SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-86353; File No. SR-CboeEDGX-2019-039)

July 11, 2019

Self-Regulatory Organizations; Cboe EDGX Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Add Stock-Option Order Functionality and Complex Qualified Contingent Cross ("QCC") Order with Stock Functionality, and to Make Other Changes to its Rules

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 June 27, 2019, 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 Exchange filed the proposed rule change pursuant to Section 19(b)(3)(A)(iii) of

the Act[3] and Rule 19b-4(f)(6) thereunder.[4] 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") proposes to add stock-option

order functionality and complex qualified contingent cross ("QCC") order with stock

functionality, and to make other changes to its Rules. 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://markets.cboe.com/us/options/regulation/rule_filings/edgx/), at the Exchange's Office of the

Secretary, and at the Commission's Public Reference Room.

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

[2]   17 CFR 240.19b-4.

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

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

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. ("Cboe Global"), which is the parent company of Cboe Exchange, Inc. ("Cboe Options") and Cboe C2 Exchange, Inc. ("C2"), acquired the Exchange, 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, the Exchange, EDGA, and BZX, the "Cboe Affiliated Exchanges"). The Cboe Affiliated Exchanges are working to align certain system functionality, retaining only intended differences between the Cboe Affiliated Exchanges, in the context of a technology migration. Cboe Options intends to migrate its technology to the same trading platform used by the Exchange, C2, and BZX Options in the fourth quarter of 2019. The proposal set forth below is intended to add certain functionality to the Exchange's System that is available on Cboe Options in order to ultimately provide a consistent technology offering for market participants who interact with the Cboe Affiliated Exchanges. Although the Exchange intentionally offers certain features that differ from those offered by its affiliates and will continue to do so, the Exchange believes that offering similar functionality to the extent practicable will reduce potential confusion for Users.

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The Exchange proposes to adopt stock-option order functionality.[5] Stock-option orders facilitate the execution of the stock component of qualified contingent trades ("QCTs"). The proposed rule change defines a stock-option order as the purchase or sale of a stated number of units of an underlying stock or a security convertible into the underlying stock ("convertible security") coupled with the purchase or sale of an option contract(s)[6] on the opposite side of the market representing either (1) the same number of units of the underlying stock or convertible security or (2) the number of units of the underlying stock necessary to create a delta neutral position, but in no case in a ratio greater than eight-to-one (8.00), where the ratio represents the total number of units of the underlying stock or convertible security in the option leg(s) to the total number of units of the underlying stock or convertible security in the stock leg. Only those stock-option orders in the classes designated by the Exchange[7] with no more than the applicable number of legs are eligible for processing.[8] Stock-option orders execute in the same manner as other complex orders, except as otherwise provided in Rule 21.20 as proposed.

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[5] See proposed Rule 21.20(b).

[6] This proposed definition permits stock-option orders to have one or more option leg [sic], all of which will be handled in the same manner.

[7] Pursuant to Rule 16.3, the Exchange announces all determinations it makes pursuant to the Rules via specifications, Notices, or Regulatory Circulars with appropriate advanced notice, which will be posted on the Exchange's website, or as otherwise provided in the Rules; electronic message; or other communication method as provided in the Rules. All determinations the Exchange makes pursuant to Rule 21.20 will be made in accordance with Rule 16.3.

[8] See proposed Rule 21.20(b). This definition is virtually identical to the Cboe Options definition, except the proposed definition does not provide the Exchange with flexibility to lower the permissible ratio of stock-option orders like the Cboe Options definition, as the Exchange does not believe it needs this flexibility. See Cboe Options Rule 6.53C(a)(1). The proposed definition is also substantially the same as the definition of stock-option order of other options exchanges. See, e.g., Miami International Securities Exchange, LLC ("MIAX") Rule 518(a)(5); and NASDAQ ISE, LLC ("ISE") Options 3, Section 14(a)(2) and (3). The definition is also consistent with the definition of a Complex Trade in the linkage rules in Rule 27.1(a)(4).

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Currently, to execute a QCT, a User would need to submit an option order to the Exchange

and separately submit the stock order to a stock execution venue.[9] The option order represents one

component of a QCT and must be paired with a stock order. When a User enters the option

component of a QCT, the User is responsible for executing the associated stock component of the

QCT within a reasonable period of time after the option order is executed. The Exchange conducts

surveillance of Users to ensure that Users execute the stock component of a QCT at or near the

same time as the options component. While the Exchange does not specify how the User should go

about executing the stock component of the trade, this process is often manual and is therefore a

compliance risk for Users if they do not execute the stock component within a reasonable time

period of execution of the options component. Thus, the Exchange is proposing to offer stock-

option order functionality, pursuant to which the Exchange will automatically communicate the

stock component of a QCT to a designated broker-dealer for execution in connection with the

execution of the option order on the Exchange. Use of stock-option order functionality will be

voluntary, and Users may continue to execute components of a QCT in the manner they do today

(as described above).

Pursuant to proposed Rule 21.20, Interpretation and Policy .03, a User may only submit a

stock-option order (including a QCC with Stock Order) if it complies with the QCT exemption from

Rule 611(a) of Regulation NMS ("QCT exemption").[10] A User submitting a stock-option order

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[9]   The Exchange currently permits the submission of qualified contingent cross ("QCC")
        orders with stock, which is a specific type of stock-option order. See current Rule
        21.20(c)(7) (proposed Rule 21.20(l)(3)).

[10]   See Rule 21.1(d)(10)(A) for the definition of a qualified contingent trade. A "qualified
        contingent trade" is a transaction consisting of two or more component orders, executed
        as agent or principal, where: (1) at least one component is an NMS stock, as defined in
        Rule 600 of Regulation NMS under the Exchange Act; (2) all components are effected
        with a product or price contingency that either has been agreed to by all the respective
        counterparties or arranged for by a broker-dealer as principal or agent; (3) the execution

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represents that it complies with the QCT exemption. To submit a stock-option order to the

Exchange for execution, a User must enter into a brokerage agreement with one or more broker-

dealers that are not affiliated with the Exchange, which broker-dealer(s) the Exchange has identified

as having connectivity to electronically communicate the stock components of stock-option orders

to stock trading venues.[11]

Proposed subparagraph (l)(1) states when a User submits to the System a stock-option order,

it must designate a specific broker-dealer with which it has entered into a brokerage agreement

pursuant to proposed Interpretation and Policy .03 (the "designated broker-dealer") to which the

Exchange will electronically communicate the stock component of the stock-option order on behalf

of the User.[12]

Proposed Rule 21.20(l)(2) describes how stock-option orders will execute. A stock-option

order may execute against other stock-option orders (or COA Responses, if applicable), but may not

execute against orders in the Simple Book.[13] A stock-option order may only execute if the price

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of one component is contingent upon the execution of all other components at or near the same time; (4) the specific relationship between the component orders (e.g., the spread between the prices of the component orders) is determined by the time the contingent order is placed; (5) the component orders bear a derivative relationship to one another, represent different classes of shares of the same issuer, or involve the securities of participants in mergers or with intentions to merge that have been announced or cancelled; and (6) the transaction is fully hedged (without regard to any prior existing position) as a result of other components of the contingent trade. Other options exchanges impose the same requirement. See, e.g., Cboe Options Rule 6.53C, Interpretation and Policy .06(a); MIAX Rule 518, Interpretation and Policy .01(a); and ISE Options 3, Section 14, Supplemental Material .07.

[11]   Other options exchanges impose a similar requirement. See Cboe Options Rule 6.53C, Interpretation and Policy .06(a); see also MIAX Rule 518, Interpretation and Policy .01.

[12]   As is the case with all orders submitted to the Exchange, a User must also designate a Clearing Member that is a Designated Give-Up pursuant to Rule 21.12 on a stock-option order submitted to the Exchange for processing.

[13]   See proposed Rule 21.20(g)(5) and (l)(2) (the Exchange does not list stock for trading, and therefore, the stock leg would not be able to Leg). A stock-option order may only

complies with proposed Rule 21.20(f)(2)(B).[14] If a stock-option order can execute upon entry or

following a COA, or if it can execute following evaluation while resting in the COB pursuant to

Rule 21.20(i), the System executes the option component (which may consist of one or more option

legs) of a stock-option order against the option component of other stock-option orders resting in the

COB or COA responses (in time priority) (which is consistent with how other complex orders

execute against each other pursuant to proposed subparagraphs (d)(5)(ii) and (e)(2)), as applicable.

However, the Exchange does not immediately send the User a trade execution report for this option

execution.[15] Because the User submitted a stock-option order to execute as a package, the

Exchange waits to send a trade execution report to the User until after it has determined whether all

components of the stock-option order have executed, as described below. After the option

component is executed, the Exchange will then automatically communicate the stock component to

the designated broker-dealer for execution, as further described below.

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execute if the stock leg is executable at the price(s) necessary to achieve the desired net price. See proposed Rule 21.20(f)(2)(B).

[14] See current Rule 21.20(c)(1)(B) and (C) (proposed Rule 21.20(f)(2)). The System will not execute a complex order pursuant to Rule 21.20 at a net price (i) that would cause any component of the complex strategy to be executed at a price of zero; (ii) worse than the SBBO or equal to the SBBO when there is a Priority Customer Order at the SBBO; (iii) that would cause any component of the complex strategy to be executed at a price worse than the individual component prices on the Simple Book; (iv) worse than the price that would be available if the complex order Legged into the Simple Book; or (v) that would cause any component of the complex strategy to be executed at a price ahead of a Priority Customer Order on the Simple Book without improving the BBO of at least one component of the complex strategy. The proposed rule change amends the definitions of SBBO and SNBBO to provide that the NBBO of the stock component of a stock-option order is used to calculate the SBBO and SNBBO for a stock-option order. See proposed Rule 21.20(a); see also Cboe Options Rule 1.1 (definitions of national spread market (equivalent to SNBBO) and exchange spread market (equivalent to SBBO)).

[15] Even though the Exchange does not send the User an execution report immediately following execution of the option component, the Exchange disseminates the trade at that time pursuant to the OPRA Plan and creates a record to be sent to the Clearing Corporation.

If the System receives an execution report for the stock component of a stock-option order from the designated broker-dealer, the Exchange sends the User the trade execution report for the stock-option order, including execution information for both the stock and option components. However, if the System receives a report from the designated broker-dealer that the stock component of the stock-option order cannot execute,[16] the Exchange nullifies the option component trade and notifies the User of the reason for the nullification.[17] If a stock-option order is not marketable, it rests in the COB (if eligible to rest), subject to a User's instructions. The proposed rule change prevents execution of the option component of a QCT where the stock component has not been successfully executed, just as the proposed rule change prevents execution of the stock component of a QCT where the option component has not been successfully executed by cancelling the stock component if the option component cannot execute. This proposed execution process is the same process the Exchange currently uses to execute QCC with Stock Orders, which are a type of stock-option order (and thus the Exchange merely expands this process to all stock-option orders, as all stock-option orders must satisfy the same QCT Exemption).[18] This proposed process is also similar to that of other options exchanges.[19]

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[16]   For example, if the stock execution venue to which the designated broker-dealer routed the stock component is experiencing system issues, the stock component may not be able to execute. Additionally, the Exchange understands certain stock execution venues apply risk controls to the stock components of QCTs, which may prevent execution of the stock components at certain prices.

[17]   The Exchange will nullify the option component trade in the same manner as it currently nullifies any other trades (when nullification is permitted under the Rules). See Rule 20.6.

[18]   See current Rule 21.20(c)(7) (proposed Rule 21.20(l)(3)).

[19]   See, e.g., Cboe Options Rule 6.53C, Interpretation and Policy .06(a), which states a stock-option order will not be executed unless the stock leg is executable at the price(s) necessary to achieve the desired net price; see also ISE Options 3, Section14, Supplementary Material .02 (which states a "trade" of a stock-option order or stock-

Currently, whenever a stock trading venue nullifies the stock leg of a QCT or whenever

the stock leg cannot execute, the Exchange will nullify the option leg upon request of one of the

parties to the transaction or on an Exchange Official's own motion in accordance with the

Rules.[20] To qualify as a QCT, the execution of one component is contingent upon the execution

of all other components at or near the same time.[21] Given this requirement, if the stock

component does not execute at or near the same time as the option component, it is reasonable to

expect a User that submitted a stock-option order to request such nullification.[22] If the stock

component does not execute, rather than require the User that submitted the stock-option order to

contact the Exchange to request the nullification of the option component execution pursuant to

complex order will be automatically cancelled if market conditions prevent the execution of the stock or option leg(s) at the prices necessary to achieve the agreed upon net price); and MIAX Rule 518, Interpretation and Policy .01(b) (pursuant to which the stock components will attempt execution prior to the option components, but ultimately require both the stock and option components to execute). The proposed rule change ensures the option can trade before the stock can trade, rather than potentially execute [sic] stock component and not execute [sic] option component, which creates compliance risk for Users.

[20] See Rule 20.6, Interpretation and Policy .04(c).

[21] See Securities Exchange Act Release No. 54389 (August 31, 2006), 71 FR 52829, 52831 (September 7, 2006) (Order Granting an Exemption for Qualified Contingent Trades from Rule 611(a) of Regulation NMS Under the Securities Exchange Act of 1934) ("QCT Exemption Order"), which requires the execution of one component of the QCT to be contingent upon the execution of all other components at or near the same time to qualify for the exemption. In its Exemption Request, the Securities Industry Association stated that for contingent trades, the execution of one order is contingent upon the execution of the other order. SIA further stated that, by breaking up one or more components of a contingent trade and requiring that such components be separately executed, one or more parties may trade "out of hedge." See Letter to Nancy M. Morris, Secretary, Commission, from Andrew Madoff, SIA Trading Committee, SIA, dated June 21, 2006 ("SIA Exemption Request"), at 3.

[22] See QCT Exemption Order at 52831. In the SIA Exemption Request, the SIA indicated parties to a contingent transaction are focused on the spread or ratio between the transaction prices for each of the component instruments, rather than on the absolute price of any single component instrument. The SIA also noted the economics of a contingent trade are based on the relationship between the prices of the security and related derivative or security. See SIA Exemption Request at 2.

Rule 20.6, Interpretation and Policy .04(c), the proposed rule eliminates this requirement for the submitting User to make such a request. Instead, the proposed rule change provides that the Exchange will automatically nullify the option transaction if the stock component does not execute. The Exchange believes such nullification without a request from the User is consistent with the definition of a QCT order. The proposed rule change merely automates an otherwise manual process for Users.

Additionally, the Exchange believes this automatic nullification will reduce any compliance risk for the User associated with execution of a stock-option order and lack of execution of a stock order at or near the same time.[23] The Exchange conducts surveillance to ensure a User executes the stock component of a QCT, which will also apply to QCC with Stock Orders, if the option component executed. As a result, if the stock component does not execute when initially submitted to a stock trading venue by the designated broker-dealer, a User may be subject to compliance risk if it does not execute the stock component within a reasonable time period of the execution of the option component. The proposed rule change reduces this compliance risk for Users.

If a stock-option order can execute, the System executes the buy (sell) stock leg of a stock-option order pursuant to Rule 21.20 up to a buffer amount above (below) the NBO (NBB), which amount the Exchange determines.[24] The Exchange believes that Users may be willing to trade a stock-option order with the stock leg at a price outside of the NBBO (which is permissible pursuant to the QCT exemption) of the stock leg in order to achieve the desired net

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[23]   In the SIA Exemption Request, the SIA stated that parties to a contingent trade will not execute one side of the trade without the other component or components being executed in full (or in ratio) and at the specified spread or ratio. See SIA Exemption Request at 2. While a broker-dealer could re-submit the stock component to a stock trading venue or execution after it initially fails to execute, there is a compliance risk that the time at which the stock component executes is not close enough to the time at which the option component executed.

[24]   See proposed Rule 21.20(f)(2)(B).

price. However, the buffer may prevent execution with a stock price "too far" away from the

market price, which may be inconsistent with then-current market conditions. This may

ultimately prevent execution at potentially erroneous prices. This is similar to the Exchange's

current fat finger protection (which will not permit a complex order to be more than a specified

amount outside of the SNBBO, which will include the NBBO of the stock leg, as described

above),[25] except it also applies a buffer to the individual stock leg as opposed to the net price.

The option component of a stock-option order executes in accordance with same priority

principles as any other option order. For a stock-option order with one option leg, the option leg

may not trade at a price worse than the individual component price on the Simple Book or at the

same price as a Priority Customer Order on the Simple Book. For a stock-option order with

more than one option leg, the option legs must trade at prices consistent with priority applicable

to a complex order with all option legs.[26]

Proposed Rule 21.20(f)(1) states that Users may express bids and offers for a stock-option

order (including a QCC with Stock Order, as discussed below) in any decimal price the Exchange

determines. The option leg(s) of a stock-option order may be executed in $0.01 increments,

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[25] See supra note 15. Additionally, stock exchanges provide similar protections for execution prices of stock orders. See, e.g., NASDAQ Stock Market Rule 4757(c) (which prevents stock limit orders from being accepted at prices outside of pre-set standard limits, which is based on the NBBO).

[26] See proposed Rule 21.20(f)(2)(B). The System does not execute a complex order pursuant to this Rule 21.20 at a net price (i) that would cause any component of the complex strategy to be executed at a price of zero; (ii) worse than the SBBO or equal to the SBBO when there is a Priority Customer Order at the SBBO, except AON complex orders may only execute at prices better than the SBBO; (iii) that would cause any component of the complex strategy to be executed at a price worse than the individual component prices on the Simple Book; (iv) worse than the price that would be available if the complex order Legged into the Simple Book; or (v) that would cause any component of the complex strategy to be executed at a price ahead of a Priority Customer Order on the Simple Book without improving the BBO of at least one component of the complex strategy. See proposed Rule 21.20(f)(2)(A).

regardless of the minimum increments otherwise applicable to the option leg(s), and the stock leg of

a stock-option order may be executed in any decimal price permitted in the equity market.[27]

Smaller minimum increments are appropriate for stock-option orders as the stock component can

trade at finer decimal increments permitted by the equity market. Furthermore, the Exchange notes

that even with the flexibility provided in the proposed rule, the individual options and stock legs

must trade at increments allowed by the Commission in the options and equities markets.

The proposed rule change moves the provision regarding the execution of QCC with

Stock Orders from current Rule 21.20(c)(7) to proposed Rule 21.20(l)(3). The proposed rule

change amends this provision to provide that the QCC portion of a QCC with Stock Order may

consist of a QCC Order (with one option leg) or a Complex QCC Order (with multiple option

legs).[28] A QCC with Stock Order with multiple option legs will execute in the same manner as a

QCC with Stock Order with one option leg. The option component of a Complex QCC with

Stock Order (*i.e.*, a Complex QCC Order) will be subject to the same execution requirements as

a Complex QCC Order, including the requirement that no option leg executes at a price of zero

or at the same price as a Priority Customer Order in the Simple Book, that each option leg must

execute at a price at or between the NBBO for the applicable series, and the execution price is

better than the price of an [sic] complex order resting in the COB (unless the Complex QCC

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[27] Other options exchanges have the same minimum increment requirements for stock-option orders. See Cboe Options Rule 6.53C(c)(ii); and ISE Options 3, Section 14(c)(1).

[28] See Rule 21.1(d)(10) (which describes QCC and Complex QCC Orders). Other options exchanges have similar Complex QCC with Stock order functionality. See, e.g., Cboe Options Rule 6.53C, Interpretation and Policy .06(g)(1)(A) (which provides a QCC with Stock Order may have multiple option components); and ISE Options 3, Section 12(f) (which describes complex QCC with stock orders). In addition to the other changes to the QCC with Stock rule provisions described below, the proposed rule change makes nonsubstantive changes, including changes to consolidate provisions that apply to all stock-option orders in Rule 21.20, update paragraph numbering and lettering, conform cross-references, and adds certain clarifying language.

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Order is a Priority Customer Order and the resting complex order is a non-Priority Customer Order, in which case the execution price may be the same as or better than the price of the resting complex order).[29]

The proposed rule change also updates an inadvertent cross-reference to Rule 21.8 regarding the execution of the option component of a QCC Order, as the option component of a QCC Order (including a Complex QCC Order) will automatically execute upon entry pursuant to Rule 21.1(d)(10) if the conditions are satisfied. The proposed rule change deletes current Rule 21.20(c)(7)(A)(ii) regarding the need to give up a Clearing Member in accordance with Rule 21.12, as all orders submitted to the Exchange (including QCC Orders) must designate a give up in accordance with Rule 21.12, making this requirement redundant. Additionally, as noted above, the proposed rule change adopts Rule 21.20, Interpretation .03, which requires a User that submits a stock-option order to designate a specific broker-dealer to which the stock components will be communicated when entering a stock-option order. Because a QCC with Stock Order is a type of a stock-option order, proposed Rule 21.20 will apply to QCC with Stock Orders (including Complex QCC with Stock Orders), and thus the Exchange proposes to delete current Rule 21.20(c)(7)(A)(iii), as it is redundant.

The proposed rule change also adds subparagraph (l)(4), which provides that if a User submits to the System a stock-option order with a stock leg to sell, the User must market the stock leg "long," "short," or "short exempt" in compliance with Regulation SHO under the Exchange Act.

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[29]　See Rule 21.1(d)(10). The proposed rule change deletes the reference to current Rule 21.20(c)(1)(C), as that rule provides no component may execute at a price of zero or ahead of a Priority Customer Order on the Simple Book without improving the BBO of at least one component of the complex strategy. This second requirement is not necessary, because each leg of a Complex QCC must improve the price of a Priority Customer Order in any leg (and may not be worse than the NBBO of any leg), and the proposed rule change adds the requirement that no component may execute at a price of zero to proposed Rule 21.1(d)(10)(C).

Additionally, the Exchange will only execute the stock leg of a stock-option order at a price

permissible under Regulation SHO. If a stock-option order cannot execute, the System calculates

the SBBO or SNBBO with a price for the stock leg that would be permissible under Regulation

SHO, and posts the stock-option order on the COB at that price (if eligible to rest), subject to a

User's instructions.[30]

Similarly, proposed subparagraph (j)(3) provides that the Exchange will only execute the

stock leg of a stock-option order at a price permissible under the Limit Up-Limit Down Plan. If a

stock-option order cannot execute, the System calculates the SBBO or SNBBO with a price for the

stock leg that would be permissible under that Plan, and posts the stock-option order on the COB at

that price (if eligible to rest), subject to a User's instructions.[31]

Current Rule 21.20, Interpretations and Policies .04 and .06 describes price protection

mechanisms and risk controls applicable to complex orders. The proposed rule change moves

these to Rule 21.17(b) to consolidate all price protection mechanisms and risk controls available

on the Exchange into a single place within the Rules.[32] The price protection mechanisms and

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[30]   Specifically, Rule 201 of Regulation SHO provides that when the short sale price test is
        triggered for an NMS stock, a trading center (such as the Exchange) must comply with
        Rule 201. Other options exchanges have similar marking requirements. See Cboe
        Options Rule 6.53C, Interpretation and Policy .06(e) (which requires marking in
        accordance with Regulation SHO); see also MIAX Rule 518, Interpretation and Policy
        .01(b) (which requires marking and execution price in accordance with Regulation SHO);
        and ISE Options 3, Section 14, Supplementary Material .13 (which requires marking in
        accordance with Regulation SHO).

[31]   Other options exchanges have similar restrictions on stock leg execution prices. See
        Cboe Options Rule 6.53C, Interpretation and Policy .06(f); see also MIAX Rule 518,
        Interpretation and Policy .01(f).

[32]   The proposed rule change makes corresponding changes to the introductory language and
        the paragraph lettering in Rule 21.17 (including moving current price protections related
        to simple orders into proposed paragraph (a)) and makes corresponding changes to cross-
        references. The proposed rule change also adds to the maximum value acceptable price
        range check that it applies to auction responses, as other price protections do. Auction
        responses may execute in the same manner as orders, and thus application of this check to

risk controls will apply to stock-option orders (or the options components of stock-option orders, as applicable) submitted to the Exchange. The proposed rule change adds the buy-write/married put check, which will be a price protection mechanism applicable specifically to stock-option orders.[33] If the Exchange applies the buy-write/married put check to a class, the System cancels or rejects a stock-option order to buy the stock leg and sell a call (buy a put) for the option leg with a price that is more than the strike price of the call (put) plus (minus) a buffer amount (which the Exchange determines on a class-by-class basis).[34]

The proposed rule change also amends the debit/credit price reasonability check in proposed Rule 21.17(b)(3)(B) to provide how that check will apply to stock-option orders. If the stock component of a stock-option order is to buy, the stock-option order is a debit, and if the stock component of a stock-option order is to sell, the stock-option order is a credit. Pursuant to the current debit/credit price reasonability check, if all pairs and loners are a debit (credit) (and a buy (sell) stock leg would always be a loner and thus a debit (credit), ultimately, whether the stock leg is a buy or sell would dictate whether a stock-option order is a debit or credit. Therefore, the Exchange believes this is a reasonable handling of stock-option orders designed to help mitigate potential risks associated with stock-option orders trading at prices that are potentially erroneous. Additionally, the proposed rule change deletes the exception for complex orders with European-

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auction responses may prevent execution of an auction response at a potentially erroneous price. The proposed rule change makes no other substantive changes to the complex order price protections, and only makes nonsubstantive changes to make the language plain English, to simplify the rule provisions, and to conform the language to the corresponding C2 rules. See C2 Rule 6.14(b).

[33]   See proposed Rule 21.17(b)(9).

[34]   The proposed buy-write/married put price check is similar to the parity price protection in MIAX Rule 518, Interpretation and Policy .01(g).

style exercise. The Exchange no longer believes this exception is necessary and will expand this check to index options with all exercise styles.

The proposed rule change adds detail to the complex order drill-through protection in proposed Rule 21.17(b)(6), to provide that if the SBBO changes while an order rests on the COB at the drill-through price prior to the end of the specified time period, if the complex order cannot Leg, and the new SBO (SBB) crosses the drill-through price, the System changes the displayed price of the buy (sell) complex order to the new SBO (SBB) minus (plus) $0.01, and the order is not cancelled at the end of the time period. This proposed change codifies current functionality, and merely permits an order to remain on the COB since the Exchange's market reflects interest to trade (but the order is not currently executable due to Legging Restrictions) that was not there was not at the beginning of the time period. This provides complex orders with additional execution opportunities prior to cancellation.

The proposed rule change makes various changes to Rule 21.20 regarding complex orders to simplify the Rule, make certain clarifications, codify certain functionality in the Rule, delete redundant provisions, re-organize the Rule, and conform the rule text to the corresponding C2 rule regarding complex orders.[35] The proposed rule change moves the provision stating that trading of complex orders is subject to all other Rules applicable to the trading of orders, unless otherwise provided in Rule 21.10 from current paragraph (c) to the introduction of Rule 21.20. The proposed rule change alphabetizes the defined terms in Rule 21.20(a), makes nonsubstantive changes to definitions to conform the rule language to that of corresponding definitions in C2 Rule 6.13, and removes the paragraph lettering.

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[35]   See C2 Rule 6.13. The proposed rule change also modifies a corresponding cross-reference in Rule 21.1(d)(10)(E).

The proposed rule change amends the definition of "BBO" to mean the best bid or offer disseminated by the Exchange. The term BBO generally refers to the prices of quotes the Exchange sends to OPRA. While the bids and offers of most orders on the Simple Book are sent to OPRA, certain ones (such as the bids and offers of AON orders, which are not displayed on the Simple Book)[36] are not disseminated. The proposed rule change updates the term BBO to accurately reflect that it represents displayed, disseminated interest.[37]

The proposed rule change amends the definition of "complex order" to provide that it is an order involving the concurrent purchase and/or sale of two or more different series in the same class. This merely accounts for the fact that a complex order may be in an index class (for which there is an underlying index) as well as an equity option class (for which there is an underlying security).[38] The proposed rule change also deletes the Exchange's flexibility to designate in which classes complex orders may be entered and that the Exchange will determine the permissible number of legs on a class-by-class basis. Currently, the Exchange makes complex order functionality available in all classes that trade on the Exchange and has the same limit on the number of legs that may be submitted for a complex order in all classes. The proposed rule change codifies in proposed paragraph (b) that complex orders are available in all classes listed for trading on the Exchange, which is consistent with this current definition of complex order, as well as current paragraph (b), which permits the Exchange to determine when complex orders are available for use on the Exchange.

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[36]   See Rule 21.1(d)(4).

[37]   This proposed definition of BBO is identical to C2's definition of BBO. See C2 Rule 1.1.

[38]   This is consistent with the definition of complex order in C2 Rule 1.1.

The proposed rule change adds to paragraph (b) that Users may designate complex orders as Attributable or Non-Attributable. These order instructions are defined in Rule 21.1(c) and are currently available for complex orders. The proposed rule change codifies in the Rules that these order instructions are available for complex orders. This provides Users with additional functionality and flexibility with respect to complex order entry that they currently have for simple orders. The proposed rule change is the same as the C2 rule, which similarly permits Users to designate complex orders as Attributable or Non-Attributable.[39]

The proposed rule change moves the provision regarding the Exchange determining which Capacities[40] are eligible for entry onto the COB from current paragraph (c) to proposed paragraph (b), which includes all other information regarding the Exchange's authority to limit the availability of certain orders with respect to complex order functionality.

The proposed rule change moves the provisions regarding COA eligibility from current subparagraph (d)(1) and Interpretation and Policy .02 to the definition of a COA-eligible order in current paragraph (b)(2) (proposed paragraph (b)) so that all terms regarding COA eligibility of a complex order are included in the same place within the rule. The proposed rule change clarifies in the definition of complex only order in current subparagraph (b)(1) (proposed paragraph (b)) that complex [sic] orders may not leg into the Simple Book (which is consistent with the definition that currently states these orders will only check against the COB).[41] This is also

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[39]   See C2 Rule 6.13(b).

[40]   The Exchange notes the term "Capacity" refers to origin code. The Exchange is submitting a separate rule filing to add the definition of Capacity, as well as the different Capacities available on the Exchange. This is the term currently used in C2 Rules when referring to origin code. See, e.g., C2 Rule 6.13(b).

[41]   The Commission notes that proposed paragraph (b) provides that complex only orders may not leg into the Simple Book (emphasis added).

consistent with the definition of COA-Eligible and Do-Not-COA Order in the C2 Rules.[42] The proposed rule change makes no substantive changes to what orders will and will not initiate a COA.

The proposed rule change clarifies in current subparagraph (b)(3) (proposed paragraph (b)) that if a complex order would execute against a complex order in the COB with an MTP Modifier with the same Unique Identifier, the System handles the complex orders with an MTP Modifier as described in Rule 21.1(g). This is consistent with current functionality and adds detail to the Rules of how the System handles these orders. This is also consistent with the definition of Complex Orders with MTP Modifiers in the C2 Rules.[43] The proposed rule change makes no substantive changes to how the System handles complex orders with MTP Modifiers.

The proposed rule change alphabetizes the types of complex orders available on the Exchange in paragraph (b). The changes described above, which do not modify any existing functionality and merely add detail and clarity to the Rules. The proposed rule makes additional nonsubstantive changes to these definitions, including to make them plain English, to reorganize certain provisions, to simplify the language, update paragraph lettering and numbering and cross-references, and to conform them to other portions of the rule and to the corresponding C2 rule.[44]

The proposed rule change moves the provisions regarding minimum increments and trade prices for complex orders from current paragraph (c) (which is primarily about the COB Opening Process) to proposed paragraph (f)(1) and (2), respectively. The proposed rule change makes no substantive changes to these provisions, and makes nonsubstantive changes, including to make them plain English, to reorganize certain provisions, to simplify the language, update paragraph

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[42]   See C2 Rule 6.13(b).

[43]   See C2 Rule 6.13(b).

[44]   See C2 Rule 6.13(b).

lettering and numbering and cross-references, and to conform them to other portions of the rule and to the corresponding C2 rule.[45]

The proposed rule change consolidates all provisions regarding the COB Opening Process into proposed paragraph (c). Current subparagraph (c)(2)(A) becomes the introductory sentence for paragraph (c). The provisions regarding when Users may submit complex orders for participation in the COB Opening Process, as well as when the Exchange disseminates messages with information regarding the opening process, move from current subparagraph (c)(2)(A) to proposed subparagraph (c)(1). Current subparagraph (c)(2)(B) states the COB Opening Process will commence when all legs of the complex strategy are open on the Simple Book. However, pursuant to proposed subparagraph (c)(2), the System initiates the COB Opening Process for a complex strategy after a number of seconds (determined by the Exchange) after all legs of the strategy in the Simple Book are open for trading.[46] The delay provides time for the market prices to stabilize before trading may begin.[47] This is consistent with current functionality as set forth in the technical specifications for the COB opening process available on the Exchange's website.[48] The Exchange believes this is a more accurate description of the time when the COB opens.[49] The rule provisions regarding how the Exchange determines the COB Opening Price, how the Exchange transitions to Regular Trading, and what happens if there are no matching complex orders or no valid COB Opening Price move from current subparagraphs

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[45] See C2 Rule 6.13(f). The Exchange notes C2 has no Priority Customer overlay, and thus has different execution price requirements regarding components of complex orders with respect to the Simple Book.

[46] See proposed Rule 21.20(c)(2).

[47] The Exchange notes it applies a similar delay after occurrence of the opening rotation trigger for the simple market opening auction process. See Rule 21.7(d)(1).

[48] See http://cdn.cboe.com/resources/membership/US_Options_Opening_Process.pdf.

[49] This is also the same as the COB opening process for C2. See C2 Rule 6.13(c)(2).

(c)(2)(C) through (D) to proposed subparagraphs (c)(2)(A) through (C). The proposed rule change makes no substantive changes to how the COB opening process occurs, and makes nonsubstantive changes, including to make them plain English, to reorganize certain provisions, to simplify the language, update paragraph lettering and numbering and cross-references, and to conform them to other portions of the rule and to the corresponding C2 rule.[50]

The proposed rule change moves the provisions in current subparagraph (c)(2)(E) regarding prices for complex strategy executions to proposed paragraph (f)(2) (along with the provisions in current (c)(1)(B) and (C) as discussed above) and (3) so that all provisions regarding prices at which complex orders may execute in any manner are included in a single place within Rule 21.20. The proposed rule change makes no substantive changes to the prices at which complex orders may execute, and makes nonsubstantive changes, including to make them plain English, to reorganize certain provisions, to simplify the language, update paragraph lettering and numbering and cross-references, and to conform them to other portions of the rule and to the corresponding C2 rule.[51]

The proposed rule change moves the provision regarding incoming complex orders with prices that do not satisfy the pricing requirements described in the previous paragraph from current subparagraph (c)(2)(E) to proposed subparagraph (d)(5) and (e), to include all provisions regarding System handling of complex orders that are unable to execute (either following a COA or upon submission to the COB, respectively) in a single place with in Rule 21.20. The proposed rule change makes no substantive changes to this provision.

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[50]   See C2 Rule 6.13(c).

[51]   See C2 Rule 6.13(f).

The proposed rule change moves provisions regarding restrictions on the Legging[52] of

complex orders into the Simple Book from current paragraph (c)(2)(F) to proposed paragraph

(g). The proposed rule change makes no substantive changes to the Legging restrictions on

complex orders, and makes nonsubstantive changes, including to make them plain English, to

reorganize certain provisions, to simplify the language, update paragraph lettering and

numbering and cross-references, and to conform them to other portions of the rule and to the

corresponding C2 rule.[53]

The proposed rule change moves and combines the provisions regarding initial and

continual evaluation of complex orders from current subparagraphs (c)(1)(G) and (c)(5) to

proposed paragraph (i) so that all provisions regarding evaluation of complex orders are included

in a single place and in a simple manner within Rule 21.20. The proposed rule change makes no

substantive changes to the evaluation process, and makes nonsubstantive changes to these

provisions, including to make them plain English, to reorganize certain provisions, to simplify

the language and delete redundant language, update paragraph lettering and numbering and

cross-references, and to conform them to other portions of the rule and to the corresponding C2

rule.[54]

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[52]   The proposed rule change also adds to Rule 21.20(a) a defined term for Legging, which is
       defined in proposed paragraph (g) as a complex order executing against orders an quotes
       in the Simple Book if it can execute in full or in a permissible ratio and if it has [sic]
       more than a maximum number of legs (which the Exchange determines on a class-by-
       class basis and may two, three, or four). This is consistent with current Rule
       21.20(c)(1)(F) and merely adds a defined term. The Commission notes that such
       execution occurs if the complex order has <u>no</u> <u>more</u> <u>than</u> a maximum number of legs
       (emphasis added).

[53]   <u>See</u> C2 Rule 6.13(g).

[54]   <u>See</u> C2 Rule 6.13(i).

The proposed rule change moves the provisions in subparagraph (c)(4)(A) and (B) regarding the repricing of complex orders on the COB in certain situations and the handling of Post Only complex orders that lock or cross a resting complex order in the COB or the then-current opposite side SBBO to proposed subparagraph (h)(1). The proposed rule change modifies the reference to applicable price protections in current subparagraph (c)(4)(B) to the drill-through protection in proposed subparagraph (h)(1), as this is the only applicable price protection in the context of this Rule. The proposed rule change moves current subparagraph (c)(4)(C) to proposed subparagraph (h)(2). The proposed rule change deletes the remainder of current subparagraph (c)(4) regarding the managed interest process, as the provisions in that subparagraph are covered in various other parts of Rule 21.20 (currently and as proposed), including proposed paragraphs (d) through (h),[55] making these provisions of the managed interest process redundant. The proposed rule change makes no substantive changes to the evaluation process, and makes nonsubstantive changes to these provisions, including to make them plain English, to reorganize certain provisions, to simplify the language and delete redundant language, update paragraph lettering and numbering and cross-references, and to conform them to other portions of the rule and to the corresponding C2 rule.[56]

The proposed rule change deletes current subparagraph (c)(4)(A), as proposed subparagraph (f)(2)(A) includes a provision that requires a complex order to execute at a price at least equal to the SBBO (*i.e.*, the bids and offers established in the marketplace that are no better

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[55]   For example, the first portion of current subparagraph (c)(5)(A) describes the System evaluation of an order and whether it is COA-eligible, can execute against the COB or Leg into the Simple Book. As discussed above, this is described in proposed paragraph (g). Additionally, current subparagraph (c)(5)(A) describes pricing requirements for complex orders, which are included in paragraph (f), as described above. Current subparagraph (c)(5)(C) regarding whether an order is determined to be COA-eligible (and thus initiates a COA) is included in proposed subparagraph (d)(1) and paragraph (e).

[56]   See C2 Rule 6.13(h).

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than the bids or offers comprising the complex order price) or better than the SBBO when there

is a Priority Customer Order at the SBBO,[57] and thus this provision is redundant. The proposed

rule change moves the provision in current subparagraph (c)(4)(B) to proposed paragraph (e),

which describes the allocation and priority in which a complex order may execute against other

interest. The proposed rule change does not change the priority order in which, or the prices at

which, complex orders currently execute. The proposed rule change makes nonsubstantive

changes to these provisions, including to make them plain English, to reorganize certain

provisions, to simplify the language and delete redundant language, update paragraph lettering

and numbering and cross-references, and to conform them to other portions of the rule and to the

corresponding C2 rules.[58]

The proposed rule change moves the description of how a non-COA-eligible order will

be handled from current subparagraph (c)(5)(D) to proposed paragraph (e). The proposed rule

change deletes current subparagraph (c)(5)(D)(i), as the definitions of times-in-force that are not

allowed to rest in the COB (for example, an immediate-or-cancel order is defined as being

cancelled if it does not execute upon entry) include that fact, making this provision redundant.

The proposed rule change makes no substantive changes to how the System handles non-COA-

eligible orders. The proposed rule change makes nonsubstantive changes to these provisions,

including to make them plain English, to reorganize certain provisions, to simplify the language

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[57] Proposed paragraph (e) clarifies that a complex order must execute against any Priority Customer orders in the Simple Book at the same price, which is consistent with the current Rule that a complex order must improve the SBBO if there is a Priority Customer order at the BBO of any component.

[58] See C2 Rule 6.13(e) and (f).

and delete redundant language, update paragraph lettering and numbering and cross-references, and to conform them to other portions of the rule and to the corresponding C2 rule.[59]

The proposed rule change deletes current subparagraph (c)(6)(A) regarding complex market orders that may initiate a COA, because the definition of COA-eligible in proposed paragraph (b) permits market orders to be designated as COA-eligible (there is no prohibition on a User from designating a market order as COA-eligible), and because proposed subparagraph (d)(1) describes the auction price that will be used for a COA-eligible market order. Therefore, this provision is redundant. The proposed rule change deletes current subparagraph (c)(6)(B) regarding complex market orders that do not initiate a COA, because those will be handled in the same manner as any do-not-COA order pursuant to proposed paragraph (e), making this provision redundant. The proposed rule change makes no substantive changes to how the System handles complex market orders. The proposed rule change makes nonsubstantive changes to these provisions, including to make them plain English, to reorganize certain provisions, to simplify the language and delete redundant language, update paragraph lettering and numbering and cross-references, and to conform them to other portions of the rule and to the corresponding C2 rule.[60]

The proposed rule change clarifies in proposed subparagraph (d)(1) that the COA price for a complex order may be the drill-through price if the order is subject to the drill-through protection in Rule 21.17(b). This is consistent with current functionality and the drill-through protection, which ensures that a complex order will not execute at a price too far away from the SNBBO. The current Rule states the price of a COA is subject to applicable price protections.

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[59]   See C2 Rule 6.13(e).

[60]   See C2 Rule 6.13(b), (d), and (e).

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However, the only applicable one is the drill-through protection, so the Exchange believes the proposed rule change provides additional specificity consistent with the current Rule.

The proposed rule change moves the provisions regarding when a COA may terminate early from current subparagraph (d)(5)(C) to proposed subparagraph (d)(3) so that all provisions regarding the length of time for which a COA lasts are included in the same place within Rule 21.20. The proposed rule change clarifies in subparagraph (d)(4)(B) that the System aggregates the size of COA Responses submitted at the same price for an EFID, and caps the size of the aggregated COA Responses at the size of the COA-eligible order. Current subparagraph (d)(4) permits multiple COA Responses from the same Member. The proposed rule change is consistent with current System entry requirements for COA Responses, and the proposed rule change merely adds this detail to the Rules. The System aggregates the size of COA Responses submitted at the same price for an EFID, and caps the size of the aggregated COA Responses at the size of the COA-eligible order. This provision prevents Users from taking advantage of a pro-rata allocation by submitting responses larger than the COA-eligible order to obtain a larger allocation from that order. The proposed rule change in subparagraph (d)(4)(C) that provides that a modification of a COA Response to decrease its size will not result in loss of priority, as that is consistent with current the current Rule and System functionality.[61] The Exchange believes decreasing the size of a COA Response (similar to decrementation of an order or quote after partial execution), should not impact priority, as such a modification would potentially decrease the allocation to that response. The proposed rule change clarifies that COA Responses may only execute against the COA-eligible order for the COA to which a User submitted the

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[61]   See current subparagraph (d)(4).

COA Response, which is consistent with the current rules that require COA Responses to include a COA auction ID for the COA to which the User is submitting the COA Responses.

The proposed rule change states that unexecuted COA Responses are cancelled at the conclusion of the COA rather than immediately if they are not executable based on the price of the COA. The Exchange believes this proposed change will ensure that all Users participating in COAs have the same information regarding COAs if the Exchange determines to not include the price of a COA on the COA notification message pursuant to proposed subparagraph (d)(1). If the Exchange determines to not include the price of a COA on the COA notification message pursuant to proposed subparagraph (d)(1), rejection of unmarketable COA Responses may provide the submitting User with the ability to determine the COA price, which was not available to other Users.

The proposed rule change deletes current subparagraph (d)(6) regarding COA pricing, as it is redundant of the rule provisions in proposed (f)(2). The proposed rule change moves the provision from current subparagraph (d)(7) regarding the allocation of COA-eligible orders to proposed subparagraph (d)(5).

The proposed rule change adds detail to the current rule provisions regarding COAs, as well as codifies current functionality and consolidates all provisions regarding COAs within a single paragraph in Rule 21.20 (including moving rule provision regarding concurrent COAs from current Interpretation and Policy .02 to proposed subparagraph (d)(2)). The proposed rule change makes no changes to how COAs occur or how the System allocates orders at the conclusion of a COA. The proposed rule change makes nonsubstantive changes to the COA provisions in paragraph (d), including to make them plain English, to reorganize certain provisions, to simplify the language and delete redundant language, update paragraph lettering

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and numbering and cross-references, and to conform them to other portions of the rule and to the corresponding C2 rule.[62]

The proposed rule change adds proposed subparagraph (h)(3), which states if there is a zero NBO for any leg, the System replaces the zero with a price $0.01 above NBB to calculate the SNBBO, and complex orders with any buy legs do not Leg into the Simple Book. If there is a zero NBB, the System replaces the zero with a price of $0.01, and complex orders with any sell legs do not Leg into the Simple Book. If there is a zero NBB and zero NBO, the System replaces the zero NBB with a price of $0.01 and replaces the zero NBO with a price of $0.02, and complex orders do not Leg into the Simple Book. The SBBO and SNBBO may not be calculated if the NBB or NBO is zero (as noted above, if the best bid or offer on the Exchange is not available, the System uses the NBB or NBO when calculating the SBBO). As discussed above, permissible execution prices are based on the SBBO. If the SBBO is not available, the System cannot determine permissible posting or execution pricing for a complex order (which are based on the SBBO), which could reduce execution opportunities for complex orders. If the System were to use the zero bid or offer when calculating the SBBO, it may also result in executions at erroneous prices (since there is no market indication for the price at which the leg should execute). For example, if a complex order has a buy leg in a series with no offer, there is no order in the leg markets against which this leg component could execute. This is consistent with current System functionality, and the proposed rule change is codifying this detail in the Rules. This is also consistent with the current Rule 21.20(c)(1)(C) and proposed Rule 21.20(f)(2) that states complex order executions are not permitted if the price of a leg would be zero. Additionally, this is similar to the proposed rule change described above to improve the posting

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[62]   See C2 Rule 6.13(d).

price of a complex order by $0.01 if it would otherwise lock the SBBO. The proposed rule

change is a reasonable process to ensure complex orders receive execution opportunities, even if

there is no interest in the leg markets. Additionally, a User may always cancel a complex order

if the User does not wish to have its order rest in the COB at that price. This proposed rule

change is also identical to the corresponding C2 Rule.[63]

The proposed rule change moves provisions regarding how the System handles complex

orders during trading halt from Interpretation and Policy .05 to proposed paragraph (k). The

proposed rule change makes no substantive changes to how the System handles complex orders

during a trading halt, and makes nonsubstantive changes to these provisions, including to make

them plain English, to reorganize certain provisions, to simplify the language and delete

redundant language, update paragraph lettering and numbering and cross-references, and to

conform them to other portions of the rule and to the corresponding C2 rule.[64]

The proposed rule change makes no substantive changes to the rules regarding how

complex orders execute, including rules related to priority. Complex orders will continue to

trade in the same manner as they do today. The proposed rule change makes nonsubstantive

changes to these provisions, including to make the rule text plain English, reorganize the Rule,

simplify the language and delete redundant provisions, update paragraph lettering and numbering

and cross-references, and conform to the corresponding C2 rule.[65]

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[63] See C2 Rule 6.13(h)(3).

[64] See C2 Rule 6.13(k).

[65] See C2 Rule 6.13(d) and (e). Note C2 has different priority provisions, as it does not have Priority Customer priority and instead prioritizes all orders and quotes on the Simple Book (and allocates them pursuant to the applicable allocation algorithm pursuant to C2 Rule 6.12) ahead of all complex orders.

Throughout Rule 21.20, the proposed rule change replaces references to Members with Users. An Options Member means a firm or organization that is registered with the Exchange pursuant to Chapter XVII of the Rules for purposes of participating in options trading on EDGX Options as an "Options Order Entry Firm" or "Options Market Maker."[66] A User is any Options Member or Sponsored Participant who is authorized to obtain access to the System pursuant to Rule 11.3.[67] While the Exchange currently has no Sponsored Participants, a Sponsored Participant would have the ability to submit complex orders. Therefore, the term "User" in the context of Rule 21.20 is more appropriate.

The proposed rule change amends Rule 21.1(d)(10) to delete the cross-reference to Rule 21.20(c)(1)(C), which the Exchange proposes to move as described above, and replaces it to state that no option leg may execute at a price of zero. The Rule currently provides that no option leg may execute at the same price as a Priority Customer Order in the Simple Book, which makes the other provision of Rule 21.20(c)(1)(C) unnecessary to reference. This proposed change makes no change to the functionality of Complex QCC Orders.

The proposed rule change deletes provisions that state the Exchange will make certain determinations and announcements via Regulatory Circular.[68] Pursuant to Rule 16.3, the Exchange announces all determinations it makes pursuant to the Rules via specifications, Notices, or Regulatory Circulars with appropriate advanced notice, which will be posted on the Exchange's website, or as otherwise provided in the Rules; electronic message; or other

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[66] See Rule 16.1.

[67] See Rule 16.1.

[68] See Rules 21.17 (in the introductory paragraph and proposed paragraph (b)) and 21.20 (various provisions).

communication method as provided in the Rules. All determinations the Exchange makes pursuant to Rule 21.20 will be made in accordance with Rule 16.3.

The proposed rule change makes additional nonsubstantive changes throughout Rule 21.20, including to make them plain English, to reorganize certain provisions and consolidate related provisions within a single portion of the Rule, to simplify the language and delete redundant language, update paragraph lettering and numbering and cross-references, and to conform them to other portions of the rule and to the corresponding C2 rule.[69] The proposed rule change makes no changes to the allocation or priority of complex orders.

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.[70] Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)[71] 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

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[69]   See C2 Rule 6.13.

[70]   15 U.S.C. 78f(b).

[71]   15 U.S.C. 78f(b)(5).

is consistent with the Section 6(b)(5)[72] requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The proposed rule change benefits investors and promote just and equitable principles of trade because it provides investors with greater opportunities to manage risk through trading of additional types of complex orders. The proposed stock-option order and Complex QCC with Stock Order functionality are each optional for Users and will help them facilitate execution of components of a QCT. Currently, if a User wanted to execute a QCT, it could do so by entering the options components on the Exchange and separately executing the stock component of the QCT on another venue. Users will have the option to continue do this, or build their own technology to electronically communicate the stock component of any QCT to a broker-dealer for execution. However, the addition of stock-option order and Complex QCC with Stock Order functionality will provide Users with an optional, alternative means to execute the stock component of their QCTs.

The Exchange believes these proposed order types will reduce Users' compliance burden because it [sic] allows for the automatic submission of the stock component of a QCT in connection with the execution of the options component(s) as a stock-option order on the Exchange. The proposed functionality also provides benefits to the Exchange by establishing an audit trail for the execution all option components of a QCT with [sic] a reasonable period of time of each other, and of the stock component of a QCT within a reasonable period of time after the execution of the option components. The proposed rule change further reduces Users' compliance risk by providing that the Exchange will, in addition to cancelling the stock component if the option component cannot execute, nullify any option component execution

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[72]   Id.

when the stock component does not execute without a request from the User. Nullification of the

option trade is consistent with the requirement that a User must execute the stock component of a

QCT within a reasonable period of time after executing the option component on the Exchange.

The proposed rule change simply eliminates the requirement that one party to the transaction

request nullification of the option component trade before the Exchange nullifies the option

trade, because such nullification is consistent with the definition of QCT. The proposed rule

change merely automates a process that Users can manually do today. As noted above, to

qualify as a QCT, the execution of one component is contingent upon the execution of all other

components at or near the same time.[73] Since the purpose of stock-option orders is for all

components to trade at or near the same time, if the stock component does not execute at or near

the same time as the option component(s), it is reasonable to expect a User that submitted one of

these orders to request such nullification to avoid any compliance risk associated with execution

of the option components of these orders and lack of execution of a stock order at or near the

same time.[74] This proposed execution process is the same process the Exchange currently uses

to execute QCC with Stock Orders, which are a type of stock-option order (and thus the

Exchange merely expands this process to all stock-option orders, as all stock-option orders must

satisfy the same QCT Exemption).[75] This proposed process is also similar to that of other

options exchanges.[76]

The Exchange conducts surveillance to ensure a User executes the stock component of a

QCT, which will also apply to all of the proposed functionality, if the option component

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[73]   See supra notes 10 and 18.

[74]   See supra note 12.

[75]   See current Rule 21.20(c)(7) (proposed Rule 21.20(l)(3)).

[76]   See supra note 19.

executed. As a result, if the stock component does not execute when initially submitted to a

stock trading venue by the designated broker-dealer, a User may be subject to compliance risk if

it does not execute the stock component within a reasonable time period of the execution of the

option component. The proposed rule change reduces this compliance risk for Users. The

Exchange therefore believes the proposed rule change removes impediments to and perfects the

mechanisms of a free and open market and a national market system, and in general, protects

investors and the public interest.

The Exchange believes the proposed stock leg execution buffer, debit/credit reasonability

check amendment, and buy-write/married put check for stock-option orders (in addition to the

other existing price protection mechanisms applicable to complex orders that will apply to stock-

option orders) will protect investors and the public interest and maintain fair and orderly markets

by mitigating potential risks associated with market participants entering orders at clearly

unintended prices and orders trading at prices that are extreme and potentially erroneous, which

may likely have resulted from human or operational error. The Exchange believes these

proposed price protection mechanisms will remove impediments to and perfects the mechanisms

of a free and open market and a national market system, because they are similar to price

protection mechanisms available on other exchanges. The proposed buy-write/married put price

check is similar to the parity price protection in MIAX Rule 518, Interpretation and Policy

.01(g). The proposed application of the debit/credit price reasonability check to stock-option orders

is similar to Cboe Options Rule 6.53C, Interpretation and Policy .08(c). The proposed stock leg

buffer is similar to the Exchange's current fat finger protection (which will not permit a complex

order to be more than a specified amount outside of the SNBBO, which will include the NBBO

of the stock leg, as described above), except it also applies a buffer to the individual stock leg as

opposed to the net price. Additionally, stock exchanges provide similar protections for execution prices of stock orders.[77]

The proposed rule change to require Users to mark stock-option orders as required by Regulation SHO, and to execute stock-option orders at prices permitted by Regulation SHO (a Regulation adopted pursuant to the Act) and the Limit Up-Limit Down Plan (Regulation NMS Plan adopted pursuant to the Act), promote just and equitable principles of trade, as they are intended to ensure the Exchange will execute stock-option orders in accordance with these regulations, which are intended to reduce the negative impacts of sudden, unanticipated price movements in NMS stocks and protect investors.

The proposed rule change would also provide Users with access to stock-option order functionality and Complex QCC with Stock order functionality that is generally available on options exchanges, including Cboe Affiliated Exchanges, which may result in the more efficient execution of QCTs and provide Users with additional flexibility and increased functionality on the Exchange's System.[78] Additionally, the proposed functionality is consistent with the QCT exemption previously approved by the Commission.[79] The Exchange believes this consistency will promote a fair and orderly national options market system. The proposed rule change does not propose to implement new or unique functionality that has not been previously filed with the Commission or is not available on Cboe Affiliated Exchanges (or other options exchanges).

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[77] See, e.g., NASDAQ Stock Market Rule 4757(c) (which prevents stock limit orders from being accepted at prices outside of pre-set standard limits, which is based on the NBBO).

[78] See, e.g., Cboe Options Rule 6.53C and Interpretation and Policy .06; MIAX Rule 518; and ISE Options 3, Section 14 (stock-option order functionality); and Cboe Options Rule 6.53C, Interpretation and Policy .06(g); and ISE Options 3, Section 12(f) (Complex QCC with Stock functionality).

[79] See QCT Exemption Order.

The proposed rule change to codify the delay for a complex strategy to open after the legs have opened will benefit investors, as it will provide time for the market prices to stabilize before trading may begin in complex strategies.[80] This is consistent with current functionality as set forth in the technical specifications for the COB opening process available on the Exchange's website.[81] The Exchange believes this is a more accurate description of the time when the COB opens, and this additional transparency will benefit investors. Additionally, another options exchange has the same delay for its COB opening process.[82]

The proposed rule change to codify current functionality in the drill-through complex order protection will benefit investors, as it provides additional transparency in the Rules. Additionally, the proposed rule change provides complex orders with additional execution opportunities rather than cancels them when market prices reflect interest to trade at the price, but the order is not currently executable due to Legging Restrictions. Additionally, this functionality is the same as the drill-through complex order protection of another options exchange.[83]

The proposed rule change to codify current functionality regarding how the System determines possible execution prices for complex orders if the NBB or NBO of any component leg is zero will benefit investors, because it is a reasonable process provide complex orders with execution opportunities, even if there is no interest in the leg markets in a manner consistent with the pricing requirements of complex orders. A User may always cancel a complex order if the

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[80] The Exchange notes it applies a similar delay after occurrence of the opening rotation trigger for the simple market opening auction process. See Rule 21.7(d)(1).

[81] See http://cdn.cboe.com/resources/membership/US_Options_Opening_Process.pdf.

[82] See C2 Rule 6.13(c)(2).

[83] See C2 Rule 6.14(b)(6).

User does not wish to have its order rest in the COB at a price determined as set forth in the proposed rule change. Additionally, another options exchange offers the same functionality.[84]

The proposed rule change to permit Users to designate complex orders as Attributable or Non-Attributable will benefit investors, as it codifies current functionality and thus provides investors with transparency in the Rules. These instructions merely apply to information that is displayed for the orders (in the discretion of the User), and have no impact on the execution of complex orders. The Exchange believes this provides Users with greater control and flexibility over the manner in which they may submit complex orders, and provides them with functionality that is currently available for simple orders. Additionally, another options exchange offers investors the ability to designate complex orders as Attributable or Non-Attributable.[85]

The proposed rule change is generally intended to align system functionality currently offered by the Exchange with Cboe Options functionality 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. When Cboe Options migrates to the same technology as that of the Exchange and other Cboe Affiliated Exchanges, Users of the Exchange and other Cboe Affiliated Exchanges will have access to similar functionality on all Cboe Affiliated Exchanges. Differences remain to the extent necessary to conform to the Exchange's current rules, retain intended differences based on the Exchange's market model, or make other nonsubstantive changes to simplify, clarify, eliminate duplicative language, or make the rule provisions plain English. As such, the proposed rule change would foster cooperation and coordination with persons engaged in facilitating transactions in securities and would

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[84] See C2 Rule 6.13(h)(3).

[85] See C2 Rule 6.13(b).

remove impediments to and perfect the mechanism of a free and open market and a national market system.

To the extent a proposed rule change is based on an existing Cboe Affiliated Exchange rule, the language of Exchange Rules and Cboe Affiliated Exchange rules may differ to [sic] extent necessary to conform with existing Exchange rule text or to account for details or descriptions included in the Exchange's Rules but not in the applicable EDGX rule. Where possible, the Exchange has substantively mirrored Cboe Affiliated Exchange rules, because consistent rules will simplify the regulatory requirements and increase the understanding of the Exchange's operations for participants on other Cboe Affiliated Exchanges that are also EDGX Users. The proposed rule change would provide greater harmonization between the rules of the Cboe Affiliated Exchanges, resulting in greater uniformity and less burdensome and more efficient regulatory compliance. As such, the proposed rule change would foster cooperation and coordination with persons engaged in facilitating transactions in securities and would remove impediments to and perfect the mechanism of a free and open market and a national market system.

The Exchange also believes that the proposed amendments will contribute to the protection of investors and the public interest by making the Exchange's rules easier to understand. Where necessary, the Exchange has proposed language consistent with the Exchange's operations on EDGX technology, even if there are specific details not contained in the current structure of EDGX rules. The Exchange believes it is consistent with the Act to maintain its current structure and such detail, rather than removing such details simply to conform to the structure or format of EDGX rules, again because the Exchange believes this will increase the understanding of the Exchange's operations for all Users of the Exchange.

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 Exchange does not believe the proposed stock-option order or Complex QCC with Stock Order functionality will impose any burden on intramarket competition that is not necessary or appropriate in furtherance of the purposes of the Act. Stock-option orders and Complex QCC with Stock orders facilitate Users' compliance with the requirements associated with executing QCTs, and are not designed to impose any unnecessary burden on competition. These proposed order types will be available to all Users on a voluntary basis, and Users are not required to use either order type when executing QCTs. The proposed rule change has no impact on Users that elect to execute QCTs without using the proposed functionality. Those Users may continue to execute QCTs in the same manner as they do today by entering an option order on the Exchange and separately executing the stock component of the QCT another venue. A User can also build its own technology to electronically communicate the stock component of any QCT to a broker-dealer for execution.

For Users that elect to use proposed functionality to execute QCTs, the proposed rule change reduces those Users' compliance burdens to satisfy their obligation to execute all of the components of a QCT at or near the same time, as this functionality provides an automated means for satisfying this obligation. The proposed functionality will be available to all Users either [sic] through a User's electronic connection to the Exchange.

The Exchange does not believe stock-option orders or Complex QCC with Stock Order functionality will impose any burden on intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act, because it is consistent with the QCT

exemption previously approved by the Commission.[86] Additionally, the proposed functionality

is similar to functionality offered by other options exchanges.[87]

The Exchange does not believe the proposed stock leg execution buffer, debit/credit

reasonability check amendment, and buy-write/married put check for stock-option orders will

impose any burden on intramarket competition that is not necessary or appropriate in furtherance

of the purposes of the Act. These proposed price protection mechanisms will apply to stock-

option orders of all Users in the same manner. The Exchange does not believe these price

protection mechanisms will impose any burden on intermarket competition that is not necessary

or appropriate in furtherance of the purposes of the Act, because they are similar to price

protection mechanisms available on other exchanges.[88] These price protection mechanisms are

intended to prevent executions of stock-option orders at potentially erroneous prices.

The Exchange does not believe the proposed rule change to permit Users to designate

complex orders as Attributable or Non-Attributable will impose any burden on intramarket

competition that is not necessary or appropriate in furtherance of the purposes of the Act,

because this proposed rule change codifies existing functionality. These designations will be

available to all Users, and use of these designations will be voluntary. The Exchange does not

believe the proposed rule change to permit Users to designate complex orders as Attributable or

Non-Attributable will impose any burden on intermarket competition that is not necessary or

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[86]   See QCT Exemption Order.

[87]   See Cboe Options Rule 6.53C; ISE Options 3, Sections 12(f) and 14, and Supplementary
         Material .02 and .07; and MIAX Rule 518.

[88]   See MIAX Rule 518, Interpretation and Policy .01(g) (buy-write/married put check);
         Cboe Options Rule 6.53C, Interpretation and Policy .08(c) (debit/credit price reasonability
         check to stock-option orders); and NASDAQ Stock Market Rule 4757(c) (which prevents
         stock limit orders from being accepted at prices outside of pre-set standard limits, which
         is based on the NBBO).

appropriate in furtherance of the purposes of the Act, because another Exchange makes these designations available for complex orders.[89]

The Exchange does not believe the proposed changes to the complex order drill-through, the pricing of orders when the NBBO in a leg of a complex strategy is zero, and to the COB Opening Process (to delay the opening of a complex strategy for a time period after the legs open) will impose any burden on intramarket competition that is not necessary or appropriate in furtherance of the purposes of the Act, because these changes codify existing functionality. They apply in the same manner complex orders of all Users in the same manner. The Exchange does not believe these proposed rules changes will impose any burden on intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act, because they are the same as the rules of another options exchange.[90]

The proposed nonsubstantive changes to the Rules will have no impact on competition, as they do not modify any functionality. Rather, these proposed changes add clarity and transparency to the Rules and conform rule language with the corresponding rules of a Cboe Affiliated Exchange.

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

Because the foregoing proposed rule change does not:

A. significantly affect the protection of investors or the public interest;

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[89] See C2 Rule 6.13(b).

[90] See C2 Rules 6.13(c)(2) (COB Opening Process) and (h)(3) (pricing of orders when the NBBO in a leg of a complex strategy is zero); and 6.14(b)(6)(A) (complex order drill-through).

B. impose any significant burden on competition; and

C. 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) of the Act[91] and Rule 19b-4(f)(6)[92] 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:

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-2019-039 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-2019-039. This file number should be included on the subject line if e-mail is used. To help the Commission process and

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[91]   15 U.S.C. 78s(b)(3)(A).

[92]   17 CFR 240.19b-4(f)(6).

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-2019-039

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.[93]

                                     Eduardo A. Aleman
                                     Deputy Secretary

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[93]   17 CFR 200.30-3(a)(12).