

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-87590; File No. SR-CBOE-2019-109)

November 22, 2019

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

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on November 15, 2019, Cboe Exchange, Inc. (“Exchange” or “Cboe Options”) 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 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 in VIX. 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

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 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

The Exchange proposes to amend its Global Trading Hours (“GTH”) VIX Lead Market-Makers (“LMMs”) Incentive Program, effective November 18, 2019.

Background

By way of background, pursuant to the Fees Schedule, a LMM in VIX 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 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(s):

(1) provide continuous electronic quotes during GTH that meet or exceed the following heightened quoting standards in at least 99% of the VIX series 90% of the time in a given month:

<b>Premium Level</b>	<b>Expiring 7 days or less</b>		<b>Near Term 8 days to 60 days</b>		<b>Mid Term 61 days to 270 days</b>		<b>Long Term 271 days or Greater</b>	
	<b>Width</b>	<b>Size</b>	<b>Width</b>	<b>Size</b>	<b>Width</b>	<b>Size</b>	<b>Width</b>	<b>Size</b>
\$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-\$100.00	\$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

Additionally, a GTH LMM in VIX is not currently obligated to satisfy the heightened quoting standards described in the table above. Rather, an LMM is eligible to receive the rebate

if they satisfy the heightened quoting standards above, which the Exchange believes encourage LMMs to provide liquidity during GTH. The Exchange may also 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 amend the heightened quoting standard under the GTH VIX LMM incentive program. Particularly, the Exchange proposes to eliminate the current size and width requirements and in their place adopt a maximum allowable width standard. The Exchange notes that the proposed change is designed to make the heightened quoting standard easier to attain. The Exchange believes that by easing the standard, it will encourage VIX GTH LMM(s) who cannot meet the current standard to continue to provide liquidity in VIX during GTH. As such, the Exchange proposes to slightly ease the criteria and amend the program to provide that in order to receive the rebate under the program, an LMM must: provide continuous electronic quotes during GTH that meet or exceed the following heightened quoting standards in at least 99% of the VIX series 90% of the time in a given month<sup>3</sup>:

<b>Premium Level</b>	<b>Maximum Allowable Width</b>
\$0.00-\$100.00	\$10.00
\$100.01 - \$200.00	\$16.00
Greater than \$200.000	\$24.00

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<sup>3</sup> For the month of November 2019, the Exchange proposes to apply the heightened quoting standard from November 18 to November 30, in light of the mid-month proposal to modify the heightened quoting standard. The Exchange also notes the previous LMM term expired October 1, 2019, and the Exchange intends to appoint a new LMM effective November 18, 2019. Such LMM will be eligible for the full financial payment for November 2019 if the LMM meets the heightened quoting standard from November 18 to November 30.

As is the case today, VIX GTH LMM(s) will still not be obligated to satisfy the amended heightened quoting standard. The Exchange believes the program, as amended, will encourage VIX GTH LMM(s) to provide liquidity in VIX during GTH. The Exchange believes the rebate provided under the VIX GTH LMM program continues to encourage VIX GTH LMM(s) to provide liquidity in VIX options during GTH, including during the opening<sup>4</sup>. Additionally, the Exchange notes that a VIX GTH LMM may need to undertake expenses to be able to quote at a significantly heightened standard in VIX, such as purchase more logical connectivity based on its increased capacity needs.

## 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.<sup>5</sup> Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>6</sup> 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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<sup>4</sup> The Exchange notes that quotes qualify only when the series is open (i.e., pre-open quotes do not count).

<sup>5</sup> 15 U.S.C. 78f(b).

<sup>6</sup> 15 U.S.C. 78f(b)(5).

is consistent with Section 6(b)(4) of the Act,<sup>7</sup> 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.

The Exchange believes amending the GTH VIX LMM Incentive Program is reasonable as a VIX GTH LMM will still be eligible to receive the proposed financial payment. The Exchange believes the monthly payment continues to be commensurate with the heightened quoting standard, even as amended. The Exchange believes the proposed changes to the heightened quoting standard are reasonable and appropriate as the changes result in a more attainable incentive program, while still acting as an incentive for a VIX GTH LMM to provide liquid and active markets in VIX during GTH. The Exchange believes it is equitable and not unfairly discriminatory to continue to only offer this financial incentive to VIX GTH LMM(s) because it benefits all market participants trading VIX during GTH to encourage the LMM(s) to satisfy the heightened quoting standard, which ensures, and may even provide increased, liquidity, which thereby may provide more trading opportunities and tighter spreads. Indeed, the Exchange notes that the VIX GTH LMM(s) serve a crucial role in providing quotes and the opportunity for market participants to trade VIX, which can lead to increased volume, providing a robust market. The Exchange ultimately wishes to ensure a GTH LMM is adequately incentivized to provide liquid and active markets in 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 VIX, thereby protecting investors and the public interest. The Exchange also notes that a VIX 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

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<sup>7</sup> 15 U.S.C. 78f(b)(4).

logical connectivity). The Exchange believes the proposed amendments are equitable and not unfairly discriminatory because they apply to any TPH that is appointed as a VIX GTH LMM equally. Additionally, if a VIX GTH LMM does not satisfy the heightened quoting standard for any given month, then it simply will not receive the offered 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 VIX GTH LMMs, which market participants play a crucial role in providing active and liquid markets in VIX 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 VIX options are a proprietary product 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 Act<sup>8</sup> and paragraph (f) of Rule 19b-4<sup>9</sup> thereunder. At any time within 60 days of the filing of the

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<sup>8</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>9</sup> 17 CFR 240.19b-4(f).

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](mailto:rule-comments@sec.gov). Please include File Number SR-CBOE-2019-109 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-2019-109. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those

that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, D.C. 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-CBOE-2019-109 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.<sup>10</sup>

Eduardo A. Aleman  
Deputy Secretary

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<sup>10</sup> 17 CFR 200.30-3(a)(12).