

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-98216; File No. SR-CBOE-2023-041)

August 24, 2023

Self-Regulatory Organizations; Cboe Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend its Rules in Connection with the Number of Legs of a Complex Order that may be Entered on a Single Order Ticket at the Time of Systemization

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on August 17, 2023, 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 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 amend its Rules in connection with the number of legs of a complex order that may be entered on a single order ticket at the time of systemization. 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.

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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).

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 amend its Rules in connection with the number of legs of a complex order that may be entered on a single order ticket at the time of systemization, for certain complex order types.

Specifically, Rule 5.7(f) currently provides that each order, cancellation of, or change to an order transmitted to the Exchange must be "systematized" in a format approved by the Exchange, either before it is sent to the Exchange or upon receipt on the Exchange's trading floor. An order is systematized if (1) the order is sent electronically to the Exchange or (2) the order that is sent to the Exchange non-electronically (e.g., telephone orders) is input electronically into the Exchange's systems contemporaneously upon receipt on the Exchange, and prior to representation of the order. Any proprietary system approved by the Exchange on the Exchange's trading floor that receives orders is considered an Exchange system for purposes of this Rule.<sup>5</sup> Regarding the systemization of complex orders, Rule 5.7(f)(4) particularly provides that complex orders of 16 legs or less (one leg of which may be for an underlying security or security future, as applicable) must be entered on a single

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<sup>5</sup> See Rule 5.7.03.

order ticket at time of systemization. If permitted by the Exchange, complex orders of more than 16 legs (one leg of which may be for an underlying security or security future, as applicable) may be split across multiple order tickets, if the Trading Permit Holder representing the complex order uses the fewest order tickets necessary to systematize the order and identifies for the Exchange the order tickets that are part of the same complex order (in a form and manner prescribed by the Exchange).

The Exchange notes that it adopted the 16-leg maximum per order ticket in 2021 as a result of Exchange system limitations.<sup>6</sup> At that time, the Exchange could only support the processing of up to 16 legs on a single order ticket for representation and execution in open outcry as a complex order. Prior to that, in 2015, the Exchange had adopted a 12-leg maximum per order ticket.<sup>7</sup> The Exchange understands from Trading Permit Holders (“TPHs”) that some orders they receive do have more than 16 legs, and many order entry and execution systems Floor Broker TPHs use on the trading floor, including Silexx<sup>8</sup>, can support up to 100 legs. If a Floor Broker TPH receives a complex order for more than 16 legs for execution on the trading floor, it currently must break up the order into multiple tickets in accordance with Rule 5.7(f)(4). The Exchange has enhanced its System to be able to support a greater number of legs per order ticket on the trading floor. As such, the Exchange proposes to amend Rule 5.7(f)(4) to increase the 16 leg maximum per single order ticket to a maximum of 100

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<sup>6</sup> See Securities Exchange Act Release No. 34-92116 (June 7, 2021), 86 FR 31361 (June 11, 2021) (SR-CBOE-2021-036), which implemented the 16 leg per order requirement in current Rule 5.7(f)(4).

<sup>7</sup> See Securities Exchange Act Release No. 74169 (January 29, 2015), 80 FR 6145 (February 4, 2015) (SR-CBOE-2015-011), which implemented the previous 12 leg per order requirement.

<sup>8</sup> Each Floor Broker TPH has a Silexx workstation, which can be used to systematize orders. Therefore, each Floor Broker TPH will be able to immediately comply with the proposed rule change. The Silexx platform consists of a “front-end” order entry and management trading platform (also referred to as the “Silexx terminal”) for listed stocks and options that supports both simple and complex orders, and a “back-end” platform which provides a connection to the infrastructure network. From the Silexx platform (i.e., the collective front-end and back-end platform), a Silexx user has the capability to, among other things, send option orders to U.S. options exchanges and send stock orders to U.S. stock exchanges (and other trading centers). The Silexx platform is designed so that a user may enter orders into the platform to send to an executing broker (including TPHs) of its choice with connectivity to the platform, which broker will then send the orders to Cboe Options (if the broker is a TPH) or other U.S. exchanges (and trading centers) in accordance with the user’s instructions.

legs per single order ticket at time of systemization, except for those complex orders designated as Electronic Only, which will continue to be subject to the current 16 leg limitation.<sup>9</sup>

Pursuant to proposed Rule 5.7(f)(4), complex orders of 100 legs or less (one leg of which may be for an underlying security or security future, as applicable), except for those complex orders designated as Electronic Only, must be entered on a single order ticket at time of systemization and orders of more than 100 legs may be split across multiple order tickets.<sup>10</sup> The TPH representing the complex order must continue to use the fewest order tickets necessary to systematize the order and to identify for the Exchange the order tickets that are part of the same complex order.<sup>11</sup>

Due to Exchange system limitations that may prevent a complex order with more than a certain number of legs from being entered on a single order ticket for representation and execution in open outcry, inefficiencies exist in the processing and tracking of such orders, as they currently must

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<sup>9</sup> See proposed Rule 5.7(f)(4).

<sup>10</sup> To the extent a TPH wants to represent and execute a complex order (including SPX Combo Orders) in open outcry, the order must be entered (i.e. systematized) on a single order ticket and cannot, as proposed, exceed 100 legs or, if for more than 100 legs, entered on fewest order tickets necessary (linked in a form and manner prescribed by the Exchange). As similarly noted in the 2021 filing that implemented the 16 leg per order requirement currently reflected in Rule 5.7(f)(4), TPHs will not be required to make changes to their own or third-party vendor's order entry and execution systems. The Exchange is aware that each Floor Broker TPH currently has a Silexx terminal, which supports up to 100 legs on a single order ticket for purposes of systemization. The Exchange notes that Floor Broker TPHs may voluntarily choose to use other order entry and execution systems for systematization, some of which the Exchange understands already support systemization of up to 100 legs on a single order ticket. If the TPH intends to represent and execute complex orders with more than 16 legs (i.e., complex orders with 17 to 100 legs) on another order entry and execution system that cannot presently support up to 100 legs, then the TPH will need to enhance its existing system or utilize another order entry and execution system that supports the open outcry processing of such orders on a single order ticket. See also supra note 6. However, because all Floor Broker TPHs currently have Silexx terminals (in addition to potentially third-party terminals) on which they can systematize orders they receive via phone, IM or a system that supports fewer legs, all Floor Broker TPHs have immediate access to an order entry and execution system on the trading floor to systematize up to 100 legs on a single ticket for representation on the trading floor in compliance with the proposed rule change, making significant advanced notice of the proposed rule change unnecessary.

<sup>11</sup> The Exchange proposes to make a corresponding change to paragraph (3) under the definition of SPX Combo Order in Rule 5.6(c), which currently reflects the same 16 leg maximum per single order ticket at time of systemization, to increase the permissible number of legs on the same order ticket to 100. An "SPX Combo Order" is an order to purchase or sell one or more SPX option series and the offsetting number of SPX combinations defined by the delta. See Rule 5.6(c).

be entered on multiple tickets. The single order ticket leg increase to 100 legs for floor orders is intended to provide consistency in processing and enhance the Exchange's audit trail by reducing the number of tickets required for larger complex orders. Notwithstanding the necessity of order ticket leg maximums given Exchange system limitations, the Exchange notes that splitting an order across multiple order tickets takes additional time, can leave room for error, and requires additional TPH and Exchange regulatory surveillance administrative resources, as a TPH must identify for the Exchange the order tickets that are part of the same complex order (in a form and manner prescribed by the Exchange). The Exchange notes that complex orders with more than 16 legs may be sent to Floor Brokers on the Exchange's trading floor non-electronically (e.g., via telephone or instant message) or electronically through order entry and routing systems that may support fewer than 16 legs (some as few as 4 legs) on a single order ticket. As the proposed rule change only applies to the systemization of orders prior to representation of the order on the trading floor, the Floor Broker (which is a TPH) will be required to enter these multi-legged orders on a single order ticket. As noted above, each Floor Broker TPH has a Silexx workstation, which already supports up to 100 legs on a single ticket, thus permitting each Floor Broker TPH to immediately comply with the proposed rule change.<sup>12</sup> Therefore, only alternative systems Floor Brokers may use on the Exchange's trading floor for systemization would need to be updated to allow for the input of orders with up to 100 legs on a single order ticket (if they are not already capable of allowing up to 100 legs on a single order ticket). The proposed rule change is designed to reduce the number of complex orders that TPHs need to break up into multiple order tickets, and ultimately allows TPHs to more effectively and efficiently systematize complex orders for execution in open outcry, and improves regulatory

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<sup>12</sup> See supra note 8.

surveillance and tracking of such orders. Complex orders that are submitted for electronic processing will continue to be subject to the current 16 legs requirement.

## 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>13</sup> Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>14</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>15</sup> requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

In particular, the Exchange believes the proposed rule change will allow TPHs to submit order tickets for their open outcry complex orders (including SPX Combo Orders) in a manner that is more compatible with the processing capacity that the Exchange and available order entry systems are able to support, thus reducing the number of complex orders that need to be broken up into multiple order tickets. By allowing TPHs to more effectively and efficiently systematize

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<sup>13</sup> 15 U.S.C. 78f(b).

<sup>14</sup> 15 U.S.C. 78f(b)(5).

<sup>15</sup> Id.

complex orders with a large amount of legs for execution in open outcry within the processing capacity limits of the order entry systems they use, the Exchange believes the proposed rule change removes impediments to and perfects the mechanism of a free and open market and national market system. The Exchange notes that the proposed rule change does not impact the current manner in which TPHs may represent a complex order in open outcry, nor does it impact the permissible ratios of complex orders. Further, those complex orders designated as Electronic Only will continue to be subject to the current 16 legs requirement.<sup>16</sup> The proposed rule change merely increases the leg limit per single order ticket for non-Electronic Only complex orders, which may increase trading efficiencies for TPHs by allowing TPHs to reduce the number of order tickets submitted for their larger complex orders,<sup>17</sup> while continuing to provide consistency in processing and further enhancing the Exchange's audit trail (as fewer orders will require multiple tickets). This, in turn, serves to protect investors by promoting transparency, assisting in surveillance, and providing the Exchange the ability to better enforce compliance by its TPHs with the Act and the Exchange Rules.

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 does not believe that the proposed rule change will impose any burden on intramarket competition that is not necessary or appropriate in furtherance of the purposes of the Act because a maximum number of legs per single order ticket will continue to apply equally to

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<sup>16</sup> As set forth in Rule 5.33(g), the Exchange's System may only electronically execute complex orders with up to 16 legs, and firms interested in electronic processing of their orders are not impacted by this change.

<sup>17</sup> See also supra note 9. [sic]

all market participants that systematize complex orders (including SPX Combo Orders) for execution in open outcry. 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 the proposed rule change is not competitive in nature nor does it relate to trading on the Exchange. Rather, it relates solely to the manner in which market participants systematize complex orders for trading on the Exchange's trading floor.

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>18</sup> and Rule 19b-4(f)(6) thereunder.<sup>19</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 will institute proceedings to determine whether the proposed rule change should be approved or disapproved.

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<sup>18</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>19</sup> 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.

#### 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 email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include file number SR-CBOE-2023-041 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-2023-041. This file number should be included on the subject line if email 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 a.m. and 3 p.m. Copies of the filing also will be available for inspection and copying at the principal office

of the Exchange. Do not include personal identifiable information in submissions; you should submit only information that you wish to make available publicly. We may redact in part or withhold entirely from publication submitted material that is obscene or subject to copyright protection. All submissions should refer to file number SR-CBOE-2023-041 and should be submitted on or before [INSERT DATE 21 DAYS AFTER DATE OF PUBLICATION IN THE *FEDERAL REGISTER*].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>20</sup>

**Sherry R. Haywood,**  
*Assistant Secretary.*

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<sup>20</sup> 17 CFR 200.30-3(a)(12).