

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-100308; File No. SR-CboeBZX-2024-043)

June 10, 2024

Self-Regulatory Organizations; Cboe BZX Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend Interpretation and Policy .03 to Rule 11.13 to Provide an Additional, Optional Risk Setting to Members and Clearing Members

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 May 29, 2024, Cboe BZX Exchange, Inc. (the “Exchange” or “BZX”) 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 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 BZX Exchange, Inc. (the “Exchange” or “BZX”) proposes to amend Interpretation and Policy .03 to Rule 11.13 to provide an additional, optional risk setting to Members and Clearing Members. 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://markets.cboe.com/us/equities/regulation/rule\\_filings/bzx/](http://markets.cboe.com/us/equities/regulation/rule_filings/bzx/)), 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 purpose of the proposed rule change is to provide Members<sup>5</sup> and Clearing Members<sup>6</sup> the option to utilize additional risk settings under proposed Interpretation and Policy .03 of Rule 11.13. Based on feedback from its Members, the Exchange proposes to offer additional, optional risk settings at the Market Participant Identifier (“MPID”) level and/or to a subset of orders identified within the MPID level (the “risk group identifier” level) that would authorize the Exchange to take automated action if a designated limit for a Member is breached. Such risk settings would provide Members and Clearing Members with enhanced abilities to manage their risk with respect to orders on the Exchange.<sup>7</sup> Proposed paragraphs (a)(3) and (4) of Interpretation and Policy .03 of Rule 11.13

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<sup>5</sup> See Rule 1.5(n). A “Member” shall mean any Member or Sponsored Participant who is authorized to obtain access to the System pursuant to Rule 11.3.

<sup>6</sup> See Rule 11.15(a). The term “Clearing Member” refers to a Member that is a member of a Qualified Clearing Agency and clears transactions on behalf of another Member.

<sup>7</sup> Similarly, a Sponsoring Member may utilize the check to manage the risk of its Sponsored Participants. A Sponsoring Member shall mean a broker-dealer that has been issued a membership by the Exchange who has been designated by a Sponsored Participant to execute, clear and settle transactions resulting from the System. The Sponsoring Member shall be either (i) a clearing firm with membership in a clearing agency registered with the Commission that maintains facilities through which transactions may be cleared or (ii) a correspondent firm with a clearing arrangement with any such clearing firm. See Rule 1.5(y). A Sponsored Participant shall mean a person which has entered into a sponsorship arrangement with a Sponsoring Member pursuant to Rule 11.3. Such sponsored relationships generally include where a broker-dealer allows its customer to use the broker-dealer’s MPID or other mechanism or mnemonic to enter orders into

set forth the specific risk settings the Exchange proposes to offer. The current risk settings noted in paragraphs (a)(1) – (2) of Interpretation and Policy .03 of Rule 11.13 will continue to be available to Members and Clearing Members. Specifically, the Exchange proposes to offer two aggregate credit risk settings (the “Aggregate Credit Risk Checks”) as follows:

- The “Aggregate Gross Credit Exposure Limit”, which refers to a pre-established maximum daily dollar amount for purchases and sales across all symbols, where both purchases and sales are counted as positive values. For purposes of calculating the Aggregate Gross Credit Exposure Limit, both executed and open orders are included; and
- The “Aggregate Net Credit Exposure Limit”, which refers to a pre-established maximum daily dollar amount for purchases and sales across all symbols, where purchases are counted as positive values and sales are counted as negative values. For purposes of calculating the Aggregate Net Credit Exposure Limit, both executed and open orders are included.

The proposed Aggregate Credit Risk Checks are nearly identical to credit risk settings monitoring both gross and net exposure provided for in paragraph (h) of Interpretation and Policy .01 of Rule 11.13, but with one notable difference. Importantly, the proposed Aggregate Credit Risk Checks would be applied at the MPID level and/or risk group identifier level, while the risk settings noted in paragraph (h) of Interpretation and Policy .01 are applied at the logical port level.<sup>8</sup> The

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the Exchange’s System that bypass the Sponsoring Member’s order handling system and are electronically routed directly to the Exchange by the Sponsored Participant, including through a service bureau or other third-party technology provider. See Rule 1.5(x). See also Securities Exchange Act Release No. 97146 (March 15, 2023), 88 FR 17065 (March 21, 2023), SR-CboeBZX-2023-015 (“BZX Sponsored Participant Definition Filing”) at 17066, footnote 12.

<sup>8</sup> A logical port represents a port established by the Exchange within the Exchange’s System for trading and billing purposes. Each logical port established is specific to a Member or non-Member and grants that Member or non-Member the ability to accomplish a specific function, such as order entry, order cancellation, or data receipt.

proposed Aggregate Credit Risk Checks are also nearly identical to the Gross Credit Risk Limit and Net Credit Risk Limit risk settings provided for in Interpretation and Policy .03(a)(1) – (2) of Rule 11.13, but with one notable difference. The proposed Aggregate Credit Risk Checks are both calculated using both executed and open orders, while the risk settings noted in paragraphs (a)(1) – (2) of Interpretation and Policy .03 are calculated using only executed orders. Therefore, the proposed risk management functionality would allow a Member or Clearing Member to manage its risk more comprehensively, instead of (i) relying on the more limited port level functionality offered today under Interpretation and Policy .01(h) and (ii) being subject to limits only calculated at notional execution value under paragraphs (a)(1) – (2) of Interpretation and Policy .03. Stated differently, the calculation of the proposed Aggregate Credit Risk Checks will not differ from the current aggregate credit risk settings offered under paragraph (h) of Interpretation and Policy .01 of Rule 11.13; however, the ability to implement aggregate credit risk limits at the MPID and/or risk group identifier levels will permit Members and Clearing Members to set credit risk limits at a more granular level. The Exchange also notes that the New York Stock Exchange LLC (“NYSE”) and MIAX Pearl equities exchange (“MIAX Pearl”) both offer risk settings substantially similar to the Aggregate Credit Risk Checks proposed by the Exchange.<sup>9</sup>

In addition to the proposed Aggregate Credit Risk Checks, the Exchange proposes to amend paragraph (e) of Interpretation and Policy .03 to provide for an additional manner in which the Exchange may respond in the event that a risk setting is breached. Currently, the Exchange is authorized to automatically block new orders submitted and cancel all open orders in the event that

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<sup>9</sup> See NYSE Rule 7.19(b)(1)(A); MIAX Pearl Equities Rule 2618(a)(2)(E) – (F). The Exchange notes that MIAX Pearl adopted Rule 2618(a)(2)(E) – (F) on February 13, 2023, but the functionality may not yet be operational. See Securities Exchange Act Release No. 96905 (February 13, 2023), 88 FR 10391 (February 17, 2023), SR-PEARL-2023-03 (“MIAX Risk Control Filing”).

a risk setting is breached.<sup>10</sup> As proposed, paragraph (e) of Interpretation and Policy .03 would permit Members and Clearing Members to authorize the Exchange to either: (i) block new orders submitted and cancel open orders (as is currently permitted) or (ii) block new orders submitted without cancelling open orders in the event that a risk setting is breached. The proposed change is intended to give Members and Clearing Members additional flexibility in how the Exchange responds to a breach of a risk setting pursuant to Interpretation and Policy .03(a).

By way of background, Exchange Rule 11.15(a) requires that all transactions passing through the facilities of the Exchange shall be cleared and settled through a Qualified Clearing Agency using a continuous net settlement system.<sup>11</sup> This requirement may be satisfied by direct participation, use of direct clearing services, or by entry into a corresponding clearing arrangement with another Member that clears through a Qualified Clearing Agency (i.e., a Clearing Member). If a Member clears transactions through another Member that is a Clearing Member, such Clearing Member shall affirm to the Exchange in writing, through letter of authorization, letter of guarantee or other agreement acceptable to the Exchange, its agreement to assume responsibility for clearing and settling any and all trades executed by the Member designating it as its clearing firm.<sup>12</sup> Thus, while not all Members are Clearing Members, all Members are required to either clear their own

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<sup>10</sup> See Rule 11.13, Interpretation and Policy .03(e). The Exchange notes that if a risk setting breach occurs after the applicable cut-off time for an Opening or Closing Auction, the auction orders will not be canceled by the Exchange as orders entered for participation in the Opening or Closing Auction cannot be canceled or modified after the applicable cut-off time. See Rules 11.23(b)(1)(B) and 11.23(c)(1)(B). Additionally, orders entered for participation in Cboe Market Close (“CMC”) will be matched for execution at the applicable cut-off time and cannot be canceled or modified after the cut-off time. See Rule 11.28(a) – (b). Therefore, if a risk setting is breached after the CMC cut-off time, the CMC orders will not be canceled by the Exchange.

<sup>11</sup> See Rule 1.5(u). The term “Qualified Clearing Agency” means a clearing agency registered with the Commission pursuant to Section 17A of the Act that is deemed qualified by the Exchange. The rules of any such clearing agency shall govern with the respect to the clearance and settlement of any transactions executed by the Member on the Exchange.

<sup>12</sup> A Member can designate one Clearing Member per MPID associated with the Member.

transactions or to have in place a relationship with a Clearing Member that has agreed to clear transactions on their behalf in order to conduct business on the Exchange. Therefore, the Clearing Member that guarantees the Member's transactions on the Exchange has a financial interest in the risk settings utilized within the System<sup>13</sup> by the Member. A Member that does not self-clear may allocate or revoke the responsibility of establishing and adjusting the risk settings identified in paragraph (a) to its Clearing Member via the risk management tool available on the web portal at any time.<sup>14</sup>

The Exchange proposes to make the risk setting available to its Members upon request and will not require Members to utilize the Aggregate Credit Risk Checks. The Exchange will not provide preferential treatment to Members utilizing the Aggregate Credit Risk Checks. However, the Exchange believes the Aggregate Credit Risk Checks will offer Members another option in efficient risk management of their access to the Exchange. For instance, the Aggregate Credit Risk Checks may assist some Members in mitigating the risk of executing and/or submitting orders to the Exchange that would violate the Members' stated risk tolerance. Additionally, the proposed functionality is designed to assist Members and Clearing Members in the management of, and risk control over, their credit risk.

Importantly, as is the case with the Exchange's existing risk settings, the Member, and not the Exchange, will have the full responsibility for ensuring that their orders comply with applicable securities rules, laws, and regulations. Furthermore, the Exchange does not believe that use of the Aggregate Credit Risk Checks can replace Member-managed risk management solutions, and use of

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<sup>13</sup> See Rule 1.5(aa). "System" is defined as "the electronic communications and trading facility designated by the Board through which securities orders of Members are consolidated for ranking, execution and, when applicable, routing away."

<sup>14</sup> See Rule 11.13, Interpretation and Policy .03(c). If a Member revokes the responsibility of establishing and adjusting the risk settings identified in paragraph (a), the settings applied by the Member would be applicable.

the Aggregate Credit Risk Checks does not automatically constitute compliance with Exchange rules. Pursuant to Rule 15c3-5 under the Act,<sup>15</sup> a broker-dealer with market access must perform appropriate due diligence to assure that controls are reasonably designed to be effective, and otherwise consistent with the rule.<sup>16</sup>

In conjunction with the proposed addition of the Aggregate Credit Risk Checks to Interpretation and Policy .03(a), the Exchange proposes to remove paragraph (h) from Interpretation and Policy .01 as the Exchange is not required to offer or maintain risk settings and the existing risk settings offered under paragraph (h) of Interpretation and Policy .01 will be redundant with the proposed addition of the Aggregate Credit Risk Checks. The Exchange notes that the current risk settings noted in paragraph (h) of Interpretation and Policy .01 will continue to be available for a limited period of time following the addition of the proposed Aggregate Credit Risk Checks under Interpretation and Policy .03 in order to provide Members and Clearing Members adequate opportunity to transition their risk settings. The Exchange will announce via Exchange Notice the date on which the risk setting offered under Interpretation and Policy .01(h) will no longer be available within 30 days of the implementation of the Aggregate Credit Risk Checks.

## 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>17</sup> Specifically, the

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<sup>15</sup> 17 CFR § 240.15c3-5.

<sup>16</sup> See Division of Trading and Markets, Responses to Frequently Asked Questions Concerning Risk Management Control for Brokers or Dealers with Market Access, *available at* <https://www.sec.gov/divisions/marketreg/faq-15c-5-risk-management-controls-bd.htm>

<sup>17</sup> 15 U.S.C. 78f(b).

Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>18</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>19</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 that the proposed Aggregate Credit Risk Checks and amendment to paragraph (e) of Interpretation and Policy .03 will remove impediments to and perfect the mechanism of a free and open market and a national market system because it provides Members and Clearing Members with additional functionality to manage their credit risk with respect to orders on the Exchange. In addition, the proposed Aggregate Credit Risk Checks are not novel as they are based on the Exchange's existing risk setting in Interpretation and Policy .01(h) of Rule 11.13. Additionally, the proposed Aggregate Credit Risk Checks are substantially similar to risk controls offered by both NYSE, which offers a Gross Credit Risk Limit,<sup>20</sup> and MIAX Pearl, which has adopted both Gross and Net Notional Open and Trade Value risk settings.<sup>21</sup> Therefore, Members and Clearing Members are already familiar with the types of protections the proposed Aggregate Credit Risk Checks will offer. As such, the

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<sup>18</sup> 15 U.S.C. 78f(b)(5).

<sup>19</sup> Id.

<sup>20</sup> Supra note 9.

<sup>21</sup> Id.

Exchange believes that the proposed risk settings would provide a means to address potentially market-impacting events, helping to ensure the proper functioning of the market.

In addition, the Exchange believes that the proposed Aggregate Credit Risk Checks and amendment to paragraph (e) of Interpretation and Policy .03 is designed to protect investors and the public interest because the proposed functionality is a form of risk mitigation that will aid Members and Clearing Members in minimizing their risk exposure and reduce the potential for disruptive, market-wide events. The Exchange understands that its Members and Clearing Members employ a number of different risk-based controls, including those required by Rule 15c3-5. The proposed Aggregate Credit Risk Checks will serve as an additional tool for Members and Clearing Members to assist them in identifying any risk exposure. The Exchange believes the proposed Aggregate Credit Risk Checks will assist Members and Clearing Members in managing their financial exposure, which, in turn, could enhance the integrity of trading on the securities markets and help to assure the stability of the financial system.

Finally, the Exchange believes the proposed rule change does not unfairly discriminate among the Exchange's Members because use of the proposed Aggregate Credit Risk Checks are optional and are not a prerequisite for participation on the Exchange. The proposed Aggregate Credit Risk Checks are completely voluntary and, as they relate solely to optional risk management functionality, no Member is required or under any regulatory obligation to utilize them. Additionally, the removal of the risk settings offered under Interpretation and Policy .01(h) does not unfairly discriminate as the change applies equally to all Members and Clearing Members (i.e., the risk setting will not be available for any Member or Clearing Member) and merely results in Members not being able to utilize the risk setting, which, as noted above, the Exchange is not required to offer or maintain. Further, the risk settings offered under

Interpretation and Policy .01(h) are unnecessary and redundant given the proposed Aggregate Credit Risk Checks, which permit Members and Clearing Members to set credit risk limits at a more granular level.

**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. To the contrary, the Exchange believes that the proposed rule change may have a positive effect on intermarket competition because it would allow the Exchange to offer risk management functionality that is comparable to functionality offered by other national securities exchanges.<sup>22</sup> Further, by providing Members and Clearing Members additional means to monitor and control risk, the proposed rule may increase confidence in the proper functioning of the markets and contribute to additional competition among trading venues and broker-dealers. Rather than impede competition, the proposal is designed to facilitate more robust risk management by Members and Clearing Members, which, in turn, could enhance the integrity of trading on the securities markets and help to assure the stability of the financial system. The proposal to remove the risk setting offered under Interpretation and Policy .01(h) similarly will not impose any burden on competition because the changes apply to all Members and Clearing Members uniformly, as in the risk setting will no longer be available to any Member or Clearing Member.

**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:

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<sup>22</sup> Supra note 9.

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>23</sup> and Rule 19b-4(f)(6)<sup>24</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 (<https://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-CboeBZX-2024-043 on the subject line.

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<sup>23</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>24</sup> 17 CFR 240.19b-4(f)(6).

**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-CboeBZX-2024-043. 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 (<https://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-CboeBZX-2024-043 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>25</sup>

**Sherry R. Haywood,**

*Assistant Secretary.*

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<sup>25</sup> 17 CFR 200.30-3(a)(12).