July 11, 2019

Self-Regulatory Organizations; Cboe Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend its Fees Schedule with Respect to Expiring Fee Waivers and Incentive Programs

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”)\(^1\), and Rule 19b-4 thereunder,\(^2\) notice is hereby given that on June 28, 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 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\(^3\) and Rule 19b-4(f)(6) thereunder.\(^4\) 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 Fees Schedule with respect to expiring fee waivers and incentive programs. 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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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 Fees Schedule relating to various fee waivers and incentive programs that are set to expire June 30, 2019. The Exchange proposes to implement these amendments to its Fees Schedule on July 1, 2019.

Sector Indexes Facilitation Fee

First, the Exchange proposes to extend the current waiver of fees for facilitation orders in Sector Index options. Currently, Footnote 11 of the Fees Schedule provides that for facilitation orders for Sector Index options executed in open outcry, or electronically via AIM or as a Qualified Contingent Cross order (“QCC”) or CFLEX transaction, the Exchange will assess no Clearing Trading Permit Holder Proprietary transaction fees through June 30, 2019. By way of background “facilitation orders” are defined as any order in which a Clearing Trading Permit Holder (“F” origin code) or Non-Trading Permit Holder Affiliate (“L” origin code) is contra to any other origin code order, provided the same executing broker and clearing firm are on both sides of the transaction (for open outcry) or both sides of a paired order (for orders executed

5 See Cboe Options Fees Schedule, Footnote 47.
In adopting a waiver for facilitation fees in Sector Index options, the Exchange recognized that Clearing Trading Permit Holders can be an important source of liquidity when they facilitate their own customers’ trading activity and, as such, the Exchange applied a waiver of Clearing Trading Permit Holder Proprietary transaction fees for facilitation orders through June 30, 2019. The Exchange continues to recognize the important role Clearing Trading Permit Holders play with respect to facilitating their own customers’ trading activity and as such proposes to extend the waiver through December 31, 2019.

**Sector Indexes License Surcharge**

The Exchange next proposes to extend the current waiver of the Index License Surcharge of $0.10 per contract. In order to promote and encourage trading of the recently adopted Sector Index options, the Exchange adopted a waiver of the Index License Surcharge for Sector Index option transactions. The current waiver is set to expire on June 30, 2019. As the volume in these relatively new products is low, the Exchange does not have enough information to evaluate the impact of the waiver. However, the Exchange wishes to extend this waiver through December 31, 2019 in order to continue to encourage the trading of Sector Index options and grow the product. The proposed waiver would apply to all non-customer transactions.

**VIX License Index Surcharge**

The Exchange next proposes to extend the current waiver of the Index License Surcharge of $0.10 per contract for Clearing Trading Permit Holder Proprietary (“Firm”) (origin codes “F” or “L”) VIX orders that have a premium of $0.10 or lower and have series with an expiration of

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6 See Cboe Options Fees Schedule, Footnote 11.
seven (7) calendar days or less. The Exchange wishes to extend this waiver through December 31, 2019. The Exchange adopted the waiver to reduce transaction costs on expiring, low-priced VIX options, which the Exchange believed would encourage Firms to seek to close and/or roll over such positions close to expiration at low premium levels, including facilitating customers to do so, in order to free up capital and encourage additional trading. The Exchange had proposed to waive the surcharge through June 30, 2019, at which time the Exchange had stated that it would evaluate whether the waiver has in fact prompted Firms to close and roll over these positions close to expiration as intended. After a review of Firms’ activity, the Exchange believes the waiver has indeed encouraged Firms to do so and as such, proposes to extend the waiver of the surcharge through December 31, 2019, at which time the Exchange will again reevaluate whether the waiver has continued to prompt Firms to close and roll over positions close to expiration at low premium levels. Accordingly, the Exchange proposes to delete the reference to the current waiver period of June 30, 2019 from the Fees Schedule and replace it with December 31, 2019.

GTH Fees

The Exchange proposes to also extend waivers for access fees for the Global Trading Hours (“GTH”) session. Currently, the Exchange charges $1,000 per month for each GTH Market-Maker Trading Permit and $500 per month for each GTH Electronic Access Trading Permit. The Exchange also assesses fees for Bandwidth Packets that may be used during GTH. Particularly, the Exchange charges $500 per month per GTH Quoting and Order Entry

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10 See Cboe Options Fees Schedule, Trading Permit and Tier Appointment Fees. Each Trading Permit provides bandwidth and three logins.
Bandwidth Packet and $250 per month per Order Entry Bandwidth Packet.\textsuperscript{11} The Exchange further assesses monthly fees for CMI Login IDs and FIX Login IDs used for GTH, which are currently $750 per Login ID. In order to promote and encourage trading during the GTH session, the Exchange currently waives GTH Trading Permit and Bandwidth Packet fees for one (1) of each initial Trading Permits and one (1) of each initial Bandwidth Packet, per affiliated Trading Permit Holder ("TPH").\textsuperscript{12} The Exchange notes that the waivers are set to expire June 30, 2019. The Exchange also waives fees through June 30, 2019 for a CMI and FIX login ID if the CMI and/or FIX login ID is related to a waived GTH Trading Permit and/or waived Bandwidth packet. In order to continue to promote trading during GTH, the Exchange wishes to extend these waivers through September 30, 2019.\textsuperscript{13} Based on experience, the Exchange believes such waivers have encouraged participation during GTH. Continued participation during GTH results in potential increased order flow, which provides greater trading opportunities for all market participants. Additionally, the proposed waivers apply to all TPHs that wish to participate in the GTH session.

**MXEA and MXEF LMM Incentive Program**

The Exchange also proposes to extend the financial program for Lead Market-Makers ("LMMs") appointed in MSCI EAFE Index ("MXEA") options and MSCI Emerging Markets

\textsuperscript{11} See Cboe Options Fees Schedule, Bandwidth Packet Fees Bandwidth Packets provide TPHs with additional bandwidth and logins.
\textsuperscript{13} The Exchange notes that in October 2019, it is migrating the current Cboe Options trading platform onto new technology and in connection with such migration, is anticipating a new Trading Permit and connectivity structure. As such, the Exchange proposes to extend the GTH related waivers only through September 2019.
Index ("MXEF") options. Currently, if the appointed LMM in MXEA and MXEF provides continuous electronic quotes during Regular Trading Hours that meet or exceed the above heightened quoting standards in at least 90% of the MXEA and MXEF series 80% of the time in a given month, the LMM will receive a payment for that month in the amount of $20,000 per class, per month. The Fees Schedule currently provides that this program will be in place through June 30, 2019. In order to continue to encourage LMM(s) in MXEA and MXEF to continue serving as LMMs and provide significant liquidity in these options, which would provide greater trading opportunities for all market participants, the Exchange proposes to renew this program through December 31, 2019.

**RLG, RLV, RUI, AWDE, FTEM, FXTM and UKXM Transaction Fees**

In order to promote and encourage trading of seven FTSE Russell Index products (i.e., Russell 1000 Growth Index ("RLG"), Russell 1000 Value Index ("RLV"), Russell 1000 Index ("RUI"), FTSE Developed Europe Index ("AWDE"), FTSE Emerging Markets Index ("FTEM"), China 50 Index ("FXTM") and FTSE 100 Index ("UKXM")), the Exchange waives all transaction fees (including the Floor Brokerage Fee, Index License Surcharge and CFLEX Surcharge Fee) for each of these products for all market participants. This waiver is set to expire June 30, 2019. As the volume in these products is low, the Exchange does not have enough information to evaluate the impact of the waiver. However, the Exchange wishes to

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extend this waiver through December 31, 2019 in order to continue to encourage growth and trading of these products.

**UKXM**

The Exchange previously offered a compensation plan to the Designated Primary Market-Maker(s) (“DPM(s)”) appointed in UKXM to offset its DPM costs. Specifically, the DPM appointed for an entire month in UKXM will receive a payment of $5,000 per month through June 30, 2019. The Exchange proposes to extend this plan through December 31, 2019 to continue to incentivize the DPM(s) to continue to serve as a DPM in this product and provide the necessary liquidity, which provides greater trading opportunities for all market participants in this option class.

**Elimination of Obsolete Reference**

Lastly, the Exchange proposes to eliminate references to an obsolete fee and incentive program. Specifically, on February 11, 2019, the Exchange filed a rule filing, SR-CBOE-2019-012, which proposed, among other things, to eliminate the Supplemental VIX Total Firm Discount program (“Supplemental VIX Discount”), effective February 1, 2019. The Exchange notes that although it reflected the elimination of the program in the filing’s Exhibit 5, it mistakenly failed to eliminate references to the program in corresponding Footnote 11 of the Fees Schedule. Accordingly, the Exchange proposes to update Footnote 11 to eliminate references to the Supplemental VIX Discount. No substantive change is being made by this deletion.

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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. Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5) 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, 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.

The Exchange believes the proposed waiver extension of the Clearing Trading Permit Holder Proprietary transaction fee for facilitation orders in Sector Index options is reasonable because these orders will not be charged any fee. The Exchange believes that this is equitable and not unfairly discriminatory because a similar waiver also applies to other products, including other proprietary index products (e.g., MXEA, MXEF, DJX and XSP). Further, as noted

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21 See Cboe Fees Schedule, “Equity Options Rate Table, “ETF and ETN Options Rate Table” and “Index Options Rate Table - All Index Products Excluding Underlying
above, Clearing Trading Permit Holders can be an important source of liquidity when they facilitate their own customers’ trading activity. Moreover, Clearing Trading Permit Holders have obligations, which normally do not apply to other market participants (e.g., must have higher capital requirements, clear trades for other market participants, must be members of OCC). The Exchange also notes that the waiver of fees for Sector Index facilitation orders executed in open outcry or electronically in AIM, QCC or as a CFLEX transaction applies to all such orders.

The Exchange believes it’s appropriate to continue to waive the Index License Surcharge for Sector Indexes because the Sector Indexes are still relatively new products and the Exchange wishes to encourage and promote trading of these products. The Exchange believes waiving this fee is a reasonable means to encourage trading of these products as it applies to all market participants and results in lower fees assessed for Sector Index transactions.

The Exchange believes it’s appropriate to waive the Index License Surcharge for Clearing Trading Permit Holder Proprietary VIX orders that have a premium of $0.10 or lower and have series with an expiration of 7 calendar days or less because the Exchange wants to continue encouraging Firms to roll and close over positions close to expiration at low premium levels. Particularly, the Exchange believes it’s reasonable to waive the entire $0.10 per contract surcharge because without the waiver of the surcharge, firms are less likely to engage in these transactions, as opposed to other VIX transactions, due to the associated transaction costs. The Exchange believes it’s equitable and not unfairly discriminatory to limit the waiver to Clearing Trading Permit Holder Proprietary orders because they contribute capital to facilitate the execution of VIX customer orders with a premium of $0.10 or lower and series with an

Symbol List A and Sector Indexes”, all of which provide a $0.00 facilitation fee for origin code “F” and “L” orders.
expiration of 7 calendar days or less. Additionally, as noted above, Clearing Trading Permit Holders have obligations, which normally do not apply to other market participants (e.g., must have higher capital requirements, clear trades for other market participants, must be members of OCC).

The Exchange believes extending the waiver of the GTH fee for the first Quoting and Order Entry Bandwidth Packet and the first Order Entry Bandwidth Packet through September 2019 is reasonable, equitable and not unfairly discriminatory, because waiving those respective fees promotes and encourages trading during the GTH session. The Exchange believes it’s also reasonable, equitable and not unfairly discriminatory to waive fees for Login IDs in order to promote and encourage ongoing participation in GTH and also applies to all GTH TPHs. The Exchange believes it’s also reasonable, equitable and not unfairly discriminatory to waive GTH access fees through September, 2019 in order to further promote trading. To the extent that this purpose is achieved, all the Exchange’s market participants who participate in the GTH session should benefit from increased liquidity.

The Exchange believes it is reasonable, equitable and not unfairly discriminatory to extend the MXEA and MXEF LMM Incentive Program because the Exchange wants to ensure it continues incentivizing the LMM(s) in these products to provide liquid and active markets in these products to encourage its growth. The Exchange notes that without the proposed financial incentive, there may not be sufficient incentive for TPHs to undertake an obligation to quote at heightened levels, which could result in lower levels of liquidity to the detriment of all market participants. The Exchange believes it is equitable and not unfairly discriminatory to only offer this financial incentive to MXEA and MXEF LMM(s) because it benefits all market participants trading in these options to encourage the LMM(s) to satisfy the heightened quoting standard,
which may increase liquidity and provide more trading opportunities and tighter spreads. Indeed, the Exchange notes that LMMs provides a crucial role in providing quotes and the opportunity for market participants to trade products, including MXEA and MXEF, which can lead to increased volume, thereby providing a robust market. Additionally, if a MSCI LMM does not satisfy the heightened quoting standard then it simply will not receive the offered per class payment for that month.

The Exchange believes it is reasonable, equitable and not unfairly discriminatory to extend the waiver of all transaction fees for RLG, RLV, RUI, AWDE, FTEM, FXTM and UKXM transactions, including the Floor Brokerage fee, the License Index Surcharge and CFLEX Surcharge Fee, because the respective fees are being waived in their entirety, which promotes and encourages trading of these products which are still relatively new. The waiver also would apply to all TPHs.

The Exchange believes that it is reasonable, equitable and not unfairly discriminatory to renew the compensation plan to continue to incentivize the DPM to continue to serve as a DPM in this product. Particularly, the Exchange notes that there is low volume in UKXM and as such, the Exchange wishes to ensure the DPM continues to play a crucial role in providing liquid and active markets in the product to encourage growth and provide trading opportunities which would benefit all market participants.

Lastly, the Exchange believes eliminating references to the Supplemental VIX Discount program, which no longer exists, alleviates confusion and maintains clarity in the Fees Schedule, which removes impediments to and perfects the mechanism of a free and open market and a national market system, and, in general, protects 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 intramarket or intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act.

First, the Exchange believes the proposed rule change does impose any burden on intramarket competition that is not necessary or appropriate in furtherance of the purposes of the Act. Particularly, the proposed changes extend existing fee waivers and incentive programs and apply to all similarly situated TPHs uniformly. To the extent certain market participants receive a benefit others do not these different market participants have different obligations and circumstances. For example, DPMs and LMMs play a crucial role in providing active and liquid markets in their appointed products, thereby providing a robust market which benefits all market participants. Additionally, Clearing Trading Permit Holders can be an important source of liquidity when they facilitate their own customers’ trading activity and also have other obligations, which normally do not apply to other market participants (e.g., must have higher capital requirements, clear trades for other market participants, must be members of OCC). The Exchange also notes that the proposed waivers and incentive programs are designed to attract additional order flow to the Exchange. Greater liquidity benefits all market participants on the Exchange by providing more trading opportunities and tighter spreads and encourages all TPHs to send orders, thereby contributing to robust levels of liquidity.

Next, the Exchange believes the proposed rule change does not impose any burden on intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act. First, the proposed changes only affect trading on Cboe Options. Next, the Exchange notes it operates in a highly competitive market. In addition to Cboe Options, TPHs have numerous alternative venues that they may participate on and director their order flow, including 15 options
exchanges, as well as off-exchange venues. Based on publicly available information, no single options exchange has more than 23% of the market share of executed volume of options trades.\textsuperscript{22} Therefore, no exchange possesses significant pricing power in the execution of option order flow. Moreover, the Commission has repeatedly expressed its preference for competition over regulatory intervention in determining prices, products, and services in the securities markets. Specifically, in Regulation NMS, the Commission highlighted the importance of market forces in determining prices and SRO revenues and, also, recognized that current regulation of the market system “has been remarkably successful in promoting market competition in its broader forms that are most important to investors and listed companies.”\textsuperscript{23} The fact that this market is competitive has also long been recognized by the courts. In NetCoalition v. Securities and Exchange Commission, the D.C. Circuit stated as follows: “[n]o one disputes that competition for order flow is ‘fierce.’ … As the SEC explained, ‘[i]n the U.S. national market system, buyers and sellers of securities, and the broker-dealers that act as their order-routing agents, have a wide range of choices of where to route orders for execution’; [and] ‘no exchange can afford to take its market share percentages for granted’ because ‘no exchange possesses a monopoly, regulatory or otherwise, in the execution of order flow from broker dealers’….”\textsuperscript{24} Accordingly, the Exchange does not believe its proposed changes to extend the above-mentioned fee waivers and incentive programs impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.


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)(iii) of the Act\(^{25}\) and subparagraph (f)(6) of Rule 19b-4 thereunder.\(^{26}\)

A proposed rule change filed under Rule 19b-4(f)(6) normally does not become operative for 30 days after the date of the filing. However, Rule 19b-4(f)(6)(iii)\(^{27}\) permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. In its filing, Cboe Options requested that the Commission waive the 30-day operative delay. The Exchange indicated in its filing that its extension of the above-described fee waivers and incentive programs was designed to encourage increased market participation, including in GTH and in relatively new products. The Commission believes that waiver of the 30-day operative delay is consistent with the protection of investors and the public interest as it will avoid the potential for disruption among TPHs associated with an interruption in the continuity of the proposed extensions set forth above. Accordingly, the Commission waives the


\(^{26}\) 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.

30-day operative delay and designates the proposed rule change operative upon filing.\textsuperscript{28}

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: (i) necessary or appropriate in the public interest; (ii) for the protection of investors; or (iii) otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule 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. Please include File Number SR-CBOE-2019-031 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-2019-031. 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

\textsuperscript{28} 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).
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-2019-031, 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.\(^{29}\)

Eduardo A. Aleman  
Deputy Secretary

\(^{29}\) 17 CFR 200.30-3(a)(12) and (59).