothing because only simple orders in this phase and the order was initially received from the customer as a complex order

If voluntarily reporting the individual legs: Report four **MONOs** with the handling Instructions field with 'CMPX' and a Next Unlinked Indicator of 'C'. **Handling instructions in this instance are required to be reported in 2b.**

**BD does not report a MOOR**

# Complex Order sent electronically as single orders, but with instructions to treat as Complex



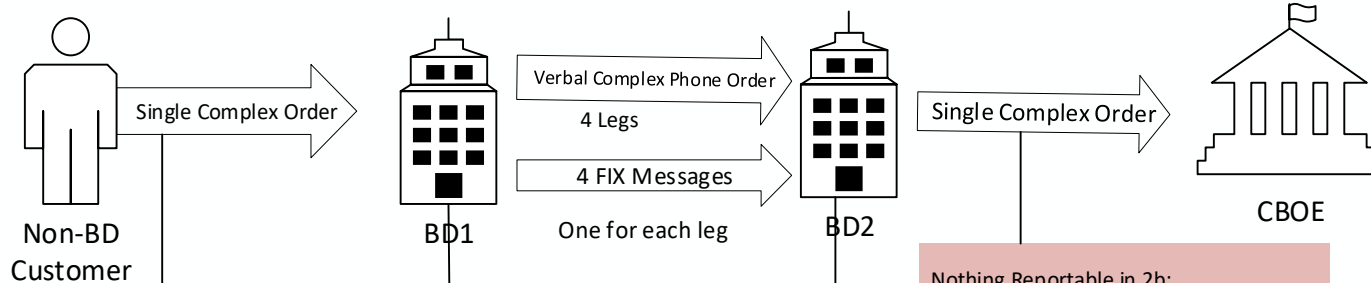
If voluntarily reporting the individual legs: Report three **MONOs** with the handling Instructions field with 'CMPX' and a Next Unlinked Indicator of 'C'. **Handling instructions in this instance are required to be reported in 2b.**

**BD does not report a MOOR**

# Manual and Electronic Order Mix: Verbal Complex Order

1) Customer sends an electronic complex order to BD1

2) BD1 verbally places an order with BD2 for a complex order with 4 legs, but his system can only support sending simple option orders



Nothing Reportable in 2b:  
A Complex Order, therefore no reports.

Nothing Reportable in 2b:  
A Complex Order, therefore no reports.

## BD1 Reportable in 2b:

**Preferred** : Report nothing (suppress the individual legs)

**Optional** : Report each individual leg as an Order Route Event with handling instruction of 'CMPX' and Prior Unlinked Indicator = 'C' and Next Unlinked Indicator = 'C'

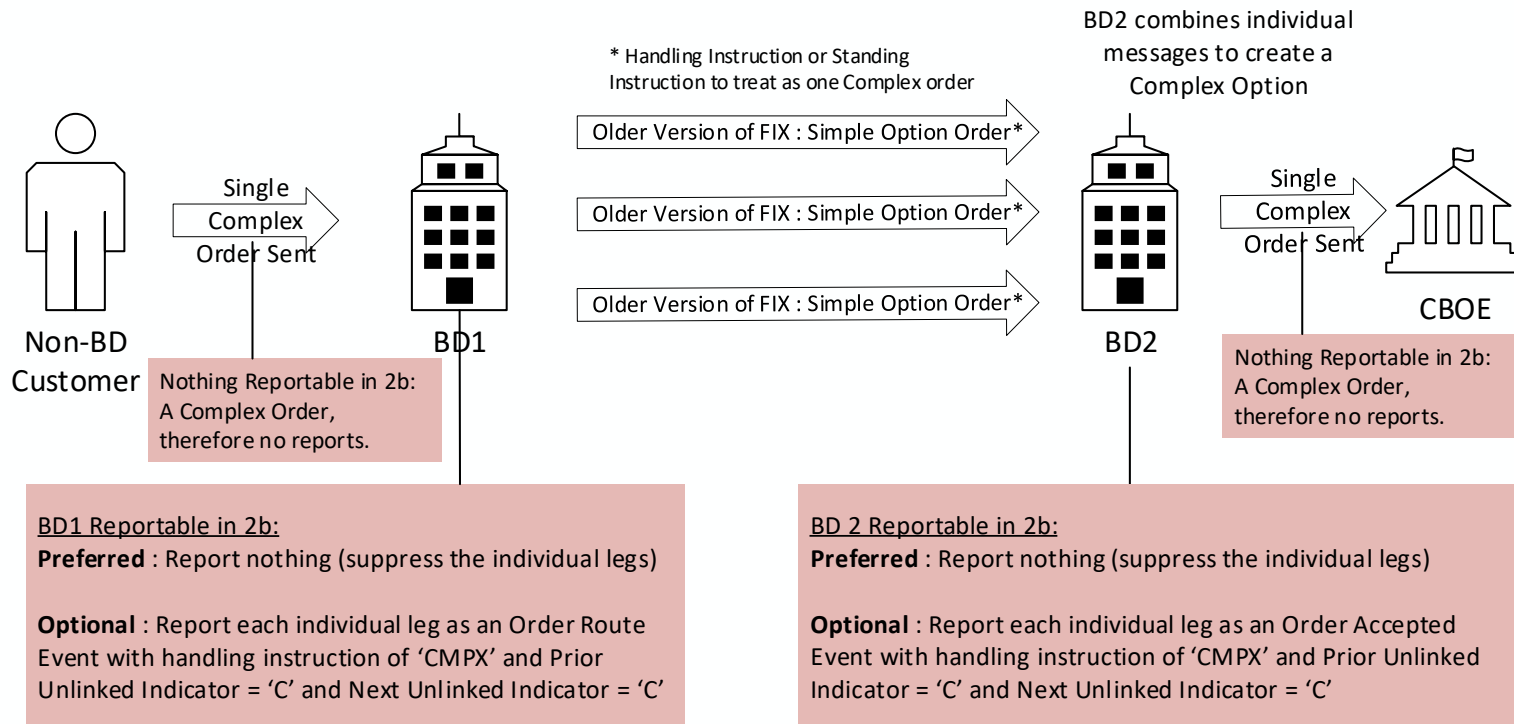
## BD2 Reportable in 2b:

**Preferred** : Report nothing (suppress the individual legs)

**Optional** : Report each individual leg as an Order Accepted Event with handling instruction of 'CMPX' and Prior Unlinked Indicator = 'C' and Next Unlinked Indicator = 'C'



# Complex Order (option only legs) sent electronically as single orders, but with instructions to treat as complex



## **\*New Slide\*** Solicitation Responses

FAQ K6 states that, when an Industry Member receives a simple, electronic order in Listed Options and solicits interest in the execution of the order:

- The Industry Member that received the original simple, electronic order must report the receipt of the simple electronic order in Phase 2b.
- The Industry Members providing responses to the solicitation of interest do not have any reporting requirements in Phase 2b.
- The routing of the paired order to the exchange would not be reportable until Phase 2d.

This FAQ does **not** specify reporting requirements for reporting of the order that resulted when the Industry Member selected a positive response and sent the order on for execution.

After careful review of the solicitation workflow process, the SROs have identified scenarios where a Phase 2b reporting obligation exists for the further routing of the order and is not limited to the routing of a paired order. This would include, for example, when an order received via a solicitation response is routed as a simple, electronic order to the exchange, such as through a “post and facilitate” routing scenario.

**The SROs have determined that any simple, electronic order received as the result of a solicitation process that is selected and sent on for execution is reportable in Phase 2b and therefore, Industry Members will be required to report a MONO/MOOA to CAT reflecting the receipt of an order as a result of a positive response to solicitation and must use a new *handlingInstructions* value of ‘SR’ (Solicitation Response).**

**The time of receipt would be the time the Industry Member selected the response and determined it had an order for further routing.**

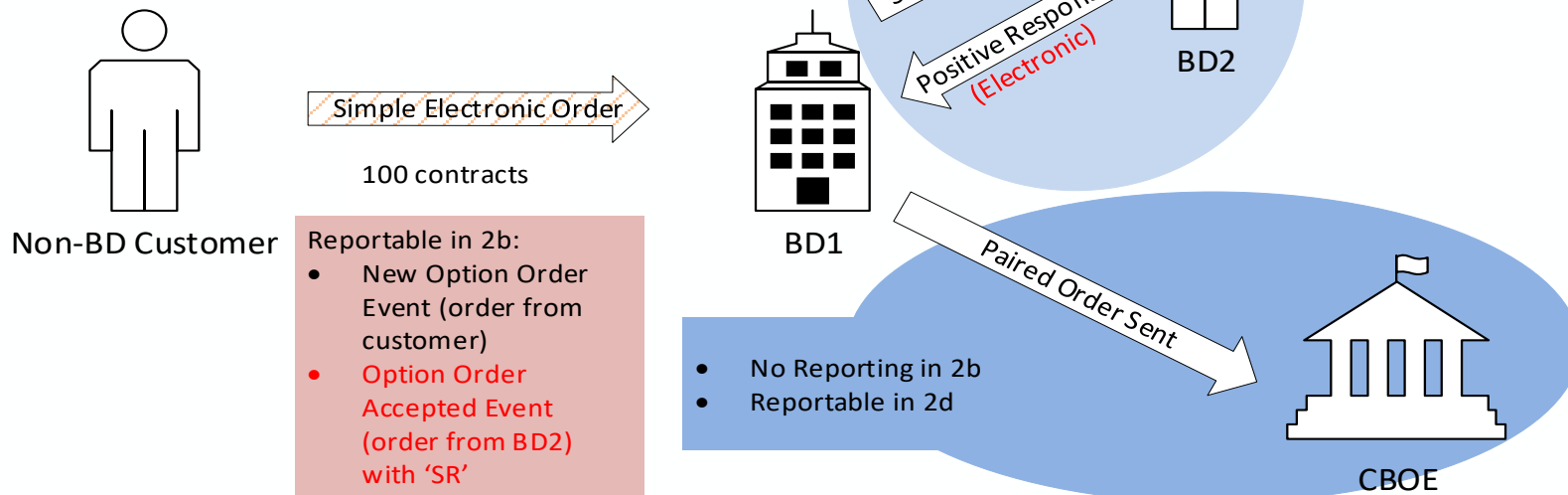
# Paired Option Orders: BD1 solicits BD2

If BD1 receives a simple electronic order and then solicits other brokers, and obtains the other side, then it sends a paired order to CBOE.

See CAT FAQ K6 regarding reporting obligations for solicitations.

See CAT FAQ B40 regarding "firm" trading interest.

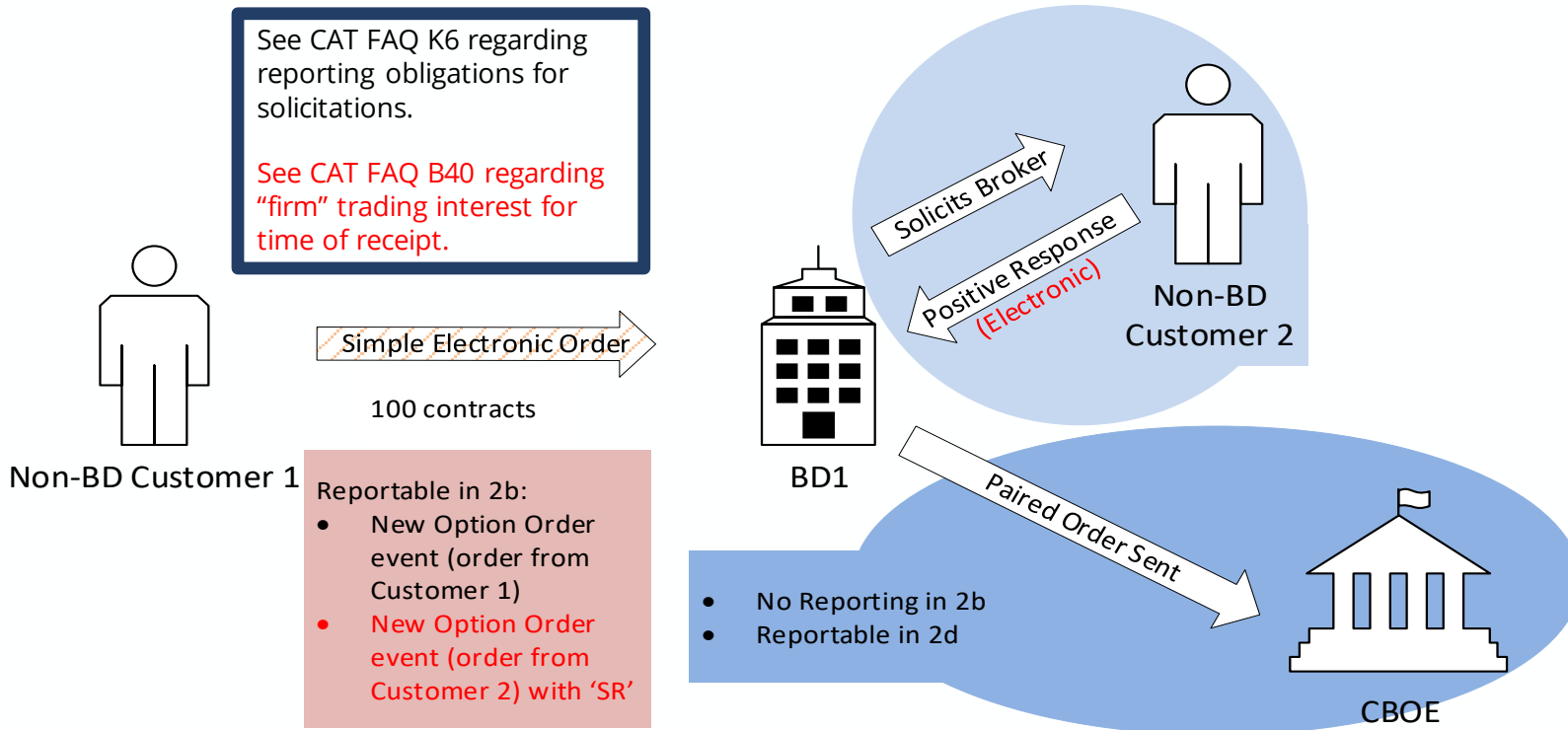
- No Reporting in 2b
- Exact Reporting Requirements for 2d are being determined



- **BD1 reports a MONO for the customer order with the Next Unlinked Indicator = P**
- **BD1 reports a MOOA for the simple, electronic order received as the result of the selected response from BD2 with a *handlingInstructions* value of 'SR' and a Next Unlinked Indicator =P**
- **BD2 has no reporting obligation in 2b**

# \*New Slide\* Paired Option Orders: BD1 solicits a Customer

If BD1 receives a simple electronic order and then solicits other brokers/ customers, and obtains the other side from a customer, then it sends a paired order to CBOE.

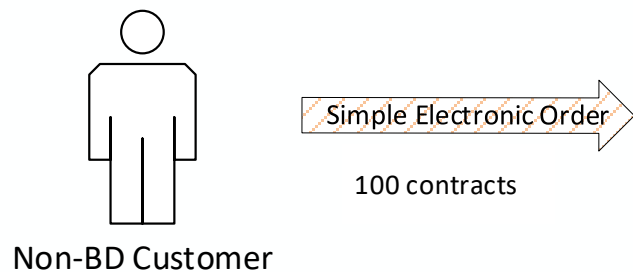


- BD1 reports a MONO for Customer 1's order with the Next Unlinked Indicator = P
- BD1 reports a MONO for the simple, electronic order received as the result of the selected response from Customer 2 with a *handlingInstructions* value of 'SR' and a Next Unlinked Indicator = P

# Paired Option: BD solicits and routes partial order as paired

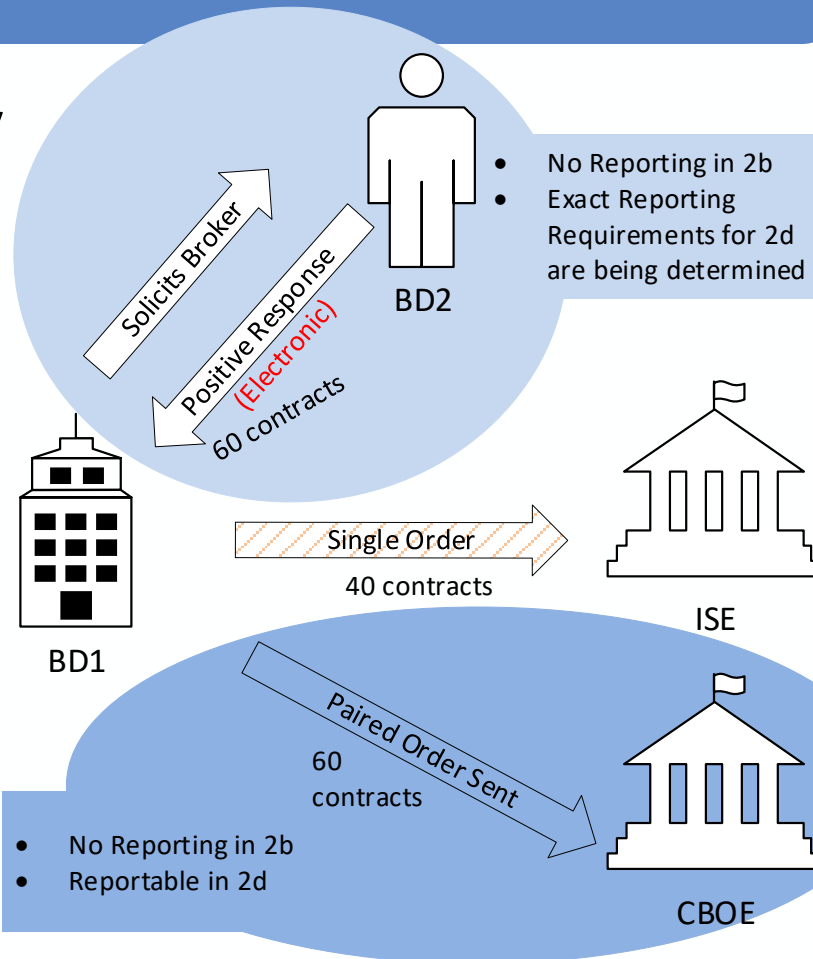
A BD1 receives a simple electronic order for 100 contracts and then takes the other side for 60 contracts, by sending a paired order to CBOE and routing the remaining 40 contracts to ISE.

No unlinked indicator is necessary since both the new and the route can be linked to a related record.



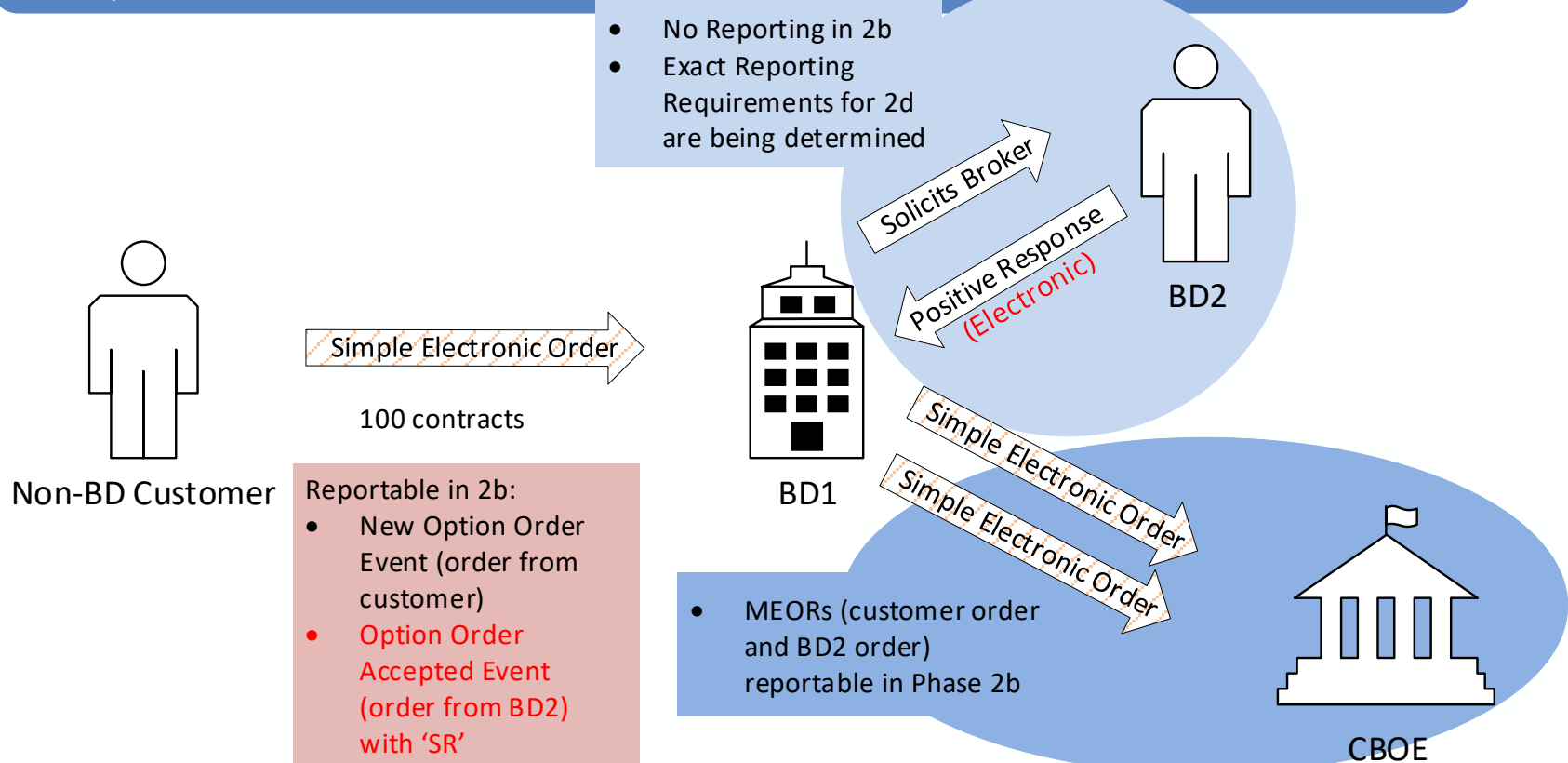
Reportable in 2b:

- **New Option Order event** (order from customer)
- **Option Order Accepted Event** (order from BD2) with 'SR'
- **Option Order Route** Event to ISE



# \*New Slide\* Solicitation Workflow: BD1 solicits BD2 and routes as Simple Electronic Option Order

BD1 receives a simple electronic order and then solicits other brokers, and upon obtaining the other side, sends two single electronic option order events to CBOE on a "post and facilitate basis"



- BD1 reports a MONO for Customer 1's order
- BD1 reports a MOOA for the simple, electronic order received as the result of the selected response from BD2 with a *handlingInstructions* value of 'SR'
- BD1 reports MOOR for both customer order and BD2 order

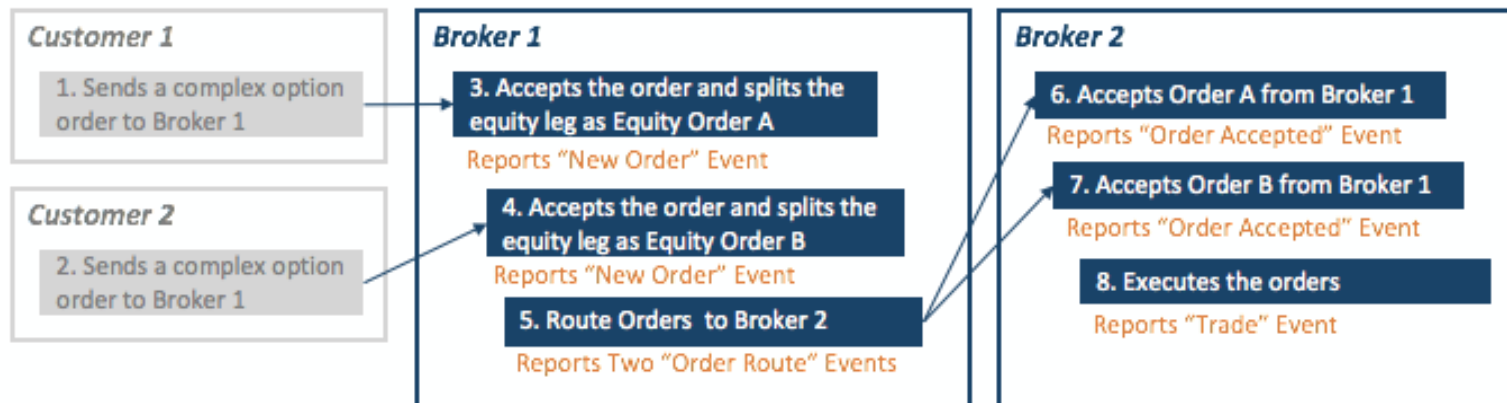
# Tied To Stock Orders – Phase 2a Reporting Requirements

FAQ B12. Are Industry Members required to report the equity leg of a complex order in Phase 2a of the revised implementation schedule? **revised 1/17/19**

The reporting obligation for the equity legs of complex orders beginning in Phase 2a is as follows. If a complex order includes an equity leg and the terms and conditions of the order are contingent upon the related option trade, the equity leg must be reported using the special handling code of “OPT” starting in Phase 2a. **This reporting obligation applies regardless of whether the complex order is split or not split into components.** Specifically, for a complex order which is routed or received as a complex order and not split into its constituent equity leg and option legs, the Industry Member must report the equity leg to the CAT in Phase 2a with the “OPT” handling code. For a complex order which is routed or received as a complex order and then split into its constituent equity and option legs and routed, the Industry Member must report the equity leg to the CAT in Phase 2a with the “OPT” handling code. Industry Members will be required to report any simple option leg of a complex order in Phase 2b. Industry Members will be required to report complex orders that include both equity and option components to the CAT in Phase 2d. **These reporting obligations apply to both FINRA and non-FINRA members that are Industry Members.**

## \*New Slide\* Tied to Stock order, Industry Member splits equity leg upon receipt

- Broker 1 splits the equity leg of complex option orders received from customers.
- Broker 1 determines the price at which the equity legs must be executed, and routes to Broker 2, who crosses the orders.



BD1 Reportable in 2a:

**Required:**

MENO representing receipt of the equity leg of each complex option order with a *handlingInstructions* value of 'OPT'  
 MEOR representing route of the equity leg to Broker 2

BD 2 Reportable in 2a:

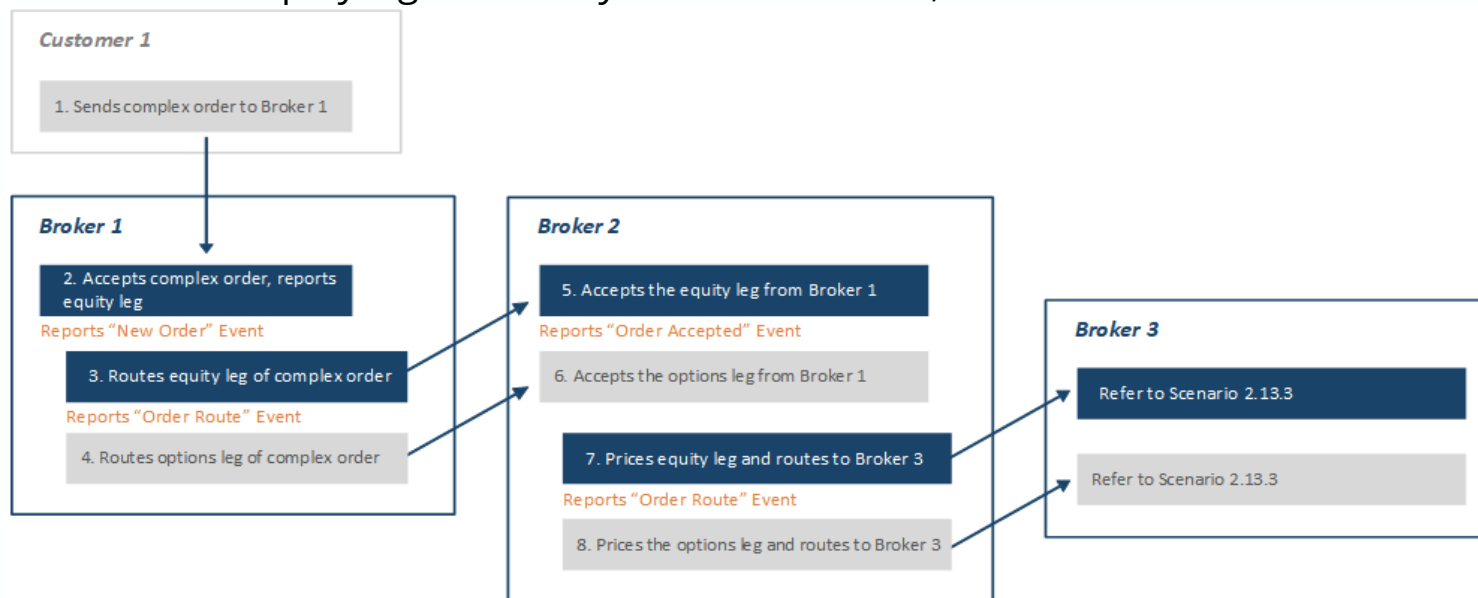
**Required:**

MEOA representing receipt of the equity leg of each Complex option order with a *handlingInstructions* value of 'OPT'  
 MEOT representing the cross of the two equity legs



# \*New Slide\* Tied to Stock order, Industry Member routes equity leg with a net price

- Broker 1 receives a complex order, and routes the complex order to Broker 2 with instructions to treat as a complex order with a net price.
- Broker 2 splits the complex order into individual option and equity legs, determines the price, and routes the equity leg to Industry Member Broker 3, who crosses the orders.



## BD1 Reportable in 2a

### Required:

MENO representing receipt of the equity leg of each complex option order with an *orderType* of 'MKT', a blank *price*, and a *handlingInstructions* value of 'OPT'  
 MEOR representing route of the equity leg to Broker 2

## BD1 Reportable in 2d:

### Required:

MENO with the net price

## BD2 Reportable in 2a:

### Required:

MEOA representing receipt of the equity leg of each complex option order with an *orderType* of 'MKT', a blank *price*, and a *handlingInstructions* value of 'OPT'  
 MEOR representing the route of the two equity legs with a Net price

## BD3 Reportable in 2a:

### Required:

MEOA representing receipt of the equity leg of each Complex option order with a *handlingInstructions* value of 'OPT'  
 MEOT representing the cross of the two equity legs

# Combined Orders

Subject to applicable SRO rules, there are options order handling scenarios in which a firm may combine individual, simple orders from customers before routing to an exchange as a single, simple order for execution. In these scenarios, firms must report the combined order as routed to an exchange or another IM, in addition to the individual customer orders and related order fulfillments.

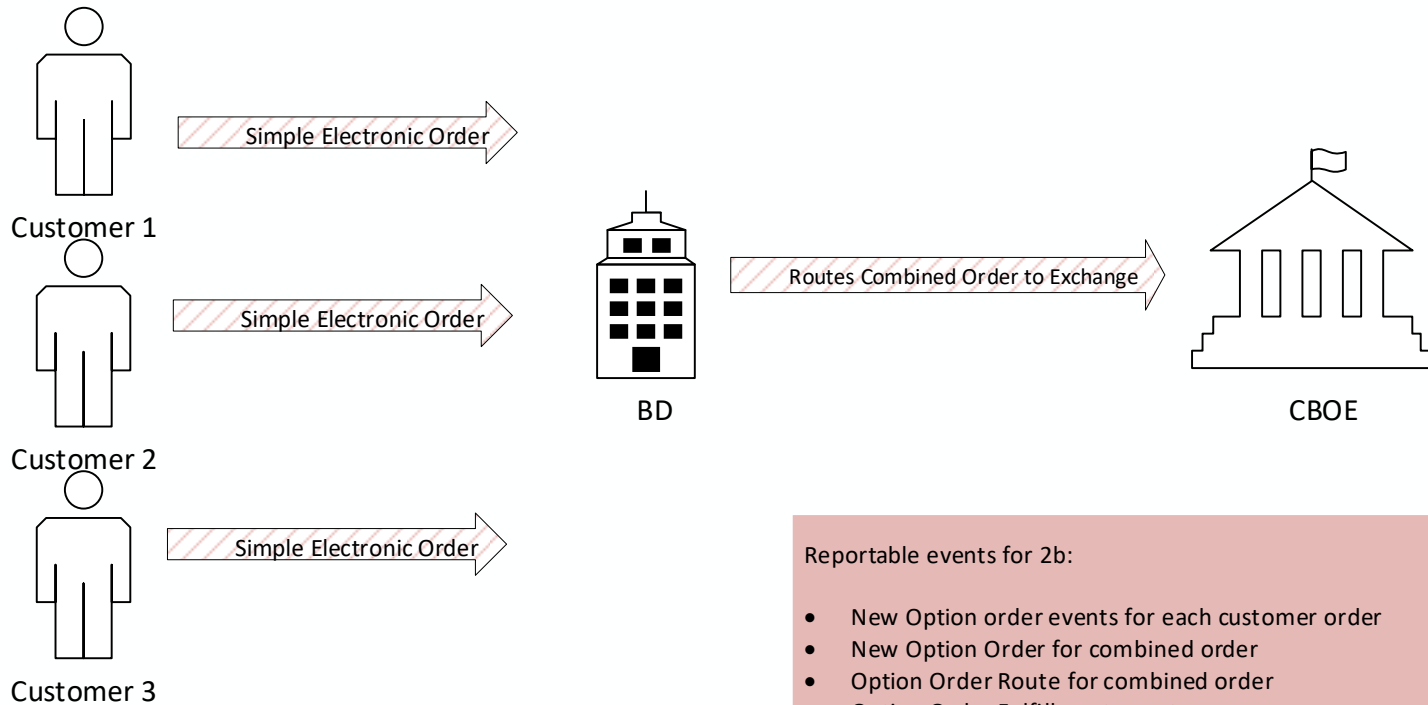
Specifically in Phase 2b:

- The combined order must be reported with a “*representativeInd*” of “O” to indicate an Options Combined Order.
- For each fill an individual customer order receives, an Option Order Fulfillment event is required to be reported with a “*fulfillmentLinkType*” of “O” to indicate an Options Order Fulfillment
- Linkage between the individual customer orders and the combined order is not required until Phase 2d
- Any portions of the order involving a Complex Order are not reportable until phase 2d

# Combined Order Scenario

Broker 1 receives three separate, simple customer orders and routes a single (simple) order to an exchange. Required Reports would be:

- **MONO** events for each single leg customer order electronically received
- **MONO** event for the combined order representing the individual orders with a representativeInd = 0. There is no linkage requirement until Phase 2d
- **MOOR** for the combined order
- **MOOF** events for each single leg customer order which are one sided in Phase 2b (fulfillmentLinkType = 0)



#### Reportable events for 2b:

- New Option order events for each customer order
- New Option Order for combined order
- Option Order Route for combined order
- Option Order Fulfillment events

# How to Ask a Question during Today's Call

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- **For participants using computer audio:**
  - Click the “Participants” button at the bottom of the app window, then the “Raise Hand” button at the bottom of the participants window.
  - A visual prompt will indicate that your line has been unmuted.
- **For participants using phone audio:**
  - Enter \*9 on your phone keypad.
  - An audio prompt will indicate that your line has been unmuted.