SELF-REGULATORY ORGANIZATIONS; CBOE EXCHANGE, INC.; NOTICE OF FILING AND IMMEDIATE EFFECTIVENESS OF A PROPOSED RULE CHANGE TO AMEND THE EXCHANGE’S RULES REGARDING CABINET TRADING UPON THE MIGRATION OF THE EXCHANGE’S TRADING PLATFORM TO THE SAME SYSTEM USED BY THE CBOE AFFILIATED EXCHANGES

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”), and Rule 19b-4 thereunder, notice is hereby given that on September 6, 2019, Cboe Exchange, Inc. (the “Exchange” or “Cboe Options”) filed with the Securities and Exchange Commission (the “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. The Exchange filed the proposal as a “non-controversial” proposed rule change pursuant to Section 19(b)(3)(A)(iii) of the Act and Rule 19b-4(f)(6) thereunder. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. SELF-REGULATORY ORGANIZATION’S STATEMENT OF THE TERMS OF SUBSTANCE OF THE PROPOSED RULE CHANGE

Cboe Exchange, Inc. (the “Exchange” or “Cboe Options”) proposes to amend the Exchange’s Rules regarding cabinet trading and move those Rules from the currently effective Rulebook (“current Rulebook”) to the shell structure for the Exchange’s Rulebook that will become effective upon the migration of the Exchange’s trading platform to the same system used by the Cboe Affiliated Exchanges (as defined below) (“shell Rulebook”).

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The text of the proposed rule change is also available on the Exchange’s website (http://www.cboe.com/AboutCBOE/CBOELegalRegulatoryHome.aspx), at the Exchange’s Office of the Secretary, and at the Commission’s Public Reference Room.

II. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the 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

In 2016, the Exchange’s parent company, Cboe Global Markets, Inc. (formerly named CBOE Holdings, Inc.) (“Cboe Global”), which is also the parent company of Cboe C2 Exchange, Inc. (“C2”), acquired Cboe EDGA Exchange, Inc. (“EDGA”), Cboe EDGX Exchange, Inc. (“EDGX” or “EDGX Options”), Cboe BZX Exchange, Inc. (“BZX” or “BZX Options”), and Cboe BYX Exchange, Inc. (“BYX” and, together with Cboe Options, C2, EDGX, EDGA, and BZX, the “Cboe Affiliated Exchanges”). Cboe Options intends to migrate its trading platform to the same system used by the Cboe Affiliated Exchanges, which the Exchange expects to complete on October 7, 2019. In connection with this technology migration, the Exchange has a shell Rulebook that resides alongside its current Rulebook, which shell Rulebook will contain the Rules that will be in place upon completion of the Cboe Options technology migration.
In anticipation of migration, the Exchange proposes to update and amend current Rule 6.54 which governs transactions in connection with “cabinet” trades, which are trades in listed options on the Exchange that are worthless or not actively traded. In anticipation of migration, the Exchange proposes to move current Rule 6.54 (and subsequently delete the current rule after the shell Rulebook takes effect on October 7, 2019) to proposed Rule 5.12, which will govern cabinet trading in substantially the same manner as the current rule, with only slight differences. The proposed rule change does not propose to implement new or unique functionality that has not been previously filed with the Commission, found to be consistent with the Act, or is not available on other exchanges. The proposed rule change largely makes changes to remove obsolete provisions, update rule provisions to align with the manner in which the Exchange’s System, functionality and other rules will function upon migration. The Exchange also proposes to make non-substantive changes to simplify, clarify, and generally update its cabinet trading provisions by consolidating them into a single rule, simplifying the rule language, updating the rule text to read in plain English, reformatting the paragraph lettering and/or numbering, and updating cross-references to rules that will be in the shell Rulebook and implemented upon migration. The Exchange believes that the proposed changes, overall, will make the rules easier to follow and understand, thus, simplifying the regulatory requirements and increasing the transparency and understanding of the Exchange’s rules and operations for Trading Permit Holders (“TPHs”).

Current Rule 6.54 provides that cabinet trades may only occur via open outcry, even if the class trades on the Exchange’s System. As all classes currently trade on the Exchange’s System, proposed Rule 5.12 merely updates the current language to state that all
cabinet orders will execute in open outcry pursuant to Rule 5.85(a) (in the shell Rulebook). Proposed Rule 5.12 also consolidates provisions in connection with cabinet trades by moving the FLEX cabinet trading limitation under current Rule 24A.15\(^5\) to the proposed rule. The proposed changes do not substantively alter the manner in which cabinet orders may trade currently, but merely updates the rule language to reflect that cabinet orders will execute in open outcry like all other orders execute in open outcry, in accordance with the order allocation, priority, and execution rules that will be implemented upon migration, which is substantially similar to how cabinet trades currently function. The Exchange notes that upon migration, Users must systematize and route any orders they wish to execute in open outcry to the Exchange’s Public Automated Routing System (“PAR”) prior to representation on the Exchange’s trading floor for execution in open outcry.\(^6\)

Current Rule 6.54.01 states that a PAR Official may accept bids or offers for opening transactions at a price of $1 per contract only to the extent that the cabinet book (which no longer exists)\(^7\) already contains closing orders for the contra side. The Exchange notes that a previous rule filing, SR-CBOE-2018-010,\(^8\) inadvertently removed what was then paragraph (a) under Rule 6.54, which included a provision allowing Floor Brokers and

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\(^5\) The Exchange notes that it is deleting the entirety of current Rule 24A.15 and will discuss the split price component of the rule in a FLEX-related rule filing for migration.

\(^6\) A PAR workstation is an Exchange-provided order management tool for use on the Exchange’s trading floor by Trading Permit Holders and PAR Officials to manually handle orders pursuant to the Rules and facilitate open outcry trading.

\(^7\) See Securities Exchange Act Release No. 82646 (February 7, 2018), 83 FR 6294 (February 13, 2018) (SR-CBOE-2018-010), which removed the cabinet book and Order Book Officials because these functions were generally obsolete because most trading occurred electronically, as it does today. However, Cabinet Book Officials were replaced by PAR Officials, who currently do hold cabinet orders for priority execution on the Exchange.

\(^8\) See id.
Market-Makers to represent that bids and offers for cabinet trades after first yielding priority to all orders in the cabinet book. Specifically, when this provision was initially added to the Exchange Rules, its purpose was to make clear that Floor Brokers or Market-Makers may enter into both opening and closing cabinet transactions, so long as they first yield priority to all orders in the Order Book Official’s cabinet book.\(^9\) Previous paragraph (a) had generally described cabinet trading for classes not trading on the Hybrid System, and, because SR-CBOE-2018-010 had been implemented to delete Exchange Rules that no longer applied to the Exchange, it deleted previous paragraph (a) as all options traded on the Hybrid System, and currently do. This deletion inadvertently occurred because certain language in previous paragraph (a) is still relevant to transacting on the Exchange. Orders in all classes on the Hybrid System can currently be automatically executed both electronically and in open outcry after routing to PAR (as cabinet orders must). Even as the Order Book Officials and cabinet book ceased to exist on the Exchange,\(^10\) functionality continued to allow market participants to enter into both opening and closing cabinet transactions so long as they first yielded to closing orders on the floor. Therefore, proposed Rule 5.12 makes explicit that market participants may continue to place closing cabinet orders, and may continue to place opening cabinet orders, which must continue to yield to all closing cabinet orders represented by the trading crowd. In addition to making this explicit in the Exchange Rules, the Exchange believes that it is in line with the primary purpose of cabinet trades by facilitating the close of positions in a worthless or inactive series.


\(^10\) See supra note 7.
In addition to this, proposed Rule 5.12(a) provides that cabinet orders are priced at $0.01. The current rule provides that cabinet trades are those priced at $1.00, which accounts for the notional value of series actually priced at $0.01 but adjusted with a multiplier of 100. Instead, under the proposed rule, $0.01 is designed to encompass those series price at $0.01 with a 100 multiplier, as well as series that are priced at $0.01 or less with a different multiplier. Additionally, the proposed rule provides that cabinet orders are not available in classes with a minimum increment of $0.01. This is substantially similar to the function of the current rule, which does not allow penny pilot classes as cabinet orders, but accounts for the fact that the rules may permit other penny classes in addition to penny pilot classes. The proposed rule change appropriately renames such orders as “penny cabinets”.

Proposed Rule 5.12(b) provides for sub-penny cabinet orders. Proposed Rule 5.12(b) is based on the rules of other options exchanges, previously approved by the Commission. The Exchange believes that allowing a price of at least $0 but less than $0.01 better accommodates the closing of options positions in series that are worthless or not actively traded, particularly due to market conditions which may result in a significant number of series being out-of-the-money. For example, a market participant might have a long position in a call series (with a 100 multiplier) with a strike price of $100 and the underlying stock might now be trading at $30. In such an instance, there might not otherwise be a market for that person to close-out the position even at the $0.01 cabinet price (e.g., the series might be quoted no bid). Proposed Rule 5.12(b) also provides that bids and offers for opening transactions in sub-penny cabinets are only permitted to accommodate closing

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11 Current Rule 6.54.02 contains rule language in connection with sub-cabinets which expired on March 5, 2018.

12 See, e.g., NYSE Arca Options Commentary .01 to Rule 6.80-O; and NASDAQ Phlx Options 8, Sec. 33(d).
transactions, which is consistent with the cabinet trading rules of other exchanges, as well as
the purpose of cabinet trades in facilitating closing transactions for open positions in
worthless or inactive series. The Exchange also notes that proposed Rule 5.12 does not
maintain current language regarding the reporting of cabinet transactions (as stated in
current Rule 6.54.01) or adopt such language in connection with sub-penny cabinets, which
is contained in other exchanges’ sub-cabinet rules, because all cabinet orders will execute in
open outcry just like other orders (instead of only through a PAR Official or on the cabinet
book), therefore cabinet order transaction prices will be also be reported like all other
transactions, which, pursuant to current Rule 6.51 (Rule 6.1 in the shell Rulebook), must be
reported within 90 seconds of the execution, which the Exchange then immediately submits
to the Options Clearing Corporation (“OCC”). The Exchange represents that there would be
no operational issues in processing and clearing sub-penny cabinet trades.\(^{13}\) The Exchange
does not believe that the OCC will have any operational issues with processing sub-penny

The Exchange also notes that the proposed rule change deletes current Rules 21.15, and
28.12 which governed cabinet trading in connection with government securities options

\(^{13}\) See also note 7. The Exchange also notes that there were no issues in processing
and clearing such transactions prior to the expiration of the sub-cabinet rule.

\(^{14}\) See also note 7. The Exchange notes that market participants did not raise any
concerns with the processing of sub-cabinet trades prior to the expiration of the
sub-cabinet rule.
and corporate debt security options, respectively, but are redundant of the current manner in
which cabinet trades are executed and of the proposed rule, which allow opening
transactions to execute so long as they first yield to closing transactions. The proposed rule
change also removes Rule 23.10 because it refers to provisions that no longer exist within
the Exchange Rules and it moves Rule 23.10.01 to proposed Rule 5.12(b), and makes non-
substantive changes to the language to reflect the rest of the proposed sub-penny cabinet rule
language.

The proposed rule change also renames the rule “Cabinet Trades”, and updates
references according. The Exchange believes that the term “cabinet trade” is a wider-used
and recognized term throughout the industry. Also, the Exchange notes that
“accommodation liquidations” refers specifically to cabinet trades to close out positions in
worthless or nearly worthless out-of-the-money option contracts, whereas cabinet trades
more accurately refer to the wider range of transactions governed by the proposed rule,
which are trades in options listed on the Exchange that are worthless or not actively traded.

In light of the proposed change, the Exchange also proposes to add “penny cabinet”
orders and “sub-penny cabinet” orders to the list of types of order instructions under Rule
5.6(c) currently in the shell Rulebook. Likewise, the Exchange proposes to add penny
cabinet and sub-penny cabinet orders to the list of order available for PAR routing to open
outcry under Rule 5.83(a)(2) currently in the shell Rulebook. The proposed changes are not
substantive changes but instead are intended to provide additional clarity under the rules
regarding cabinet order instructions and that cabinet orders may route through PAR to
execute in open outcry, which will be available to Users upon the technology migration.
The Exchange also proposes to delete Rule 5.7.03 in the shell Rulebook (and renumber the subsequent provisions), which excludes accommodation liquidations from the entry of orders and quotes into the System and the systemization of orders. As stated above, upon migration Users must systematize and route any orders, including cabinet orders, they wish to execute in open outcry to PAR prior to representation on the Exchange’s trading floor for execution in open outcry. Additionally, the Exchange now proposes to delete Rule 6.24 from the current Rulebook as it inadvertently failed to delete this rule under SR-CBOE-2019-033,\textsuperscript{15} which moved the provisions under current Rule 6.24 to Rule 5.7 in the shell Rulebook in anticipation of migration.

2. \textit{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.\textsuperscript{16} Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)\textsuperscript{17} 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


\textsuperscript{17} 15 U.S.C. 78f(b)(5).
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)\textsuperscript{18} requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The proposed rule is generally intended to provide consolidated and updated rules for market participants in connection with the October 7, 2019 technology migration. The proposed rule change does not propose to implement new or unique functionality that has not been previously filed with the Commission, found to be consistent with the Act, or is not available on other exchanges. The Exchange notes that the proposed rule is substantially the same as the current rule and largely makes changes to remove obsolete provisions, update rule provisions to align with the manner in which the Exchange’s System, functionality and other rules that will become live upon migration, as well as non-substantive changes to simplify rule language, make the rule provisions plain English, and update cross-references and paragraph formatting. The Exchange believes that the proposed changes, overall, will make the rules easier to follow and understand, thus, simplifying the regulatory requirements and increasing the transparency and understanding of the Exchange’s operations for TPHs. As such, the proposed rule change would foster cooperation and coordination with persons engaged in facilitating transactions in securities, would remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, contribute to the protection of investors and the public interest.

\textsuperscript{18} Id.
Specifically, the proposed change amending rule language to provide that all cabinet orders will execute in open outcry pursuant to Rule 5.82(c)(2) does not substantively alter the manner in which cabinet orders may trade currently, but merely updates the rule language to reflect the order allocation and priority rules that will be applicable to the execution of all orders in open outcry upon migration. The Exchange believes that by amending its rule to accurately reflect Exchange functionality and processes upon migration, the proposed rule change removes impediments to and perfects the mechanism of a free and open national market system.

Additionally, the Exchange believes that the proposed rule change makes it explicit that market participants may enter cabinet orders as either opening or closing transactions, but such orders must yield priority to all cabinet orders represented by the trading crowd. The Exchange notes that this is the manner in which the cabinet order process currently functions, yet such rule text pertaining to this process was inadvertently removed. Therefore, by making this process explicit in the Exchange Rules, the proposed rule change will remove impediments to and perfect the mechanism of a free and open market and national market system. The proposed rule change does not alter the manner in which functionality currently exists for cabinet trading but merely intends to make the rules clear that market participants may continue to place cabinet orders as both opening and closing transactions that will execute in accordance with the allocation and priority rules like that of all other orders executed in open outcry, after first yielding to the cabinet orders on the floor. Similarly, the proposed rule does not maintain the cabinet reporting provisions because all cabinet orders will execute in open outcry just as any other order and, therefore, cabinet order transaction prices will also be reported just like any other transaction. The Exchange
believes that the proposed changes will remove impediments to and perfect the mechanism of a free and open market and national market system, and otherwise protect investors and the public interest, because they will accurately reflect Exchange functionality upon migration.

The proposed rule change to update cabinet orders as orders priced $0.01, does not alter the current application of the rule. Rather, the proposed change is intended to add additional detail to the rule, thereby removing impediments to and perfecting the mechanism of a free and open national market system, by stating the actual options price which would include both those series priced at $0.01 with a 100 multiplier adjustment, as well as series that are priced at $0.01 or less with a different multiplier. Likewise, the proposed rule is intended to account for the fact that the rules permit other penny classes than just penny pilot classes, thus, does not allow cabinet orders for any class with a minimum increment of $0.01. Therefore, the proposed change facilitates transactions in securities by ensuring that the rule covers cabinet trade in all series, not only those with a 100 multiplier, and ensures that the cabinet order rule accounts for other Exchange Rules that provide for penny classes.

The Exchange believes that the proposed sub-penny cabinet orders will remove impediments to and perfect the mechanism of a free and open market and national market system and, in general, protect investors because such orders will allow market participants to close options positions in series that are worthless or not actively traded, particularly due to market conditions which may result in a significant number of series being out-of-the-money. The proposed change does not offer new or unique functionality for market participants as it is consistent with sub-cabinet rules on other options exchanges that have
been found to be consistent with the Act and previously approved by the Commission,\(^\text{19}\) as well as the purpose of cabinet orders in facilitating closing transactions for open positions in worthless or inactive series. The Exchange also believes that the proposed change will protect investors because there would be no operational issues in processing and clearing sub-penny cabinet trades because cabinet trades will be reported to the Exchange and submitted by the Exchange to OCC just like all open outcry transactions are currently reported and submitted.\(^\text{20}\) Also, because sub-penny cabinets will be reported and processed like all other open outcry trades, market participants will not be impacted nor have to take on any additional reporting or processing burden.

The Exchange also notes that the proposed rule change that deletes current which governed cabinet trading in connection with government security, interest rate, and corporate debt security options will remove impediments to and perfect the mechanism of a free and open market and national market system by removing redundant and/or obsolete rules and, as a result, providing transparent, updated rules for market participants. Likewise, renaming the rule “Cabinet Trades”, also adds clarity and updates the rules by reflecting an industry-wide term and the wider range of transactions govern by the proposed rule.

The Exchange believes that the non-substantive changes to list cabinet trades under types of order instructions and to add penny cabinet and sub-penny cabinet orders to the list of order available for PAR routing to open outcry under Exchange Rules currently in the shell Rulebook, as well as updating the exclusion of cabinet trades from provisions in

\(^{19}\) See supra note 12. See also note 11. The Exchange also notes that sub-cabinet functionality was available to market participants until the expiration of Rule 6.54.02 on March 5, 2018.

\(^{20}\) See also note 7. The Exchange also notes that there were no issues in processing and clearing such transactions prior to the expiration of the sub-cabinet rule.
relation to systemization (as cabinet orders will route through PAR to execute in open outcry) are designed to provide additional clarity and transparency under the rules in connection with cabinet orders and functionality related to cabinet orders available to Users upon the technology migration. The Exchange notes that the deletion of Rule 6.24 from the current Rulebook is a non-substantive change as this rule was inadvertently maintained in the Rulebook under SR-CBOE-2019-033 which moved the provisions under current Rule 6.24 to Rule 5.7 in the shell Rulebook in anticipation of migration, yet inadvertently failed to delete the current rule in anticipation of migration, as well.

The proposed rule change makes other various non-substantive changes throughout the rules that will protect investors and benefit market participants as these changes simplify the rules and use plain English throughout the 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 reiterates that the proposed rule change is being proposed in the context of a technology migration of the Cboe Affiliated Exchanges. As stated, the proposed changes to the rules that reflect functionality that will be in place come October 7, 2019 provide clear rules that accurately reflect post-migration functionality upon the completion of migration.

The Exchange does not believe the proposed rule change will impose any burden on intramarket competition because the proposed cabinet orders will be available to all market participants to execute in open outcry in the same manner as they are able to execute their other orders. The Exchange notes that while cabinet orders must yield to closing cabinet orders on the floor first, this will not impact intramarket competition.
because it is the manner in which cabinet orders already trade and is in line with the primary purpose of cabinet trading to facilitate closing transactions in worthless or inactive series. The Exchange also does not believe that the proposed rule change will impose any burden on intermarket competition. As discussed above, the basis for the proposed rule change regarding sub-penny cabinets are the rules of other options exchanges, which have already been found consistent with the Act and approved by the Commission.\textsuperscript{21} In addition to this, these exchanges have substantially similar rules regarding cabinet trading.\textsuperscript{22}

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 rule 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 if consistent with the protection of investors and the public interest, provided that the self-regulatory organization has given 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

\textsuperscript{21} See supra note 12.

\textsuperscript{22} See id.
Commission, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act and Rule 19b-4(f)(6) thereunder.

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission will institute proceedings to determine whether the proposed rule change should be approved or disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission’s Internet comment form (http://www.sec.gov/rules/sro.shtml); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-CBOE-2019-058 on the subject line.

Paper comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

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23 The Exchange has fulfilled this requirement.


All submissions should refer to File Number SR-CBOE-2019-058. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission’s Internet website (http://www.sec.gov/rules/sro.shtml). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission’s Public Reference Room, 100 F Street, NE, Washington, D.C. 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of 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-2019-058 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.\textsuperscript{26}

Jill M. Peterson  
Assistant Secretary

\textsuperscript{26} 17 CFR 200.30-3(a)(12).