

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–82741; File No. SR–CboeEDGX–2018–005]

Self-Regulatory Organizations; Cboe EDGX Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change To Modify EDGX Rule 21.1 and Related Functionality Applicable to the Exchange's Options Platform

February 20, 2018.

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 February 9, 2018, 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 has designated this proposal as a “non-controversial” proposed rule change pursuant to Section 19(b)(3)(A) of the Act³ 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 modify Rule 21.1 of Exchange's rules and related functionality applicable to the Exchange's options platform (“EDGX 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 BZX Exchange, Inc. (“BZX”) 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 f/k/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, BZX, and Cboe Options the “Cboe Affiliated Exchanges”).⁵ 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 System⁶ 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 one such proposed change but is primarily intended to add language to the Exchange's rules regarding ports that are referenced in the Exchange's fee schedule. Specifically, the Exchange proposes to add language to Rule 21.1 to define

⁵ See Securities Exchange Act Release No. 79585 (December 16, 2016), 81 FR 93988 (December 22, 2016) (SR–BatsBZX–2016–68; SR–BatsBYX–2016–29; SR–BatsEDGA–2016–24; SR–BatsEDGX–2016–60). The Exchange notes that BYX and EDGA are also affiliated exchanges but do not operate options platforms and thus the integration described in this proposal is inapplicable to such exchanges.

⁶ The “System” is the automated trading system used by EDGX Options for the trading of options contracts. See Rule 16.1(a)(59).

various types of ports used to submit orders to and receive information from the Exchange. In addition, the Exchange proposes to modify the operation of bulk order entry ports, as described below.

Port Definitions

The Exchange currently provides access to EDGX Options to Users⁷ through various ports. These ports have been previously described in multiple filings submitted by the Exchange⁸ and are referenced on the Exchange's fee schedule. However, the Exchange has not previously maintained any language in its rules related to such ports. The Exchange proposes to add language to Rule 21.1 to provide additional clarity in the Exchange's rules and to accommodate changes to the rules of other Cboe Affiliated Exchanges that refer to analogous, but different, concepts to describe the technology used to describe system access.⁹

The Exchange proposes to define three different types of ports, specifically, physical ports, logical ports, and bulk order ports. The Exchange notes that bulk order ports is a type of logical port and that there are other types of logical ports that are not specifically identified in the proposed rule. The Exchange believes that a separate definition is warranted for bulk order ports given the specific functionality provided through such ports but that the other types of logical ports are sufficiently described in the proposed definition of logical port.

The Exchange proposes to define a “physical port” as a port that provides a physical connection to the System. The Exchange also proposes to note that a physical port may provide access to multiple logical ports.

The Exchange proposes to define a “logical port” or “logical session” as a port that provides Users with the ability within the System to accomplish a specific function through a connection,

⁷ The term “User” means any Options Member or Sponsored 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).

⁸ See Securities Exchange Act Release Nos. 82064 (November 13, 2017), 82 FR 54442 (November 17, 2017) (SR–BatsEDGX–2017–46) (modifying and describing fees for physical ports on an immediately effective basis); 76453 (November 17, 2015), 80 FR 72999 (adopting initial fees for EDGX Options, including description of logical ports and bulk order entry ports to be provided free of charge, on an immediately effective basis).

⁹ For instance, C2 Options Rules refer to logins as the mechanism through which a participant on C2, or Trading Permit Holder (“TPH”), can access C2. See, e.g., C2 Options Rule 6.17(g)–(i), which describes various risk controls that can restrict access to the Exchange acronym (*i.e.*, the letters used to identify the TPH) or the login level (*i.e.*, the equivalent of the port level).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b–4.

³ 15 U.S.C. 78s(b)(3)(A).

⁴ 17 CFR 240.19b–4(f)(6)(iii).

such as order entry, data receipt, or access to information.

The Exchange proposes to define a “bulk order port” as a logical port that provides Users with the ability to submit bulk messages to enter, modify or cancel orders designated as Post Only Orders, provided such orders are entered with a Time-in-Force of Day or GTD with an expiration time on that trading day. The Exchange does not currently limit bulk order ports to Post Only Orders and further describes this proposed limitation below.

Modification to Operation of Bulk Order Entry Ports

In addition to codifying the three types of ports in the Exchange’s Rules, as set forth above, the Exchange proposes to restrict the type of messages that may be submitted through bulk order ports to orders submitted as Post Only Orders with a Time-in-Force of Day or a Time-in-Force of GTD with an expiration time on that trading day. Post Only Orders are defined in Rule 21.1(d)(8) 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.” Rule 21.1(d)(8) further provides that “[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.” The Time-in-Force of DAY is defined in Rule 21.1(f)(3) to mean, “for an order so designated, a limit order to buy or sell which, if not executed expires at market close.” The Time-in-Force of GTD is defined in Rule 21.1(f)(1) to mean “for orders so designated, that if after entry into the System, the order is not fully executed, the order (or the unexecuted portion thereof) shall remain available for potential display and/or execution for the amount of time specified by the entering User unless canceled by the entering party.” In sum, Post Only Orders with a Time-in-Force of Day or GTD are orders that will be posted to and displayed by the Exchange, rather than removing liquidity or routing to another options exchange. As noted above, the Exchange proposes to limit the acceptable messages with the time in force of GTD to orders with an expiration time on the applicable trading day.

As a general matter, and as further described below, the proposed change is intended to limit the use of bulk order ports to liquidity provision, particularly

by, but not limited to, market makers registered with the Exchange. In turn, the Exchange believes it unnecessary to allow orders entered via bulk order entry ports to be able to last beyond the trading day on which they were entered. The Exchange notes that while, as a general matter, bulk order entry provides an efficient way for a market participant to conduct business on the Exchange by allowing the bundling of multiple instructions in a single message, the main purpose of such functionality has always been to encourage quoting on exchanges.¹⁰

The Exchange proposes this change in order to provide functionality that is more similar to quoting functionality available on Cboe Options and C2 Options. In particular, the Exchange has never differentiated between a quote or an order on entry. Rather, Users submit orders to the Exchange regardless of the capacity of the order (*i.e.*, customer, market-maker or other non-market-maker professional) and regardless of the intended result from submitting such order (*e.g.*, to remove liquidity, post and display liquidity on the Exchange, route to another market, etc.). Of course, an order that is posted and displayed on the Exchange is a quotation and the Exchange does maintain various requirements regarding quotations and quoting on the Exchange; the Exchange, however, reiterates that in order to quote on the Exchange a User submits an order. In contrast, Cboe Options and C2 Options distinguish between orders and quotes, with quotes being required of and only available to registered market makers.¹¹ While the Exchange does not propose to limit bulk order entry functionality to registered market makers on the Exchange, as such a change would remove access to functionality currently available to all Exchange Users, the Exchange does propose to limit the type of messages that may be submitted through bulk order entry ports in order to mimic the quoting functionality

¹⁰ For instance, when initially adopted by the Exchange’s affiliate, BZX, bulk order entry was described as a “bulk-quoting interface” and such functionality was limited to BZX market makers. See Securities Exchange Act Release No. 65133 (August 15, 2011), 76 FR 52032 (August 19, 2011) (SR-BATS-2011-029). Bulk quoting was shortly thereafter expanded to be available to all participants on BZX’s options platform but the focus remained on promoting liquidity provision on the Exchange, even though the types of messages permitted were not limited to liquidity providing orders. See Securities Exchange Act Release No. 65307 (September 9, 2011), 76 FR 57092 (September 15, 2011) (SR-BATS-2011-034).

¹¹ See Cboe Rule 1.1(ooo), C2 Rule 1.1 (defining “quote” or “quotation” as “a bid or offer entered by a Market-Maker that is firm and that updates the Market-Maker’s previous quote, if any”).

offered by Cboe Options and C2 Options.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act¹² in general, and furthers the objectives of Section 6(b)(5) of the Act¹³ 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.

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, the Exchange is promoting transparency by adopting definitions within Rule 21.1 to describe various ports used to access the Exchange that are currently described on the Exchange’s fee schedule and in filings previously made by the Exchange.¹⁴ 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 and similar language can be incorporated into the rules of 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 modification to the operation of bulk order entry ports such that only Post Only Orders with a time in force of DAY or GTD may be entered, modified or cancelled through such ports will protect investors and the public interest and maintain fair and orderly markets by offering specific functionality through which Users can submit orders that will result in quotations on the Exchange. In particular, the options markets are quote driven markets dependent on liquidity providers to an even greater extent than equities

¹² 15 U.S.C. 78f(b).

¹³ 15 U.S.C. 78f(b)(5).

¹⁴ See *supra*, note 8.

markets. In contrast to the approximately 7,000 different securities traded in the U.S. equities markets each day, there are more than 500,000 unique, regularly quoted option series. Given this breadth in options series the options markets are more dependent on liquidity providers than equities markets; such liquidity is provided most commonly by registered market makers but also by other professional traders. As such, the Exchange believes maintaining specific functionality to maintain quotations on the Exchange through bulk order entry ports will protect investors and the public interest and the maintenance of fair and orderly markets by ensuring that an efficient process to enter and update quotations is available to Exchange Users. The Exchange also believes this is reasonable and is necessary to afford the Exchange the ability to establish a marketplace that operates more similar to the existing Cboe and C2 options exchanges, which are quote-based markets.

(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 inter-market competition. The Exchange does not believe that restricting bulk order entry ports to orders that will be displayed as quotations will impose any burden on intra-market competition that is not necessary or appropriate in furtherance of the purposes of the Act. In particular, while the Exchange believes it could be appropriate to propose to limit such functionality to registered market makers, the Exchange has not proposed such limitation at this time. As such, bulk order entry functionality will still be available to all Users of the Exchange, as it is today.

(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: (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, it has become effective pursuant to Section 19(b)(3)(A)(iii) of the Act¹⁵ and subparagraph (f)(6) of Rule 19b-4 thereunder.¹⁶

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: (i) Necessary or appropriate in the public interest; (ii) for the protection of investors; or (iii) 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 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 email to rule-comments@sec.gov. Please include File Number SR-CboeEDGX-2018-005 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-2018-005. This file number should be included on the subject line if email is used. To help the

¹⁵ 15 U.S.C. 78s(b)(3)(A)(iii).

¹⁶ 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 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.

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-CboeEDGX-2018-005 and should be submitted on or before March 19, 2018.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁷

Eduardo A. Aleman,

Assistant Secretary.

[FR Doc. 2018-03787 Filed 2-23-18; 8:45 am]

BILLING CODE 8011-01-P

¹⁷ 17 CFR 200.30-3(a)(12).