Item 1. **Text of the Proposed Rule Change**

(a) Cboe EDGX Exchange, Inc. (the "Exchange" or "EDGX") proposes to amend Rule 21.8 (Order Display and Book Processing) to change how the System rounds fractional fills resulting from the Preferred Market-Makers ("PMMs") participation entitlement percentage structure for orders of more than one contract, and amend the rules so that a PMM will receive, at the very least, one contract under the participation entitlement, if the PMM has a priority quote at the NBBO (i.e., highest bid or lowest offer). The text of the proposed rule change is provided in Exhibit 5.

(b) Not applicable.

(c) Not applicable.

Item 2. **Procedures of the Self-Regulatory Organization**

(a) The Exchange's President (or designee) pursuant to delegated authority approved the proposed rule change on November 27, 2024. The Exchange will announce via Exchange Notice the implementation date of the proposed rule change no later than 60 days after the operative date of this rule filing.

(b) Please refer questions and comments on the proposed rule change to Pat Sexton, Executive Vice President, General Counsel, and Corporate Secretary, (312) 786-7467, or Sarah Williams, (224) 461-6793, Cboe EDGX Exchange, Inc., 433 West Van Buren Street, Chicago, Illinois 60607.

Item 3. **Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change**

(a) Purpose

The Exchange proposes to amend its rules related to the PMM participation entitlement. Rule 21.8(d) states that, in connection with the pro-rata allocation methodology set forth in Rule 21.8, the Exchange may apply, on a class-by-class basis, one or more of the apply one or more of the Priority Customer, PMM, and Designated Primary Market-Maker ("DPM") participation entitlements (in any sequence) to a class. Further, Rule 21.8(f)(1) states that, if the PMM, as applicable, has a priority quote at the NBBO, its participation entitlement is equal to the greater of (i) the proportion of the total size at the best price represented by the size of its quote, or (ii) sixty percent (60%) of the contracts to be allocated if there is only one (1) other Market-Maker quotation or non-Customer order at the NBBO and forty percent (40%) if there are two (2) or more other Market-Maker quotes and/or non-Customer orders at the NBBO.

The Exchange now proposes changes to the PMM participation entitlement. First, the Exchange proposes a change to how the System rounds fractional fills resulting from the PMM participation entitlement percentage structure for orders of more than one contract. The Exchange also proposes to include such information within proposed Rule 21.8(f)(2). Currently, fractional fills resulting from the PMM participation entitlement percentage structure are rounded down; the Exchange proposes to amend Rule 21.8(f) to add proposed subsection (f)(2) which provides that for orders of more than one contract, if the PMM participation entitlement applies, the executable quantity is allocated to the nearest whole number, with fractions ½ or greater rounded up and fractions less than ½ rounded down, as applicable.[1]

1 The Exchange notes that under the proposed changes, there may be rare instances in which a PMM may receive more than the 60%/40% participation entitlement (limited only to circumstances where such higher percentage is the result of the rounding process described herein).

Finally, the Exchange proposes to amend Rule 21.8(f)(1) to provide that, if the PMM priority overlay is in effect for an option class and the PMM has a priority quote at the NBBO, the PMM will receive the greatest of (i) the proportion of the total size at the best price represented by the size of its quote, (ii) sixty percent (60%) of the contracts to be allocated if there is only one (1) other Market-Maker quotation or non-Customer order at the NBBO and forty percent (40%) if there are two (2) or more other Market-Maker quotes and/or non-Customer orders at the NBBO, and (iii) one contract. Such change will cause a PMM to receive, at the very least, one contract under the participation entitlement, if the PMM has a has a priority quote at the NBBO. This change is consistent with the intent of the participation entitlement, which is to provide PMMs with a benefit for their heightened quoting obligations. Currently, there exists certain scenarios that may result in zero contracts being allocated to a PMM who should otherwise have priority.

For example, assume that, after the Priority Customer overlay is applied, there remains one contract in an order. If the PMM has at least one contract at the best price and there is one other non-Priority Customer, the PMM will be allocated the contract, based on the 60% PMM allocation. However, if the PMM has five contracts at the best price, Firm B has five contracts at the best price, and Firm C has ten contracts at the best price, Firm C will be allocated the contract ahead of the PMM, based on the 40% PMM allocation (i.e., 40% of one contract would round down to zero). Thus, the proposed rule change is intended to allocate the one contract to the PMM in this situation, which the Exchange believes will continue to encourage PMMs to provide liquidity on the Exchange.

(b) 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.[2] Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)[3] 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)[4] requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The Exchange believes the proposed rule changes will remove impediments to and perfect the mechanism of a free and open market and a national market system. The Exchange believes the proposed change regarding how the System rounds the number of contracts for orders of more than one contract when they cannot be allocated proportionally in whole numbers pursuant to the participation entitlement percentage structure for PMMs adds detail to the rules regarding the allocation process and provides

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[2] 15 U.S.C. 78f(b).

[3] 15 U.S.C. 78f(b)(5).

[4] Id.

a fair, objective process for rounding and distribution in situations in which the number of contracts may not be allocated proportionally in whole numbers. The Exchange believes adding these details will better enable investors to understand how the System allocates trades and affords priority. Further, distributing contracts in this manner when they cannot be allocated proportionally in whole numbers is a standard practice, utilized for other allocation algorithms at the Exchange, such as the pro-rate base allocation algorithm.[5]

The Exchange believes the proposed change to allocate to a PMM at least one contract under the participation entitlement if the PMM has a priority quote at the NBBO will cause PMMs to receive a benefit in exchange for their heightened quoting obligations, consistent with the intent of the participation entitlement. The Exchange believes that the proposed changes will continue to incentivize PMMs to provide tighter markets, by enhancing their ability to compete for order flow, thereby potentially increasing order flow to the Exchange, resulting in greater liquidity, to the benefit of investors.

Finally, the proposed rule changes further remove impediments to a free and open market and do not unfairly discriminate among market participants, as the changes will apply to all PMMs uniformly. The Exchange believes it is reasonable for PMMs to receive a preferential allocation, as they have heightened quoting obligations. As noted above, the Exchange believes the proposed changes will encourage PMMs to continue to provide liquidity, thereby providing more trading opportunities and tighter spreads, to the benefit of investors.

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5 See Rule 21.8(c).

Item 4. <u>Self-Regulatory Organization's Statement on Burden on Competition</u>

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 proposed rule change will not impose any burden on intramarket competition that is not necessary or appropriate in furtherance of the purposes of the Act, because the proposed rule change will apply in the same manner to all PMMs. To the extent PMMs would receive a preferential allocation, as stated above, this is consistent with the intent of the participation entitlement, which is to provide PMMs with a benefit for their heightened quoting obligations, which may provide more active and liquid markets, thereby providing a robust market which benefits all market participants. The proposed rule change has no impact on intermarket competition, as it applies to the allocation of PMM orders on the Exchange.

Item 5. <u>Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others</u>

The Exchange neither solicited nor received comments on the proposed rule change.

Item 6. <u>Extension of Time Period for Commission Action</u>

Not applicable.

Item 7. **<u>Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2) or Section 19(b)(7)(D)</u>**

(a) The proposed rule change is filed for immediate effectiveness pursuant to Section 19(b)(3)(A) of Act[6] and Rule 19b-4(f)(6)[7] thereunder.

(b) The Exchange designates that the proposed rule change effects a change that (i) does not significantly affect the protection of investors or the public interest; (ii) does not impose any significant burden on competition; and (iii) by its terms, does not become operative for 30 days after the date of the filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest. Additionally, the Exchange has given the Commission written notice of its intent to file the proposed rule change, along with a brief description and text of 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.

In particular, the Exchange believes the proposed rule changes do not significantly affect the protection of investors or the public interest. Particularly, the proposed changes related to preferential allocation for PMMs are designed to be consistent with the intent of the PMM participation entitlement, which is to provide PMMs with a benefit for their heightened quoting obligations, which may result in greater liquidity and more trading opportunities, to the benefit of investors.

Further, the Exchange believes adding details regarding how the System rounds the number of contracts for orders of more than one contract when they cannot be

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6 15 U.S.C. 78s(b)(3)(A).

7 17 CFR 240.19b-4(f)(6).

allocated proportionally in whole numbers pursuant to the participation entitlement percentage structure for PMMs will better enable investors to understand how the System allocates trades and affords priority. As noted above, distributing contracts in the proposed manner is a standard practice, utilized for other priority allocation algorithms at the Exchange, such as the pro-rate base allocation algorithm.[8]

Finally, the Exchange believes the proposed rule changes do not impose any significant burden on competition, as the changes will apply to all PMMs uniformly. To the extent PMMs would receive a preferential allocation, as stated above, this is consistent with the intent of the participation entitlement, which is to provide PMMs with a benefit for their heightened quoting obligations, which may provide more active and liquid markets, thereby providing a robust market which benefits all market participants.

For the foregoing reasons, this rule filing qualifies as a "non-controversial" rule change under Rule 19b-4(f)(6), which renders the proposed rule change effective upon filing with the Commission. At any time within 60 days of the filing of this 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. The Exchange respectfully requests that the Commission waive the 30-day operative delay period after which a proposed rule change under Rule 19b-4(f)(6) becomes effective.

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8 See Rule 21.8(c).

The Exchange respectfully requests that the Commission waive the 30-day operative delay period after which a proposed rule change under Rule 19b-4(f)(6) becomes effective. The Exchange believes waiver of the operative delay is consistent with the protection of investors and the public interest because it will allow the Exchange to more expeditiously implement the proposed changes to preferential allocation for PMMs and eliminate certain scenarios that may result in zero contracts being allocated to a PMM who should otherwise have priority. As noted above, the changes were designed to be consistent with the intent of the PMM participation entitlement (i.e., provide PMMs with a benefit for their heightened quoting obligations), and the Exchange believes the changes may result in greater liquidity and more trading opportunities, to the benefit of investors. Further, the proposed change regarding how the System rounds the number of contracts for orders of more than one contract when they cannot be allocated proportionally in whole numbers is not novel, as the rounding system is utilized for other allocation algorithms at the Exchange, such as the pro-rate base allocation algorithm.[9] As noted above, the Exchange believes adding details regarding how the System rounds the number of contracts for orders of more than one contract when they cannot be allocated proportionally in whole numbers pursuant to the participation entitlement percentage structure for PMMs will better enable investors to understand how the System allocates trades and affords priority.

(c) Not applicable.

(d) Not applicable.

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9 See Rule 21.8(c).

Item 8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission

The proposed rule change is not based on a rule either of another self-regulatory organization or of the Commission.

Item 9. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act

Not applicable.

Item 10. Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act

Not applicable.

Item 11. Exhibits

Exhibit 1. Completed Notice of Proposed Rule Change for publication in the Federal Register.

Exhibit 5. Proposed rule text.