

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-91609; File No. SR-CBOE-2021-024)

April 19, 2021

Self-Regulatory Organizations; Cboe Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend the Automated Price Improvement Auction Rule Relating to Stop Price

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on April 13, 2021, Cboe Exchange, Inc. (the “Exchange” or “Cboe Options”) filed with the Securities and Exchange Commission (“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 Exchange, Inc. (the “Exchange” or “Cboe Options”) proposes to amend its automated price improvement auction rule. The text of the proposed rule change is provided in Exhibit 5.

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

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

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

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

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

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

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

#### **1. Purpose**

The Exchange proposes to amend Rule 5.37 (Automated Price Improvement Mechanism (“AIM” or “AIM Auction”)) to change the requirements for providing price improvement for Agency Orders of less than 50 standard option contracts (or 500 mini-option contracts).

By way of background, the AIM auction is an electronic auction intended to provide an Agency Order with the opportunity to receive price improvement (over the National Best Bid or Offer (“NBBO”). More specifically, AIM includes functionality in which a Trading Permit Holder (“TPH”) (an “Initiating TPH”) may electronically submit for execution an order it represents as agent on behalf of a customer,<sup>5</sup> broker dealer, or any other person or entity (“Agency Order”) against any other order it represents as agent, as well as against principal interest (except for an order for the account of any Market-Maker with an appointment in the applicable class on the Exchange in all classes except SPX) in AIM (an “Initiating Order”), provided it submits the Agency Order for electronic execution into an AIM Auction.<sup>6</sup> AIM

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<sup>5</sup> The term “customer” means a Public Customer or a broker-dealer. The term “Public Customer” means a person that is not a broker-dealer. See Rule 1.1.

<sup>6</sup> See Rule 5.37.

Auctions take into account AIM Responses to the applicable Auction as well as contra interest resting on the Cboe Options Book at the conclusion of the Auction (“unrelated orders”), regardless of whether such unrelated orders were already present on the Book when the Agency Order was received by the Exchange or were received after the Exchange commenced the applicable Auction. If contracts remain from one or more unrelated orders at the time the Auction ends, they are considered for participation in the AIM order allocation process.

Additionally, Rule 5.37(b) provides that the Initiating Order must stop the entire Agency Order at a price that satisfies certain conditions. More specifically, Rule 5.37(b)(1)(A) provides that if a buy (sell) Agency Order is for less than 50 standard option contracts (or 500 mini-option contracts), the stop price must be at least one minimum increment better than the then-current NBO (NBB) or the Agency Order’s limit price (if the order is a limit order), whichever is better. Rule 5.37(b)(1)(B) provides that if a buy (sell) Agency Order is 50 standard option contracts (or 500 mini-option contracts) or more, the stop price must be at or better than the then-current NBO (NBB) or the Agency Order’s limit price (if the order is a limit order), whichever is better.

In order to allow TPHs to offer greater price improvement opportunities for Agency Orders under 50 standard options contracts (or 500 mini-option contracts), the Exchange now proposes to amend Rule 5.37(b)(1)(A) to require that, if the Agency Order is for less than 50 standard option contracts (or 500 mini-option contracts), and if the difference between the NBBO is \$0.01 (i.e., NBBO width is \$0.01)<sup>7</sup>, the stop price must be at least one minimum price improvement increment better than the NBBO on the opposite side of the market from the Agency Order (or the Agency Order’s limit price (if the order is a limit order), whichever is better). Thus, the Exchange would

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<sup>7</sup> The “NBBO width” means the difference between the National Best Bid and National Best Offer.

require that the Agency Order receive at least \$0.01 price improvement if that Agency Order is for less than 50 contracts and if the difference between the NBBO is \$0.01. For all other orders, regardless of size, the stop price must be at or better than the then current NBO (NBB). In light of the proposed change, the Exchange proposes to make a corresponding amendment to Rule 5.37(b)(1)(B) to provide that the stop price must be the better of the Agency Order's limit price (if the order is a limit order) or at or better than the then current NBBO if the Agency Order is for more than 50 standard options contracts (or 500 mini-option contracts) or if the NBBO width is greater than \$0.01. The Exchange notes the proposed rule change aligns the Exchange's AIM functionality with the functionality of AIM on its affiliate exchange, Cboe EDGX Exchange, Inc ("Cboe EDGX") and is consistent with other exchanges' rules with similar price improvement mechanisms.<sup>8</sup>

#### Implementation Date

The Exchange proposes to announce the implementation date of the proposed rule change in an Exchange Notice, to be published no later than thirty (30) days following the operative date. The implementation date will be no later than sixty (60) days following the operative date.

#### 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>9</sup> Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>10</sup> requirements

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<sup>8</sup> See Cboe EDGX Rule 21.19(b)(1). See also, e.g., Nasdaq PHLX LLC Options 3, Section 13(a) and Nasdaq ISE LLC Options 3, Section 13(b).

<sup>9</sup> 15 U.S.C. 78f(b).

<sup>10</sup> 15 U.S.C. 78f(b)(5).

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>11</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 its proposal will continue to promote opportunities for price improvement for Agency Orders for less than 50 standard options contracts (or 500 mini-option contracts) when the NBBO is \$0.01 wide, while also continuing to provide opportunities for price improvement when spreads are wider than \$0.01, regardless of order size, which helps to perfect the mechanism of a free and open market and, in general, helps to protect investors and the public interest. The Exchange believes that the changes to AIM requiring price improvement of at least one minimum price improvement increment over the NBBO for Agency Orders of less than 50 standard options contracts (or 500 mini-option contracts) where the difference in the NBBO is \$0.01 will ensure that these particular small orders receive at least minimal price improvement. Additionally, the Exchange believes the proposal will result in more orders of less than 50 standard contracts (or 500 mini-option contracts) where the NBBO width is greater than \$0.01 being executed in AIM, thus providing an increased probability of price improvement for small orders. By removing the requirement that the stop price must be at least one minimum increment better than the then NBBO for all orders of less than 50 standard

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<sup>11</sup> Id.

option contracts (or 500 mini-options contracts) regardless of what the NBBO width is, as proposed, market participants would be incentivized to introduce more orders to AIM for the opportunity to receive price improvement, thereby providing an increased probability of price improvement. The Exchange also notes the AIM Auction is now open to all Users, which also promotes and fosters competition, and may provide for additional liquidity in these auctions, which could lead to additional price improvement. The Exchange also notes that the AIM auction generally delivers a meaningful opportunity for price improvement to orders, including orders for fewer than 50 standard options contracts (or 500 mini-option contracts), when the spread in the option is \$0.02 or more.<sup>12</sup> Conversely, there is generally not significant price improvement when the NBBO has a bid/ask differential of \$0.01. Accordingly, the Exchange believes the proposed rule change to continue to require price improvement of at least one minimum price increment over the NBBO for Agency orders for less than 50 standard options contracts (or 500 mini-option contracts) when the difference in NBBO is \$0.01 will help ensure that these small orders receive at least minimal price improvement, while also providing further price improvement opportunities in smaller-sized orders that have a NBBO spread wider than \$0.01, which ultimately benefits investors and retail customers in particular.

Lastly, the Exchange notes the proposed rule change is generally intended to align system functionality currently offered by the Exchange with Cboe EDGX functionality in order to provide a consistent technology offering across the Exchange's affiliated exchanges. A consistent technology offering, in turn, will simplify the technology implementation, changes,

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<sup>12</sup> See, e.g., Securities Exchange Release No. 79835 (January 18, 2017) 82 FR 8445 (January 25, 2017) (SR-Phlx-2016-119).

and maintenance by TPHs that are also participants on Cboe EDGX. The Exchange believes this consistency will promote a fair and orderly national options market system.

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange does not believe the proposed rule change will impose any burden on intramarket competition that is not necessary or appropriate in furtherance of the purposes of the Act, because it will apply uniformly to TPHs. Additionally, the Exchange notes that participation in the AIM process is completely voluntary. The Exchange believes all market participants may benefit from any additional liquidity and price improvement in the AIM Auctions that may result from the proposed rule change.

The Exchange does not believe the proposed rule change will impose any burden on intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act, as the proposed rule change relates to an Exchange-specific auction mechanism. The Exchange also notes that other options exchanges maintain similar requirements for their respective price improvement auctions.<sup>13</sup>

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>13</sup> See Cboe EDGX Rule 21.19(b)(1). See also, e.g., Nasdaq PHLX LLC Options 3, Section 13(a) and Nasdaq ISE LLC Options 3, Section 13(b).

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>14</sup> and Rule 19b-4(f)(6)<sup>15</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 (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-CBOE-2021-024 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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<sup>14</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>15</sup> 17 CFR 240.19b-4(f)(6).

All submissions should refer to File Number SR-CBOE-2021-024. 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, 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-2021-024, 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.<sup>16</sup>

J. Matthew DeLesDernier  
Assistant Secretary

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<sup>16</sup> 17 CFR 200.30-3(a)(12).