

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-87265; File No. SR-CBOE-2019-083)

October 9, 2019

Self-Regulatory Organizations; Cboe Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to Amend its Financial Incentive Programs for Global Trading Hours Lead Market-Makers

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 October 2, 2019, Cboe Exchange, Inc. (the “Exchange” or “Cboe Options”) filed with the Securities and Exchange Commission (“SEC” or “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

Cboe Exchange, Inc. (the “Exchange” or “Cboe Options”) proposes to amend its financial incentive programs for Global Trading Hours Lead Market-Makers. 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.

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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

In 2016, the Exchange's parent company, Cboe Global Markets, Inc. (formerly named CBOE Holdings, Inc.) ("Cboe Global"), which is also the parent company of Cboe C2 Exchange, Inc. ("C2"), acquired Cboe EDGA Exchange, Inc. ("EDGA"), Cboe EDGX Exchange, Inc. ("EDGX" or "EDGX Options"), Cboe BZX Exchange, Inc. ("BZX" or "BZX Options"), and Cboe BYX Exchange, Inc. ("BYX" and, together with Cboe Options, C2, EDGX, EDGA, and BZX, the "Cboe Affiliated Exchanges"). Cboe Options intends to migrate its trading platform to the same system used by the Cboe Affiliated Exchanges, and also migrate its current billing system to a new billing system, on October 7, 2019 (the "migration"). As part of the migration to the new billing system, the Exchange is seeking to simplify and harmonize certain programs and billing processes, including its financial incentive programs for Lead Market-Makers ("LMMs") in VIX and SPX (including SPXW) during Global Trading Hours ("GTH"). Accordingly, the Exchange proposes to amend its GTH LMM financial programs, effective October 1, 2019.

Background

By way of background, pursuant to Footnote 38 of the Fees Schedule, a LMM in SPX will receive a rebate for that month in the amount of a pro-rata share of a compensation pool equal to \$30,000 times the number of LMMs in that class (or pro-rated amount if an appointment begins after the first trading day of the month or ends prior to the last trading day of the month) if the LMM: (1) provides continuous electronic quotes in at least the lesser of 99% of the non-

adjusted series or 100% of the non-adjusted series minus one call-put pair in an GTH allocated class (excluding intraday add-on series on the day during which such series are added for trading) during GTH in a given month; (2) enters opening quotes within five minutes of the initiation of an opening rotation in any series that is not open due to the lack of a quote, provided that the LMM will not be required to enter opening quotes in more than the same percentage of series set forth in clause (1) for at least 90% of the trading days during GTH in a given month; and (3) satisfies the following time-weighted average quote widths and bid/ask sizes for each moneyness category: (A) out of the money options ("OTM"), average quote width of \$0.90 or less and average bid/ask size of 15 contracts or greater; (B) at the money options ("ATM"), average quote width of \$3.00 or less and bid/ask size of 10 contracts or greater; and C) in the money options ("ITM"), average quote width of \$10.00 or less and bid/ask size of 5 contracts or greater.

Also pursuant to Footnote 38 of the Fees Schedule, a LMM in VIX options during GTH will receive a rebate for that month in the amount of a pro-rata share of a compensation pool equal to \$20,000 times the number of LMMs in that class (or pro-rated if an appointment begins after the first trading day of the month or ends prior to the last trading day of the month) if the LMM: (1) provides continuous electronic quotes in at least the lesser of 99% of the non-adjusted series or 100% of the non-adjusted series minus one call-put pair in an GTH allocated class (excluding intra-day add-on series on the day during which such series are added for trading) and (2) enters opening quotes within five minutes of the initiation of an opening rotation in any series that is not open due to the lack of a quote, provided that the LMM will not be required to enter opening quotes in more than the same percentage of series set forth in clause (1) for at least 90% of the trading days during GTH in a given month.

GTH LMMs are not currently obligated to satisfy the heightened quoting standards described in the Fees Schedule. Rather, the LMMs are eligible to receive a rebate if they satisfy the heightened standards, which the Exchange believes encourage LMMs to provide liquidity during GTH. Additionally, the Exchange may consider other exceptions to this quoting standard based on demonstrated legal or regulatory requirements or other mitigating circumstances.

Proposed Change

The Exchange now wishes to simplify its billing processes and harmonize its LMM incentive programs. To that end, the Exchange proposes to eliminate Footnote [sic] amend the above-mentioned incentive programs to align with the heightened quoting standard format currently required under the MSCI LMM Program.³ By way of background, any Market-Maker that is appointed as a LMM in MSCI EAFE Index (“MXEA”) options and/or MSCI Emerging Markets Index (“MXEF”) (“MSCI LMM”) and meets the heightened quoting standard described below, receives \$20,000 per month/per product.⁴ Specifically, the LMM will receive the \$20,000 per month/per class if it provides continuous electronic quotes that meet or exceed the following heightened quoting standards in at least 90% of the MXEA and/or MXEF series 80% of the time in a given month:

Premium	Expiring		Near Term		Mid Term		Long Term	
Level	7 days or less		8 days to 60 days		61 days to 270 days		271 days or Greater	
	Width	Size	Width	Size	Width	Size	Width	Size
\$0-\$5.00	\$3.00	5	\$1.50	20	\$2.50	15	\$5.00	10
\$5.01-\$15.00	\$6.00	3	\$3.00	15	\$5.00	10	\$10.00	7
\$15.01-\$50.00	\$15.00	2	\$7.50	10	\$10.00	7	\$20.00	5

³ In amending the programs, the Exchange proposes to eliminate Footnote 38 in its entirety and replace it with separate tables describing the GTH SPX LMM program and the GTH VIX LMM program.

⁴ MSCI LMMs serve as MSCI LMMs during the RTH session only.

\$50.01-\$100.00	\$25.00	1	\$15.00	7	\$20.00	5	\$30.00	3
\$100.01-\$200.00	\$40.00	1	\$25.00	3	\$35.00	3	\$48.00	2
Greater Than \$200.01	\$60.00	1	\$40.00	1	\$50.00	1	\$72.00	1

The Exchange may also consider other exceptions to this quoting standard based on demonstrated legal or regulatory requirements or other mitigating circumstances. Like GTH LMMs, for purposes of the financial benefit, MSCI LMM(s) are not be obligated to satisfy the heightened quoting standard shown above. Rather, the MSCI LMM(s) only receive the financial benefit if they satisfy the abovementioned heightened quoting standard. If a MSCI LMM does not meet the heightened quoting standard, then it simply will not receive the financial benefit for that month. Additionally, MSCI LMM(s), like GTH LMMs must still comply with the continuous quoting obligation and other obligations of Market-Makers and LMMs described in Cboe Options Rules.⁵

The Exchange first proposes to amend the GTH SPX LMM program. First, the Exchange proposes to separate the available rebate and quoting standard for SPX and SPXW. More specifically, the Exchange proposes to provide that if the LMM meets the heightened quoting standard described below for SPX, the LMM will receive a pro-rata share of a compensation pool for SPX equal to \$15,000 times the number of LMMs appointment in SPX and if the LMM meets the heightened quoting standard described below for SPXW, the LMM will receive an additional pro-rata share of a compensation pool for SPXW equal to \$15,000 times the number of LMMs in that class (for a total of \$30,000 per month for meeting the standard for both SPX and SPXW).⁶ The

⁵ See e.g., Cboe Options Rule 8.7 and Rule 8.15.

⁶ The Exchange proposes to continue to include in the Fees Schedule an example of how the compensation pools work. Specifically, the Exchange will provide the following example: if two LMMs are appointed in SPX a compensation pool will be established each month for (i) SPX totaling \$30,000 and (ii) SPXW totaling \$30,000. If each LMM meets the heightened continuous quoting standard in SPX and SPXW during a month, each will receive \$30,000. If only one LMM meets the heightened continuous quoting

Exchange next proposes to amend the heightened quoting standard to provide that in order to receive the rebates under the program, the SPX LMM(s) must provide continuous electronic quotes that meet or exceed the following heightened quoting standards in at least 99% of each of SPX and SPXW series 90% of the time in a given month during GTH:

Premium	Expiring		Near Term		Mid Term		Long Term	
Level	7 days or less		8 days to 60 days		61 days to 270 days		271 days or Greater	
	Width	Size	Width	Size	Width	Size	Width	Size
\$0-\$5.00	\$0.50	10	\$0.40	25	\$0.60	15	\$1.00	10
\$5.01-\$15.00	\$2.00	7	\$1.60	18	\$2.40	11	\$4.00	7
\$15.01-\$50.00	\$5.00	5	\$4.00	13	\$6.00	8	\$10.00	5
\$50.01-\$100.00	\$10.00	3	\$8.00	8	\$12.00	5	\$20.00	3
\$100.01-\$200.00	\$20.00	2	\$16.00	5	\$24.00	3	\$40.00	2
Greater Than \$200.00	\$30.00	1	\$24.00	3	\$36.00	1	\$60.00	1

The Exchange also proposes to similarly amend the GTH VIX LMM program. The Exchange first notes that it will maintain the current compensation pool and continue to provide that if a GTH VIX LMM meets the proposed heightened quoting standard described below, it will receive a pro-rata share of a compensation pool for VIX equal to \$20,000 times the number of LMMs in that class (or pro-rated amount if an appointment begins after the first trading day of the month or ends prior to the last trading day of the month) for that month.⁷ In order for an LMM to receive the rebate of \$20,000 per month, the Exchange proposes to provide that the LMM(s) must

standard in SPX and SPXW during a month, that LMM would receive \$60,000 and the other one would receive nothing.

⁷ The Exchange proposes to continue to include in the Fees Schedule an example of how the compensation pools work. Specifically, the Exchange will provide the following example: if two LMMs are appointed in VIX a compensation pool will be established each month totaling \$40,000. If each LMM meets the heightened continuous quoting standard in VIX during a month, each will receive \$20,000. If only one LMM meets the heightened continuous quoting standard in VIX during a month, that LMM would receive \$40,000 and the other one would receive nothing.

provide continuous electronic quotes that meet or exceed the following heightened quoting standards in at least 99% of the VIX series 90% of the time in a given month⁸:

Premium	Expiring		Near Term		Mid Term		Long Term	
Level	7 days or less		8 days to 60 days		61 days to 270 days		271 days or Greater	
	Width	Size	Width	Size	Width	Size	Width	Size
\$0-\$3.00	\$0.50	25	\$0.40	50	\$0.50	25	\$1.00	10
\$3.01-\$5.00	\$0.75	15	\$0.60	30	\$0.75	15	\$1.50	7
\$5.01-\$10.00	\$1.00	10	\$0.80	20	\$1.00	10	\$2.00	5
\$10.01-\$30.00	\$3.00	5	\$1.00	10	\$3.00	5	\$5.00	3
\$30.01-\$30.00	\$5.00	3	\$3.00	5	\$5.00	3	\$7.00	2
Greater Than \$100.00	\$10.00	1	\$5.00	1	\$10.00	1	\$12.00	1

The Exchange believes the proposed rebates provided under the GTH LMM programs, as amended, continues to encourage GTH LMMs to provide significant liquidity in SPX, SPXW and VIX options during GTH, just as the standards and rebate under the current MSCI financial incentive program similarly incentivizes MSCI LMMs to provide significant liquidity in MSCI products. Additionally, the Exchange notes that both GTH LMMs and MSCI LMMs may need to undertake expenses to be able to quote at a significantly heightened standard in these classes, such as purchase more logical connectivity based on their increased capacity needs. The Exchange notes that the proposed amendments to the GTH LMM program provides a harmonized approach to financial incentive programs for LMMs. The programs, as proposed, continue to offer financial benefits for meeting heightened quoting standards.

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

⁸ For the month of October 2019, the Exchange proposes to apply the heightened quoting standard from October 7 to October 31, in light of the migration of the Exchange’s billing system.

Exchange and, in particular, the requirements of Section 6(b) of the Act.⁹ Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)¹⁰ requirements that the rules of an exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest. Additionally, the Exchange believes the proposed rule change is consistent with Section 6(b)(4) of the Act,¹¹ which requires that Exchange rules provide for the equitable allocation of reasonable dues, fees, and other charges among its Trading Permit Holders and other persons using its facilities.

First, the Exchange believes the proposed changes to the GTH LMM financial benefit programs are reasonable as the Exchange believes the proposed amendments provide for a simpler and more streamlined heightened quoting standard, is easier to administer on the new billing platform and provides harmonization across LMM financial benefit programs (e.g., conforms with the format of the MSCI LMM program). The Exchange also believes the proposed amended rebates are reasonable as the proposed rebates are similar to the rebates offered currently. Particularly, the Exchange proposes to maintain the current compensation pools and rebate amounts, with the only change being that SPX and SPXW will have separate compensation pools. (i.e., GTH SPX LMMs are currently eligible for a compensation pool equal to \$30,000 times the number of LMMs in SPX, and post-migration they will be eligible for two

⁹ 15 U.S.C. 78f(b).

¹⁰ 15 U.S.C. 78f(b)(5).

¹¹ 15 U.S.C. 78f(b)(4).

compensation pools, one for SPX at \$15,000 times the number of LMMs in SPX and another for SPXW at \$15,000 times the number of LMMs in SPX). The Exchange also believes the GTH LMM financial incentive programs are reasonable, equitable and not unfairly discriminatory because the Exchange wants to ensure it continues incentivizing the LMMs to provide liquid and active markets in these products during GTH. The Exchange believes it is equitable and not unfairly discriminatory to only offer this financial incentive to the GTH LMMs because it benefits all market participants trading SPX, SPXW and VIX during GTH to encourage the LMMs to satisfy the heightened quoting standards, which may increase liquidity and provide more trading opportunities and tighter spreads. Indeed, the Exchange notes that the GTH LMMs provide a crucial role in providing quotes and the opportunity for market participants to trade during GTH, which can lead to increased volume, thereby providing a robust market. The Exchange also notes that the GTH LMM may have added costs each month that it needs to undertake in order to satisfy that heightened quoting standard (e.g., having to purchase additional logical connectivity).

The Exchange ultimately wishes to ensure a GTH LMM is adequately incentivized to provide liquid and active markets in SPX, SPXW and VIX during GTH to encourage liquidity. The Exchange believes that the program, even as amended, will continue to encourage increased quoting to add liquidity in SPX, SPXW and VIX products, thereby protecting investors and the public interest. Additionally, if a GTH LMM does not satisfy the heightened quoting standards for the duration of the required time, then it simply will not receive the offered per class payment for that month.

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

The Exchange does not believe that the proposed rule changes will impose any burden on competition that are not necessary or appropriate in furtherance of the purposes of the Act. The Exchange does not believe that the proposed rule change will impose any burden on intramarket competition that is not necessary or appropriate in furtherance of the purposes of the Act because it applies uniformly to similarly situated GTH LMMs, which market participants play a crucial role in providing active and liquid markets during GTH. The Exchange does not believe that the proposed rule change will impose any burden on intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act because SPX, SPXW and VIX options are proprietary products that will only be traded on Cboe Options. To the extent that the proposed changes make Cboe Options a more attractive marketplace for market participants at other exchanges, such market participants are welcome to become Cboe Options market participants.

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

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

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A) of the Act¹² and paragraph (f) of Rule 19b-4¹³ 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

¹² 15 U.S.C. 78s(b)(3)(A).

¹³ 17 CFR 240.19b-4(f).

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-CBOE-2019-083 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-2019-083. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549 on official business days between the hours of 10:00 a.m.

and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal offices 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-2019-083, 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.¹⁴

Jill M. Peterson
Assistant Secretary

¹⁴ 17 CFR 200.30-3(a)(12).