

Item 1. Text of the Proposed Rule Change

(a) Cboe Exchange, Inc. (the “Exchange” or “Cboe Options”) proposes to amend its opening process. The Exchange initially submitted this rule filing SR-CBOE-2019-049 to the Securities and Exchange Commission on August 21, 2019 (the “Initial Rule Filing”), and Amendment No. 1 to the Initial Rule Filing on October 10, 2019 (“Amendment No. 1”). This Amendment No. 2 supersedes the Initial Rule Filing, as amended by Amendment No. 1, and replaces it in its entirety. Amendment No. 2 notes changes it makes to the Initial Rule Filing, as amended by Amendment No. 1. The text of the proposed rule change is provided in Exhibit 5.

- (b) Not applicable.
- (c) Not applicable.

Item 2. Procedures of the Self-Regulatory Organization

(a) The Exchange’s President (or designee) pursuant to delegated authority approved the proposed rule change on August 6, 2019.

(b) Please refer questions and comments on the proposed rule change to Pat Sexton, Executive Vice President, General Counsel, and Corporate Secretary, (312) 786-7467, or Rebecca Tenuta, (312) 786-7068. Cboe Exchange, Inc., 400 South LaSalle, Chicago, Illinois 60605.

Item 3. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

- (a) Purpose

The purpose of the proposed rule change is to make permanent certain options market rules in connection with the equity market Plan to Address Extraordinary Market Volatility (the “Limit Up-Limit Down Plan” or the “Plan”). This change is being

proposed in connection with the recently approved amendment to the Limit Up-Limit Down Plan that allows the Plan to continue to operate on a permanent basis (“Amendment 18”).¹

In an attempt to address extraordinary market volatility in NMS Stocks, and, in particular, events like the severe volatility on May 6, 2010, U.S. national securities exchanges and the Financial Industry Regulatory Authority, Inc. (collectively, “Participants”) drafted the Plan pursuant to Rule 608 of Regulation NMS under the Act.² On May 31, 2012, the Commission approved the Plan, as amended, on a one-year pilot basis.³ Though the Plan was primarily designed for equity markets, the Exchange believed it would, indirectly, potentially impact the options markets as well. Thus, the Exchange has previously adopted and amended Rules 5.21 and Interpretation and Policy .01 to Rule 6.5⁴ to ensure the option markets were not harmed as a result of the Plan’s implementation and implemented such rules on a pilot basis that has coincided with the pilot period for the Plan (collectively, the “Options Pilots”).⁵ Rule 5.21 essentially serves as a roadmap for the

¹ See Securities Exchange Act Release No. 85623 (April 11, 2019), 84 FR 16086 (April 17, 2019) (Order Approving Amendment No. 18).

² See Securities Exchange Act Release No. 64547 (May 25, 2011), 76 FR 31647 (June 1, 2011)(File No. 4-631).

³ See Securities and Exchange Act Release No. 67091 (May 31, 2012) 77 FR 33498 (June 6, 2012).

⁴ Amendment No. 2 removes one of the Options Pilots, Rule 5.22, from the Options Pilots proposed to be made permanent included in the Initial Rule Filing, as amended by Amendment No. 1, as well as descriptions of the functionality and protective measures under Rule 5.22, and citations to rule filings in connection with Rule 5.22 included in the Initial Rule Filing, as amended by Amendment No. 1. The Exchange intends to submit a separate rule filing to extend the pilot basis under Rule 5.22.

⁵ See Securities Exchange Act Release Nos. 69328 (April 5, 2013), 78 FR 21642 (April 11, 2013) (SR-CBOE-2013-030) (amending certain options rules to coincide with the pilot period for the Plan, including Rule 5.21 and Rule 6.5); and

Exchange's universal changes due to the implementation of the Plan, and Rule 6.5.01 provides that transactions executed during a limit or straddle state are not subject to the obvious and catastrophic error rules.⁶ A limit or straddle state occurs when at least one side of the National Best Bid ("NBB") or Offer ("NBO") bid/ask is priced at a non-tradable level. Specifically, a straddle state exists when the NBB is below the lower price band while the NBO is inside the prices band or when the NBO is above the upper price band and the NBB is within the band, while a limit state occurs when the NBO equals the lower price band (without crossing the NBB), or the NBB equals the upper price band (without crossing the NBO). The Exchange adopted the Options Pilots to protect investors because when an underlying security is in a limit or straddle state, there will not be a reliable price for the security to serve as a benchmark for the price of the option. Specifically, the Exchange adopted Rule 6.5.01 because the application of the obvious and catastrophic error rules would be impracticable given the potential for lack of a reliable NBBO in the options market during limit and straddle states. When adjusting or busting a trade pursuant to the obvious error rule, the determination of theoretical value of a trade generally references the NBB (for erroneous sell transactions) or NBO (for erroneous buy transactions) just prior to the trade in question, and is therefore not reliable when at least one side of the NBBO is priced at a non-tradeable level, as is the case in limit and straddle states. In such a situation, determining theoretical value may often times be a very subjective rather than an objective determination and could give rise to additional uncertainty and confusion for investors. As a

85616 (April 11, 2019), 84 FR 16093 (April 17, 2019) (SR-CBOE-2019-020) (proposal to extend the pilot for certain options pilots).

⁶ Amendment No. 2 deletes a clause stating that Rule 5.22 provides for trading halts whenever a market wise trading halt is initiated due to extraordinary market conditions pursuant to the Plan.

result, application of the obvious and catastrophic error rules would be impracticable given the lack of a reliable NBBO in the options market during limit and straddle states, and may produce undesirable effects or unanticipated consequences. The Exchange adopted additional measures via other Options Pilot rules that are designed to protect investors during limit and straddle states. For example, the Exchange will reject market orders and not elect stop orders⁷ during a Limit Up-Limit Down state to ensure that only those orders with a limit price will be executed during a limit or straddle state given the uncertainty of market prices during such a state.⁸ Furthermore, the Exchange believes that eliminating the application of obvious error rules during a limit or straddle state eliminates the re-evaluation of a transaction executed during such a state that could potentially create an unreasonable adverse selection opportunity due to lack of a reliable reference price on one side of the market or another and discourage participants from providing liquidity during limit and straddle states, which is contrary to the goal in limiting participants' adverse selection with the application of the obvious error rule during normal trading states. For these reasons, the Exchange believes the Options Pilots are designed to add certainty on the options markets, which encourages more investors to participate in light of the changes associated with the Plan. The Plan was originally implemented on a pilot-basis in order to allow the public, the participating exchanges, and the Commission to assess the operation of the Plan and whether the Plan should be modified prior to approval on a permanent

⁷ This includes rules in connection with special handling for market orders, market-on-close orders, stop orders, and stock-option orders, as well as for certain electronic order handling features in a Limit Up-Limit Down state, the obvious error rules, and providing that the Exchange will not require Market-Makers to quote in series of options when the underlying security is in a Limit Up-Limit Down state.

⁸ Amendment No. 2 deletes a statement describing an additional protection measure via Rule 5.22.

basis. As stated, the Exchange adopted the Option Pilots to coincide with this pilot; to continue the protections therein while the industry gains further experience operating the Plan.

In connection with the order approving the establishment of the obvious error pilot, as well as the extensions of the obvious error pilot, the Exchange committed to submit monthly data regarding the program and to submit an overall analysis of the obvious error pilot in conjunction with the data submitted under the Plan and any other data as requested by the Commission. Pursuant to a rule filing, approved on April 3, 2014, each month, the Exchange committed to provide the Commission, and the public, a dataset containing the data for each straddle and limit state in optionable stocks that had at least one trade on the Exchange.⁹ The Exchange has continued to provide the Commission with this data on a monthly basis from October 2015. For each trade on the Exchange, the Exchange provides (a) the stock symbol, option symbol, time at the start of the straddle or limit state, an indicator for whether it is a straddle or limit state, and (b) for the trades on the Exchange, the executed volume, time-weighted quoted bid-ask spread, time-weighted average quoted depth at the bid, time-weighted average quoted depth at the offer, high execution price, low execution price, number of trades for which a request for review for error was received during straddle and limit states, an indicator variable for whether those options outlined above have a price change exceeding 30% during the underlying stock's limit or straddle state compared to the last available option price as reported by OPRA before the start of the limit or straddle state. In addition, to help

⁹ See Securities Exchange Act Release No. 71857 (April 3, 2014), 79 FR 19678 (April 9, 2014) (SR-CBOE-2014-033); see also Cboe Global Markets, LULD Limit and Straddle Reports, available at http://markets.cboe.com/us/options/market_statistics/luld_reports/?mkt=opt.

evaluate the impact of the pilot program, the Exchange has provided to the Commission, and the public, assessments relating to the impact of the operation of the obvious error rules during limit and straddle states including: (1) an evaluation of the statistical and economic impact of limit and straddle states on liquidity and market quality in the options markets, and (2) an assessment of whether the lack of obvious error rules in effect during the straddle and limit states are problematic. The Exchange has concluded that the obvious error pilot does not negatively impact market quality during normal market conditions,¹⁰ and that there has been insufficient data to assess whether a lack of obvious error rules is problematic, however, the Exchange believes the continuation of Rule 6.5.01 functions to protect against any unanticipated consequences in the options markets during a limit or straddle state and add certainty on the options markets.

The Commission recently approved the Plan on a permanent basis (Amendment 18).¹¹ In connection with this approval, the Exchange now proposes to amend Exchange Rules 5.21 and Interpretation and Policy .01 to Rule 6.5 that currently implement the provisions of the Plan on a pilot basis to eliminate the pilot basis, which effectiveness expires on October 18, 2019, and to make such rules permanent. In its approval order to make the Plan permanent, the Commission recognized that, as a result of the Participants' and industry analysis of the Plan's operation, the Limit Up-Limit Down mechanism effectively addresses extraordinary market volatility. Indeed, the Plan benefits markets and market participants by helping to ensure orderly markets, but also, the Exchange

¹⁰ See also Cboe Global Markets, LULD Limit and Straddle Reports, available at http://markets.cboe.com/us/options/market_statistics/luld_reports/?mkt=opt.

During the most recent Review Period the Exchange did not receive any obvious error review requests for Limit-Up-Limit Down trades, and Limit Up-Limit Down trade volume accounted for nominal overall trade volume.

¹¹ See supra note 3.

believes, based on the data made available to the public and the Commission during the pilot period, that the obvious error pilot does not negatively impact market quality during normal market conditions.¹² Rather, the Exchange believes the obvious error pilot functions to protect against any unanticipated consequences in the options markets during a limit or straddle state and add certainty on the options markets. The Exchange also believes the other Options Pilots rules provide additional measures designed to protect investors during limit and straddle states. For example, the Exchange will reject market orders and not elect stop orders¹³ during a Limit Up-Limit Down state to ensure that only those orders with a limit price will be executed during a limit or straddle state given the uncertainty of market prices during such a state.¹⁴ This removes impediments to and perfects the mechanism of a free and open market and national market system by encouraging more investors to participate in light of the changes associated with the Plan. The Exchange believes that if approved on a permanent basis, the Options Pilots would permanently provide investors with the above-described additional certainty of market prices and mitigation of unanticipated consequences and unreasonable adverse selection risk during limit and straddle states.

The Exchange understands that the other national securities exchanges will also file similar proposals to make permanent their respective pilot programs. Since the Commission's approval of Amendment 18 allowing the Plan to operate on a permanent basis, the Exchange and other national securities exchanges have determined that no

¹² See supra note 10.

¹³ See supra note 7.

¹⁴ See supra note 8.

further amendments should be made to the Options Pilots;¹⁵ the current Options Pilots effectively address extraordinary market volatility, are reasonably designed to comply with the requirements of the Plan, facilitate compliance with the Plan and should now operate on a permanent basis, consistent with the Plan. The Exchange does not propose any substantive or additional changes to Exchange Rules 5.21 or Interpretation and Policy .01 to Rule 6.5.

(b) Statutory Basis

The Exchange believes the proposed rule change is consistent with the Securities Exchange Act of 1934 (the “Act”) and the rules and regulations thereunder applicable to the Exchange and, in particular, the requirements of Section 6(b) of the Act.¹⁶ Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)¹⁷ requirements that the rules of an exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest. Additionally, the Exchange believes the proposed rule change is consistent with

¹⁵ See Securities Exchange Act Release No. 85616 (April 11, 2019), 84 FR 16093 (April 17, 2019) (SR-CBOE-2019-020) (proposal to extend the pilot for certain options market rules linked to the Plan).

¹⁶ 15 U.S.C. 78f(b).

¹⁷ 15 U.S.C. 78f(b)(5).

the Section 6(b)(5)¹⁸ requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

In particular, the Exchange believes that the proposed rule supports the objectives of perfecting the mechanism of a free and open market and the national market system because it promotes transparency and uniformity across markets concerning rules for options markets adopted to coincide with the Plan. The Exchange believes that eliminating the pilot basis for the Options Pilots and making such rules permanent facilitates compliance with the Plan by adding certainty to the markets during periods of market volatility, which has been approved and found by the Commission to be reasonably designed to prevent potentially harmful price volatility in NMS Stocks. It has been determined by the Commission that the Plan benefits markets and market participants by helping to ensure orderly markets, and, based on the data made available to the public and the Commission during the pilot period for Rule 6.5.01, the Plan does not negatively impact options market quality during normal market conditions. Rather, the Plan, as it is implemented under the obvious error pilot, functions to protect against any unanticipated consequences in the options markets during a limit or straddle state and add certainty on the options markets. During a limit or straddle state, determining theoretical value of an option may be a subjective rather than an objective determination given the lack of a reliable NBBO, which may create an unreasonable adverse selection opportunity and discourage participants from providing liquidity during limit and straddle states. Therefore, the Exchange believes eliminating obvious error review in such states would, in turn, eliminate uncertainty and confusion for investors and benefit investors by encouraging more

¹⁸ Id.

participation in light of the changes associated with the Plan. As stated, the Exchange believes the other Options Pilots rules provide additional measures designed to protect investors during limit and straddle states. For example, the Exchange will reject market orders and not elect stop orders¹⁹ during a Limit Up-Limit Down state to ensure that only those orders with a limit price will be executed during a limit or straddle state given the uncertainty of market prices during such a state.²⁰ Accordingly, the Exchange believes that making the Options Pilots permanent will further the goals of investor protection and fair and orderly markets as the rules effectively address extraordinary market volatility pursuant to the Plan.

Item 4. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change would impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The proposed rule change is necessary to reflect that the Plan no longer operates as a pilot and has been approved to operate on a permanent basis by the Commission. As such, Exchange Rules 5.21 or Interpretation and Policy .01 to Rule 6.5, which implement protections in connection with the Plan, should be amended to operate on a permanent basis. The Exchange understands that the other national securities exchanges will also file similar proposals to make permanent their respective pilot programs. Thus, the proposed rule change will help to ensure consistency across market centers without implicating any competitive issues.

¹⁹ See supra note 7.

²⁰ See supra note 8.

Item 5. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

The Exchange neither solicited nor received comments on the proposed rule change.

Item 6. Extension of Time Period for Commission Action

The Exchange does not consent to an extension of the time period for Securities and Exchange Commission (the “Commission”) action on the proposed rule change specified in Section 19(b)(2) of the Act.²¹

Item 7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2) or Section 19(b)(7)(D)

(a) Not applicable.

(b) Not applicable.

(c) Not applicable.

(d) The Exchange requests accelerated approval of Amendment No. 2. As discussed above, Amendment No. 2 functions only to remove Rule 5.22 from the list of Options Pilots proposed to be made permanent by the Initial Rule Filing, as amended by Amendment No. 1. As a result, Amendment No. 2 removes references to and descriptions of Rule 5.22 throughout the Initial Rule Filing, as amended by Amendment No. 1, and removes Rule 5.22 from the Exhibit 5. Instead, the Exchange intends to submit a separate filing to extend the pilot basis for Rule 5.22. Amendment No. 2 makes no substantive changes to the other Options Pilots (Rules 5.21 and 6.5.01) in the Initial Rule Filing, as amended by Amendment No. 1.

²¹ 15 U.S.C. 78s(b)(2).

Item 8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission

The proposed rule change is not based on a rule either of another self-regulatory organization or of the Commission. The Exchange notes that other options exchanges have similar pilot rules in connection with the Plan, which the Exchange understands the other options exchanges intend to make permanent.

Item 9. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act

Not applicable.

Item 10. Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act

Not applicable.

Item 11. Exhibits

Exhibit 1. Completed Notice of Proposed Rule Change for publication in the Federal Register.

Exhibit 4. Marked copy of changes to the rule text proposed in an amendment compared against the version of the rule text that was initially filed and previously amended.

Exhibit 5. Proposed rule text.

EXHIBIT 1**SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34- ; File No. SR-CBOE-2019-049]

[Insert date]

Self-Regulatory Organizations; Cboe Exchange, Inc.; Notice of Filing of a Proposed Rule Change Relating to Amend its Opening Process

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on [insert date], Cboe Exchange, Inc. (the “Exchange” or “Cboe Options”) filed with the Securities and Exchange Commission (the “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

Cboe Exchange, Inc. (the “Exchange” or “Cboe Options”) proposes to amend its opening process. The text of the proposed rule change is provided in Exhibit 5.

The text of the proposed rule change is also available on the Exchange’s website (<http://www.cboe.com/AboutCBOE/CBOELegalRegulatoryHome.aspx>), at the Exchange’s Office of the Secretary, and at the Commission’s Public Reference Room.

II. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The purpose of the proposed rule change is to make permanent certain options market rules in connection with the equity market Plan to Address Extraordinary Market Volatility (the “Limit Up-Limit Down Plan” or the “Plan”). This change is being proposed in connection with the recently approved amendment to the Limit Up-Limit Down Plan that allows the Plan to continue to operate on a permanent basis (“Amendment 18”).³

In an attempt to address extraordinary market volatility in NMS Stocks, and, in particular, events like the severe volatility on May 6, 2010, U.S. national securities exchanges and the Financial Industry Regulatory Authority, Inc. (collectively, “Participants”) drafted the Plan pursuant to Rule 608 of Regulation NMS under the Act.⁴ On May 31, 2012, the Commission approved the Plan, as amended, on a one-year pilot basis.⁵ Though the Plan was primarily designed for equity markets, the Exchange believed it would, indirectly, potentially impact the options markets as well. Thus, the Exchange has

³ See Securities Exchange Act Release No. 85623 (April 11, 2019), 84 FR 16086 (April 17, 2019) (Order Approving Amendment No. 18).

⁴ See Securities Exchange Act Release No. 64547 (May 25, 2011), 76 FR 31647 (June 1, 2011)(File No. 4-631).

⁵ See Securities and Exchange Act Release No. 67091 (May 31, 2012) 77 FR 33498 (June 6, 2012).

previously adopted and amended Rules 5.21 and Interpretation and Policy .01 to Rule 6.5⁶ to ensure the option markets were not harmed as a result of the Plan’s implementation and implemented such rules on a pilot basis that has coincided with the pilot period for the Plan (collectively, the “Options Pilots”).⁷ Rule 5.21 essentially serves as a roadmap for the Exchange’s universal changes due to the implementation of the Plan, and Rule 6.5.01 provides that transactions executed during a limit or straddle state are not subject to the obvious and catastrophic error rules.⁸ A limit or straddle state occurs when at least one side of the National Best Bid (“NBB”) or Offer (“NBO”) bid/ask is priced at a non-tradable level. Specifically, a straddle state exists when the NBB is below the lower price band while the NBO is inside the prices band or when the NBO is above the upper price band and the NBB is within the band, while a limit state occurs when the NBO equals the lower price band (without crossing the NBB), or the NBB equals the upper price band (without crossing the NBO). The Exchange adopted the Options Pilots to protect investors because when an underlying security is in a limit or straddle state, there will not be a reliable price for the security to serve as a benchmark for the price of the option. Specifically, the

⁶ Amendment No. 2 removes one of the Options Pilots, Rule 5.22, from the Options Pilots proposed to be made permanent included in the Initial Rule Filing, as amended by Amendment No. 1, as well as descriptions of the functionality and protective measures under Rule 5.22, and citations to rule filings in connection with Rule 5.22 included in the Initial Rule Filing, as amended by Amendment No. 1. The Exchange intends to submit a separate rule filing to extend the pilot basis under Rule 5.22.

⁷ See Securities Exchange Act Release Nos. 69328 (April 5, 2013), 78 FR 21642 (April 11, 2013) (SR-CBOE-2013-030) (amending certain options rules to coincide with the pilot period for the Plan, including Rule 5.21 and Rule 6.5); and 85616 (April 11, 2019), 84 FR 16093 (April 17, 2019) (SR-CBOE-2019-020) (proposal to extend the pilot for certain options pilots).

⁸ Amendment No. 2 deletes a clause stating that Rule 5.22 provides for trading halts whenever a market wise trading halt is initiated due to extraordinary market conditions pursuant to the Plan.

Exchange adopted Rule 6.5.01 because the application of the obvious and catastrophic error rules would be impracticable given the potential for lack of a reliable NBBO in the options market during limit and straddle states. When adjusting or busting a trade pursuant to the obvious error rule, the determination of theoretical value of a trade generally references the NBB (for erroneous sell transactions) or NBO (for erroneous buy transactions) just prior to the trade in question, and is therefore not reliable when at least one side of the NBBO is priced at a non-tradeable level, as is the case in limit and straddle states. In such a situation, determining theoretical value may often times be a very subjective rather than an objective determination and could give rise to additional uncertainty and confusion for investors. As a result, application of the obvious and catastrophic error rules would be impracticable given the lack of a reliable NBBO in the options market during limit and straddle states, and may produce undesirable effects or unanticipated consequences. The Exchange adopted additional measures via other Options Pilot rules that are designed to protect investors during limit and straddle states. For example, the Exchange will reject market orders and not elect stop orders⁹ during a Limit Up-Limit Down state to ensure that only those orders with a limit price will be executed during a limit or straddle state given the uncertainty of market prices during such a state.¹⁰ Furthermore, the Exchange believes that eliminating the application of obvious error rules during a limit or straddle state eliminates the re-evaluation of a transaction executed during such a state that could potentially create an unreasonable

⁹ This includes rules in connection with special handling for market orders, market-on-close orders, stop orders, and stock-option orders, as well as for certain electronic order handling features in a Limit Up-Limit Down state, the obvious error rules, and providing that the Exchange will not require Market-Makers to quote in series of options when the underlying security is in a Limit Up-Limit Down state.

¹⁰ Amendment No. 2 deletes a statement describing an additional protection measure via Rule 5.22.

adverse selection opportunity due to lack of a reliable reference price on one side of the market or another and discourage participants from providing liquidity during limit and straddle states, which is contrary to the goal in limiting participants' adverse selection with the application of the obvious error rule during normal trading states. For these reasons, the Exchange believes the Options Pilots are designed to add certainty on the options markets, which encourages more investors to participate in light of the changes associated with the Plan. The Plan was originally implemented on a pilot-basis in order to allow the public, the participating exchanges, and the Commission to assess the operation of the Plan and whether the Plan should be modified prior to approval on a permanent basis. As stated, the Exchange adopted the Option Pilots to coincide with this pilot; to continue the protections therein while the industry gains further experience operating the Plan.

In connection with the order approving the establishment of the obvious error pilot, as well as the extensions of the obvious error pilot, the Exchange committed to submit monthly data regarding the program and to submit an overall analysis of the obvious error pilot in conjunction with the data submitted under the Plan and any other data as requested by the Commission. Pursuant to a rule filing, approved on April 3, 2014, each month, the Exchange committed to provide the Commission, and the public, a dataset containing the data for each straddle and limit state in optionable stocks that had at least one trade on the Exchange.¹¹ The Exchange has continued to provide the Commission with this data on a monthly basis from October 2015. For each trade on the

¹¹ See Securities Exchange Act Release No. 71857 (April 3, 2014), 79 FR 19678 (April 9, 2014) (SR-CBOE-2014-033); see also Cboe Global Markets, LULD Limit and Straddle Reports, available at http://markets.cboe.com/us/options/market_statistics/luld_reports/?mkt=opt.

Exchange, the Exchange provides (a) the stock symbol, option symbol, time at the start of the straddle or limit state, an indicator for whether it is a straddle or limit state, and (b) for the trades on the Exchange, the executed volume, time-weighted quoted bid-ask spread, time-weighted average quoted depth at the bid, time-weighted average quoted depth at the offer, high execution price, low execution price, number of trades for which a request for review for error was received during straddle and limit states, an indicator variable for whether those options outlined above have a price change exceeding 30% during the underlying stock's limit or straddle state compared to the last available option price as reported by OPRA before the start of the limit or straddle state. In addition, to help evaluate the impact of the pilot program, the Exchange has provided to the Commission, and the public, assessments relating to the impact of the operation of the obvious error rules during limit and straddle states including: (1) an evaluation of the statistical and economic impact of limit and straddle states on liquidity and market quality in the options markets, and (2) an assessment of whether the lack of obvious error rules in effect during the straddle and limit states are problematic. The Exchange has concluded that the obvious error pilot does not negatively impact market quality during normal market conditions,¹² and that there has been insufficient data to assess whether a lack of obvious error rules is problematic, however, the Exchange believes the continuation of Rule 6.5.01 functions to protect against any unanticipated consequences in the options markets during a limit or straddle state and add certainty on the options markets.

¹² See also Cboe Global Markets, LULD Limit and Straddle Reports, available at http://markets.cboe.com/us/options/market_statistics/luld_reports/?mkt=opt. During the most recent Review Period the Exchange did not receive any obvious error review requests for Limit-Up-Limit Down trades, and Limit Up-Limit Down trade volume accounted for nominal overall trade volume.

The Commission recently approved the Plan on a permanent basis (Amendment 18).¹³ In connection with this approval, the Exchange now proposes to amend Exchange Rules 5.21 and Interpretation and Policy .01 to Rule 6.5 that currently implement the provisions of the Plan on a pilot basis to eliminate the pilot basis, which effectiveness expires on October 18, 2019, and to make such rules permanent. In its approval order to make the Plan permanent, the Commission recognized that, as a result of the Participants' and industry analysis of the Plan's operation, the Limit Up-Limit Down mechanism effectively addresses extraordinary market volatility. Indeed, the Plan benefits markets and market participants by helping to ensure orderly markets, but also, the Exchange believes, based on the data made available to the public and the Commission during the pilot period, that the obvious error pilot does not negatively impact market quality during normal market conditions.¹⁴ Rather, the Exchange believes the obvious error pilot functions to protect against any unanticipated consequences in the options markets during a limit or straddle state and add certainty on the options markets. The Exchange also believes the other Options Pilots rules provide additional measures designed to protect investors during limit and straddle states. For example, the Exchange will reject market orders and not elect stop orders¹⁵ during a Limit Up-Limit Down state to ensure that only those orders with a limit price will be executed during a limit or straddle state given the uncertainty of market prices during such a state.¹⁶ This removes impediments to and perfects the mechanism of a free and open market and national market system by

¹³ See supra note 5.

¹⁴ See supra note 12.

¹⁵ See supra note 9.

¹⁶ See supra note 10.

encouraging more investors to participate in light of the changes associated with the Plan. The Exchange believes that if approved on a permanent basis, the Options Pilots would permanently provide investors with the above-described additional certainty of market prices and mitigation of unanticipated consequences and unreasonable adverse selection risk during limit and straddle states.

The Exchange understands that the other national securities exchanges will also file similar proposals to make permanent their respective pilot programs. Since the Commission's approval of Amendment 18 allowing the Plan to operate on a permanent basis, the Exchange and other national securities exchanges have determined that no further amendments should be made to the Options Pilots;¹⁷ the current Options Pilots effectively address extraordinary market volatility, are reasonably designed to comply with the requirements of the Plan, facilitate compliance with the Plan and should now operate on a permanent basis, consistent with the Plan. The Exchange does not propose any substantive or additional changes to Exchange Rules 5.21 or Interpretation and Policy .01 to Rule 6.5.

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the Securities Exchange Act of 1934 (the "Act") and the rules and regulations thereunder applicable to the Exchange and, in particular, the requirements of Section 6(b) of the Act.¹⁸ Specifically, the Exchange believes the proposed rule change is consistent with the

¹⁷ See Securities Exchange Act Release No. 85616 (April 11, 2019), 84 FR 16093 (April 17, 2019) (SR-CBOE-2019-020) (proposal to extend the pilot for certain options market rules linked to the Plan).

¹⁸ 15 U.S.C. 78f(b).

Section 6(b)(5)¹⁹ requirements that the rules of an exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest. Additionally, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)²⁰ requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

In particular, the Exchange believes that the proposed rule supports the objectives of perfecting the mechanism of a free and open market and the national market system because it promotes transparency and uniformity across markets concerning rules for options markets adopted to coincide with the Plan. The Exchange believes that eliminating the pilot basis for the Options Pilots and making such rules permanent facilitates compliance with the Plan by adding certainty to the markets during periods of market volatility, which has been approved and found by the Commission to be reasonably designed to prevent potentially harmful price volatility in NMS Stocks. It has been determined by the Commission that the Plan benefits markets and market participants by helping to ensure orderly markets, and, based on the data made available to the public and the Commission during the pilot period for Rule 6.5.01, the Plan does not negatively impact options market quality during normal market conditions. Rather, the Plan, as it is implemented under the obvious error pilot, functions to protect against

¹⁹ 15 U.S.C. 78f(b)(5).

²⁰ Id.

any unanticipated consequences in the options markets during a limit or straddle state and add certainty on the options markets. During a limit or straddle state, determining theoretical value of an option may be a subjective rather than an objective determination given the lack of a reliable NBBO, which may create an unreasonable adverse selection opportunity and discourage participants from providing liquidity during limit and straddle states. Therefore, the Exchange believes eliminating obvious error review in such states would, in turn, eliminate uncertainty and confusion for investors and benefit investors by encouraging more participation in light of the changes associated with the Plan. As stated, the Exchange believes the other Options Pilots rules provide additional measures designed to protect investors during limit and straddle states. For example, the Exchange will reject market orders and not elect stop orders²¹ during a Limit Up-Limit Down state to ensure that only those orders with a limit price will be executed during a limit or straddle state given the uncertainty of market prices during such a state.²² Accordingly, the Exchange believes that making the Options Pilots permanent will further the goals of investor protection and fair and orderly markets as the rules effectively address extraordinary market volatility pursuant to the Plan.

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change would impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The proposed rule change is necessary to reflect that the Plan no longer operates as a pilot and has been approved to operate on a permanent basis by the Commission. As such, Exchange Rules 5.21 or Interpretation and Policy .01 to Rule 6.5,

²¹ See supra note 9.

²² See supra note 10.

which implement protections in connection with the Plan, should be amended to operate on a permanent basis. The Exchange understands that the other national securities exchanges will also file similar proposals to make permanent their respective pilot programs. Thus, the proposed rule change will help to ensure consistency across market centers without implicating any competitive issues.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

The Exchange neither solicited nor received comments on the proposed rule change.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the Exchange consents, the Commission will:

- A. by order approve or disapprove such proposed rule change, or
- B. institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or

- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-CBOE-2019-049 on the subject line.

Paper comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-CBOE-2019-049. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, D.C. 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-CBOE-2019-049 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to
delegated authority.²³

Secretary

²³ 17 CFR 200.30-3(a)(12).

EXHIBIT 4

Deletions set forth in the proposed rule text of initial filing SR-CBOE-2019-049, as amended by Amendment No. 1, are [bracketed]. Redactions of the deletions being made pursuant to Amendment No. 2 to SR-CBOE-2019-049, as amended by Amendment No. 1, are struck-through.

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Rules of Cboe Exchange, Inc.

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Rule 5.21. Equity Market Plan to Address Extraordinary Market Volatility

[This Rule shall be in effect during a pilot period that expires at the close of business on October 18, 2019.]

* * * * *

Rule 5.22. Market-wide Trading Halts Due to Extraordinary Market Volatility

The Exchange shall halt trading in all stocks and stock options whenever a market-wide trading halt commonly known as a circuit breaker is initiated in response to extraordinary market conditions. {This Rule shall be in effect during a pilot period that expires at the close of business on October 18, 2019. If the pilot is not either extended or approved permanently at the end of the pilot period, the prior version of the Rule shall be in effect.}

* * * * *

Rule 6.5. Nullification and Adjustment of Options Transactions including Obvious Errors

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Interpretations and Policies

.01 *Limit Up-Limit Down State*. [The following policy (Rule 6.5.01) shall be in effect during a pilot period that expires at the close of business on October 18, 2019.]

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EXHIBIT 5

(additions are underlined; deletions are bracketed)

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Rules of Cboe Exchange, Inc.

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Rule 5.21. Equity Market Plan to Address Extraordinary Market Volatility

[This Rule shall be in effect during a pilot period that expires at the close of business on October 18, 2019.]

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Rule 6.5. Nullification and Adjustment of Options Transactions including Obvious Errors

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Interpretations and Policies

.01 *Limit Up-Limit Down State*. [The following policy (Rule 6.5.01) shall be in effect during a pilot period that expires at the close of business on October 18, 2019.]

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