

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-86082; File No. SR-CboeEDGX-2019-034)

June 11, 2019

Self-Regulatory Organizations; Cboe EDGX Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to Update its Price Adjust Process to Allow for the Process to Apply to Bulk Messages

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 4, 2019, Cboe EDGX Exchange, Inc. (the “Exchange” or “EDGX”) 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 Act³ 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 EDGX Exchange, Inc. (the “Exchange” or “EDGX Options”) proposes to update its Price Adjust process to allow for the process to apply to bulk messages. The text of the proposed rule change is provided in Exhibit 5.

The text of the proposed rule change is also available on the Exchange’s website (http://markets.cboe.com/us/options/regulation/rule_filings/edgx/), at the Exchange’s Office of the Secretary, and at the Commission’s Public Reference Room.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A)(iii).

⁴ 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 its rules to allow for the Price Adjust process to apply to bulk messages and make corresponding changes where applicable. The Exchange is proposing these amendments in order to provide Users that submit bulk messages with functionality that is currently available to them for orders.

In December 2018, the Exchange adopted bulk messaging functionality, in which a User may enter, modify or cancel up to an Exchange-specified number of bids and offers in a single message. A User may submit a bulk message through a bulk port.⁵ The System⁶ handles bulk message bids and offers in the same manner as it handles an order, or quote if submitted by a Market Maker, unless the Rules specify otherwise. Currently, Rule 21.1(i)(1) subjects orders to the Price Adjust process.⁷ Pursuant to the Price Adjust process, if an order (that is not an all-or-none

⁵ See Rule 21.1(j)(3)

⁶ The “System” is the automated system for order execution and trade reporting owned and operated by the Exchange. See Rule 21.1(a).

⁷ The Exchange notes that market orders will not be subject to the price adjust process given that they execute immediately at the best price, therefore, they will not lock or cross the market.

(“AON”) order⁸), at the time of entry, would lock or cross a Protected Quotation of another options exchange or the Exchange (subjecting it to the Price Adjust process), the System ranks⁹ and displays the order at one minimum price variation below (above) the current NBO (NBB). If a non-AON order is subject to the Price Adjust process by locking or crossing the offer (bid) of a AON order resting on the EDGX Options Book at or better than the Exchange’s best offer (bid), the System ranks the resting AON order at one minimum price variation above (below) the bid (offer) of the non-AON order. Additionally, the System ranks an AON orders that cross a Protected Offer (Bid) of another options exchange or a sell (buy) AON order resting on the EDGX Options Book at or better than the Exchange’s best offer (bid), at a price equal to the Protected Offer (Bid) or the offer (bid) of the resting AON order, respectively. AON orders that lock or cross a Protected Offer (Bid) of the Exchange are ranked by the System at a price one minimum price variation below (above) the Protected Offer (Bid). The Price Adjust process applies to orders (subject to the User’s instructions or the Rules) that do not execute upon entry and go to rest in the EDGX Options Book (for example, because an order is not marketable upon entry, is not eligible to route, etc.). It ensures these orders rest at executable prices in accordance with linkage rules.¹⁰ Current Rule 21.1(i)(4) states that the Price Adjust process does not apply to bulk messages.¹¹

⁸ An AON order is either a market or a limit order to be executed in their entirety or not at all. See Rule 21.1(d)(4).

⁹ In the EDGX Rules, the term “rank” means that an order will be prioritized and eligible for execution at its ranked price for purposes of allocation if an execution were to occur at that price. For an AON order “ranked” at a price, it would be prioritized last at that price.

¹⁰ See Chapter XXVII of the Rules. See also Options Order Protection and Locked/Crossed Market Plan (the “Linkage Plan”).

¹¹ Specifically, the individual bids (offers) submitted within a single bulk message. Therefore, as proposed, the Price Adjust process or a Cancel Back designation, as applicable, applies to all bulk message bids and offers within a single message.

Furthermore, current Rule 21.1(j)(3)(A) provides for additional handling provisions regarding bulk messages submitted through bulk quoting ports. Specifically, Rule 21.1(j)(3)(A)(iv) provides that the System will cancel or reject a Post Only bulk message bid (offer) with a price that locks or crosses the Exchange best offer (bid) or ABO (ABB).¹² The Exchange notes that bulk messages that include a Post Only instruction do not remove liquidity from the Exchange or route away to other exchanges.¹³ Current Rule 21.1(j)(3)(A)(iv) is consistent with how the System handles a Post Only order not subject to the Price Adjust process that locks or crosses the opposite side Exchange best bid or offer (“BBO”) or if displaying the order on the EDGX Options Book would create a violation of linkage Rule 27.3 (Locked and Crossed Markets). Additionally, current Rule 21.1(j)(3)(A)(v) provides that the System executes a Book Only bulk message bid (offer) that locks or crosses the ABO (ABB) against offers (bids) resting in the EDGX Options Book at prices the same as or better than the ABO (ABB) and then cancels the unexecuted portion of that bid (offer). Book Only orders do not route away to other exchanges.¹⁴ Current Rule 21.1(j)(3)(A)(v) is consistent with how the System handles Book Only orders not subject to the Price Adjust process.¹⁵ The Exchange also notes that pursuant to Rule 21.1(j)(3)(a)(ii), a Market Maker with an

¹² The ABBO means the best bid (offer) disseminated by other exchanges.

¹³ See Rule 21.1(d)(8), which defines “Post Only Orders” as orders that are to be ranked and executed on the Exchange pursuant to Rule 21.8 (Order Display and Book Processing) or cancelled, as appropriate, without routing away to another options exchange except that the order will not remove liquidity from the EDGX Options Book. A Post Only Order that is not subject to the Price Adjust process that would lock or cross a Protected Quotation of another options exchange or the Exchange will be cancelled. Users may designate bulk messages as Post Only.

¹⁴ See Rule 21.1(d)(7), which defines “Book Only Orders” as orders that are to be ranked and executed on the Exchange pursuant to Rule 21.8 (Order Display and Book Processing) or cancelled, as appropriate, without routing away to another options exchange. A Book Only Order will be subject to the Price Adjust process unless a User has entered instructions not to use such process. Users may designate bulk messages as Book Only.

¹⁵ See supra note 10.

appointment in a class may designate a bulk message for that class as Post Only or Book Only, and other Users (i.e., non-Market Makers or Market Makers without an appointment in a class) must designate a bulk message for that class as Post Only.¹⁶

The Exchange now proposes to amend Rule 21.1(i)(1) to subject bulk messages to the Price Adjust process. Specifically, the proposed rule change will subject a User's bulk messages to the Price Adjust process, which will apply to all bulk message bids and offers within a single message, unless a User designates a bulk message as Cancel Back (as described below), which will also apply to all bulk message bids and offers within a single message. As such, the Exchange also proposes to delete subparagraph (i)(4) which disallows bulk messages from the Price Adjust process. The Exchange notes that Users have noted the regularity with which their bulk message bids and offers are rejected because Price Adjust does not apply to them. As a result, some Users find this inefficient when submitting bulk messages. The Exchange believes that allowing bulk message bids and offers to be subject to the Price Adjust process will provide market participants with additional opportunities for execution and price improvement, as well as additional flexibility and control over their submission of bulk messages. The Exchange notes that the System currently will not allow a User to submit bulk messages as AON orders. Moreover, the Exchange notes that AON orders are not displayed on the Book¹⁷, therefore, they do not contribute to displayed liquidity, which is inconsistent with the primary purpose of bulk message functionality to encourage liquidity and trading through quoting behavior on the Exchange. The Exchange also notes that an AON order's size contingency (executed in its entirety or not at all) provides it with few opportunities for

¹⁶ Pursuant to the current Rules, a bulk message must be designated as Post Only or Book Only. Additionally, because bulk messages must include bids and offers and may not be market orders, all bulk messages are limit orders. See Rules 16.1(a)(4) and 21.1(d)(5).

¹⁷ The Exchange notes that it does not disseminate bids or offers of AON orders to OPRA, as the prices of AON orders are not included in the BBO for a series.

execution, which is also inconsistent with the purpose of bulk messages. The Exchange now proposes to explicitly state in Rule 21.1(d)(4) that a User may not designate bulk messages as AON orders.¹⁸

Additionally, the Exchange proposes to explicitly state under Rule 21.1(i)(1) that a User may enter instructions for an order (including bulk messages) not to be subject to the Price Adjust process. The ability for Users not to subject orders to the Price Adjust process (and Cancel Back) currently exists for a User's orders, including Book Only and Post Only orders,¹⁹ that are not otherwise subject to limitations under the Rules. The Exchange is now proposing to make this election explicit under the Price Adjust provision and applicable to a User's orders and bulk messages. The proposed opt-out election is based on the corresponding Price Adjust process under Rule 6.12 of the Exchange's affiliated exchange, Cboe C2 Exchange, Inc. ("C2").²⁰ In line with this proposed change, the Exchange now proposes to codify the existing Cancel Back instruction (proposed Rule 21.1(l)) that is substantially similar to that of C2's Cancel Back provision under C2 Rule 6.10(c) for Users that do not wish for their orders or bulk messages to be subject to the Price Adjust process. As proposed, a Cancel Back order is an order (including bulk messages) a User designates to not be subject to the Price Adjust Process pursuant to Rule 21.1(i) that the System cancels or rejects (immediately at the time the System receives the order or upon return to the System after being routed away) if displaying the order on the Book would create a violation of Rule 27.3 (Locked and Crossed Markets), or if the order cannot otherwise be executed or displayed in the EDGX Options Book at its limit price. As stated, a Cancel Back designation for a bulk

¹⁸ See Rule 21.1(d)(4).

¹⁹ See Rule 21.1(d)(7)-(8).

²⁰ The Exchange notes that C2 is simultaneously proposing to include bulk messages in its Price Adjust and Cancel Back processes.

message applies to all bulk message bids and offers within a single message. The System executes a Book Only – Cancel Back order against resting orders, and cancels or rejects a Post Only – Cancel Back order, that locks or crosses the opposite side of the BBO. The Exchange notes that pursuant to the Book Only instruction, an order or bulk message may not route away to another Exchange. Therefore, if an incoming Book Only order or bulk message bid or offer designated as Cancel Back locked or crossed an away market (i.e. the ABBO), the System would execute it to the extent it could against contra-side interest on the Exchange at prices the same as or better than the ABBO in accordance with the linkage rules.²¹ The System would then cancel it to prevent a violation of Rule 27.3 of the intermarket linkage rules. The Exchange also notes that pursuant to the Post Only instruction, an order or bulk message may not remove liquidity from the Book or route away to another Exchange. Therefore, if a Post Only order or bulk message bid or offer designated as Cancel Back locked or crossed the best contra-side interest on the Exchange (i.e. the BBO) or the ABBO, the System would cancel it to prevent it from executing against resting interest on the Exchange and to prevent a violation of Rule 27.3 of the intermarket linkage rules.

Pursuant to the proposed rule change described above, all bulk message bids and offers would now be subject to the Price Adjust process, if not otherwise designated as Cancel Back, if they lock or cross a Protected Quotation of another options exchange or the Exchange, and rest in the EDGX Options Book pursuant to the process, thus avoiding display of a locked or crossed market in accordance with the linkage rules.²² Therefore, the Exchange now proposes to remove Rules 21.1(j)(3)(A)(iv) and 21.1(j)(3)(A)(v) (and amend the subsequent lettering as a result) because Post Only and Book Only bulk messages will now be included in the Price Adjust process, the handling of which would now be consistent with the current order handling of Post Only and

²¹ See supra note 10.

²² Id.

Book Only orders under the Price Adjust process.²³ The Exchange also notes that all bulk message bids and offers designated as Cancel Back pursuant to proposed Rule 21.1(l), and thus designated to not be subject to the Price Adjust process, would be handled in the same manner as they are today pursuant to current subparagraphs (j)(3)(A)(iv) and (j)(3)(A)(v) (which the Exchange proposes to delete).²⁴

The Exchange notes that allowing bulk message bids and offers to be subject to a repricing process is consistent with the handling of similar order (and quote) types on other exchanges.²⁵ A similar repricing (display-price sliding) process for bulk messages currently exists under Rule 21.1(h)(1) of the Exchange’s affiliated exchange, Cboe BZX Exchange, Inc. (“BZX Options”). The Exchange also notes that other exchanges subject orders (quotes), including quotes similar to Post Only and Book Only bulk messages, to a repricing process like the Price Adjust process. For example, NYSE Arca, Inc. (“Arca”) recently adopted order types called the Market Maker Add Liquidity Only quotation (“MMALO”), which like a Post Only instruction may not remove liquidity from the Exchange, and the Market Maker Repricing quotation (“MMRP”).²⁶ Pursuant to Arca’s repricing process, if these quotes would not be able to trade upon entry (for example, because the MMALO would take liquidity or display at a price

²³

Id.

²⁴

Given that the proposed rule change will subject bulk messages to the Price Adjust process, and allow for a User to opt-out of the Price Adjust process and, instead, designate their bulk message bids and offers as Cancel Back, these provisions are no longer necessary.

²⁵

See Securities Exchange Act Release No. 84737 (December 6, 2018), 83 FR 63919 (December 12, 2018) (SR-NYSEArca-2018-74) (Order Approving a Proposed Rule Change, as Modified by Amendment No. 1, to Amend Rules 6.62-O and 6.37A-O to Add New Order Types and Quotation Designations). See also BZX Options Rule 21.1(h)(1).

²⁶

See Arca Rule 6.37A-O(a)(3)(A) and Rule 6.37A-O(a)(3)(C).

that locks or crosses any interest on the Exchange or the NBBO), it would be displayed at one minimum price variation below (above) such sell (buy) interest.

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.²⁷ Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)²⁸ 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)²⁹ requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

In particular, the Exchange believes that the proposed rule change subjecting bulk messages to the Price Adjust process will remove impediments to and perfect the mechanism of a free and open market because it provides Users with the flexibility to apply to bulk messages the same functionality they may apply to their orders. The Exchange believes that repricing individual bids and offers within a single bulk message for Users (that do not opt-out of the Price Adjust process), as opposed to automatically rejecting messages that lock or cross protected

²⁷ 15 U.S.C. 78f(b).

²⁸ 15 U.S.C. 78f(b)(5).

²⁹ Id.

quotes when posted to the EDGX Options Book, will permit Users to use bulk messages to respond to continuously changing market conditions in a more efficient manner, as well as provide additional opportunity for execution and price improvement. The proposed repricing of bulk messages prevents the display of a locked or crossed market and is consistent with the Linkage Plan,³⁰ thereby perfecting the mechanism of a free and open market and national market system and protecting investors.

The Exchange also believes that by subjecting bulk message bids and offers to the Price Adjust process instead of cancelling or rejecting them under certain circumstances, will give Users greater flexibility and control over the circumstances under which their orders are able to interact with contra side-interest on the Exchange. The Exchange believes this may increase the opportunities for execution at multiple price points and encourage the provision of more liquidity to the market, and therefore believes that it is reasonably designed to facilitate the mechanism of price discovery.

The Exchange notes that the options markets are quote driven markets and thus dependent on liquidity providers, which are most commonly registered market makers but also other Users, such as professional traders, for liquidity and price discovery. The Exchange believes that subjecting bulk messages to the Price Adjust process will provide liquidity providers with greater flexibility with respect to their submission of bulk messages, the primary purpose of which is to provide liquidity to the market. The Exchange believes that the reduction in the number of rejected bulk message bids and offers will promote efficacy in bulk messaging and may encourage the provision of more liquidity. This may result in more trading opportunities and tighter spreads and contribute to price discovery. As a result, this proposed change intends to

³⁰ See supra note 10.

improve overall market quality and enhance competition on the Exchange to the benefit of all investors.

The Exchange believes that allowing for a User to enter instructions for an order or bulk message not to be subject to the Price Adjust process under Rule 21.1(i)(1), and rather designate an order or bulk message as Cancel Back under proposed Rule 21.1(l), serves to remove impediments to and perfect the mechanism of a free and open market and a national market system because this change provides Users with additional flexibility regarding how they want the System to handle their orders and bulk messages. The Exchange also notes that permitting Users to elect that their orders and/or bulk messages not be subject to the Price Adjust process, and instead treated as Cancel Back orders, is an additional way to ensure compliance with the linkage rules,³¹ thereby protecting investors and the public interest. Additionally, this change is consistent with the Price Adjust and Cancel Back processes language under Rule 6.10 and Rule 6.12 of the Exchange's affiliated exchange, C2.³² The Exchange believes that mirroring the corresponding C2 rule language will provide better understanding for Users participating across the affiliated exchanges.

Lastly, by amending Rule 21.1(d)(4) for AON orders to state that such orders may not be bulk messages, a System functionality currently in place, the Exchange believes the proposed rule change will remove impediments to the mechanism of a free and open market and protect investors by providing investors with rules that accurately reflect functionality currently unavailable for bulk messages.

³¹ Id.

³² See also supra note 20.

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, as the proposed application of the Price Adjust process and opt-out instructions to bulk messages, along with the Cancel Back process to both orders and bulk messages, will be available to all applicable Users (e.g. Market Makers may submit Book Only bulk messages, therefore, the option to apply the Price Adjust process to Book Only bulk messages is available to all Market Makers). While bulk messages will by default be subject to the Price Adjust process, all Users may opt-out of that process for bulk messages by designating their bulk messages (and orders) as Cancel Back, thus, allowing Users the choice to continue to have their bulk messages be handled in the same manner they are today. The Exchange also notes that the Price Adjust process (including opt-out instructions) are already available to all Users for orders, including Post Only and Book Only orders, and will apply to bulk messages in the same manner as they apply to orders.

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, because it will provide Users with bulk message repricing functionality and opt-out provisions that are similar to other order and quote repricing and opt-out provisions available on other exchanges. The Exchange believes the proposed functionality will permit the Exchange to operate on an even playing field relative to other exchanges that have similar functionality.

As discussed above, the options markets are quote driven markets and thus dependent on various Users as liquidity providers and for price discovery. The Exchange believes the proposed

amendment to subject bulk messages to the Price Adjust process will provide liquidity providers with additional flexibility and control over interactions of their individual bids and offers within a bulk message with contra-side liquidity, as well as additional opportunity for execution at multiple price points and price improvement. This may encourage the provision of more liquidity, which may result in more trading opportunities and tighter spreads, and contribute to price discovery. This may improve overall market quality and enhance competition on the Exchange, to the benefit of all investors.

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:

- 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 Act³³ and Rule 19b-4(f)(6)³⁴ thereunder.³⁵

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

³³ 15 U.S.C. 78s(b)(3)(A).

³⁴ 17 CFR 240.19b-4(f)(6).

³⁵ 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6)(iii) requires a self-regulatory organization to give 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. The Exchange has satisfied this requirement.

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-CboeEDGX-2019-034 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-CboeEDGX-2019-034. 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-CboeEDGX-2019-034 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.³⁶

Eduardo A. Aleman
Deputy Secretary

³⁶ 17 CFR 200.30-3(a)(12).