SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-84619; File No. SR-CboeEDGX-2018-051)

November 19, 2018

Self-Regulatory Organizations; Cboe EDGX Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Adopt Reserve Orders

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),[1] and Rule

19b-4 thereunder,[2] notice is hereby given that on November 5, 2018, Cboe EDGX Exchange, Inc.

("Exchange" or ""EDGX"") filed with the Securities and Exchange Commission ("Commission")

the proposed rule change as described in Items I and II 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 EDGX Exchange, Inc. (the "Exchange" or "EDGX Options") proposes to adopt

Reserve Orders.

(additions are <u>underlined</u>; deletions are [bracketed])

* * * * *

Rules of Cboe EDGX Exchange, Inc.

* * * * *

Rule 21.1. Definitions

The following definitions apply to Chapter XXI for the trading of options listed on EDGX Options.

(a) – (c) No change.

(d) The term "Order Type" shall mean the unique processing prescribed for designated orders that are eligible for entry into the System, and shall include:

---

1   15 U.S.C. 78s(b)(1).

2   17 CFR 240.19b-4.

(1) [(Reserved.)]"Reserve Orders" are limit orders that have both a portion of the quantity displayed ("Display Quantity") and a reserve portion of the quantity ("Reserve Quantity") not displayed. Both the Display Quantity and Reserve Quantity of the Reserve Order are available for potential execution against incoming orders. When entering a Reserve Order, a User must instruct the Exchange as to the quantity of the order to be initially displayed by the System ("Max Floor"). If the Display Quantity of a Reserve Order is fully executed, the System will, in accordance with the User's instruction, replenish the Display Quantity from the Reserve Quantity using one of the below replenishment instructions. If the remainder of an order is less than the replenishment amount, the System will display the entire remainder of the order. The System creates a new timestamp for both the Display Quantity and Reserve Quantity of the order each time it is replenished from reserve.

> (A) Random Replenishment. An instruction that a User may attach to an order with Reserve Quantity where the System randomly replenishes the Display Quantity for the order with a number of contracts not outside a replenishment range, which equals the Max Floor plus and minus a replenishment value established by the User when entering a Reserve Order with a Random Replenishment instruction.

> (B) Fixed Replenishment. For any order that a User does not select Random Replenishment, the System will replenish the Display Quantity of the order with the number of contracts equal to the Max Floor.

(2) – (12) No change.

(e) – (j) No change.

* * * * *

Rule 21.6. Entry of Orders

Users can enter orders into the System, subject to the following requirements and conditions:

(a) Users shall be permitted to transmit to the System multiple orders at a single as well as multiple price levels. Each order will indicate the Reserve Quantity (if applicable).

(b) – (f) No change.

* * * * *

Rule 21.8. Order Display and Book Processing

(a) – (k) No change.

(l) *Nondisplayed Orders*. Displayed orders have priority over nondisplayed orders. Nondisplayed portions of Reserve Orders are allocated in accordance with paragraph (c) above, but additional priority overlays do not apply, except for the Customer Overlay (if applicable).

* * * * *

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 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

In 2016, the Exchange's parent company, Cboe Global Markets, Inc. (formerly named CBOE Holdings, Inc.) ("Cboe Global"), which is also the parent company of Cboe Exchange, Inc. ("Cboe Options") and Cboe C2 Exchange, Inc. ("C2"), acquired the Exchange and its affiliated exchanges, Cboe EDGA Exchange, Inc. ("EDGA"), Cboe BZX Exchange, Inc. ("BZX or BZX Options"), and Cboe BYX Exchange, Inc. ("BYX" and, together with C2, Cboe Options, EDGX, EDGA, and BZX, the "Cboe Affiliated Exchanges"). In this context, EDGX Options proposes to align certain system functionality with C2 and BZX Options. Although the Exchange intentionally offers certain features that differ from those offered by the Cboe Affiliated Exchange and will

3

continue to do so, the Exchange believes offering similar functionality to the extent practicable will reduce potential confusion for market participants.

The proposed rule change adopts Reserve Orders. Reserve Orders permit Users to enter orders with both displayed and nondisplayed amounts. Specifically, proposed Rule 21.1(d)(1) provides that "Reserve Orders" are limit orders that have both a portion of the quantity displayed ("Display Quantity") and a reserve portion of the quantity ("Reserve Quantity") not displayed.[3] Both the Display Quantity and Reserve Quantity of the Reserve Order are available for potential execution against incoming orders. When entering a Reserve Order, a User must instruct the Exchange as to the quantity of the order to be initially displayed by the System ("Max Floor"). If the Display Quantity of a Reserve Order is fully executed, the System will, in accordance with the User's instruction, replenish the Display Quantity from the Reserve Quantity using one of two replenishment options, as described below. If the remainder of an order is less than the replenishment amount, the System will display the entire remainder of the order. The System creates a new timestamp for both the Display Quantity and Reserve Quantity of the order each time it is replenished from reserve.

A User may determine that a Reserve Order should be subject to "Random Replenishment" or "Fixed Replenishment." If a Reserve Order has a Random Replenishment instruction, the System randomly replenishes the Display Quantity for the order with a number of contracts not outside a replenishment range, which equals the Max Floor plus and minus a replenishment value established by the User when entering a Reserve Order with a Random Replenishment instruction. For any order that a User does not select Random Replenishment, the System will replenish the Display Quantity of the order with the number of contracts equal to the Max Floor.

---

[3]   The proposed change to Rule 21.6(a) states that each order will indicate the Reserve Quantity (if applicable).

Pursuant to proposed Rule 21.8(l), displayed orders have priority over nondisplayed orders. In other words, while both portions of a Reserve Order may execute against incoming marketable orders, the displayed portion will be executed first, and the non-displayed portion will only execute after all displayed interest (from other orders) at that price has executed. Nondisplayed portions of Reserve Orders are allocated in accordance with Rule 21.8(c), but additional priority overlays will not apply, except for the Customer Overlay (if applicable). Therefore, if there are nondisplayed portions of multiple Reserve Orders at the same price that can execute against an incoming marketable order, those nondisplayed portions will be allocated in a pro-rata manner; however, if the Customer Overlay has been applied to the class, the nondisplayed portion of any Customer Reserve Orders will execute first. The Exchange notes that pursuant to Rule 22.13, Interpretation and Policy .03, with respect to nondisplayed trading interest, including the Reserve Quantity of a Reserve Order, the exposure requirement in Rule 22.13(a) is satisfied if the displayable portion of the order (the Display Quantity) is displayed at its displayable price for one second.

The proposed rule change is substantially the same as the rules of other options exchanges.[4]

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

---

[4]   See, e.g., C2 Rules 1.1 (definition of Reserve order in Order Instruction definition) and 6.12(a)(3); and BZX Options Rules 21.1(d)(1) and 21.8(a)(2).

[5]   15 U.S.C. 78f(b).

[6]   15 U.S.C. 78f(b)(5).

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)[7] requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The proposed rule change is generally intended to add certain system functionality currently offered by C2 and BZX Options to the Exchange's System in order to provide a consistent technology offering for the Cboe Affiliated Exchanges. A consistent technology offering, in turn, will simplify the technology implementation, changes and maintenance by Users of the Exchange that are also participants on Cboe Affiliated Exchanges. The proposed rule change will provide Users with additional flexibility to manage and display their orders on the Exchange, as well as increased functionality on the Exchange. This may encourage market participants to bring additional liquidity to the market, which benefits all investors. Additionally, this will provide Users with greater harmonization between the order handling instructions available among the Cboe Affiliated Exchanges.

The proposed rule change also removes impediments to and perfect the mechanism of a free and open market and a national market system because the proposed functionality is available on other options exchanges.[8] The proposed rule change does not propose to implement

---

[7]   Id.

[8]   See supra note 6.

6

new or unique functionality that has not been previously filed with the Commission or is not available on Cboe Affiliated Exchanges.

B.   <u>Self-Regulatory Organization's Statement on Burden on Competition</u>

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 proposed rule change will not impose a burden on intramarket competition, because the use of Reserve Orders, like all other order instructions available on the Exchange, is voluntary. Reserve Orders entered by all Users will be handled in the same manner. The proposed rule change will not impose a burden on intermarket competition, because Reserve Order functionality is available on other options exchanges.[9]

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

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

III.   **<u>Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action</u>**

Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A)(iii) of the Act[10] and subparagraph (f)(6) of Rule 19b-4 thereunder.[11]

---

9   <u>Id.</u>

10   15 U.S.C. 78s(b)(3)(A)(iii).

11   17 CFR 240.19b-4(f)(6). In addition, Rule 19b–4(f)(6)(iii) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

A proposed rule change filed under Rule 19b-4(f)(6)[12] normally does not become operative prior to 30 days after the date of the filing. However, Rule 19b-4(f)(6)(iii)[13] permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange has asked the Commission to waive the 30-day operative delay so that the proposed rule change may become effective and operative immediately upon filing. The Exchange states that waiver of the operative delay will provide Users with additional flexibility to manage and display their orders and provide additional control over their executions on the Exchange as soon as possible. The Exchange further states that waiver of the operative delay will allow the Exchange to continue to strive towards a complete technology integration of the Cboe Affiliated Exchanges, with gradual roll-outs of new functionality to ensure the stability of the System. The Exchange notes that the proposed rule change is generally intended to codify and to add certain system functionality to the Exchange's System in order to provide a consistent technology offering for the Cboe Affiliated Exchanges. The Exchange further notes that a consistent technology offering will simplify the technology implementation changes and maintenance by Trading Permit Holders of the Exchange that are also participants on Cboe Affiliated Exchanges. The Commission believes that waiver of the 30-day operative delay is consistent with the protection of investors and the public interest. Therefore, the Commission hereby waives the 30-day operative delay and designates the proposed rule change as operative upon filing.[14]

---

[12]   17 CFR 240.19b-4(f)(6).

[13]   17 CFR 240.19b-4(f)(6)(iii).

[14]   For purposes only of waiving the 30-day operative delay, the Commission has also considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

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: (i) necessary or appropriate in the public interest; (ii) for the protection of investors; or (iii) otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule 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-CboeEDGX-2018-051 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-2018-051. 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-2018-051

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.[15]

<div align="center">

Eduardo A. Aleman
Assistant Secretary

</div>

---

[15]   17 CFR 200.30-3(a)(12).