

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-85141; File No. SR-CBOE-2019-008)

February 14, 2019

Self-Regulatory Organizations; Cboe Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend the Cboe Order Routing Subsidy Program (“ORS”) and Complex Order Routing Subsidy Program (“CORS”) to Exclude Subsidy Payments for Contracts Executed as Qualified Contingent Cross (“QCC”) Orders

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 the Cboe Order Routing Subsidy Program (“ORS”) and Complex Order Routing Subsidy Program (“CORS”) to exclude subsidy payments for contracts executed as Qualified Contingent Cross (“QCC”) orders. 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 ORS and CORS Programs (collectively “Programs”) by eliminating the payment of subsidies for contracts executed as QCC orders. Currently, the ORS and CORS Programs allow the Exchange to enter into subsidy arrangements with any Cboe Trading Permit Holder (“TPH”) (each, a “Participating TPH”) or Non-Cboe TPH broker-dealer (each a “Participating Non-Cboe TPH”) that meet certain criteria and provide certain order routing functionalities to other TPHs, Non-Cboe TPHs and/or use such functionalities themselves.³ Participating TPHs or Participating Non-Cboe TPHs in the ORS and CORS Programs (the “Participants”) receive a payment from the Exchange for every executed contract routed to the Exchange through their system in all classes excluding classes in Underlying Symbols List A, Sector Indexes, DJX, MXEA, MXEF, XSP and XSPAM. Additionally, Participants do not receive payment for contracts executed in the Automated Improvement Mechanism

³ See Cboe Fees Schedule, “Order Router Subsidy Program” and “Complex Order Router Subsidy Program” tables for more details on the ORS and CORS Programs.

(“AIM”)⁴, as contracts that execute via AIM already have an opportunity to earn various rebates and discounts. Similarly, contracts executed as QCC orders also have other opportunities to earn various rebates and discounts.⁵ Therefore, the Exchange proposes to expressly exclude contracts executed as QCC orders from the ORS and CORS Programs’ payment of subsidies.

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

⁴ See Securities and Exchange Act Release 34-73354 (October 15, 2015) 79 FR 62988 (October 21, 2014) (SR-CBOE-2014-075) (Notice of Filing and Immediate Effectiveness of a Proposed Rule Change To Amend the CBOE Order Routing Subsidy Program and the Complex Order Routing Subsidy Program).

⁵ See e.g., Cboe Fees Schedule, “QCC Rate Table”, which provides a \$0.10 per contract credit to the initiating side of a non-customer QCC transaction and “ETF and ETN Options Rate Table” Footnote 8, which provides that the Exchange will waive the transaction fee for public customer orders in all ETF and ETN options that are executed, among other order types, as a QCC.

⁶ 15 U.S.C. 78f(b).

⁷ 15 U.S.C. 78f(b)(5).

the Section 6(b)(5)⁸ 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 the proposed change to the ORS and CORS Programs to expressly exclude contracts executed as QCC orders from the Programs' payment of subsidies is reasonable as Participants will merely no longer receive a subsidy for QCC orders. The Exchange notes that AIM orders also are not eligible to receive a subsidy under the Programs. The Exchange believes it is equitable and not unfairly discriminatory to exclude QCC trades from both Programs because, like AIM orders, orders executed as a QCC already have an opportunity to earn various rebates or discounts.⁹ Lastly, the Exchange believes that the proposed change is equitable and not unfairly discriminatory because the change is applicable to all Participants and any Cboe TPH or broker-dealer that is not a Cboe TPH may continue to avail itself of the arrangements under the Programs, provided that their routing functionality incorporates the respective requirements of each Program.

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 change will impose an unnecessary burden on intramarket competition because it will apply equally to all Participants in the Programs. Although the subsidy for orders routed to the Exchange through a Participant's system only applies to Participants of the Programs, the subsidies are designed to encourage the sending of more orders to the Exchange, which should

⁸ Id.

⁹ See supra note 5.

provide greater liquidity and trading opportunities for all market participants. Further, the Exchange does not believe that such change will impose any burden on intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange notes that excluding an order type from eligibility for a subsidy under the Cboe Fee Schedule does not pose any competitive advantages over other exchanges. Further, the proposed changes only affect trading on the Exchange. 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 Act¹⁰ and paragraph (f) of Rule 19b-4¹¹ 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.

¹⁰ 15 U.S.C. 78s(b)(3)(A).

¹¹ 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-2019-008 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-2019-008. 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-2019-008 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.¹²

Eduardo A. Aleman
Deputy Secretary

¹² 17 CFR 200.30-3(a)(12).