

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-84393; File No. SR-CboeEDGX-2018-043)

October 10, 2018

Self-Regulatory Organizations; Cboe EDGX Exchange, Inc.; Notice of Filing of a Proposed Rule Change to Amend the Exchange's Rulebook to Allow the Post Only Order Instruction on Complex Orders that Route to its Electronic Book for Trading Options

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on October 1, 2018, Cboe EDGX Exchange, Inc. (the "Exchange" or "EDGX") filed with the Securities and Exchange Commission ("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 is proposing to amend the Exchange's rulebook to allow the Post Only Order instruction on complex orders that route to its electronic book for trading options ("EDGX Options").

The text of the proposed rule change is available at the Exchange's website at [www.markets.cboe.com](http://www.markets.cboe.com), at the principal office of the Exchange, 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

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

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 parts of such statements.

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

1. Purpose

EDGX Options currently offers the Post Only Order instruction on simple orders that route to its electronic book ("Simple Book") and now proposes to adopt the Post Only Order instruction on complex orders that route to its electronic book ("COB").

Background

Pursuant to Exchange Rule 21.1(d)(8), Post Only Orders are "orders that are to be ranked and executed on the Exchange pursuant to Rule 21.8 (Order Display and Book Processing) or cancelled, as appropriate, without routing away to another options exchange except that the order will not remove liquidity from the EDGX Options Book." In other words, if a Post Only Order is entered into the EDGX Options electronic trading facility ("System"), it will not execute against an order resting in the Simple Book or route to another exchange. The purpose of the Post Only Order is to add liquidity to the Simple Book.

Complex Orders

EDGX Options does not currently offer Post Only complex orders. Based on the EDGX Options fee structure, the execution of a complex order taking liquidity from the COB is subject to a higher fee than the execution of a complex order adding liquidity to the COB. For example, a Non-Customer complex order that adds liquidity to the COB in a non-penny class incurs a fee of \$0.10, whereas a Non-Customer complex order that removes liquidity from the COB in a non-penny class incurs a fee of \$0.75. Without the ability to mark a complex order as Post Only, a

Member that intends to submit a complex order to add liquidity to the COB may not receive the benefit of the reduced fee. Accordingly, EDGX Options is proposing to add Post Only to the available types of complex orders submitted to the Exchange in Exchange Rule 21.20(b).

Proposed Exchange Rule 21.20(b)(2) states that complex Orders that are marked Post Only with any Time in Force will, by default, not initiate a complex order auction (“COA”), and if a Member marks a Post Only complex order to initiate a COA, that order will be cancelled.. [sic] This is consistent with the purposes of a Post Only Order, which as discussed above is to add liquidity to the COB. Proposed Exchange Rule 21.20(c)(2)(F) states that complex orders marked Post Only may not Leg into the Simple Book, and proposed Exchange Rule 21.20(c)(4)(C) states that the System will cancel or reject a Post Only complex order if it locks or crosses a resting complex order in the COB or the then-current opposite side synthetic best bid or offer (“SBBO”). For example, assume there are no orders for a specific strategy resting on the COB, the synthetic national best bid or offer (“SNBBO”) is \$3.00 by \$3.15, and the SBBO is \$2.95 by \$3.15. Assume next that Complex Order 1 enters the COB to sell 10 of that strategy at \$3.14 and such order is posted to the COB. If Complex Order 2 then enters the COB to buy 10 contracts of that strategy at \$3.14, but Complex Order 2 also contains the Post Only instruction, Complex Order 2 is rejected since it locks the resting contra order. Similarly, assume there are no orders for a specific strategy resting on the COB, the SNBBO is \$3.00 by \$3.15, and the SBBO is \$2.95 by \$3.20. If a two-leg Complex Order with the Post Only instruction enters the COB to buy 10 contracts of that strategy at \$3.20, that Complex Order is rejected since it cannot leg in to the Simple Book and it locks the contra side SBBO. This proposed functionality is consistent with the purpose of the Post Only instruction and ensures a Post Only complex order

will not remove liquidity from the COB. This is also consistent with the functionality and purpose of the Post Only Order instruction on simple orders.

By adding the Post Only Order instruction for complex orders, Members will be given the ability to exercise more control over the circumstances in which their complex orders are executed and be encouraged to add liquidity in the complex order market. Any additional liquidity will subsequently benefit all participants who trade complex orders on the Exchange.

## 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.<sup>3</sup> Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>4</sup> 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)<sup>5</sup> requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

Specifically, the Post Only Order instruction on complex orders is designed to encourage market participants to add liquidity in the complex order market, which will benefit investors.

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<sup>3</sup> 15 U.S.C. 78f(b).

<sup>4</sup> 15 U.S.C. 78f(b)(5).

<sup>5</sup> Id.

By giving market participants the flexibility to manage their execution costs and the circumstances in which their complex orders are executed, the Exchange believes the proposed rule change would remove impediments to perfect the mechanism of a free and open market and a national market system and protect investors. The Exchange also believes that the proposed rule change will contribute to the protection of investors and the public interest by assuring compliance with rules related to locked and crossed markets.

Additionally, the Exchange notes that Post Only functionality is not new or unique functionality and is already available in a similar capacity. While the Post Only complex order type is not currently available in the market, the Exchange and other exchanges have implemented the Post Only simple order type, which functions in the same manner as the proposed Post Only complex order type. The purpose of a Post Only complex order is the same as the purpose of a Post Only simple order, and the Post Only Order instruction on complex orders ensures the submitter receives the benefit of a reduced fee when intending to add liquidity.

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 intramarket or intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act. In particular, the Exchange believes the proposed rule change will not burden intramarket competition because the Post Only Order instruction on complex orders will be available to all market participants. Additionally, use of the Post Only Order instruction on complex orders is voluntary. The Exchange also believes the proposed rule change will not impose any burden on intermarket competition because this relates to an instruction on orders that are submitted to the Exchange and may only execute on the Exchange. Additionally, nothing prevents other options exchanges that offer complex orders from adopting a Post Only

complex order type. The Exchange also believes the proposed rule change will promote competition, as the Exchange believes it will encourage the provision of additional liquidity in the complex order market, which benefits all 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

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date 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](mailto:rule-comments@sec.gov). Please include File Number SR-CboeEDGX-2018-043 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-CboeEDGX-2018-043. 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, DC 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-CboeEDGX-2018-043, 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.<sup>6</sup>

Eduardo A. Aleman  
Assistant Secretary

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<sup>6</sup> 17 CFR 200.30-3(a)(12).