

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-85592; File No. SR-CBOE-2019-019)

April 10, 2019

Self-Regulatory Organizations; Cboe Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to Amend the Select Customer Options Reduction Program

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 29, 2019, 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 the Select Customer Options Reduction program. 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

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

<sup>2</sup> 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 the Select Customer Options Reduction program (“SCORE”) to (i) eliminate the use of product multipliers and (ii) increase certain discounts.<sup>3</sup> By way of background, SCORE is a discount program for Retail<sup>4</sup>, Non-FLEX Customer (“C” origin code) volume in the following options classes: SPX (including SPXW), VIX, RUT, MXEA, MXEF & XSP (“Qualifying Classes”). The SCORE program is available to any Trading Permit Holder (“TPH”) Originating Clearing Firm or non-TPH Originating Clearing Firm that sign up for the program.<sup>5</sup> The SCORE program currently utilizes two measures for participation and discounts: 1) the Qualifying Tiers, which determine whether a firm qualifies for the discounts in either Tier A or Tier B and 2) the Discount Tiers, which determine the Originating Firm’s applicable discount tiers and corresponding discounts.

To determine an Originating Firm’s Qualifying Tier, the Originating Firm’s total Retail volume in the Qualifying Classes will be divided by the Originating Firm’s total Customer

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<sup>3</sup> The proposed SCORE amendments will be effective April 1, 2019.

<sup>4</sup> For purposes of the program “Retail” orders will be defined as Customer orders for which the original order size (in the case of a simple order) or largest leg size (in the case of a complex order) is 100 contracts or less.

<sup>5</sup> For this program, an “Originating Clearing Firm” is defined as either (a) the executing clearing Options Clearing Corporation (“OCC”) number on any transaction which does not also include a Clearing Member Trading Agreement (“CMTA”) OCC clearing number or (b) the CMTA in the case of any transaction which does include a CMTA OCC clearing number.

volume, Retail and non-Retail, in the Qualifying Classes. If an Originating Firm's Retail volume is between 20.00% and 69.99%, the Originating Firm will qualify for Tier B discounts. If an Originating Firm's Retail volume is at or above 70.00%, the Originating Firm will qualify for Tier A discounts. The Qualifying Tier that is applied in a given month is based on an Originating Firm's Retail volume in the prior month (e.g., an Originating Firm's volume in March determines which Qualifying Tier applies in April).<sup>6</sup>

For the Discount Tier, an Originating Firm's Retail volume in the Qualifying Classes is divided by total Retail volume in the Qualifying Classes executed on the Exchange. Additionally, SCORE employs the use of "product multipliers" for the Discount Tier only. Multipliers are applied to MXEF, MXEA, RUT and XSP volume only. Specifically, Retail volume in these products are currently multiplied by the values set forth in the Fees Schedule so that any volume executed by an Originating Firm in these classes will be increased for purposes of the Discount Tier calculation, but not for purposes of calculating the Qualifying Tiers. Additionally, discounts are applied to executed volume only, not on multiplied volume. The Exchange no longer wishes to maintain multipliers in the SCORE program. As such, the Exchange proposes to amend the Fees Schedule to eliminate the multipliers for MXEF, MXEA, RUT and XSP.

The Exchange next proposes to increase the discounts in Qualifying Tiers A3-A1. Specifically, the Exchange proposes to increase Tier A3 from \$0.15 per contract to \$0.17 per contract; increase Tier A2 from \$0.19 per contract to \$0.21 per contract; and Tier A1 from \$0.23

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<sup>6</sup> For example, in March, if an Originating Firm executes a total of 1,000,000 Customer (C) contracts in the Qualifying Classes, of which 600,000 contracts qualify as Retail volume, the Originating Firm would have a retail percentage of 60% and qualifies for the B Tier discounts to be applied to the Originating Firm's qualifying Retail Customer volume in April.

per contract to \$0.25 per contract. The Exchange notes the proposed discount increases are designed to attract a greater number of customer orders in the Qualifying Classes. This increased volume creates greater trading opportunities that benefit all market participants by providing more trading opportunities and tighter spreads. The Exchange also believes the proposed changes continue to provide an incremental incentive for Originating Firms to strive for the highest tier level, which provides increasingly higher discounts.

## 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>7</sup> Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>8</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 Section 6(b)(4) of the Act,<sup>9</sup> 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.

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<sup>7</sup> 15 U.S.C. 78f(b).

<sup>8</sup> 15 U.S.C. 78f(b)(5).

<sup>9</sup> 15 U.S.C. 78f(b)(4).

First, the Exchange believes the proposal to eliminate the availability of product multipliers is reasonable because it no longer wishes to offer this additional incentive for order flow in the multiplier classes and it is not required to do so. The Exchange also notes that such multipliers were only used for purposes of the Discount Tier calculation. The Exchange believes the proposed changes to Tiers A3-A1 are reasonable because it provides higher discounts for satisfying the qualifying thresholds. Further, the Exchange believes the proposed discounts are commensurate with the corresponding qualifying thresholds. As noted above, the Exchange believes SCORE continues to provide an incremental incentive for Originating Firms to strive for the highest tier level, which provides increasingly higher discounts. The proposed increased discounts are designed to encourage increased Retail volume in the Qualifying Classes, which provides increased volume and greater trading opportunities for all market participants. The Exchange believes the proposed change is equitable and not unfairly discriminatory because the qualifying volume thresholds apply to all registered Originating Firms uniformly.

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 because the proposed changes apply to all registered Originating Firms uniformly. The Exchange believes that the proposed rule change will not cause an unnecessary burden on intermarket competition because the Qualifying Classes are products that only trade on Cboe Options. To the extent that the proposed changes make the Exchange 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 Act<sup>10</sup> and paragraph (f) of Rule 19b-4<sup>11</sup> 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
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-CBOE-2019-019 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.

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<sup>10</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>11</sup> 17 CFR 240.19b-4(f).

All submissions should refer to File Number SR-CBOE-2019-019. 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 such 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-2019-019, 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>12</sup>

Eduardo A. Aleman  
Deputy Secretary

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