III. Date of Effectiveness of the Proposed Rule Change, and Timing for Commission Action

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) By order approve or disapprove such proposed rule change, or

(B) institute proceedings to determine whether the proposed rule change should be disapproved.

The proposal shall not take effect until all regulatory actions required with respect to the proposal are completed.

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 email to rule-comments@sec.gov. Please include File Number SR–DTC–2017–024 on the subject line.

Paper Comments

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

All submissions should refer to File Number SR–DTC–2017–024. This file number should be included on the subject line if email 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 DTC and on DTCC’s website [http://dtcc.com/legal/sec-rule-filings.aspx]. 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–DTC–2017–024 and should be submitted on or before January 30, 2018.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority. 39

Eduardo A. Aleman,
Assistant Secretary.

[FR Doc. 2018–00159 Filed 1–8–18; 8:45 am]

BILLING CODE 8011–01–P

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–82436; File No. SR–
CboeBZX–2017–022]

Self-Regulatory Organizations; Cboe BZX Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change To Adopt Risk Controls and Modify Rules 21.1, 21.10, and 21.17 in Connection With Technology Migration of Cboe Exchanges


Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),3 and Rule 19b–4 thereunder,2 notice is hereby given that on December 21, 2017, Cboe BZX Exchange, Inc. (the “Exchange”) 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 has designated this proposal as a “non-controversial” proposed rule change pursuant to Section 19(b)(3)(A) of the Act4 and Rule 19b–4(f)(6)(iii) thereunder,4 which renders it effective upon filing with the Commission. 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

The Exchange filed a proposal to update Rule 21.1, Rule 21.10, and Rule 21.17 to make modifications to the Exchange’s rules and functionality applicable to the Exchange’s options platform (“BZX Options”) in preparation for the technology migration of the Exchange’s affiliated options exchanges onto the same technology as the Exchange.

The text of the proposed rule change is available at the Exchange’s website at www.markets.cboe.com, at the principal office of the Exchange, 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 parts 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 and its affiliates Cboe BYX Exchange, Inc. (“BYX”), Cboe EDGA Exchange, Inc. (“EDGA”), and Cboe EDGX Exchange, Inc. (“EDGX”) received approval to affect a merger (the “Merger”) of the Exchange’s then-current indirect parent company, Bats Global Markets, Inc., with Cboe Global Markets Inc./a CBOE Holdings, Inc. (“Cboe”), the direct parent of Cboe Exchange, Inc. (“Cboe Options”) and Cboe C2 Exchange, Inc. (“C2 Options”), and together with the Exchange, EDGX, and Cboe Options the “Cboe Affiliated Exchanges”). The Cboe Affiliated Exchanges are working to align certain system functionality, retaining only intended differences between the Cboe Affiliated Exchanges.
in the context of a technology migration. Thus, the proposals set forth below are intended to add certain functionality to the Exchange’s System that is more similar to functionality offered by Cboe Options and C2 Options in order to ultimately provide a consistent technology offering for market participants who interact with the Cboe Affiliated Exchanges. Although the Exchange intentionally offers certain features that differ from those offered by its affiliates and will continue to do so, the Exchange believes that offering similar functionality to the extent practicable will reduce potential confusion for Users.

The Exchange is proposing to adopt periodic, but relatively minor changes to functionality in order to reduce risk in connection with the technology migration described above; this proposal is related to two such proposed changes. First, the Exchange proposes to adopt certain risk functionality in Rule 21.17, which is based on functionality on Cboe Options, C2 Options and/or the options trading platform operated by EDGX (“EDGX Options”). The Exchange notes that it also proposes to make a related change to Rule 21.1 to eliminate functionality that overlaps with the proposed risk functionality. Second, the Exchange proposes to modify Rule 21.10 to allow it to provide additional information on transaction reports.

Risk Controls

The Exchange currently provides certain controls to Users of BZX Options pursuant to Rule 21.16, which describes the Exchange’s “Risk Monitor Mechanism.” In addition, the Exchange provides a variety of optional risk controls to all Exchange Users pursuant to Interpretation and Policy .01 to Rule 11.13, including various controls related to the price of an order. The Exchange proposes to adopt various risk controls currently offered by Cboe Options, C2 Options, and/or EDGX Options and to codify such risk controls in Rule 21.17.

Rule 21.17 currently permits the Exchange to share a User’s risk settings with the Clearing Member that clears transactions on behalf of the User, which is a provision that the Exchange does not propose to modify. Rule 21.17 does not currently describe any applicable risk settings. As noted above, though certain risk settings offered for Users of BZX Options are codified in Rule 21.16, other optional risk settings offered by the Exchange are more generally described in Interpretation and Policy .01 to Rule 11.13 and have been described in other filings previously made by the Exchange. The Exchange proposes to provide more specificity in proposed Rule 21.17 regarding the risk settings the Exchange proposes to implement for BZX Options, which is consistent with the approach taken by Cboe Options and C2 Options. As a general matter, the Exchange proposes to adopt various numeric values that would apply to the risk settings offered by the Exchange. Consistent with the rules of EDGX Options, the Exchange proposes to maintain all numeric values established by the Exchange pursuant to Rule 21.17 in publicly available specifications and/or published in a Regulatory Circular. Further, as a general matter, the proposed risk settings would be applied to all orders and quotes received by BZX Options rather than optionally configured and enabled by Users. Thus, proposed Rule 21.17 would explicitly state that unless otherwise specified, the price protections in the Rule, including the numeric values established by the Exchange, may not be disabled or adjusted. Below are descriptions of the specific risk settings proposed by the Exchange.

The first risk control the Exchange proposes to adopt is the Market Order NBBO Width Protection. As proposed, if a User submits a Market Order to the System when the NBBO width is greater than 2% of the midpoint of the NBBO, subject to minimum and maximum dollar values established by the Exchange, the System will reject or cancel back to the User the Market Order. The Exchange proposes to establish “x” and the minimum and maximum values on a class-by-class basis. The proposed Market Order NBBO Width Protection is based on and similar to the Market-Width Parameter set forth in C2 Options Rule 6.17a(a). In particular, similar to C2 Options Rule 6.17a(a), the Exchange would reject or cancel Market Orders when the width of the NBBO is greater than an acceptable range and would establish the numeric values that would ultimately determine acceptable quote widths on a class-by-class basis. However, in contrast to C2 Options Rule 6.17a(a), the Exchange does not propose to set forth specific boundaries for quote widths within the proposed rule. The Exchange believes that it needs flexibility to modify acceptable quote widths based on experience with the risk control and Users would always have access to the applicable settings in the Exchange’s publicly available specifications and/or as published in a Regulatory Circular. The Exchange notes that the Nasdaq Options Market (“NOM”) has a similar quote width protection in place for market orders that does not specify the applicable limits within the rule. The Exchange notes that it does not currently have an NBBO width protection in place for Market Orders, and thus this protection is an additive control to protect against erroneous executions.

The second risk control the Exchange proposes to adopt is the Limit Order Fat Finger Check. As proposed, if a User submits a buy (sell) limit order to the System with a price that is more than a buffer amount established by the Exchange above (below) the NBBO (NBB), or, in the case of an order received prior to 9:30 a.m., above (below) the midpoint of the NBBO at the close of the market on the previous trading day, the System will reject or cancel back to the User the limit order. The proposed Limit Order Fat Finger Check is based on and similar to certain Limit Order Price Parameters set forth in C2 Options Rule 6.17(b). In particular, similar to C2 Options Rule 6.17(b)(1) and (b)(2), the Exchange would reject or cancel limit orders that are more than an acceptable difference from the applicable reference price and

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6 The “System” is the automated trading system used by BZX Options for the trading of options contracts. See Rule 16.1(a)(59).
7 The term “User” means any Options Member or Sponsor Participant who is authorized to obtain access to the Exchange’s System (as defined below) pursuant to Rule 11.3. See Rule 16.1(a)(63).
9 See id.
10 See, e.g., Interpretation and Policies .04(c)(1), .04(e), .04(f) and .06 to EDGX Rule 21.20, which refer to various risk control values offered by EDGX Options with respect to complex orders that are communicated to members of EDGX via specifications and/or Regulatory Circular.
11 See Rule 21.1(d)(5).
12 As defined in Rule 16.1(a)(29), the term “NBB” means the national best bid, the term “NBBO” means the national best offer, and the term “NBBO” means the national best bid or offer as calculated by BZX Options based on market information received by BZX Options from OPRA.
13 The Exchange notes that identical or similar rules regarding risk controls offered by C2 Options are also provided in the rules of Cboe Options and on other options exchanges. However, the Exchange has focused on establishing a uniform standard for Rule 21.17 as well as EDGX Options for purposes of this proposal.
14 See NOM Chapter VI, Section 6(c), which describes the NOM Market Order Spread Protection and states that “System Orders that are Market Orders will be rejected if the best of the NBBO and the internal market BBO (the ‘Reference BBO’) is wider than a preset threshold at the time the order is received by the System.”
would distinguish the applicable reference price depending on whether an order was received prior to market open or during the trading day. However, in contrast to C2 Options Rule 6.17(b), which states that the acceptable tick distance shall be no less than two minimum increment ticks for simple orders, the Exchange does not propose to set forth specific boundaries for the acceptable difference within the proposed rule. As is true for the Market Order NBBO Width Protection described above, the Exchange believes that it needs flexibility to modify the acceptable price range based on experience with the risk control and Users would always have access to the applicable settings in the Exchange’s publicly available specifications and/or as published in a Regulatory Circular.

The Exchange notes that the BOX Options Exchange (“BOX”) has a similar price protection in place for limit orders that does specify potential percentages in the Rule but also permits BOX to modify such percentages via Information Circular without establishing outer boundaries. The Exchange notes that EDGX Options also currently applies mandatory fat finger protection to complex orders received by EDGX Options pursuant to Interpretation and Policy .06 to EDGX Rule 21.20. The Exchange also notes that it currently offers price protections analogous to the proposed Limit Order Fat Finger Check for orders other than complex orders (i.e., “simple orders”), however, as noted above such price protections are optional.

The third risk control the Exchange proposes to adopt is the Buy Order Put Check. As proposed, if a User enters a buy limit order for a put with a price that is higher than or equal to the strike price of the option, the System will reject or cancel back to the User the limit order. Similarly, if a User enters a buy Market Order for a put that would execute at (or the remaining portion would execute at) a price higher than or equal to the strike price of the option, the System will reject or cancel back to the User the Order (or remaining portion). The Exchange does not propose to apply this check to adjusted options. The proposed Buy Order Put Check is based on and substantially identical to the Put Strike Price Value Check set forth in C2 Options Rule 6.17(d)(1)(A). The Exchange notes that it does not currently have an analogous risk control in place, and thus, this protection is an additive control to protect against erroneous executions.

The fourth and final risk control the Exchange proposes to adopt is the Drill-Through Price Protection. As proposed, the Drill-Through Price Protection feature is a price protection mechanism applicable to all orders under which a buy (sell) order will not be executed at a price that is higher (lower) than the NBO (NBB) at the time of order entry plus (minus) a buffer amount established by the Exchange (the “Drill-Through Price”). If a buy (sell) order would execute or post to the BZX Options Book at a price higher (lower) than the Drill-Through Price, the System will instead post the order to the BZX Options Book, unless the terms of the order instruct otherwise. Any order (or unexecuted portion thereof) will rest in the BZX Options Book (based on the time at which it enters the book for priority purposes) for a time period in milliseconds that may not exceed three seconds with a price equal to the Drill-Through Price. If the order (or unexecuted portion thereof) does not execute during that time period, the System will cancel it. While similar to and based on C2 Options Rule 6.17(a)(2), the proposed Rule is more directly based on Interpretation and Policy .04, to EDGX Options Rule 21.20, which describes Drill-Through Price Protection applicable to complex orders on EDGX Options. The proposed Drill-Through Price Protection is identical to Interpretation and Policy .04 to EDGX Options Rule 21.20 with the exceptions of necessary differences between language related to simple orders and complex orders and that in contrast to a User being able to modify the protection to a more or less restrictive control, which is available for the control on EDGX Options for complex orders, the Exchange proposes to apply standard Drill-Through Price Protection to all orders and such protection cannot be modified.

In connection with the changes described above, the Exchange proposes to remove a portion of the definition of a [sic] Market Orders to remove a risk protection currently in place that overlaps with various risk controls described above. Market Orders are currently defined in in Rule 21.1(d)(5) as “orders to buy or sell at the best price available at the time of execution.” Rule 21.1(d)(5) further states that “[a]ny portion of a Market Order that would execute at a price more than $0.50 or 5 percent worse than the NBBO at the time the order initially reaches BZX Options, whichever is greater, will be cancelled.” The Exchange proposes to remove this price protection for Market Orders because it is no longer necessary in light of the proposed risk controls described above (other than the Limit Order Fat Finger Check, which is inapplicable to Market Orders). In particular, the Drill-Through Price Protection provides a control with respect to the execution prices of Market Orders and would be duplicative of the existing control.

Details in Transaction Reports

The Exchange also proposes to modify Rule 21.10, Anonymity, to allow it to provide additional information on transaction reports. Current Rule 21.10(a) states that “[t]he intra-day transaction reports produced by the System will indicate the details of the transactions, and shall not reveal contra party identities.” The Exchange notes that this provision is consistent with Rule 11.15(d) of its cash equities trading platform (“BZX Equities”) but is not a common provision in the rules of other options exchanges, including Cboe Options or C2 Options, which do not have such a provision. The Exchange currently provides details regarding contra-parties on various end of day and end of month reports for clearing purposes, and this information is similarly readily available through the Options Clearing Corporation (“OCC”) for clearing purposes.

The Exchange proposes to remove the restriction on providing contra party identities and to specifically state that aggregated and individual transaction reports produced by the System will indicate the details of a User’s transactions, including the contra party’s MPID, capacity, and clearing firm account number.

Current paragraph (c) of Rule 21.10 contains three exceptions to the general rule of anonymity, providing that the “Exchange shall reveal a User’s identity in the following circumstances: (1) For regulatory purposes or to comply with an order of an arbitrator or court; (2) if both Users to the transaction consent; (3) Unless otherwise instructed by a User, the Exchange will reveal to a User, no later than the end of the day on the date an anonymous trade was executed, when the User’s Order has been decremented by another Order submitted by that same User.” The Exchange proposes to modify the first exception, regarding regulatory purposes or to comply with an order of...
an arbitrator or court, as the second and third exceptions are no longer necessary to the extent the Exchange will provide information on individual and aggregate transaction reports produced by the System.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act 16 in general, and furthers the objectives of Section 6(b)(5) of the Act 17 in particular, in that it is designed to promote just and equitable principles of trade, 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. In particular, consistent rules and functionality between the Exchange and its affiliated exchanges will reduce complexity and help avoid potential confusion by the Users of the Exchange that are also participants on other Cboe Affiliated Exchanges. 18

The Exchange believes the proposed amendment will reduce complexity and increase the understanding of the Exchange’s operations for all Users of the Exchange. In particular, by adopting certain mandatory risk controls, the Exchange’s functionality will be more similar to that of Cboe Options and C2 Options. In turn, when Cboe Options and C2 Options are migrated to the same technology as that of the Exchange, Users of the Exchange and other Cboe Affiliated Exchanges will have access to similar functionality on all Cboe Affiliated Exchanges. As such, the proposed rule change would foster cooperation and coordination with persons engaged in facilitating transactions in securities and would remove impediments to and perfect the mechanism of a free and open market and a national market system.

The Exchange further believes that the proposed price protection mechanisms and risk controls will protect investors and the public interest and maintain fair and orderly markets by mitigating potential risks associated with market participants entering orders and quotes at unintended prices, and risks associated with orders and quotes trading at prices that are extreme and potentially erroneous, which may likely have resulted from human or operational error. While the Exchange has previously offered many risk controls under Interpretation and Policy .01 to Rule 11.13 and other filings previously made by the Exchange, 19 the Exchange believes that Users will benefit from the additional specificity provided under the proposed rules, particularly because, in contrast to optional risk control functionality, the proposed rules provide that each proposed risk control will be applied to all orders received by BZX Options. Although the Exchange’s proposed price protection mechanisms and risk controls are similar to and based on existing rules of C2 Options or the Exchange, the Exchange notes that it has not proposed to establish outer boundaries or limits to the levels at which the mechanisms can be set. The Exchange believes this is reasonable and is necessary to afford the Exchange the flexibility to establish and modify the default parameters in order to protect investors and the public interest and maintain a fair and orderly market. The Exchange again notes that the applicable specified levels will always be available in the Exchange’s publicly available specifications and/or as published in a Regulatory Circular. The Exchange also notes that this approach is consistent with certain rules of other options exchanges, which similarly offer risk controls that can be modified without regard to a rule based limitation. 20

The Exchange believes the proposed changes to Rule 21.10 that will permit the Exchange to provide additional detail in transaction reports is consistent with the rules of other options exchanges that do not contain explicit restrictions on providing such information. The proposed changes are similarly consistent with a variety of current Exchange and options industry practices, including the fact that clearing information available through OCC already provides contra-party information, as well as the ability of a User on the Exchange to disclose their identity when quoting. 21 Based on the foregoing, the Exchange believes the proposed changes to Rule 21.10 are consistent with Section 6(b)(5) of the Act 22 in particular, in that they are designed to foster cooperation and coordination with persons engaged in clearing, settling, processing information with respect to, and facilitating transactions in securities.

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 notes that the proposal will further promote consistency between the Exchange and its affiliated exchanges, and is part of a larger technology integration that will ultimately reduce complexity for Users of the Exchange that are also participants on other Cboe Affiliated Exchanges. The Exchange does not believe that the proposed changes will have any direct impact on competition. Thus, the Exchange does not believe that the proposal creates any significant impact on competition.

C) Self-Regulatory Organization’s Statement on Comments on the Proposed Rule Change Received From Members, Participants or Others

The Exchange has not solicited, and does not intend to solicit, comments on this proposed rule change. The Exchange has not received any written comments from members or other interested parties.

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) by its terms, 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 23 and paragraph (f)(6) of Rule 19b–4 thereunder, 24 the Exchange has designated this rule filing as non-controversial. The Exchange has given 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. A proposed rule change filed under Rule 19b–4(f)(6) 25 normally does not become operative prior to 30 days after the date of the filing. However, Rule

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18 The Exchange notes that its affiliate, EDGX, also intends to adopt changes that are substantively identical to the changes set forth in this proposal. In addition, as Cboe Options and C2 Options migrate to the same technology platform as the Exchange, Cboe Options and C2 Options intend to modify rules and functionality to be consistent with the Exchange and EDGX, unless the retention of differences is intended.
19 See supra, note 8.
20 See supra, notes 14 and 15.
21 See, e.g., Rule 21.1(c)(1), defining “Attributable Orders” as orders that are designated for display (price and size) including the User’s market participant identifier (“MPID”).
SECURITIES AND EXCHANGE COMMISSION


Self-Regulatory Organizations; Nasdaq PHXL LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Amend the Exchange’s Pricing Schedule


Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”), 1 and Rule 19b–4 thereunder, 2 notice is hereby given that on December 21, 2017, Nasdaq PHXL LLC (“Phlx” or “Exchange”) 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 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

The Exchange proposes to amend the Exchange’s Pricing Schedule in the following respects: (i) Modify the Simple Order rebate applicable to Specialists 3 and Market Makers 4 for adding liquidity in SPY; 5 (ii) establish a new $0.05 per contract surcharge for Customers 6 whose SPY Complex Orders execute against simple Market Maker or Specialist orders resting on the Simple Order Book; (iii) reduce the per contract


The term “Specialist” applies to transactions for the account of a Specialist (as defined in Exchange Rule 1020(a)). A Specialist is an Exchange member who is registered as an options specialist pursuant to Rule 1020(a). An options Specialist includes a Remote Specialist which is defined as an options specialist in one or more classes that does not have a physical presence on an Exchange floor and is approved by the Exchange pursuant to Rule 501.

The term “ROT, SQT and RSQT” applies to transactions for the accounts of Registered Option Traders (“ROTs”), Streaming Quote Traders (“SQTs”), and Remote Streaming Quote Traders (“RSQTs”). For purposes of the Pricing Schedule, the term “Market Maker” will be utilized to describe fees and rebates applicable to ROTs, SQTs and RSQTs. RSQTs may also be referred to as Remote Market Makers (“RMMs”).

3 Options overlying Standard and Poor’s Depositary Receipts/SPDRs (“SPY”) are based on the SPDR exchange-traded fund (“ETF”), which is designed to track the performance of the S&P 500 Index.

4 The term “Customer” applies to any transaction that is identified by a member or member organization for clearing in the Customer range at The Options Clearing Corporation (“OCC”) which is not for the account of a broker or dealer or for the account of a “Professional” (as that term is defined in Rule 100(b)(14)).