

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-85114; File No. SR-CBOE-2019-006)

February 12, 2019

Self-Regulatory Organizations; Cboe Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to Amend its Financial Incentive Program for Lead Market-Makers Appointed in MSCI EAFE Index (MXEA) Options and MSCI Emerging Markets Index (MXEF) Options

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 1, 2019, 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 financial incentive program for Lead Market-Makers appointed in MSCI EAFE Index (MXEA) options and MSCI Emerging Markets Index (MXEF) options. 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.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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

The Exchange proposes to amend its Fees Schedule to amend its financial incentive program for Lead Market-Makers (“LMMs”) appointed in MSCI EAFE Index (MXEA) options and MSCI Emerging Markets Index (MXEF) options (collectively, MSCI options), effective February 1, 2019. By way of background, the Exchange recently adopted a program which provided through December 31, 2018, a financial incentive to any Market-Maker that was appointed as a LMM in MXEA and/or MXEF (“MSCI LMM”) and met a heightened quoting standard, which is set forth in the Fees Schedule.³ MSCI LMM(s) that meet the heightened quoting standard, receive \$20,000 per month/per product. The LMM receives \$20,000 per month/per class if it provides continuous electronic quotes that meet or exceed a the heightened quoting standard set forth in the Fees Schedule in at least 90% of the MXEA and/or MXEF series it must quote pursuant to Rule 8.15(b) 90% of the time in a given month.

³ MSCI LMMs serve as MSCI LMMs during the RTH session only.

The Exchange first proposes to renew the MSCI program. Particularly, as noted above, the Fees Schedule currently provides that LMM(s) appointed in MXEA and MXEF will receive a payment of \$20,000 per class when they meet prescribed heightened quoting standards in a given month and provides that the program will be in place through December 31, 2018. In order to continue to encourage LMM(s) in MXEA and MXEF to provide significant liquidity in these options, the Exchange proposes to renew this program through June 30, 2019.

Next, the Exchange proposes to increase the payment per class for the month of February 2019. Specifically, the Exchange proposes to provide that LMM(s) appointed in MXEA and MXEF will receive a payment of \$40,000 per class when it meets prescribed heightened quoting standards in the month of February 2019. For the months of March 2019 through June 2019, the payment would be \$20,000 per class per month.

Lastly, the Exchange proposes to amend the program to reduce the amount of time a MSCI LMM needs to quote. Particularly, the Exchange proposes to provide that in order to receive the financial benefit, a MSCI LMM must meet the heightened quoting standard set forth in the Fees Schedule in at least 90% of the MXEA and/or MXEF series it must quote pursuant to Rule 8.15(b) 80% of the time in a given month (instead of 90% of the time in a given month). Particularly, the Exchange notes that if there is extreme volatility in the market during a given month, it may become more difficult for a MSCI LMM to satisfy the heightened quoting standard for 90% of the time in that given month. As such, the Exchange proposes to provide the LMM more flexibility by slightly reducing the amount of time it must meet the heightened quoting standard. The Exchange believes the proposed change is still commensurate with the financial benefit offered and

that the MSCI LMM financial program still encourages a MSCI LMM to provide significant liquidity in MSCI options.

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 Section 6(b)(4) of the Act,⁶ 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.

First, the Exchange believes that it is reasonable, equitable and not unfairly discriminatory to renew the compensation plan for LMM(s) appointed in MXEA and MXEF because the Exchange wants to ensure it continues incentivizing the LMM(s) in these products to provide liquid and active markets in these products to encourage its

⁴ 15 U.S.C. 78f(b).

⁵ 15 U.S.C. 78f(b)(5).

⁶ 15 U.S.C. 78f(b)(4).

growth. The Exchange notes that it had anticipated extending the MSCI Program for the month of January 2019 as well, but due to the government shutdown, was unexpectedly unable to do so.⁷ The Exchange also notes that the current MSCI LMM met the heightened quoting standard for January 2019, but because the Exchange was unable to extend the program as anticipated, the LMM will not be receiving a payment under the program for the month of January. In light of not being able to compensate the LMM for the month of January, notwithstanding the LMM's continued commitment to providing liquid and active markets in the MSCI products, the Exchange believes it's reasonable to offer a payment of \$40,000 per class to the MSCI LMM for the month of February 2019, provided it meets the heightened quoting standard for February 2019. The Exchange believes it is equitable and not unfairly discriminatory to only offer this financial incentive to the MSCI LMM because it benefits all market participants trading in MSCI options to encourage the MSCI LMM to satisfy the heightened quoting standard, which may increase liquidity and provide more trading opportunities and tighter spreads. Indeed, the Exchange notes that the LMM provides a crucial role in providing quotes and the opportunity for market participants to trade MSCI products, which can lead to increased volume, thereby providing a robust market. The Exchange also notes that the MSCI LMM may have added costs each month that it needs to undertake in order to satisfy that heightened quoting standard (e.g., having to purchase additional bandwidth).

The Exchange believes the proposed change to reduce the quoting time requirement is reasonable as it only slightly reduces the amount of time a MSCI LMM must meet the heightened quoting standard in a month. Moreover, the Exchange believes

⁷ See Cboe Options Notice, "Cboe Options Exchange Fee Schedule Changes Effective January 2, 2019" Reference ID: C2018122000.

reducing the amount of time a MSCI LMM must meet the heightened quoting standard is reasonable as extreme volatility in the market during a given month may make it more difficult for a MSCI LMM to meet the heightened quoting standard for the amount of time currently required. The proposed change, therefore, provides a MSCI LMM more flexibility in meeting the heightened quoting standard, even in extremely volatile months. Indeed, the Exchange wishes to ensure a MSCI LMM is adequately incentivized to provide liquid and active markets in the MSCI products to encourage its growth. Additionally, if a MSCI LMM does not satisfy the heightened quoting standard for the duration of the required time, even as amended, then it simply will not receive the offered per class payment for that month. The Exchange believes reducing the amount of time the LMM(s) needs to quote is still commensurate with the financial benefit offered. The Exchange believes that the program, even as amended, will continue to encourage increased quoting to add liquidity in MSCI products, thereby protecting investors and the public interest.

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

The Exchange does not believe that the proposed rule changes will impose any burden on competition that are 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 the purposes of the Act because it applies uniformly to any MSCI LMM, which market participant plays a crucial role in providing active and liquid markets in the MSCI products. The Exchange does not believe that the proposed rule change will impose any burden on intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act because MSCI options are proprietary products

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.

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:

⁸ 15 U.S.C. 78s(b)(3)(A).

⁹ 17 CFR 240.19b-4(f).

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-2019-006 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-2019-006. 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-2019-006 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

Eduardo A. Aleman
Deputy Secretary

¹⁰ 17 CFR 200.30-3(a)(12).