

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-88235; File No. SR-CBOE-2020-012)

February 19, 2020

Self-Regulatory Organizations; Cboe Exchange, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Amending its Financial Incentive Programs for Global Trading Hours (GTH) Lead Market-Makers (LMMs) in VIX Options

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on February 10, 2020, Cboe Exchange, Inc. (the “Exchange” or “Cboe Options”) filed with the Securities and Exchange Commission (the “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

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

The Exchange proposes to amend its GTH VIX LMMs Incentive Program, effective February 10, 2020.

By way of background, pursuant to the Fees Schedule, an 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): 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:

| Premium Level | Maximum Allowable Width |
|------------------------|--------------------------------|
| \$0.00-\$100.00 | \$10.00 |
| \$100.01 - \$200.00 | \$16.00 |
| Greater than \$200.000 | \$24.00 |

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.

The Exchange now proposes to amend the GTH VIX LMM Program to separate the quoting standard for VIX and VIX Weeklys (“VIXW”); adopt a separate rebate for VIXW, increasing the total available rebate; eliminate the current compensation pool structure; and update the period in which the heightened quoting standard will apply for the month of February 2020. First, the Exchange proposes to separate the quoting standard for VIX and VIXW and adopt a separate rebate for VIXW.³ As proposed, if the LMM meets the heightened quoting standard described above for VIX, the LMM will continue to receive a rebate of \$20,000 for VIX, and if the LMM separately meets the heightened quoting standard described above for VIXW, the LMM will receive an additional rebate of \$5,000 for VIXW (for a total increased rebate of \$25,000 per month for meeting the standard for both VIX and VIXW). The Exchange notes this is substantively identical to the format of the Exchange’s current GTH SPX/SPXW LMM program and the manner in which a GTH SPX/SPXW LMM may meet the heightened quoting requirements today.⁴ The Exchange also notes that like that of a SPX/SPXW LMM, an LMM appointed in VIX also holds an appointment in VIXW.

Next, the Exchange proposes to eliminate the current compensation pool structure and provide instead a straight rebate per product per LMM, which is also consistent with the manner in which the GTH SPX/SPXW LMM program is administered. More specifically, if a GTH VIX/VIXW LMM meets the heightened quoting standard, it will receive the applicable rebate per product, described above. The Exchange also proposes to eliminate the example of how the compensation pool works as it is no longer necessary given the elimination of the compensation pool structure. The Exchange believes the program as amended will continue to encourage the

³ The Exchange also proposes to update the title of the program accordingly to “GTH VIX/VIXW LMM Program”.

⁴ See Cboe Options Fees Schedule, “GTH SPX/SPXW LMM Incentive Program”.

provision of liquidity in VIX and VIXW options during GTH, including during the open. Also, as is the case today, GTH VIX/VIXW LMM(s) will still not be obligated to satisfy the amended heightened quoting standard. Additionally, the Exchange notes that a VIX/VIXW GTH LMM may need to undertake expenses to be able to quote at a significantly heightened standard in VIX/VIXW, such as purchase more logical connectivity based on its increased capacity needs.

Finally, for the month of February 2020, the Exchange proposes to apply the heightened quoting standard from February 10 to February 29, in light of the mid-month proposal to modify the rebate quoting standard. The Exchange also notes the previous LMM term expired January 31, 2020, and the Exchange intends to appoint a new LMM effective February 10, 2020. Such LMM will be eligible for the full financial payment for the month February 2020, if the LMM meets the heightened quoting standard from February 10 to February 29. The Exchange also proposes to remove obsolete language regarding applicability of the program in November 2019.

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

⁵ 15 U.S.C. 78f(b).

⁶ 15 U.S.C. 78f(b)(5).

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,⁷ 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 that separating the quoting standard for VIX and VIXW, and adopting a separate rebate for VIXW of \$5,000 is reasonable because it provides an additional rebate for GTH VIX LMM(s), who also hold appointments in VIXW, for meeting the heightened quoting standard and takes into consideration costs an LMM may incur. The Exchange also believes the proposed amount for meeting the requirements in VIXW series will continue to incentivize an appointed LMM to meet the GTH quoting standards for VIXW, and continue to meet the GTH quoting standard for VIX, thereby providing liquid and active markets, which facilitates tighter spreads and increased trading opportunities to the benefit of all market participants. The proposed change also provides harmonization between the GTH LMM programs (i.e., conforms to the format of the GTH SPX/SPXW LMM Program⁸). The Exchange believes amending the GTH VIX/VIXW LMM Program by removing the compensation pool and providing for a straight rebate per product is reasonable as a GTH VIX/VIXW GTH LMM will continue to be eligible to receive the current financial payment for VIX and proposed payment for VIXW. The Exchange believes the straight rebate simplifies administration of the Program's rebates for market participant and the monthly payment will continue to be commensurate with the heightened quoting standard, while still acting as an incentive for a GTH VIX LMM to provide liquid and active markets in VIX and VIXW during GTH. The Exchange believes that it is reasonable to

⁷ 15 U.S.C. 78f(b)(4).

⁸ See supra note 4.

apply the quoting standard from February 10 to February 29 for the month of February 2020, in light of the mid-month proposal to modify the heightened quoting standard and in light of the fact that the previous LMM term expired January 31, 2020 and the Exchange intends to appoint a new LMM effective February 10, 2020 (i.e., there was no GTH LMM appointed as of February 3, this timeframe will have no impact on rebates available to any market participants).

The Exchange believes it is equitable and not unfairly discriminatory to continue to only offer this financial incentive to GTH VIX (and VIXW, as proposed) LMM(s) because it benefits all market participants trading VIX/VIXW 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 GTH VIX/VIXW LMM(s) serve a crucial role in providing quotes and the opportunity for market participants to trade VIX/VIXW, 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/VIXW 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 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 GTH VIX/VIXW LMM

equally. Additionally, if a GTH VIX/VIXW 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 change will impose any burden on intramarket or intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act. First, the Exchange believes the proposed rule change does 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 VIX/VIXW LMMs, which market participants play a crucial role in providing active and liquid markets in VIX/VIXW 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/VIXW 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 Act⁹ and paragraph (f) of Rule 19b-4¹⁰ thereunder. At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change

⁹ 15 U.S.C. 78s(b)(3)(A).

¹⁰ 17 CFR 240.19b-4(f).

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-CBOE-2020-012 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-2020-012. 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-CBOE-2020-012 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.¹¹

Jill M. Peterson
Assistant Secretary

¹¹ 17 CFR 200.30-3(a)(12).