

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-94454; File No. SR-CBOE-2022-013)

March 17, 2022

Self-Regulatory Organizations; Cboe Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Extend the Pilot Period Related to the Market-Wide Circuit Breaker in Rule 5.22 to April 18, 2022

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 March 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 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 Exchange, Inc. (the “Exchange” or “Cboe Options”) proposes to extend the pilot period related to the market-wide circuit breaker in Rule 5.22 to April 18, 2022. The text of the proposed rule change is provided in Exhibit 5. The text of the proposed rule change is provided in Exhibit 5.

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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://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 Exchange proposes to extend the pilot related to the market-wide circuit breaker in Rule 5.22 to the close of business on April 18, 2022.

Background

The Market-Wide Circuit Breaker ("MWCB") rules, including the Exchange's Rule 5.22, provide an important, automatic mechanism that is invoked to promote stability and investor confidence during periods of significant stress when cash equities securities experience extreme market-wide declines. The MWCB rules are designed to slow the effects of extreme price declines through coordinated trading halts across both cash equity and equity options securities markets.

The cash equities rules governing MWCBs were first adopted in 1988 and, in 2012, all U.S. cash equity exchanges and FINRA amended their cash equities uniform rules on a pilot basis

(the “Pilot Rules”, including Exchange Rule 5.22).<sup>5</sup> The Securities and Exchange Commission (the “Commission”) approved the Pilot Rules, the term of which was to coincide with the pilot period for the Plan to Address Extraordinary Market Volatility Pursuant to Rule 608 of Regulation NMS (the “LULD Plan”),<sup>6</sup> including any extensions to the pilot period for the LULD Plan. Though the LULD Plan was primarily designed for equity markets, the Exchange believed it would, indirectly, potentially impact the options markets as well. Thus, the Exchange has previously adopted and amended Rule 5.22<sup>7</sup> (as well as other options pilot rules) to ensure the option markets were not harmed as a result of the Plan’s implementation and implemented such rule on a pilot basis that has coincided with the pilot period for the Plan.<sup>8</sup> In April 2019, the Commission approved an amendment to the LULD Plan for it to operate on a permanent, rather than pilot, basis.<sup>9</sup> In light of the proposal to

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<sup>5</sup> See Securities Exchange Act Release No. 67090 (May 31, 2012), 77 FR 33531 (June 6, 2012) (SR-BATS-2011-038; SR-BYX-2011-025; SR-BX-2011-068; SR-CBOE-2011-087; SR-C2-2011-024; SR-CHX-2011-30; SR-EDGA-2011-31; SR-EDGX-2011-30; SR-FINRA-2011-054; SR-ISE-2011-61; SR-NASDAQ-2011-131; SR-NSX-2011-11; SR-NYSE-2011-48; SRNYSEAmex-2011-73; SR-NYSEArca-2011-68; SR-Phlx-2011-129) (“Pilot Rules Approval Order”).

<sup>6</sup> See Securities Exchange Act Release No. 67091 (May 31, 2012), 77 FR 33498 (June 6, 2012). The LULD Plan provides a mechanism to address extraordinary market volatility in individual securities.

<sup>7</sup> In October 2019, the Exchange restructured its Rulebook and relocated previous Rule 6.3B, governing the MWCB mechanism, to current Rule 5.22. No substantive changes were made to the rule. See Securities Exchange Act Release No. 87224 (October 4, 2019), 84 FR 54652 (October 10, 2019) (SR-CBOE-2019-081).

<sup>8</sup> See Securities Exchange Act Release Nos. 65438 (September 28, 2011), 76 FR 61447 (October 4, 2011) (SR-CBOE-2011-087) (amending Rule 5.22, prior Rule 6.3B, for determining when to halt trading in all stocks and stock options due to extraordinary market volatility); 68770 (January 30, 2013), 78 FR 8211 (February 5, 2013) (SR-CBOE-2013-011) (amending Rule 5.22, prior Rule 6.3B, to delay the operative date of the pilot to coincide with the initial date of operations of the Plan); and 85616 (April 11, 2019), 84 FR 16093 (April 17, 2019) (SR-CBOE-2019-020) (proposal to extend the pilot for certain options pilots, including Rule 5.22, prior Rule 6.3B).

<sup>9</sup> See Securities Exchange Act Release No. 85623 (April 11, 2019), 84 FR 16086 (April 17, 2019) (Order Approving Amendment No. 18).

make the LULD Plan permanent, the Exchange amended Rule 5.22 to untie the pilot's effectiveness from that of the LULD Plan and to extend the pilot's effectiveness to the close of business on October 18, 2019.<sup>10</sup> The Exchange subsequently amended Rule 5.22 to extend the pilot to the close of business on October 18, 2020<sup>11</sup>, October 18, 2021,<sup>12</sup> and March 18, 2022.<sup>13</sup> The Exchange now proposes to amend Rule 5.22 to extend the pilot to the close of business on April 18, 2022. This filing does not propose any substantive or additional changes to Rule 5.22.

As stated above, because all U.S. equity exchanges and FINRA adopted uniform Pilot Rules relating to market-wide circuit breakers in 2012, the Exchange, too, adopted a MWCB mechanism on a pilot basis pursuant to Rule 5.22. Pursuant to Rule 5.22, a market-wide trading halt will be triggered if the S&P 500 Index declines in price by specified percentages from the prior day's closing price of that index. Currently, the triggers are set at three circuit breaker thresholds: 7% (Level 1), 13% (Level 2), and 20% (Level 3). A market decline that triggers a Level 1 or Level 2 halt after 9:30 a.m. ET and before 3:25 p.m. ET would halt market-wide trading for 15 minutes, while a similar market decline at or after 3:25 p.m. ET would not halt market-wide trading. A market decline that triggers a Level 3 halt, at any time during the trading day, would halt market-wide trading for the remainder of the trading day.

#### The MWCB Task Force and the March 2020 MWCB Events

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<sup>10</sup> See Securities Exchange Act Release No. 85616 (April 11, 2019), 84 FR 16093 (April 17, 2019) (SR-CBOE-2019-020) (proposal to extend the pilot for certain options pilots, including Rule 5.22, prior Rule 6.3B).

<sup>11</sup> See Securities Exchange Act Release No. 87341 (October 18, 2019), 84 FR 57081 (October 24, 2019) (SR-CBOE-2020-100).

<sup>12</sup> See Securities Exchange Act Release No. 90165 (October 13, 2020), 85 FR 66391 (October 19, 2020) (SR-CBOE-2020-098).

<sup>13</sup> See Securities Exchange Act Release No. 93372 (October 18, 2021), 86 FR 58709 (October 22, 2021) (SR-CBOE-2021-060).

In late 2019, Commission staff requested the formation of a MWCB Task Force (“Task Force”) to evaluate the operation and design of the MWCB mechanism. The Task Force included representatives from the SROs, the Commission, CME, the Commodity Futures Trading Commission (“CFTC”), and the securities industry and conducted several organizational meetings in December 2019 and January 2020. In Spring 2020, the MWCB mechanism proved itself to be an effective tool for protecting markets through turbulent times. In March 2020, at the outset of the worldwide COVID-19 pandemic, U.S. equities markets experienced four MWCB Level 1 halts, on March 9, 12, 16, and 18, 2020. In each instance, the markets halted as intended upon a 7% drop in the S&P 500 Index, and resumed as intended 15 minutes later.

In response to these events, in the Spring and Summer of 2020, the Task Force held ten meetings that were attended by Commission staff, with the goal of performing an expedited review of the March 2020 halts and identifying any areas where the MWCB mechanism had not worked properly. Given the risk of unintended consequences, the Task Force did not recommend changes that were not rooted in a noted deficiency. The Task Force recommended creating a process for a backup reference price in the event that SPX were to become unavailable, and enhancing functional MWCB testing. The Task Force also asked CME to consider modifying its rules to enter into a limit-down state in the futures pre-market after a 7% decline instead of 5%. CME made the requested change, which became effective on October 12, 2020.<sup>14</sup>

#### The MWCB Working Group’s Study

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<sup>14</sup> See [https://www.cmegroup.com/content/dam/cmegroup/market-regulation/rulefilings/2020/9/20-392\\_1.pdf](https://www.cmegroup.com/content/dam/cmegroup/market-regulation/rulefilings/2020/9/20-392_1.pdf); [https://www.cmegroup.com/content/dam/cmegroup/marketregulation/rulefilings/2020/9/20-392\\_2.pdf](https://www.cmegroup.com/content/dam/cmegroup/marketregulation/rulefilings/2020/9/20-392_2.pdf).

On September 17, 2020, the Director of the Commission’s Division of Trading and Markets asked the SROs to conduct a more complete study of the design and operation of the Pilot Rules and the LULD Plan during the period of volatility in the Spring of 2020. In response to the request, the SROs created a MWCB “Working Group” composed of SRO representatives and industry advisers that included members of the advisory committees to both the LULD Plan and the NMS Plans governing the collection, consolidation, and dissemination of last-sale transaction reports and quotations in NMS Stocks. The Working Group met regularly from September 2020 through March 2021 to consider the Commission’s request, review data, and compile its study. The Working Group’s efforts in this respect incorporated and built on the work of an MWCB Task Force. The Working Group submitted its study to the Commission on March 31, 2021 (the “Study”).<sup>15</sup> In addition to a timeline of the MWCB events in March 2020, the Study includes a summary of the analysis and recommendations of the MWCB Task Force; an evaluation of the operation of the Pilot Rules during the March 2020 events; an evaluation of the design of the current MWCB system; and the Working Group’s conclusions and recommendations.

In the Study, the Working Group concluded: (1) the MWCB mechanism set out in the Pilot Rules worked as intended during the March 2020 events; (2) the MWCB halts triggered in March 2020 appear to have had the intended effect of calming volatility in the market, without causing harm; (3) the design of the MWCB mechanism with respect to reference value (SPX), trigger levels (7% / 13% / 20%), and halt times (15 minutes) is appropriate; (4) the change implemented in Amendment 10 to the Plan to Address Extraordinary Market Volatility (the “Limit Up/Limit Down

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<sup>15</sup> See Report of the Market-Wide Circuit Breaker (“MWCB”) Working Group Regarding the March 2020 MWCB Events, submitted March 31, 2021 (the “Study”), available at [https://www.nyse.com/publicdocs/nyse/markets/nyse/Report\\_of\\_the\\_MarketWide\\_Circuit\\_Breaker\\_Working\\_Group.pdf](https://www.nyse.com/publicdocs/nyse/markets/nyse/Report_of_the_MarketWide_Circuit_Breaker_Working_Group.pdf).

Plan” or “LULD Plan”) did not likely have any negative impact on MWCB functionality; and (5) no changes should be made to the mechanism to prevent the market from halting shortly after the opening of regular trading hours at 9:30 a.m. In light of the foregoing conclusions, the Working Group also made several recommendations, including that the Pilot Rules should be permanent without any changes.<sup>16</sup>

Proposal to Extend the Operation of the Pilot Rules Pending the Commission’s Consideration of the New York Stock Exchange LLC’s Filing to Make the Pilot Rules Permanent

On July 16, 2021, an SRO member of the Working Group, the New York Stock Exchange (“NYSE”), proposed a rule change to make the Pilot Rules permanent, consistent with the Working Group’s recommendations.<sup>17</sup> On August 27, 2021, the Commission extended its time to consider the proposed rule change to October 20, 2021.<sup>18</sup> On September 30, 2021, the Commission initiated proceedings to determine whether to approve or disapprove the proposed rule change.<sup>19</sup> On January 7, 2022, the Commission extended its time to approve or disapprove the proposed rule change by an additional 60 days, to March 19, 2022.<sup>20</sup> The Exchange understands that upon approval of this proposal, the other national securities exchanges and FINRA, including the Exchange, will also submit substantively identical proposals to the Commission. The Exchange

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<sup>16</sup> See *id.* at 46

<sup>17</sup> See Securities Exchange Act Release No. 92428 (July 16, 2021), 86 FR 38776 (July 22, 2021) (SR-NYSE-2021-40) (the “NYSE Proposal”).

<sup>18</sup> See Securities Exchange Act Release No. 92785A (August 27, 2021), 86 FR 50202 (September 7, 2021) (SR-NYSE-2021-40).

<sup>19</sup> See Securities Exchange Act Release No. 93212 (September 30, 2021), 86 FR 55066 (October 5, 2021) (SR-NYSE-2021-40).

<sup>20</sup> See Securities Exchange Act Release No. 93933 (January 7, 2022), 87 FR 2189 (January 13, 2022) (SR-NYSE-2021-40).

now proposes to extend the expiration date of the Pilot Rules to the end of business on April 18, 2022.

## 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>21</sup> Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>22</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>23</sup> requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The MWCB mechanism under Rule 5.22 is an important, automatic mechanism that is invoked to promote stability and investor confidence during a period of significant stress when securities markets experience extreme broad-based declines. Extending the market-wide circuit breaker pilot for an additional month would ensure the continued, uninterrupted operation of a

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<sup>21</sup> 15 U.S.C. 78f(b).

<sup>22</sup> 15 U.S.C. 78f(b)(5).

<sup>23</sup> Id.



consistent mechanism to halt trading across the U.S. markets while the Commission reviews the NYSE Proposal change to make the Pilot Rules permanent.

The Exchange also believes that the proposed rule change promotes just and equitable principles of trade in that it promotes transparency and uniformity across markets concerning when and how to halt trading in all stocks as a result of extraordinary market volatility. Based on the foregoing, the Exchange believes the benefits to market participants from the MWCB under Rule 5.22 should continue on a pilot basis because the MWCB will promote fair and orderly markets and protect investors and the public interest.

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 not necessary or appropriate in furtherance of the purposes of the Act because the proposal would ensure the continued, uninterrupted operation of a consistent mechanism to halt trading across the U.S. markets while the Commission reviews the proposed rule change to make the Pilot Rules permanent.

Further, the Exchange understands that FINRA and other national securities exchanges will file proposals to extend their rules regarding the market-wide circuit breaker pilot. Thus, the proposed rule change will help to ensure consistency across market centers without implicating any competitive issues.

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:

- 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 Act<sup>24</sup> and Rule 19b-4(f)(6)<sup>25</sup> thereunder.

A proposed rule change filed under Rule 19b-4(f)(6)<sup>26</sup> normally does not become operative prior to 30 days after the date of the filing. However, pursuant to Rule 19b-4(f)(6)(iii),<sup>27</sup> the Commission may designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange asked that the Commission waive the 30 day operative delay so that the proposal may become operative immediately upon filing. Extending the Pilot Rules' effectiveness to the close of business on April 18, 2022 will extend the protections provided by the Pilot Rules, which would otherwise expire in less than 30 days. Waiver of the operative delay would therefore permit uninterrupted continuation of the MWCB pilot while the Commission reviews the NYSE's proposed rule change to make the Pilot Rules permanent. Therefore, the Commission hereby waives the 30-day operative delay and designates the proposed rule change as operative upon filing.<sup>28</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

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<sup>24</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>25</sup> 17 CFR 240.19b-4(f)(6).

<sup>26</sup> 17 CFR 240.19b-4(f)(6).

<sup>27</sup> 17 CFR 240.19b-4(f)(6)(iii).

<sup>28</sup> For purposes only of waiving the 30-day operative delay, the Commission has also considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

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-2022-013 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-2022-013. 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-2022-013 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>29</sup>

J. Matthew DeLesDernier  
Assistant Secretary

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<sup>29</sup> 17 CFR 200.30-3(a)(12).