

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-82855; File No. SR-CBOE-2018-019)

March 12, 2018

Self-Regulatory Organizations; Cboe Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend the Fees Schedule

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 February 27, 2018, 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

The Exchange proposes to amend its Fees Schedule to adopt the Select Customer Options Reduction (“SCORE”) program. 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 on the proposed rule change. The text of these statements may be examined at the places

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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 Exchange proposes to adopt the Select Customer Options Reduction program ("SCORE").³ SCORE is a new discount program for Retail, Non-FLEX Customer ("C" origin code) volume in the following options classes: SPX (including SPXW), VIX, RUT, MXEA, MXEF & XSP ("Qualifying Classes"). For purposes of this program "Retail" orders will be defined as Customer orders for which the original order size (in the case of a simple order) or largest leg size (in the case of a complex order) is 100 contracts or less. Volume executed during Extended Trading Hours ("ETH") will be aggregated with volume executed during Regular Trading Hours ("RTH").

The SCORE program is available to any Trading Permit Holder ("TPH") Originating Clearing Firm or non-TPH Originating Clearing Firm. For this program, an "Originating Clearing Firm" will be defined as either (a) the executing clearing Options Clearing Corporation ("OCC") number on any transaction which does not also include a Clearing Member Trading Agreement ("CMTA") OCC clearing number or (b) the CMTA in the case of any transaction which does include a CMTA OCC clearing number. In order to participate, an Originating Firm must complete the SCORE Registration Form by the second to last business day of the month preceding the month in which their participation in the SCORE program will commence. The Exchange will aggregate an

³ The proposed SCORE program will be effective March 1, 2018 (i.e., March discounts will be based on February 2018 volume for all participants that sign up prior to the second to last business day of February).

Originating Firm’s volume with volume of their OCC clearing affiliates if such affiliates are reported to the Exchange via the SCORE Registration Form and there is at least 75% common ownership between the firms as reflected on each firm’s Form BD, Schedule A. “Originating Firm” will refer to both an Originating Clearing Firm and any applicable affiliates.

The SCORE program will utilize two measures for participation and discounts: 1) the Qualifying Tiers, which determine whether a firm qualifies for the discounts in either Tier A or Tier B and 2) the Discount Tiers, which determine the Originating Firm’s applicable discount tiers and corresponding discounts, as further described below.

Qualifying Tier B
Retail Volume Percentage in Qualifying Classes between 35.00% and 69.99%

Discount Tier	Percentage of All Customer Retail Volume in Qualifying Classes	Discount Per Retail Contract
B3	0.00% - 5.00%	\$0.00
B2	Above 5.00% - 26.00%	\$0.04
B1	Above 26.00%	\$0.08

Qualifying Tier A
Retail Volume Percentage in Qualifying Classes at or above 70.00%

Discount Tier	Percentage of All Customer Retail Volume in Qualifying Classes	Discount Per Retail Contract
A5	0.00% - 5.00%	\$0.00
A4	Above 5.00% - 37.00%	\$0.08
A3	Above 37.00% - 41.00%	\$0.15
A2	Above 41.00% - 47.00%	\$0.19
A1	Above 47.00%	\$0.23

Volume Multiplier		
MXEA/MXEF	XSP	RUT
99	99	2

Qualifying Tiers

To determine an Originating Firm's Qualifying Tier, the Originating Firm's total Retail volume in the Qualifying Classes will be divided by the Originating Firm's total Customer volume, Retail and non-Retail, in the Qualifying Classes. If an Originating Firm's Retail volume is between 35.00% and 69.99%, the Originating Firm will qualify for Tier B discounts. If an Originating Firm's Retail volume is at or above 70.00%, the Originating Firm will qualify for Tier A discounts. The Qualifying Tier that is applied in a given month is based on an Originating Firm's Retail volume in the prior month (e.g., an Originating Firm's volume in January determines which Qualifying Tier applies in February).⁴

Discount Tiers

For the Discount Tier, an Originating Firm's Retail volume in the Qualifying Classes will be divided by total Retail volume in the Qualifying Classes executed on the Exchange. Additionally, SCORE will employ the use of "product multipliers" for the Discount Tier only. Multipliers will be applied to MXEF, MXEA, RUT and XSP volume only, as reflected below. Specifically, Retail volume in these products will be multiplied by the values indicated below so that any volume executed by an Originating Firm in these classes will be increased for purposes of the Discount Tier calculation, but not for purposes of calculating the Qualifying Tiers. Additionally, discounts will be applied to executed volume only, not on multiplied volume. If an Originating Firm's volume in a

⁴ For example, in January, if an Originating Firm executes a total of 1,000,000 Customer (C) contracts in the Qualifying Classes, of which 600,000 contracts qualify as Retail volume, the Originating Firm would have a retail percentage of 60% and qualifies for the B Tier discounts to be applied to the Originating Firm's qualifying Retail Customer volume in February.

given month includes volume from MXEF, MXEA, RUT or XSP, an average rate will be calculated using the Discount Tiers.⁵

The Clearing TPH(s) that is billed for an Originating Firm's transactions will receive the applicable discounts. If more than one Clearing TPH was billed transaction fees for an Originating Firm's transactions subject to the SCORE program, the discounts will be applied pro-rata to the Clearing TPHs.

⁵ For example, assume Originating Firms A and B both qualify for Tier A discounts in a given month and that the total qualifying contracts for that month is 1.4 million contracts.

In that month, Originating Firm A executes 900,000 contracts from orders which qualify as Customer Retail volume, none of which were in product multiplier classes (i.e., MXEA, MXEF, XSP or RUT). Out of a total of 1.4 million total Retail volume executed on the Exchange in the Qualifying Classes, Originating Firm B [sic] has 64.3% (900,000/1,400,000) of all qualifying contracts, and thus receives a discount of up to Tier A1. Originating Firm A therefore receives a discount using the following formula: receives \$.00 on 70,000 (5%) contracts, \$.08/contract on 448,000 contracts equaling \$35,840 (32%) (i.e. above 5% to 37%), \$.15/contract on 56,000 contracts equaling \$8,400 (4%) (i.e. above 37.00% to 41%), \$.19/contract on 84,000 contracts equaling \$15,960 (6%) (i.e., above 41% - 47%), and \$.23/contract on the remaining 242,000 contracts equaling \$55,660, resulting in a total discount of \$115,860.

In the same month, Originating Firm B executes 900,000 contracts from orders which qualify as Customer Retail volume, of which 10,000 contracts were in XSP. The XSP volume of Originating Firm B is multiplied by 99 (i.e. adding an additional 980,000 [sic] contracts to the qualifying total). Originating Firm B's recalculated total of contracts is now "1,880,000" [sic] contracts (i.e., 134.3% of the total 1,400,000), and thus receives a discount up to Tier A1. Originating Firm B therefore receives an average rate using the following formula: the average of: \$.00 on 70,000 (5%) contracts, \$.08/contract on 448,000 contracts equaling \$35,840 (32%) (i.e. above 5% to 37%), \$.15/contract on 56,000 contracts equaling \$8,400 (4%) (i.e. above 37.00% to 41%), \$.19/contract on 84,000 contracts equaling \$15,960 (6%) (i.e., above 41% - 47%), and \$.23/contract on the remaining "1,222,000" contracts equaling \$281,060, resulting in an average discount rate of \$0.182 contract (\$341,260/1,880,000) and a total discount of \$163,800 (\$0.182 x 900,000).

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.⁶

Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)⁷ 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 Section 6(b)(4) of the Act,⁸ which requires that Exchange rules provide for the equitable allocation of reasonable dues, fees, and other charges among its Trading Permit Holders and other persons using its facilities.

The adoption of SCORE is reasonable because it will allow Customers orders from Originating Firms that register for the program an opportunity to receive certain discounts for reaching certain trading volume thresholds. The Exchange notes that SCORE provides an incremental incentive for Originating Firms to strive for the highest tier level, which provides increasingly higher discounts. The Exchange notes that it is voluntary for Originating Firms to choose whether or not to register for the program.

⁶ 15 U.S.C. 78f(b).

⁷ 15 U.S.C. 78f(b)(5).

⁸ 15 U.S.C. 78f(b)(4).

The Exchange believes it's equitable and not unfairly discriminatory to establish the program for Originating Firms only because this is designed to attract a greater number of customer orders in the Qualifying Classes. This increased volume creates greater trading opportunities that benefit all market participants by providing more trading opportunities and tighter spreads. Additionally, the Exchange notes that incentive programs based on Customer volume already exist elsewhere within the industry.⁹ In addition the Exchange believes the proposed program is equitable and not unfairly discriminatory because any Originating Firm may avail itself of this program provided it registers with the Exchange.

The Exchange believes limiting the SCORE program to the Qualifying Classes is equitable and not unfairly discriminatory because the Exchange has expended considerable time and resources in developing these products. The SCORE program is designed to encourage greater customer options trading in the Qualifying Classes, which, along with bringing greater options trading opportunities to all market participants, would bring in more fees to the Exchange, and such fees can be used to recoup the Exchange's costs and expenditures from developing and maintaining the Qualifying Classes.

The Exchange believes limiting the SCORE program to Retail orders is equitable and not unfairly discriminatory because the Exchange wants to encourage more Retail Customer volume in the Qualifying classes, which as noted above will bring greater volume and liquidity, which benefit all market participants by providing more trading

⁹ See e.g., Cboe Options Fees Schedule, the Volume Incentive Program and Frequent Trader; and Nasdaq PHLX LLC Pricing Schedule, Section B. Customer Rebate Program.

opportunities and tighter spreads. Additionally, the Exchange notes other incentive programs already exist for non-Retail Customer orders.¹⁰

The Exchange believes it's reasonable, equitable and not unfairly discriminatory to adopt a product multiplier because the Exchange wishes to support and encourage customers to provide greater order flow in these particular classes, which allows for price improvement in these products and has a number of positive impacts on the market system. The Exchange also believes however, that it's reasonable, equitable and not unfairly discriminatory to base the discount paid off the amount of transaction fees that would be assessed pursuant to the Fees Schedule (as opposed to being based off the "theoretical" number of contracts using the product multiplier) because the Exchange does not want to provide discount on contracts for which it is not also collecting transaction fees.

The Exchange also believes it's reasonable, equitable and not unfairly discriminatory to provide that it will aggregate the volume of affiliated Originating Firms to determine whether and what volume thresholds are met as the entities being aggregated share more than majority ownership. Particularly, the Exchange notes multiple incentive programs allow for aggregation between affiliates provided there is at least 75% common ownership between the firms as reflected on each firm's Form BD, Schedule A.¹¹

¹⁰ See e.g., Cboe Options Fees Schedule, Customer Large Trade Discount.

¹¹ See e.g., Cboe Options Fees Schedule, Footnote 10, which provides the Exchange will aggregate the trading activity of separate Liquidity Provider firms for purposes of the Liquidity Provider Sliding Scale if there is at least 75% common ownership between the firms as reflected on each firm's Form BD, Schedule A.

Lastly, the Exchange believes it's reasonable, equitable and not unfairly discriminatory to provide the discount to the executing Clearing TPH (or if more than one Clearing TPH, than on a pro-rata basis to the Clearing TPHs) because the executing Clearing TPH is the entity that is assessed transactions fees on the SCORE eligible volume.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act because, while the discounts apply only to Customer orders from Originating Firms, the Program is designed to encourage increased Customer options volume in the Qualifying Classes, which provides greater trading opportunities for all market participants. Additionally, there is a history in the options markets of providing preferential treatment to Customers orders. The Exchange believes that the proposed rule change will not cause an unnecessary burden on intermarket competition because the Qualifying Classes are products that only trade on Cboe Options. To the extent that the proposed changes make the Exchange a more attractive marketplace for market participants at other exchanges, such market participants are welcome to become Cboe Options market participants.

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A) of the Act¹² and paragraph (f) of Rule 19b-4¹³ thereunder. At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission will institute proceedings to determine whether the proposed rule change should be approved or 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-2018-019 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.

¹² 15 U.S.C. 78s(b)(3)(A).

¹³ 17 CFR 240.19b-4(f).

All submissions should refer to File Number SR-CBOE-2018-019. 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. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to

File Number SR-CBOE-2018-019 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.¹⁴

Eduardo A. Aleman
Assistant Secretary

¹⁴ 17 CFR 200.30-3(a)(12).