

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-94327; File No. SR-CBOE-2022-006)

February 28, 2022

Self-Regulatory Organizations; Cboe Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Modify how Drill-Through Price Protection Applies to Users' Orders when Multiple Stop (Stop-Loss) and Stop-Limit Orders are Triggered by the Same Price

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 17, 2022, 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 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 Act³ and Rule 19b-4(f)(6) thereunder.⁴ 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. ("C1" or the "Exchange") is filing with the Securities and Exchange Commission (the "Commission") a proposal to modify how drill-through price protection applies to Users'⁵ orders when multiple Stop (Stop-Loss) and Stop-Limit orders are triggered by the same price. The text of the proposed rule change is provided in Exhibit 5.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A)(iii).

⁴ 17 CFR 240.19b-4(f)(6).

⁵ The Term "User" shall mean any Trading Privilege Holder (TPH) or Sponsored User who is authorized to obtain access to the System pursuant to Rule 5.5.

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 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 this rule filing is to amend current Rule 5.34(a)(4), Order and Quote Price Protection Mechanisms and Risk Controls, to add new Rule 5.34(a)(4)(E), which modifies what the drill-through price will be for Stop (Stop-Loss)⁶ and Stop-Limit⁷ orders when multiple Stop and Stop-Limit orders are triggered by the same stop price specified by Users.

⁶ A "Stop (Stop-Loss)" order is an order to buy (sell) that becomes a market order when the consolidated last sale price (excluding prices from complex order trades if outside of the NBBO) or NBB (NBO) for a particular option contract is equal to or above (below) the stop price specified by the User. Users may not designate a Stop Order as All Sessions. Users may not designate bulk messages as Stop Orders. A User may not designate a Stop order as Direct to PAR. *See* Rule 5.6(c) (definition of "Stop (Stop-Loss)" order).

⁷ A "Stop-Limit" order is an order to buy (sell) that becomes a limit order when the consolidated last sale price (excluding prices from complex order trades if outside the NBBO) or NBB (NBO) for a particular option contract is equal to or above (below) the stop price specified by the User. A User may not designate a Stop-Limit Order as All Sessions. Users may not designate bulk messages as Stop-Limit Orders. A User may not designate a Stop-Limit order as Direct to PAR. *See* Rule 5.6(c) (definition of "Stop-

Drill-through price protection is currently described in Exchange Rule 5.34(a)(4)(A). Rule 5.34(a)(4)(A) equates the drill-through reference price for a buy (sell) order to a price up to a buffer amount (the Exchange determines the buffer amount on a class and premium basis) above (below) the offer (bid) limit of the Opening Collar or the NBO (NBB) that existed at the time of order entry, respectively (the, “drill-through price”).⁸

Currently, when multiple Stop (Stop-Loss) or Stop-Limit orders are triggered by the same price, the System⁹ considers them separate orders received in sequence and enters them sequentially into the Book.¹⁰ As such, when determining the drill-through price for each order, the System uses the contra side NBBO that existed at the time each of the orders was entered into the Book.¹¹ By applying drill-through price protection in this manner, the Exchange has observed, particularly in thinly traded markets, that the first order triggered will trade with the best priced contra-side order, while the second triggered order can trade at prices that may be multiple price levels away, as it is using the NBBO that existed after the first triggered order executed. Accordingly, the Exchange seeks to enhance the drill-through price functionality as it relates to Stop (Stop-Loss) and Stop Limit Orders, through the addition of proposed Rule 5.34(a)(4)(E). Under proposed Rule 5.34(a)(4)(E), rather than using separate drill-through prices

Limit” order).

⁸ See Rule 5.34(a)(4)(A).

⁹ “System” means the Exchange’s hybrid trading platform that integrates electronic and open outcry trading of option contracts on the Exchange and includes any connectivity to the foregoing trading platform that is administered by or on behalf of the Exchange, such as a communications hub. See Rule 1.1. (definition of, “System”).

¹⁰ “Book” means the electronic book of simple orders and quotes maintained by the System, which single book is used during both the regular trading hours and global trading hours trading sessions. See Rule 1.1 (definition of, “Book”).

¹¹ See Rule 5.34(a)(4)(A)

for each individual Stop and Stop-Limit order, the System will instead use the contra-side NBBO that existed at the time the first order in sequence was entered into the Book as the drill-through price, for all orders. This is the drill-through price that would apply to each Stop or Stop-Limit order if it was the only one triggered at that price. By way of illustration, consider the following examples:

Example 1 – Current Functionality

Assume that the drill-through price buffer¹² for a certain option series is \$0.25, and that the following quotes are in the Book: Quote 1 (NBBO): 5.00 x 7.00; Quote 2: 4.00 x 8.00. Each quote has a size of 1. Additionally, the following Stop-Loss/Stop Limit orders are being held in the System when the Quote 1 offer is updated to \$6.50 (they were received by the System in sequence):

- Order 1: Sell 1 @ Market, Stop Price = \$6.50**
- Order 2: Sell 1 @ Market, Stop Price = \$6.55**
- Order 3: Sell 1 @ Market, Stop Price = \$6.50**

Per current Rule 5.34(a)(4), the following will occur:

- 1. Orders 1, 2 and 3 are held in the System, and handled as separate orders received in sequence. Each have stop prices less than the NBO, and are therefore triggered by the 6.50 quote, and enter the Book for execution or posting. Under today's functionality, the System assigns each order a separate drill-through price, equal to the contra-side NBBO in existence at the time each order separately entered the Book for execution.*
- 2. Order 1 will execute against Quote 1 @ \$5.00. Using the NBB of \$5.00 as the drill-through price, the System would prevent execution beyond \$4.75.*
- 3. When Order 1 executes against Quote 1 @ 5.00, that NBB will no longer be in the Book. Instead Order 2 will execute against Quote 2 @ 4.00 and use the NBB of 4.00 as the drill-through price, and prevent execution beyond \$3.75.*
- 4. Order 3 will cancel due to no liquidity left at the drill-through price of \$3.75.*

Example 2 – Proposed Functionality

¹² The Exchange determines the buffer amount on a premium and class basis.

Again, assume that the drill-through price buffer for a certain option series is \$0.25, and that the following quotes are in the Book: Quote 1 (NBBO): 5.00 x 7.00; Quote 2: 4.00 x 8.00. Each quote has a size of 1. Additionally, the following Stop-Loss/Stop Limit orders are being held in the System when the Quote 1 offer is updated to \$6.50 (they were received by the System in sequence):

Order 1: Sell 1 @ Market, Stop Price = \$6.50
Order 2: Sell 1 @ Market, Stop Price = \$6.55
Order 3: Sell 1 @ Market, Stop Price = \$6.50

Per proposed Rule 5.34(a)(4)(E), the following will occur:

- 1. Orders 1, 2 and 3 each have stop prices less than the NBO, and will therefore be triggered by the 6.50 quote, and enter the Book for execution or posting. A drill-through price for all three orders is set at the contra-side NBB of 5.00.*
- 2. Order 1 will execute against Quote 1 @ \$5.00.*
- 3. Orders 2 and 3 will cancel due to no liquidity left at the drill-through price of \$4.75.*

The Exchange notes that aside from the difference in drill-through price, the drill-through mechanism will apply in the same manner to these orders. The Exchange is not proposing wholly new drill-through protection behavior, but rather only seeks to modify the reference price utilized by the drill-through price protection for Stop (Stop-Loss) and Stop Limit orders if multiple such orders are triggered and entered into the Book for execution due to the same price event. By using the same drill-through price for all triggered orders eligible for execution, the proposed modification will help the drill-through protection prevent executions too far away from the NBBO when multiple Stop (Stop-Loss) and Stop Limit orders become eligible for execution. In doing so, Stop (Stop-Loss) and Stop Limit orders will receive executions at prices more closely aligned to the stop prices specified by Exchange Users.

2. Statutory Basis

The Exchange believes the proposed rule amendment is consistent with the requirements of Section 6(b) of the Act,¹³ in general, and Section 6(b)(5) of the Act,¹⁴ in particular, in that it is 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 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.

Specifically, the Exchange believes that proposed Rule 5.34(a)(4)(E) does not unfairly discriminate amongst Users. Under proposed Rule 5.34(a)(4)(E), all Users with Stop (Stop-Loss) and Stop-Limit Orders triggered by the same price event will have the same drill-through reference price. The primary purpose of the drill-through price protection is to prevent orders from executing at prices “too far away” from the market when they enter the Book for potential execution. The Exchange believes the proposed rule change is consistent with this purpose, and thus will promote just and equitable principles of trade and protect investors, because Users who submit Stop and Stop-Limit Orders will receive the same level of drill-through price protection against execution at potentially erroneous prices, regardless of the sequence in which they enter the Book. As a result of the proposed rule change, all Users’ Stop and Stop-Limit Orders will receive protection based on the NBBO at the time those orders were triggered to enter the Book for potential execution, which is consistent with the drill-through protection as well as Stop Order functionality.

¹³ 15 U.S.C. 78f(b).

¹⁴ 15 U.S.C. 78f(b)(5).

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

The Exchange does not believe that the proposed rule change imposes any burden on intramarket competition that is not necessary or appropriate in furtherance of the purposes of the Act. Under the current drill-through price protection functionality, the System's use of separate drill-through prices can result in Stop Orders executed later in sequence being filled at prices several levels away from the NBBO in existence at the time they are triggered and entered into the Book for execution merely because those orders were submitted after another Stop Order. As discussed above, the proposed rule change will apply the same drill-through price (and thus the same level of drill-through price protection) to Stop and Stop-Limit Orders that become eligible for potential execution at the same time due to the same price triggering event.

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 it relates solely to how an Exchange price protection applies to Stop (Stop-Loss) and Stop Limit orders. The proposed enhancement to the drill-through protection is consistent with the current protection and provides orders subject to drill-through price protection with improved protection against execution at potentially erroneous prices.

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

The Exchange has not solicited, and does not intend to solicit, comments on this proposal. No written 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: (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 after the date of the filing, or such shorter time as the

Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act¹⁵ and Rule 19b-4(f)(6)¹⁶ thereunder.

The Exchange has asked the Commission to waive the 30-day operative delay such that Exchange Users will be able to more quickly benefit from the proposed Drill through protections that are designed to: (1) prevent potentially erroneous executions and (2) more closely align the execution prices of Stop Orders and Stop Limit Orders that become eligible for potential execution at the same time due to the same price triggering event.¹⁷ The Commission finds that waiving the 30-day operative delay is consistent with the protection of investors and the public interest. Specifically, waiver of the operative delay should allow Exchange Users to utilize Stop Orders and Stop Limit Orders with an increased likelihood that the execution price of such orders will be more closely related to the market at the time the order is triggered for entry onto the Exchange Book. Accordingly, the Commission designates the proposal operative upon filing.¹⁸

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

¹⁵ 15 U.S.C. 78s(b)(3)(A).

¹⁶ 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file 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.

¹⁷ 17 CFR 240.19b-4(f)(6)(iii).

¹⁸ For purposes only of waiving the 30-day operative delay, the Commission has considered the proposed rule change's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

Commission shall institute proceedings to determine whether the proposed rule 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-2022-006 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-CBOE-2022-006. 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; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-CBOE-2022-006 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.¹⁹

J. Matthew DeLesDernier
Assistant Secretary

¹⁹ 17 CFR 200.30-3(a)(12).