SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-86776; File No. SR-CboeEDGX-2019-053)

August 27, 2019

Self-Regulatory Organizations; Cboe EDGX Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend Rules 21.20 and 21.22 in Connection with Stock-Options Orders

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”), and Rule 19b-4 thereunder, notice is hereby given that on August 22, 2019, Cboe EDGX Exchange, Inc. (the “Exchange” or “EDGX”) filed with the Securities and Exchange Commission (“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 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 EDGX Exchange, Inc. (the “Exchange” or “EDGX”) proposes to amend Rules 21.20 and 21.22 in connection with stock-options orders. 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.

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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

On April 26, 2019, the Exchange filed a rule filing, SR-CboeEDGX-2019-028, which was approved by the Securities and Exchange Commission (the “Commission”) on July 26, 2019, which permits use of its Automated Improvement Process (“AIM”) for complex orders. Specifically, the filing describes how complex orders may be submitted to and will be processed in an AIM Auction (“C-AIM” or “C-AIM Auction”). Also, on June 27, 2019, the Exchange filed SR-CboeEDGX-2019-039, which adopts stock-option order functionality on the Exchange. The Exchange notes that it implemented the proposed changes under SR-CboeEDGX-2019-039 on August 16, 2019 as

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part of Feature Pack 9 seventh in with the migration of Cboe Exchange, Inc. (“Cboe Options”) technology to the same trading platform used by the Exchange, Cboe C2 Exchange, Inc. (“C2”), and Cboe BZX Exchange, Inc. (“BZX Options”) in the fourth quarter of 2019. The Exchange now proposes an additional amendment under the rules proposed by SR-CboeEDGX-2019-028 and under the rules proposed by SR-CboeEDGX-2019-039. Specifically, the Exchange proposes to add an additional event under Rule 21.22(d)(1) (as proposed under SR-CboeEDGX-2019-028) that would cause a C-AIM Auction to conclude early. The Exchange also proposes to amend Rule 21.20(f)(2) (as proposed under SR-CboeEDGX-2019-039) to provide for how the Exchange will handle a stock-option order with one or multiple options legs when different minimum trading increments are allowed for the stock and options legs of such trades. The Exchange intends to implement these amendments to the proposed rules under SR-CboeEDGX-2019-028 and SR-CboeEDGX-2019-039 to be effective on August 22, 2019, or as close in time as possible to the Feature Pack 9 implementation date of August 16, 2019, so that the proposed changes may seamlessly coincide with the implementation of the rule changes under the two rule filings.

Currently, under Rule 21.22(d)(1) C-AIM Auction concludes at the earliest to occur of the following times:

a) the end of the C-AIM Auction period;

b) upon receipt by the System of an unrelated non-Priority Customer complex order on the same side as the Agency Order that would post to the COB at a price better than the stop price;

The Exchange notes that implementation of these changes as a part of Feature Pack 9 was recently postponed via Exchange notice from a roll-out of August 5, 2019 to August 16, 2019. See Exchange Notice No. C2019080200 (Updated August 02, 2019). The changes under SR-CboeEDGX-2019-028 have been postponed and are planned to be implemented soon after August 16, 2019.
c) upon receipt by the System of an unrelated Priority Customer complex order on the same side as the Agency Order that would post to the COB at a price equal to or better than the stop price;

d) upon receipt by the System of an unrelated non-Priority Customer order or quote that would post to the Simple Book and cause the SBBO on the same side as the Agency Order to be better than the stop price;

e) upon receipt by the System of an unrelated Priority Customer order in any component of the complex strategy that would post to the Simple Book and cause the SBBO on the same side as the Agency Order to be equal to or better than the stop price;

f) upon receipt by the System of a simple non-Priority Customer order that would cause the SBBO on the opposite side of the Agency Order to be better than the stop price, or a Priority Customer order that would cause the SBBO on the opposite side of the Agency Order to be equal to or better than the stop price;

g) the market close; and

h) any time the Exchange halts trading in the complex strategy or any component of the complex strategy, provided, however, that in such instance, the C-AIM Auction concludes without execution.

The Exchange now proposes to add an event under Rule 21.22(g)\(^8\) that would conclude a C-AIM Auction in response to an incoming order that would cause the SBBO to be at a price not permissible under the Limit Up-Limit Down Plan or Regulation SHO,\(^9\) and would conclude the C-AIM Auction without execution. This will ensure that the stock leg of a stock-option order

\(^8\) And subsequently re-letter the subparagraphs, changing current subparagraph (g) to (h), and current (h) to (i).

submitted into a C-AIM Auction does not execute at a price not permissible under that plan or regulation. This is consistent with current C-AIM functionality to ensure that stock legs do not trade at prices not permissible under the Limit Up-Limit Down Plan or Regulation SHO.\(^\text{10}\)

The Exchange proposes to amend Rule 21.20(f)(2) to provide for how the Exchange will handle a stock-option order with one or multiple options legs when different minimum trading increments are allowed for the stock and options legs of such trades. Pursuant to SR-CboeEDGX-2019-039, Rule 21.20(f)(1)(B) provides that the option leg(s) of a stock-option order may be executed in $0.01 increments, regardless of the minimum increments otherwise applicable to the option leg(s), and the stock leg of a stock-option order may be executed in any decimal price permitted in the equity market. In a small subset of cases, generally as a result of unusual leg ratios, in calculating the total notional value a stock leg may result in a price outside of the NBBO, thus cannot execute pursuant to Rule 21.20(f)(2)(B).\(^\text{11}\) In order to allow for the strategy to execute, the proposed rule change would offer functionality that allows the legs of the stock option order to trade outside of their expected notional value by a specified amount determined by the Exchange.\(^\text{12}\)

\(^{10}\) Id.

\(^{11}\) Pursuant to Rule 21.20(f)(2)(B), the System will only execute the stock leg of a stock-option order up to a buffer amount outside of the stock leg NBBO and that the execution price of the buy (sell) stock leg of a QCC with Stock Order may be any price (including outside the NBBO for the stock leg). While the QCT exemption permits a stock leg to execute outside of the NBBO, the Exchange still offers price protections to prevent execution too far away from the NBBO, which it understands is consistent with market participants’ desire. Currently on EDGX, the buffer referenced in Rule 21.20(f)(2)(B) is set to zero, so the Exchange does not permit execution of the stock leg of a stock-option order outside of the NBBO (other than a QCC with stock order, which will execute immediately without exposure and thus is unlikely to trade too far outside of the NBBO). Current rules of other exchanges (such as Cboe Options) prevent execution of the stock component from being too far away from the NBBO, as do the rules of stock exchanges.

\(^{12}\) Pursuant to Rule 16.3, the Exchange announces to Options Members all determinations it makes pursuant to the Rules via specifications, Notices, or Regulatory Circulars with appropriate advanced notice, which will be posted on the Exchange’s website, or
Therefore, the System could ensure that options legs and stock leg were priced in line with Rule 21.20, which includes ensuring that: 1) the option leg of a stock-option order with one option leg does not trade at a price worse than the individual component price on the Simple Book or at the same price as a Priority Customer Order on the Simple Book; 2) that the option leg(s) of a stock-option order with more than one option leg trades does not execute at a net price i) that would cause a leg to execute at a price of zero, ii) worse than the SBBO or equal to the SBBO when there is a Priority Customer Order at the SBBO, except AON complex orders may only execute at prices better than the SBBO, ii) that would cause a leg to be executed at a price worse than the individual component prices on the Simple Book, iv) worse than the price that would be available if the complex order Legged into the Simple Book, or v) that would cause any component of the complex strategy to be executed at a price ahead of a Priority Customer Order on the Simple Book without improving the BBO of at least one component of the complex strategy; and 3) that a stock leg does not execute above (below) the buffer amount that is above (below) the NBBO.  

Although this would result in a negligible difference (i.e. residual amount) between the expected notional value of the trade and the actual trade value, Users generally prefer not to forgo an execution for their stock-option strategies when the residual amount is miniscule compared to the total value of the trade. The value allowance would work, for example, as follows:

- Assume the Exchange has determined a trade value allowance of $0.50 from the expected trade value.

- Assume also that:

  (Equity) NBBO: 10.00 x 11.00

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13 See supra note 11.
A User enters a stock-option order to Buy 47 shares of XYZ stock and Buy 3 June 10 XYZ calls with a net price of 8.30 and a quantity of 3.

The order matches with corresponding contra order on the complex order book.

The expected trade value based on the order’s limit price, quantity and a contract multiplier of 100 is $2,490.00 (i.e., 8.30 x 3 x 100).

The calculated options match price is 1.00 based on market prices and the stock match price is 11.2766 (rounded four decimals), therefore, outside of the NBBO.

The trade value allowance then calculates the stock match price that results in a total notional trade value of $2489.9934:

Options leg notional = $1.05 x 100 x 3 x 3 = $945

Stock Leg notional = $10.9574 x 47 x 3 = $1,544.9934

Notional trade value = $2,489.9934, which is within the $0.50 trade value allowance.

The Exchange notes that a valid trade price within the NBBO for the stock leg with the smallest residual between the difference in actual trade value and expected notional trade value is $10.9574. Therefore, in this example, the corresponding options leg match price would be $1.05 because it is the options match price that could be paired with a valid stock trade price that would also allow for the smallest residual between the difference in actual trade value and expected notional trade value. If, for example, the next allowable options increment\(^\text{14}\) within the BBO ($1.04)

\[^{14}\text{See Rule 21.20(f)(1)(B), which states that the option leg(s) of a stock-option order may...}^\]
was used, the stock leg notional trade value matched to meet the notional value closest to the expected trade value would be $11.0213, and therefore still outside of the NBBO. The Exchange also notes that $1.05 is consistent with the BBO in this example.

Under the proposed rule, the System will not apply the trade value allowance to orders with a “C” capacity code (for the account of a Priority Customer). This limitation is intended to function as an additional protection for customers who may not have the same levels of trading sophistication or technological and informational advantages as that of Professionals or broker-dealers. Therefore, customers may not have measures in place to assume any level of risk that may be associated with trading outside of the expected trade value (which risk the Exchange believes is de minimis given that the Exchange will impose a reasonable cap, as described below, on the amount by which the actual trade value may differ from the expected trade level). As a result, the Exchange believes that not applying the trade value allowance to customer orders will further protect customers from assuming this potential risk for which they may not have calculated.

Overall, this proposed functionality is a helpful feature which will allow Users to receive an expeditious execution, and trade the stock and options components of a stock-option strategy in a moving market without introducing legging risk. Without this functionality members would be forced to resubmit their orders and potentially receive a much worse price or miss an execution. The Exchange will announce to all market participants the determined trade

be executed in $0.01 increments.

15 The notional trade value would be: ($1.04 x 100 x 3 x 3) + ($11.0213 x 47 x 3) = $2,490.0033.

16 See Rule 16.1, which states that a Priority Customer means any person or entity that is not a broker or dealer in securities or a Professional. See also Securities Exchange Act Release No. 86415 (July 19, 2019), 84 FR 35905 (July 25, 2019) (Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating To Update Rule 16.1 To Include the Definition of Capacity, as well as Amend Its Fee Schedule To Reflect This Update) (SR-CboeEDGX-2019-046).
value allowance amount pursuant to Rule 1.5. The Exchange would determine an allowance amount that would reasonably account for the average differences in notional trade values as well as the cost benefit to market participants between the differences in actual trade value versus expected notional trade value and the imposition of resubmitting their orders and potentially receiving a much worse price or missing an execution. The Exchange notes that, if, however, a User determines that the trade value allowance is more attractive or favorable on another venue, Users are free to execute on other such venues. The proposed Exchange determination of a value allowance outside of the expected notional value is currently in place on other exchanges.

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

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17 The Exchange expects this value to be initially set at $0.50 as represented in the example above.

18 See Nasdaq ISE Rules, Supplementary Material .03 to Options 3, Section 14; and Nasdaq MRX Rules, Supplementary Material .03 to Options 3, Section 14.


investors and the public interest. Additionally, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)\textsuperscript{21} requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

In particular, the proposed additional event that will conclude a C-AIM Auction is reasonable and promotes a fair and orderly market and national market system, because it will ensure that executions at the conclusion of a C-AIM Auction occur at permissible prices, specifically, that the stock leg of a stock-option order submitted into a C-AIM Auction does not execute at a price not permissible under the Limit Up-Limit Down Plan or Regulation SHO. Moreover, the Exchanges notes that this is consistent with current C-AIM functionality to ensure that stock legs do not trade at prices not permissible under the Limit Up-Limit Down Plan or Regulation SHO, therefore, the Exchange believes it is appropriate to conclude a C-AIM Auction if the proposed circumstance occurs.\textsuperscript{22} The proposed rule change will also benefit investors by providing additional clarity regarding what will cause C-AIM Auction to conclude.

The proposed Exchange determination to set an allowable value outside of the expected notional trade value for the legs of a stock-option order removes impediments to and perfects the mechanism of a free and open market and a national market system because it provides Users with functionality that allows a User’s stock-option strategies to trade outside of their specified net prices when the executable stock match price results in a small difference between the expected notional value of the trade and the actual trade value. Users generally prefer not to forgo an execution for their stock-option strategies when this occurs, as the residual amount is miniscule compared to the value of the trade. As a result of the proposed rule, Users will be able to receive an expeditious execution, and trade the stock and options components of a stock-option strategy in a moving

\textsuperscript{21} Id.

\textsuperscript{22} See supra note 6.
market without introducing legging risk, instead of resubmitting their orders and potentially receiving a much worse price or missing an execution. In addition to this, the Exchange also believes that not permitting the trade value allowance to apply to customer orders will remove impediments to and perfect the mechanism of a free and open market and national market system, and, in general protect investors, in that it prevents customers from assuming potential risk (which the Exchange believes is de minimis given that the Exchange will impose a reasonable variance, as reiterated below). The Exchange believes the proposed rule will protect customers because customers may not have the same levels of trading sophistication or technological and informational advantages as that of Professionals or broker-dealers and, thus, may not have the measures in place to assume any level of risk that may be associated with trading outside of the expected trade value.

As stated above, the proposed Exchange determination of a value allowance outside of the expected notional value is currently in place on other exchanges.\(^{23}\) The Exchange believes that the differences between the proposed rule and the rules of other exchanges will remove impediments to and perfect the mechanism of a free and open market and national market system, and, in general, protect investors. The other exchanges’ rules allow for a notional variance based on a percentage, while the proposed rule will allow for a specific dollar amount which the exchange believes is more straightforward and less confusing for investors than the calculation of a percentage. The other exchanges’ rules allow for Member determination or a default to Exchange determination of the notional variance, while the proposed rule will allow only for Exchange determination, which the Exchange believes will also simplify the implementation of this functionality and mitigate any potential investor confusion by setting just one Exchange-determined notional variance. The other exchanges rules also do not differentiate

\(^{23}\) See supra note 17.
between the trade value application to customer and non-customer orders, however, as described herein this filing, the Exchange believes this implements an additional protection for customer orders. Finally, unlike other exchanges’ rules, the proposed rule does not provide for a User opt-out function. Because the difference between the expected notional value of the trade and the actual trade value is inconsequential, especially as compared to the overall benefit to investors of an expeditious execution, this proposed difference will not have any significant impact on the Exchange’s participants and, instead, will benefit participants overall. As stated, the Exchange would determine an allowance amount that would reasonably account for the average differences in notional trade values as well as the cost benefit to market participants between the differences in actual trade value versus expected notional trade value and the imposition of resubmitting their orders and potentially receiving a much worse price or missing an execution. The Exchange notes that, if, however, a User determines that the trade value allowance is more attractive or favorable on another venue, Users are free to execute on other such venues.

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 to add an additional event that would conclude a C-AIM Auction will impose any burden on intramarket competition, as this event, if it is the earliest to occur of the list of events that would conclude a C-AIM Auction, will conclude a C-AIM Auction in the manner which already occurs for the other events currently listed under the rule, and a manner which is consistent with current C-AIM functionality that ensures stock legs do not trade at prices not permissible under the Limit Up-Limit Down Plan or Regulation SHO. The subsequent conclusion of a C-AIM Auction applies in the same manner to all Users. The Exchange does not believe the proposed change to allow option legs of a stock-
option strategy to trade outside of their expected notional value by a specified amount determined by the Exchange and communicated to Members via specifications and/or Regulatory Circular will impose any burden on intramarket competition because the amount will apply to all User’s non-customer stock-option strategies equally. As described above, the Exchange does not believe that excluding customer orders from the trade value allowance functionality would impose any significant burden on completion as customers generally do not have the same levels of trading sophistication or technological and informational advantages as that of Professionals or broker-dealers in order to take on any level of risk associated with trading outside the expected trade value. Rather, the proposed rule benefits customers by ensuring that customers will not assume potential risk for which they have not calculated.

The Exchange does not believe the proposed rule change to add an additional event that would conclude a C-AIM Auction will impose any burden on intermarket competition because the proposed change is designed as a protection intended to ensure that the stock leg of a stock-option order submitted into a C-AIM Auction does not execute at a price not permissible under the Limit Up-Limit Down Plan or Regulation SHO. As stated, current C-AIM functionality already exists which ensures stock legs do not trade at prices not permissible under this plan or regulation. The Exchange does not believe the proposed rule change to allow option legs of a stock-option strategy to trade outside of their expected notional value by a specified amount determined by the Exchange and communicated to Members via specifications and/or Regulatory Circular will impose any burden on intermarket competition because it is substantially similar to other options exchanges’ rules, previously filed with the Commission.24

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24 See supra note 17.
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, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act and Rule 19b-4(f)(6) thereunder.

A proposed rule change filed pursuant to Rule 19b-4(f)(6) under the Act normally does not become operative for 30 days after the date of its filing. However, Rule 19b-4(f)(6)(iii) permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange has asked the Commission to waive the 30-day operative delay so that the proposal may become operative immediately upon filing. The Exchange notes that waiver of the operative delay would allow it to implement the proposal immediately and as close in time as possible to the implementation date of other rule changes regarding stock-option orders. The Commission believes that waiving the 30-day operative delay is consistent with the protection of investors and the public interest because the

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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, along with a brief description and the 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.
29 See supra note 7.
The proposed rule change is designed to benefit investors by allowing stock-option strategies to trade outside of their specified net price when the executable match price results in a small difference between the expected notional value of the trade and the actual trade value, instead of forgoing an execution for their stock-option strategies when this occurs. The Commission also notes that the proposed rule change is consistent with the practices of other options exchanges, which provide for similar notional variance for legs in a stock-option strategy.\(^{30}\) Accordingly, the Commission hereby waives the operative delay and designates the proposal operative upon filing.\(^{31}\)

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 shall 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

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\(^{30}\) See supra note 18.

\(^{31}\) 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).
Send an e-mail to rule-comments@sec.gov. Please include File Number SR-CboeEDGX-2019-053 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-2019-053. 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-2019-053 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.\(^{32}\)

Jill M. Peterson
Assistant Secretary

\(^{32}\) 17 CFR 200.30-3(a)(12).