

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-88326; File No. SR-CboeEDGA-2020-006)

March 5, 2020

Self-Regulatory Organizations; Cboe EDGA Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Adopt the Dark Routing Technique Routing Option; to Eliminate References to the ROUD, ROUE, and ROUQ Routing Options; and to Reflect Additional Routing Strategies for Which the Exchange May Route Orders with a Short Sale Instruction

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on February 26, 2020, Cboe EDGA Exchange, Inc. (the “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. The Exchange filed the proposal as a “non-controversial” proposed rule change pursuant to Section 19(b)(3)(A)(iii) of the Act<sup>3</sup> and Rule 19b-4(f)(6) thereunder.<sup>4</sup> 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 EDGA Exchange, Inc. (the “Exchange” or “EDGA”) proposes to make certain changes to Rule 11.11 (Routing to Away Trading Centers) and to make corresponding amendments to its Fee Schedule.

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

<sup>2</sup> 17 CFR 240.19b-4.

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

<sup>4</sup> 17 CFR 240.19b-4(f)(6).

The text of the proposed rule change is also available on the Exchange's website ([http://markets.cboe.com/us/equities/regulation/rule\\_filings/edga/](http://markets.cboe.com/us/equities/regulation/rule_filings/edga/)), 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 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: (i) adopt the DRT routing option under proposed Rule 11.11(g)(2); (ii) amend Rule 11.11(g) to eliminate the ROUD, ROUE, and ROUQ routing options and to eliminate any such references in its Fee Schedule; and (iii) amend Rule 11.11(a) to make clear that if a User<sup>5</sup> selects the RDOT, RDOX, or INET routing options, orders with a short sale<sup>6</sup> instruction when a short sale circuit breaker pursuant to Rule 201 of Regulation SHO<sup>7</sup> (the "SSCB") is in effect are eligible for routing by the Exchange. The Exchange intends to implement the proposed rule changes on March 2, 2020.

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<sup>5</sup> See Exchange Rule 1.5(ee).

<sup>6</sup> See Exchange Rule 11.6(o). The term "short sale" is defined as "any sale of a security which the seller does not own or any sale which is consummated by the delivery of a security borrowed by, or for the account of, the seller." 17 CFR 242.200(a).

<sup>7</sup> See 17 CFR 242.201; Securities Exchange Act Release No. 61595 (February 26, 2010), 75 FR 11232 (March 10, 2010).

### Adopting DRT

The Exchange proposes to adopt the DRT under subparagraph (g)(2) as a new routing option available on the Exchange. As noted in proposed Rule 11.11(g)(2), the DRT routing option would instruct the System<sup>8</sup> to route to alternative trading systems (“ATs”) included in the System routing table.<sup>9</sup> The proposed description of DRT is identical to existing Cboe BZX Exchange, Inc. (“BZX”) and Cboe BYX Exchange, Inc. (“BYX”) Rules 11.13(b)(3)(D) and Cboe EDGX Exchange, Inc. (“EDGX”) Rule 11.11(g)(2).<sup>10</sup> Thus, the proposed amendment is intended to add certain system functionality currently offered by BZX, BYX, and EDGX in order to provide a consistent technology offering for Users across the Cboe affiliated exchanges.

Currently, for routing mechanisms that route orders to ATs, the Exchange routes such orders using a preselected sequence of venues pursuant to the applicable System routing table and every order is routed to such venues in that sequence.<sup>11</sup> Stated another way, all orders entered with a routing strategy that is eligible for routing to ATs will first seek liquidity on the Exchange and any unexecuted portion of the order will then be routed in accordance with the pre-established sequence in the System routing table.

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<sup>8</sup> See Exchange Rule 1.5(cc).

<sup>9</sup> The term “System routing table” refers to the proprietary process for determining the specific trading venues to which the System routes orders and the order in which it routes them. See Exchange Rule 11.11(g).

<sup>10</sup> The Exchange notes that EDGX Rule 11.11(g)(2) was recently modified to mirror BZX/BYX Rules 11.13(b)(3)(D). See Securities Exchange Act Release No. 88154 (February 12, 2020), 85 FR 8327 (February 13, 2020) (SR-CboeEDGX-2020-006).

<sup>11</sup> The Exchange notes that the current routing mechanism is set forth in the System routing table, and is not referenced in Exchange Rules. Nonetheless, the Exchange proposes to adopt the DRT under subparagraph (g)(2) of Rule 11.11 to harmonize the Exchange’s rules with BZX/BYX Rule 11.13(b)(3)(D) and EDGX Rule 11.11(g)(2).

As proposed, the DRT routing mechanism would instead use a randomly generated, weighted permutation to prioritize off-exchange venues based on a “score”<sup>12</sup> for each off-exchange venue, where a higher score will result in a greater likelihood that the off-exchange venue will be selected earlier in the permutation. The DRT routing mechanism will be established in the System routing table and replace the existing routing mechanism that routes orders to ATSS. The Exchange believes that converting from this mechanical, sequential routing strategy to the more dynamic strategy applied with DRT will allow an off-exchange venue with a lower score to occasionally be selected before an off-exchange venue with a higher score, and thus provides the Exchange with the most accurate view of the quality at each market. As a result, the Exchange believes that DRT may result in improved execution quality. Additionally, converting to DRT will result in uniformity that will simplify the Exchange’s routing logic and management across the Cboe equities platforms.

#### Eliminating ROUE, ROUQ, and ROUD

In connection with the adoption of the DRT mechanism, the Exchange proposes to amend Rule 11.11(g) and the Fee Schedule to eliminate any references to routing options that are redundant due to such adoption.

Currently, Rule 11.11(g) provides for a variety of routing options under which the System will consider the quotations only of accessible Trading Centers.<sup>13</sup> Rules 11.11(g)(2) and 11.11(g)(3)(D) currently provides for the ROUD and ROUQ routing options, respectively, which

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<sup>12</sup> “Scores” are assigned to each off-exchange venue by the Exchange and are determined based on various factors, such as order fill percentage, latency, and price improvement.

<sup>13</sup> Rule 600(b)(82) of Regulation NMS defines a “Trading Center” as “a national securities exchange or national securities association that operates an SRO trading facility, an alternative trading system, an exchange market maker, an OTC market maker, or any other broker or dealer that executes orders internally by trading as principal or crossing orders as agent.” See 17 CFR 242.201(a)(9); 17 CFR 242.600(b)(82).

are detailed in the System routing table.<sup>14</sup> For orders entered with a ROUD or ROUQ routing options, the System is first checked for available shares and then is sent to destinations on the System routing table. If shares remain unexecuted after routing, they are posted on the EDGA Book,<sup>15</sup> unless otherwise instructed by the User. The ROUD and ROUQ routing options first seek liquidity on the Exchange's book, and will subsequently route any unfilled portion of the order pursuant to the System routing table. Given the proposed implementation of DRT, the ROUD and ROUQ routing option will first seek liquidity on the Exchange's book, and will subsequently route any unfilled portion via DRT. Such a strategy is duplicative of the Exchange's ROUZ routing option.<sup>16</sup> Therefore, the Exchange proposes to eliminate subparagraph (g)(2) and (g)(3)(D) of Rule 11.11, as well as Fee Code T from the Exchange's Fee Schedule.<sup>17</sup> Additionally, the Exchange proposes to eliminate any references to the ROUD and ROUQ routing options in subparagraph (g)(14) of Rule 11.11 and Fee Code Q.

Similarly, the ROUE routing option provided in Rule 11.11(g)(3)(A) first seeks liquidity on the Exchange's book, second will route any unfilled portion of the order to ATSS pursuant to the System routing table, and third will route any unfilled portion of the order to other Trading

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<sup>14</sup> While the System routing table is not publicly available, the Cboe affiliated equity markets have provided a summary document of its available routing options, which is subject to change at any time. Such document details the strategies of the ROUD, ROUQ, ROUE, ROUZ, and ROUT routing options referenced herein. See [https://cdn.cboe.com/resources/features/cboe\\_exchange\\_routing-strategies.pdf](https://cdn.cboe.com/resources/features/cboe_exchange_routing-strategies.pdf). See also Exchange Rule 11.11(g), which provides that the Exchange reserves the right to route orders simultaneously or sequentially, maintain a different System routing table for different routing options and to modify the System routing table at any time without notice.

<sup>15</sup> See Exchange Rule 1.5(d).

<sup>16</sup> See Exchange Rule 11.11(g)(3)(E). See also supra note 14.

<sup>17</sup> Fee Code T references both the ROUD and ROUE routing options, both of which are proposed to be eliminated from the Fee Schedule. As such, the Exchange proposes to eliminate Fee Code T in its entirety.

Centers.<sup>18</sup> Given the proposed implementation of DRT, the ROUE routing option will first seek liquidity on the Exchange’s book, second route any unfilled portion via DRT, and third will route any unfilled portion of the order to other Trading centers. Such a strategy is duplicative of the Exchange’s ROUT routing option.<sup>19</sup> Therefore, the Exchange proposes to eliminate subparagraph (g)(3)(A) and references to ROUE in subparagraphs (g)(14) and (g)(15) of Rule 11.11. The Exchange also proposes to remove references to the ROUE trading strategy in Fee Codes BY and K.<sup>20</sup>

Based on the above proposed changes the Exchange also proposes to re-alphabetize paragraph (g)(3) of Rule 11.11.

#### RDOT, RDOX, and INET Routing Clarification

Under Rule 201 of Regulation SHO, a short sale order in a covered security<sup>21</sup> generally cannot be executed or displayed by a Trading Center (such as the Exchange), at a price that is at or below the current National Best Bid (“NBB”)<sup>22</sup> when a SSCB is in effect for the covered security. Based on this rule, there is no reason for a Trading Center to route an order marked short when a

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<sup>18</sup> See supra note 14.

<sup>19</sup> See Exchange Rule 11.11(g)(3)(B). See also supra note 14.

<sup>20</sup> As noted above, Fee Code T references both ROUD and ROUE routing strategies, both of which the Exchange is proposing to eliminate and, as such, the Exchange proposed above to eliminate Fee Code T.

<sup>21</sup> Rule 201(a)(1) of Regulation SHO defines the term “covered security” to mean any “NMS stock” as defined under Rule 600(b)(48) of Regulation NMS. Rule 600(b)(48) of Regulation NMS defines an “NMS stock” as “any NMS security other than an option.” Rule 600(b)(47) of Regulation NMS defines an “NMS security” as “any security or class of securities for which transaction reports are collected, processed, and made available pursuant to an effective transaction reporting plan, or an effective national market system plan for reporting transactions in listed options.” See 17 CFR 242.201(a)(1); 17 CFR 242.600(b)(47); and 17 CFR 242.600(b)(48).

<sup>22</sup> See Exchange Rule 1.5(o).

SSCB is in effect using a routing option that does not provide for a routed order to post to another Trading Center's book. The Post to Away<sup>23</sup> routing option is able to post an order to another Trading Center's book and, thus, Exchange Rule 11.11(a) explicitly provides that the Exchange will route orders marked short using the Post to Away routing option when a SSCB is in effect.<sup>24</sup>

Similarly, RDOT,<sup>25</sup> RDOX,<sup>26</sup> and INET<sup>27</sup> routing options are able to post an order to another Trading Center's book. Based on this functionality, the Exchange currently allows orders marked short while a SSCB is in effect to be routed using these routing options. As such, the Exchange is proposing to amend Rule 11.11(a) in order to codify that, in addition to the Post to Away routing option, short orders using the RDOT, RDOX, and INET routing strategies are also able to be routed when a SSCB is in effect. Given that orders routed via the RDOT, RDOX, and INET routing options are subjected to the receiving Trading Center's processes for handling

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<sup>23</sup> See Exchange Rule 11.11(g)(14). Under the Post to Away routing option, the remainder of a routed order is routed to and posted to the order book of a destination on the "System routing table", as specified by the User.

<sup>24</sup> The Exchange notes that orders routed pursuant to the Post to Away, RDOT, RDOX, and INET routing options that include a short sale instruction are identified as "short" and are subject to the receiving Trading Center's processes for handling short sale orders in compliance with Rule 201 of Regulation SHO.

<sup>25</sup> See Exchange Rule 11.11(g)(5). RDOT is a routing option under which an order checks the System for available shares and then is sent to destinations on the System routing table. If shares remain unexecuted after routing, they are sent to the NYSE and can be re-routed by the NYSE. Any remainder will be posted to the NYSE, unless otherwise instructed by the User.

<sup>26</sup> See Exchange Rule 11.11(g)(6). RDOX is a routing option under which an order checks the System for available shares, is then sent to the NYSE and can be re-routed by the NYSE. If shares remain unexecuted after routing, they are posted on the NYSE book, unless otherwise instructed by the User.

<sup>27</sup> See Exchange Rule 11.11(g)(4). INET is a routing option under which an order checks the System for available shares and then is sent to Nasdaq. If shares remain unexecuted after routing, they are posted on the Nasdaq book, unless otherwise instructed by the User.

short sale orders in compliance with Rule 201 of Regulation SHO in substantially the same manner as the Post to Away routing option, the Exchange believes such functionality is appropriate and that Exchange Rules should be amended to codify such functionality.

## 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>28</sup> Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>29</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 is consistent with the Section 6(b)(5)<sup>30</sup> requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers. The proposed rule change also is designed to support the principles of Section 11A(a)(1)<sup>31</sup> of the Act in that it seeks to assure fair competition among brokers and dealers and among exchange markets.

In particular, the proposed rule change to add the DRT routing option is generally intended to provide a consistent technology offering for the Cboe affiliated exchanges, which the

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<sup>28</sup> 15 U.S.C. 78f(b).

<sup>29</sup> 15 U.S.C. 78f(b)(5).

<sup>30</sup> Id.

<sup>31</sup> 15 U.S.C. 78k-1(a)(1).



Exchange believes is designed to remove impediments to and perfect the mechanism of a free and open market and a national market system. Further to this point, a consistent technology offering, in turn, will simplify the technology implementation, changes and maintenance by Users of the Exchange that are also participants on BYX, BZX, and/or EDGX. The proposed rule changes would also provide Users with access to functionality that is intended to result in the efficient execution of such orders and will provide additional flexibility as well as increased functionality to the Exchange's System and its Users. As a result, the Exchange's proposal will further remove impediments to and perfect the mechanism of a free and open market and a national market system, and will also introduce the DRT routing strategy on the Exchange which will provide market participants with greater flexibility in routing orders without developing order routing strategies on their own.

The Exchange believes the proposed rule change to remove references to ROUD, ROUQ, and ROUE from Exchange Rules and the Fee Schedule will remove impediments to the mechanism of a free and open market, thereby protecting investors and the public interest. As stated above, the Exchange is proposing that its routing functionality to ATSS will use the DRT routing mechanism in the System routing table effective March 2, 2020. As a result, the ROUD, ROUQ, and ROUE routing options will function in the same manner as other existing routing options. By removing routing options that are duplicative of other existing routing options and amending Exchange Rules to reflect a new routing option, the Exchange believes the proposed rule change will remove impediments to the mechanism of a free and open market and protect investors by providing investors with increased transparency regarding rules that reflect routing options currently available on the Exchange. Also, as it pertains to the proposed changes to Exchange Rule 11.11(g) and the Fee Schedule, the Exchange does not believe the proposed

amendments will permit unfair discrimination among customers, brokers, or dealers because the ROUD, ROUQ, and ROUE routing options will no longer be available to all Users.

Finally, the proposed changes to Rule 11.11(a) are designed to ensure clarity in the Exchange's rulebook with respect to the routing of orders in compliance with Rule 201 of Regulation SHO. In addition, providing Users the ability to send short sale orders that are routable pursuant to RDOT, RDOX, and INET routing options provides them additional flexibility with regard to the handling of their orders. The Exchange notes that orders that include a short sale instruction routed pursuant to the RDOT, RDOX, or INET routing options are identified "short" and, therefore, subject to the receiving Trading Center's processes for handling short sale orders in compliance with Regulation SHO. The Exchange also notes that the Post to Away routing option is similar to the RDOT, RDOX, and INET routing options in that they route orders to other Trading Centers for posting and/or later execution. Rule 11.11(a) currently provides that orders including a short sale instruction routed pursuant to the Post to Away routing option is eligible for routing when a SSCB is in effect. Thus, the proposed amendments to Rule 11.11(a) is directly targeted at removing impediments to and perfecting the mechanism of a free and open market and national market system, as well as to assure fair competition among brokers and dealers and among exchange markets.

**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 competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange notes that the proposed amendment to allow orders with a short sale instruction and a RDOX, RDOT, or INET routing option to be eligible to route when a SSCB is in effect will promote consistency between other routing strategies (i.e., Post to Away) that are similarly eligible to route when a SSCB is in effect and are designed to route orders to other Trading

Centers for posting and/or later execution. The Exchange does not believe the proposed change will have any impact on intermarket competition as the RDOX, RDOT, and INET routing strategies are and will continue to be available to all Users.

The Exchange notes that the proposed amendments to add a reference to the DRT routing option and eliminate references to the ROUD, ROUE, and ROUQ routing options in Exchange Rules and the Fee Schedule will eliminate any potential confusion to investors, as those routing options will be duplicative of existing routing options after the implementation of the DRT routing mechanism.

The Exchange does not believe that the proposed amendments will impose any burden on intra-market competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange provides routing services in a highly competitive market in which participants may avail themselves of a wide variety of routing options offered by self-regulatory organizations, other broker-dealers, market participants' own proprietary routing systems, and service bureaus. In such an environment, system enhancements such as the changes proposed in this rule filing do not burden competition, because they can succeed in attracting order flow to the Exchange only if they offer investors higher quality and better value than services offered by others. The Exchange reiterates that the proposed rule change to adopt DRT and eliminate the ROUE, ROUQ, and ROUD strategies is being proposed in an effort to add a consistent technology offering across the Cboe affiliated Exchanges.

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: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) 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<sup>32</sup> and Rule 19b-4(f)(6) thereunder.<sup>33</sup>

A proposed rule change filed pursuant to Rule 19b-4(f)(6) under the Act<sup>34</sup> normally does not become operative for 30 days after the date of its filing. However, Rule 19b-4(f)(6)(iii)<sup>35</sup> permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange has asked the Commission to waive the 30-day operative delay so that the proposal may become operative immediately upon filing. The Exchange has represented that adopting the DRT routing functionality and eliminating references to certain duplicative routing options will conform its routing strategies to its affiliated exchanges and will eliminate any potential confusion for its Users. The Commission believes that waiver of the 30-day operative delay is consistent with the protection of investors and the public interest and hereby waives the operative delay and designates the

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<sup>32</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>33</sup> 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6)(iii) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

<sup>34</sup> 17 CFR 240.19b-4(f)(6).

<sup>35</sup> 17 CFR 240.19b-4(f)(6)(iii).

proposal as operative upon filing.<sup>36</sup>

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 shall institute proceedings under Section 19(b)(2)(B) of the Act<sup>37</sup> 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-CboeEDGA-2020-006 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-CboeEDGA-2020-006. 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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<sup>36</sup> For purposes only of waiving the 30-day operative delay, the Commission also has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

<sup>37</sup> 15 U.S.C. 78s(b)(2)(B).

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-CboeEDGA-2020-006 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>38</sup>

J. Matthew DeLesDernier  
Assistant Secretary

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<sup>38</sup> 17 CFR 200.30-3(a)(12).