

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-88200; File No. SR-CboeBZX-2020-015)

February 13, 2020

Self-Regulatory Organizations; Cboe BZX Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to Amend the Logic that would be Used to Cancel MOC Orders Entered for Participation in the Cboe Market Close in the Event the Exchange Becomes Impaired

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 February 4, 2020, Cboe BZX Exchange, Inc. (“BZX” or “Exchange”) 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 BZX Exchange, Inc. (“BZX” or the “Exchange”) is filing with the Securities and Exchange Commission (the “Commission”) a proposed rule change to amend the logic that would be used to cancel MOC orders entered for participation in the Cboe Market Close in the event the Exchange becomes impaired. 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/equities/regulation/rule_filings/bzx/), at the Exchange’s Office of the Secretary, and at the Commission’s Public Reference Room.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

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

1. Purpose

The purpose of the proposed rule change is to amend the logic that would be used by the Exchange to cancel Market-On-Close (“MOC”) orders entered for participation in the Cboe Market Close in the event the Exchange becomes impaired. The Exchange believes that the proposed rule would provide greater transparency to members and investors with regard to how their orders would be handled if the Exchange experiences a systems or other issue that impacts the ability of the Exchange to complete the Cboe Market Close in one or more securities.

The Cboe Market Close is an innovative closing match process for non-BZX Listed Securities that is designed to match buy and sell MOC orders at the official closing price for such security published by the primary listing market.³ Currently, Interpretations and Policies .02 to Rule 11.28 provides that the Exchange will cancel all MOC orders designated to participate in Cboe Market Close in the event the Exchange becomes impaired prior to the MOC Cut-Off Time

³ The Commission approved the Cboe Market Close on January 21, 2020. See Securities Exchange Act Release No. 88008 (January 21, 2020), 85 FR 4726 (January 27, 2020) (SR-BatsBZX-2017-34).

and is unable to recover within 5 minutes from the MOC Cut-Off Time.⁴ When originally proposed, the Exchange stated that the purpose of this rule was to provide an opportunity for members to re-enter their MOC orders on the primary listing market in the event that the Exchange became impaired and was unable to conduct the Cboe Market Close.

The Exchange believes, however, that the current wording of the rule is ambiguous. Specifically, the present language does not specify whether MOC orders should be cancelled five minutes after the MOC Cut-Off Time (i.e., at 3:40 p.m. ET), or five minutes before the MOC Cut-Off Time (i.e., at 3:30 p.m. ET). In addition, the Exchange believes that the length of the impairment is a relevant factor that should be considered in determining if MOC orders entered into the Cboe Market Close should be cancelled, as impairments of a longer duration may indicate more significant issues with the closing match process. The Exchange therefore proposes to amend Interpretations and Policies .02 to Rule 11.28 to increase the clarity of the rule and generally improve the process for handling such impairments.

As proposed, the Exchange would cancel all MOC orders designated to participate in the Cboe Market Close if the Exchange becomes impaired prior to the MOC Cut-Off Time, and is unable to recover before the MOC Cut-Off Time, or becomes impaired after the MOC Cut-Off Time but before completing the closing match process in a security. Thus, the MOC Cut-Off Time would, as intended, establish an upper bound for conducting the Cboe Market Close. The Exchange believes that this would continue to ensure that members would have an opportunity to re-enter their MOC orders on the primary listing market in the event that the Exchange became

⁴ The MOC Cut-Off Time is 3:35 p.m. ET, and represents the time up until which members may enter, cancel, or replace MOC orders designated for participation in the Cboe Market Close. See BZX Rule 11.28(a).

impaired and is unable to conduct the Cboe Market Close due to an impairment that cannot be resolved prior to the time that the closing match process would ordinarily be conducted.

If the Exchange is able to recover prior to the MOC Cut-Off Time, however, the Exchange's handling would be dependent on the length of the impairment. Specifically, if the impairment lasts less than five minutes, the Exchange would cancel only those MOC orders designated to be cancelled by the member. For impairments lasting five minutes or more, the Exchange would cancel all MOC orders, thereby giving members the opportunity to enter such orders for trading in the closing auction to be conducted by the primary listing market. For example, the Exchange would cancel all MOC orders if an impairment starts at 3:05 p.m. ET and continues past 3:10 p.m. ET. If instead the impairment was resolved at 3:08 p.m. ET then members' order persistence settings would govern which MOC orders are subject to cancellation. A member's election for cancelling orders in the event of a matching engine disconnect would be applied for purposes of determining whether to cancel such MOC orders.⁵ As a result, members would have the flexibility to determine how they would like their MOC orders handled in the event of a short impairment but would have all MOC orders cancelled in the event of a longer impairment that could indicate a more significant issue.

In addition, the current rule provides that if the Exchange were to become impaired after the MOC Cut-Off Time, it would retain all matched MOC orders and execute those orders at the official closing price once it is operational. The Exchange continues to believe that it is important to ensure that paired MOC orders ultimately receive an execution at the official closing price. As such, the amended Interpretations and Policies .02 to Rule 11.28 would continue to include

⁵ The cancel on matching engine disconnect setting is similarly used to handle impairments today, including situations where the primary matching engine fails over to a secondary matching engine due, for example, to a software error, network problem, etc.

similar language that states that if the Exchange becomes impaired after completing the closing match process in a security, it would retain all matched MOC orders and execute those orders at the official closing price once the impairment is resolved. The proposed language differs from the current language in two respects, which are merely designed to increase clarity around these rules. First, the proposed rules would reference the Exchange becoming impaired after “completing the closing match process in a security” rather than after the MOC Cut-Off Time. While the Exchange would perform the closing match process at the MOC Cut-Off Time, this language would ensure that it is clear that matched MOC orders would be retained only if the closing match process (i.e., the process for matching MOC orders) is completed in the security. As discussed earlier in this proposed rule change, all MOC orders designated to participate in the Cboe Market Close would be cancelled if the Exchange becomes impaired after the MOC Cut-Off Time but before completing the closing match process in a security. Second, the proposed language would reference executing those matched MOC orders “once the impairment is resolved” rather than “once it is operational.” Since the language in the proposed rule discusses the process for handling a systems impairment, the Exchange believes that the language in this portion of the rule should similarly reference the resolution of this impairment.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act⁶ in general, and furthers the objectives of Section 6(b)(5) of the Act⁷ in particular, in that it is designed to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, to remove impediments to and

⁶ 15 U.S.C. 78f(b).

⁷ 15 U.S.C. 78f(b)(5).

perfect the mechanism of a free and open market and a national market system and, in general, to protect investors and the public interest. Specifically, the Exchange believes that the proposed rule change would protect investors and the public interest because the amended rule would continue to ensure that members have an opportunity to re-enter their orders on the primary listing market if the Exchange experiences an impairment that would impact the ability of the Exchange to successfully conduct the Cboe Market Close in one or more securities, and would provide greater transparency to members and investors with regard to how their orders would be handled if the Exchange experiences such an issue. While the Exchange believes that such events are likely to be rare, providing greater certainty about how orders are handled in such rare situations is consistent with the maintenance of a fair and orderly market.

The Exchange believes that it would be beneficial to allow members to choose how their orders are handled by using the member's order persistence settings, where appropriate, to determine whether their orders should be cancelled in the event that a systems impairment may impact the ability of the Exchange to execute the Cboe Market Close. As such, the Exchange has proposed to allow members to specify whether their MOC orders should be cancelled in the event of a short impairment that is resolved within five minutes, and would apply member's chosen order persistence settings to do so. Using this setting would ensure that members' continue to have the flexibility to determine how their orders are handled in the event of a systems impairment, and would ensure that MOC orders are handled similarly to other orders in such circumstances. At the same time, for longer impairments with a duration exceeding five minutes, the Exchange believes that all members should have their orders cancelled so that they have an opportunity to send those orders to the primary listing market to participate in the closing auction and receive an execution at the official closing price.

Further, since all MOC orders would be cancelled if the Exchange is unable to recover prior to the MOC Cut-Off Time of 3:35 p.m. ET, members would be provided with more than sufficient time to enter their orders for participation in the closing auction on the primary listing market. For example, if the Exchange experienced an impairment that is not resolved at of 3:35 p.m. ET, all MOC orders would be cancelled, and members would have fifteen minutes until the 3:55 p.m. ET cutoff time for entering MOC orders on The Nasdaq Stock Market LLC (“Nasdaq”),⁸ ten minutes until the 3:50 p.m. ET cutoff time for entering MOC orders on New York Stock Exchange LLC (“NYSE”),⁹ and nineteen minutes until the start of the 3:59 p.m. ET closing auction imbalance freeze on NYSE Arca, Inc. (“Arca”).¹⁰ Of course, an impairment that begins earlier in the trading day would result in orders being subject to cancellation earlier, thus providing additional time for members to redirect their MOC orders to the primary listing market. The Exchange therefore believes that the amended rule would continue to provide an adequate opportunity for members to re-enter their MOC orders on the primary listing market in the event that the Exchange became impaired and is unable to conduct the Cboe Market Close.

Finally, similar to language in the current rule, the amended rule would explain that matched MOC orders would be retained and executed at the official closing price once an impairment is resolved. The amended rule contains minor language changes that are designed to increase clarity around this process, including referencing that matched MOC orders would be retained on completion of the closing match process in a security rather than simply referencing the MOC Cut-Off Time, and referencing that orders would be executed when the impairment is

⁸ See Nasdaq Rule 4702(b)(11)(A).

⁹ See NYSE Rule 123C(2)(a)(i).

¹⁰ See Arca Rule 7.35-E(d)(2).

resolved rather than more general language about the Exchange becoming operational. While these changes do not significantly alter the operation of the rule, the Exchange believes that the amendments enhance the clarity of the proposed rules for handling these situations. For example, while the closing match process would be performed at the MOC Cut-Off Time it is possible that an impairment could occur after the Exchange has begun performing the closing match process but before that process has completed in one or more securities. The proposed amendments make clear that in such an event MOC orders would be retained only in those securities where the closing match process has been completed. The Exchange would not retain matched MOC orders if the closing match process in a security had started but is interrupted by a systems impairment.

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

The Exchange does not believe that the proposed rule change would impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Cboe Market Close is designed to increase competition in the U.S. equities market by offering an alternative to the primary listing markets' closing auction processes. The proposed amendments do not address any competitive issue, but would instead implement operational changes to the Exchange's process for dealing with situations involving a systems impairment that would impact the Exchange's ability to conduct a timely closing match process. These changes are designed to both provide transparency to members and investors about how the Exchange intends to handle such situations, and to ensure that market participants have an opportunity to have their orders executed as desired in the event of an impairment. As such, the Exchange believes that the proposed rule change would not burden competition, and indeed would further the competitive benefits sought by the introduction of the Cboe Market Close.

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

No comments were solicited or received 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;
- 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 Act¹¹ and Rule 19b-4(f)(6)¹² 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

¹¹ 15 U.S.C. 78s(b)(3)(A).

¹² 17 CFR 240.19b-4(f)(6).

- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-CboeBZX-2020-015 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-CboeBZX-2020-015. 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 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-CboeBZX-2020-015, 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.¹³

Jill M. Peterson
Assistant Secretary

¹³ 17 CFR 200.30-3(a)(12).