

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-84395; File No. SR-CBOE-2018-065)

October 10, 2018

Self-Regulatory Organizations; Cboe Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend its 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 September 28, 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

Cboe Exchange, Inc. (the “Exchange” or “Cboe Options”) proposes to amend its fees schedule. 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 amend its Fees Schedule, effective October 1, 2018 to amend its fee incentive program for Lead Market-Makers ("LMM") in VIX during Global Trading Hours ("GTH"). By way of background, pursuant to Footnote 38 of the Fees Schedule, if a LMM in VIX options during GTH (1) provides continuous electronic quotes in at least the lesser of 99% of the non-adjusted series or 100% of the non-adjusted series minus one call-put pair in an GTH allocated class (excluding intra-day add-on series on the day during which such series are added for trading) and (2) enters opening quotes within five minutes of the initiation of an opening rotation in any series that is not open due to the lack of a quote, provided that the LMM will not be required to enter opening quotes in more than the same percentage of series set forth in clause (1) for at least 90% of the trading days during GTH in a given month, the LMM will receive a rebate for that month in the amount of a pro-rata share of a compensation pool equal to \$15,000 times the number of LMMs in that class³ (or pro-rated if an appointment begins after the first trading day of the month or ends prior to the last trading day of the month).

³ For example, if there is one LMM appointed in VIX, a compensation pool will be established each month totaling \$20,000. If that LMM meets the heightened continuous quoting standard in VIX in a month, that LMM will receive \$20,000. If there are two LMMs appointed in VIX, a compensation pool will be established each month totaling \$40,000. If each LMM meets the heightened continuous quoting standard in VIX during a month, each will receive \$20,000. If only one LMM meets the heightened continuous quoting standard in VIX during a month, that LMM would receive \$40,000 and the other one would receive nothing.

The Exchange proposes to amend Footnote 38 to increase the compensation pool for VIX LMMs to \$20,000 per LMM. The Exchange also proposes to update the example of how the compensation pool works for the Fees Schedule. The Exchange notes that GTH LMMs are not obligated to satisfy the heightened quoting standards described in the Fees Schedule. Rather, the LMMs are eligible to receive a rebate if they satisfy the heightened standards, which the Exchange believes will encourage LMMs to provide liquidity during GTH. Additionally, the Exchange notes that LMMs may have to undertake other expenses to be able to quote at the heightened standard during GTH, such as purchase additional bandwidth.

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.⁴

Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)⁵ 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

⁴ 15 U.S.C. 78f(b).

⁵ 15 U.S.C. 78f(b)(5).

the Section 6(b)(5)⁶ 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 it is reasonable, equitable and not unfairly discriminatory to offer LMMs in VIX during GTH a rebate if they meet a certain heightened quoting standard (described above) to encourage LMMs in VIX to provide increased liquidity. More specifically, the Exchange believes the amount of the amended rebate (\$20,000) is reasonable because it provides an increased rebate for meeting the heightened quoting standard and takes into consideration additional costs an LMM may incur. Particularly, the Exchange believes the proposed amount is such that it will incentivize an appointed LMM to meet the GTH quoting standards for VIX. The Exchange notes the proposed amount is also in line with incentives given to LMMs for other products.⁷ Additionally, if a LMM does not satisfy the heightened quoting standard, then it will not receive the rebate. The Exchange believes it is equitable and not unfairly discriminatory to only offer the rebate to LMMs because it benefits all market participants in GTH to encourage LMMs to satisfy the heightened quoting standards, which may increase liquidity during those hours and provide more trading opportunities and tighter spreads.

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. The Exchange does not believe that the proposed rule change will impose any burden on intramarket competition that is not necessary or appropriate in furtherance of

⁶ Id.

⁷ See e.g., Cboe Options Fees Schedule, MSCI LMM Incentive Program.

the purposes of the Act, because the amended rebate is intended to encourage LMMs to bring liquidity in VIX during GTH, which benefits all market participants. Furthermore, the Exchange does not believe that the proposed rule changes will impose any burden on intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act because VIX is a proprietary product that will only be traded on Cboe Options. To the extent that the proposed changes make Cboe Options 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 Act⁸ and paragraph (f) of Rule 19b-4⁹ 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.

⁸ 15 U.S.C. 78s(b)(3)(A).

⁹ 17 CFR 240.19b-4(f).

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-2018-065 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-2018-065. 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-2018-065 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.¹⁰

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Assistant Secretary

¹⁰ 17 CFR 200.30-3(a)(12).