

Investment Company Act (270 CFR 270.30b1-5), funds are required to file quarterly reports with the Commission on Form N-Q not more than 60 days after the close of the first and third quarters of each fiscal year containing their complete portfolio holdings. Additionally, fund management is required to evaluate the effectiveness of the fund's disclosure controls and procedures within the 90-day period prior to the filing of a report on Form N-Q, and such report must also be signed and certified by the fund's principal executive and financial officers.

We estimate that there are 11,960 funds required to file reports on Form N-Q. Based on staff experience and conversations with industry representatives, we estimate that it takes approximately 26 hours per fund to prepare reports on Form N-Q annually. Accordingly, we estimate that the total annual burden associated with Form N-Q is 310,960 hours (26 hours per fund × 11,960 funds) per year.

The estimates of average burden hours are made solely for the purposes of the Paperwork Reduction Act and are not derived from a comprehensive or even representative survey or study of the cost of Commission rules and forms. The collection of information under Form N-Q is mandatory. The information provided by the form is not kept confidential. An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a currently valid control number.

Written comments are invited on: (a) Whether the proposed collection of information is necessary for the proper performance of the functions of the agency, including whether the information will have practical utility; (b) the accuracy of the agency's estimate of the burden of the collection of information; (c) ways to enhance the quality, utility, and clarity of the information collected; and (d) ways to minimize the burden of the collection of information on respondents, including through the use of automated collection techniques or other forms of information technology. Consideration will be given to comments and suggestions submitted in writing within 60 days of this publication.

Please direct your written comments to Pamela Dyson, Director/Chief Information Officer, Securities and Exchange Commission, C/O Candace Kenner, 100 F Street NE, Washington, DC 20549; or send an email to: [PRA\\_Mailbox@sec.gov](mailto:PRA_Mailbox@sec.gov).

Dated: August 21, 2018.

**Eduardo A. Aleman,**  
Assistant Secretary.

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-83891; File No. SR-CBOE-2018-058]

### Self-Regulatory Organizations; Cboe Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change To Amend Rule 6.53, Certain Types of Orders Defined and Rule 6.53C, Complex Orders on the Hybrid System

August 20, 2018.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on August 10, 2018, Cboe Exchange, Inc. (the "Exchange") 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 pursuant to Section 19(b)(3)(A)(iii) of the Act<sup>3</sup> and Rule 19b-4(f)(6) thereunder.<sup>4</sup> The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

#### I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to amend Rule 6.53 (Certain Types of Orders Defined) and Rule 6.53C (Complex Orders on the Hybrid System) to add Qualified Contingent Cross ("QCC") with Stock Order functionality. (additions are *italicized*; deletions are [bracketed])

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#### Cboe Exchange, Inc. Rules

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#### Rule 6.53. Certain Types of Orders Defined

One or more of the following order types may be made available on a class-by-class basis. Certain order types may not be made available for all Exchange systems. The classes and/or systems for which the order types shall be available will be as provided in the Rules, as the

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

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

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

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

context may indicate, or as otherwise specified via Regulatory Circular.

(a)-(t) No Change.

(u) Qualified Contingent Cross Order: A qualified contingent cross ("QCC") order is an initiating order to buy (sell) at least 1,000 standard option contracts or 10,000 mini-option contracts that is identified as being part of a qualified contingent trade coupled with a contra-side order or orders totaling an equal number of contracts. [Qualified contingent cross]QCC orders with one option leg may only be entered in the standard increments applicable to simple orders in the options class under Rule 6.42. [Qualified contingent cross]QCC orders with more than one option leg may be entered in the increments specified for complex orders under Rule 6.42. For purposes of this order type:

(i)-(ii) No Change.

(iii) QCC with Stock Orders. A "QCC with Stock Order" is a qualified contingent cross order, as defined above, entered with a stock component to be electronically communicated by the Exchange to a designated broker-dealer for execution on behalf of the submitting Trading Permit Holder pursuant to Rule 6.53C, Interpretation and Policy .06(g).

\* \* \* \* \*

#### Rule 6.53C. Complex Orders on the Hybrid System

\* \* \* \* \*

. . . Interpretations and Policies: .01-.05 No Change.

.06 Special Provisions Applicable to Stock-Option Orders: Stock-option orders may be executed against other automated stock-option orders. Stock-option orders will not be legged against the individual component legs, except as provided in paragraph (d) below, and leg orders will not be generated pursuant to paragraph (c)(iv) of this Rule for stock-option orders.

(a)-(f) No Change.

(g) QCC with Stock Orders. The System processes QCC with Stock Orders as follows:

(1) Entry of QCC with Stock Order.

When a Trading Permit Holder enters a QCC with Stock Order on the Exchange, it enters a QCC order pursuant to Rule 6.53(u) with a stock component (pursuant to Rule 6.53(u)(iii)). When entering a QCC with Stock Order, the Trading Permit Holder must:

(A) include a net price for the stock and option components;

(B) give up a Clearing Trading Permit Holder in accordance with Rule 6.21; and

(C) designate a specific broker-dealer to which the stock components will be

communicated, which broker-dealer the Exchange must have identified as having connectivity to electronically communicate the stock components of QCC with Stock Orders to stock trading venues and with which the TPH must have entered into a brokerage agreement (the “designated broker-dealer”). The Exchange will have no financial arrangements with the broker-dealers it has identified with respect to communicating stock orders to them.

(2) Option Component.

(A) If the option component (i.e., the QCC order) of a QCC with Stock Order can execute, the System executes it in accordance with Rule 6.45(a) or 6.53C(c), as applicable, but does not immediately send the Trading Permit Holder a trade execution report. The System then automatically communicates the stock component to the designated broker-dealer for execution.

(B) If the option component of a QCC with Stock Order cannot execute, the System cancels the QCC with Stock Order, including both the stock and option components.

(3) Stock Component.

(A) If the System receives an execution report for the stock component of a QCC with Stock Order from the designated broker-dealer, the Exchange sends the Trading Permit Holder the trade execution report for the QCC with Stock Order, including execution information for both the stock and option components.

(B) If the System receives a report from the designated broker-dealer that the stock component of a QCC with Stock Order cannot execute, the Exchange nullifies the option component trade and notifies the Trading Permit Holder of the reason for the nullification.

QCC with Stock Orders are available to Trading Permit Holders on a voluntary basis.

\* \* \* \* \*

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

## 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 purpose of the proposed rule change is to offer QCC with Stock Order functionality to Trading Permit Holders (“TPHs”). QCC with Stock Order functionality facilitates the execution of the stock component of qualified contingent trades (“QCTs”). Specifically, a QCC with Stock Order is a QCC order entered with a stock component to be communicated to a designated broker-dealer for execution. QCC with Stock Orders will assist TPHs in maintaining compliance with rules regarding the execution of the stock components of QCTs, and help maintain an audit trail for surveillance of TPHs for compliance with such rules. Currently, although the Exchange offers QCC order functionality, it does not facilitate electronic communication of the stock component of QCC orders for execution. The proposed rule change provides TPHs with the option to electronically submit the stock component of QCC orders to the Exchange, and describes how the Exchange will electronically communicate the stock component to a designated broker-dealer for execution on behalf of TPHs.

A QCC order is comprised of an originating order to buy or sell at least 1000 contracts that is identified as being part of a QCT,<sup>5</sup> coupled with a contra-

<sup>5</sup> See Rule 6.53(u)(i). The proposed rule change also modifies Rule 6.53(u) to define Qualified Contingent Cross orders as “QCC orders”. A “qualified contingent trade” is a transaction consisting of two or more component orders, executed as agent or principal, where: (1) At least one component is an NMS stock, as defined in Rule 600 of Regulation NMS under the Exchange Act; (2) all components are effected with a product or price contingency that either has been agreed to by all the respective counterparties or arranged for by a broker-dealer as principal or agent; (3) the execution of one component is contingent upon the execution of all other components at or near the same time; (4) the specific relationship between the component orders (e.g., the spread between the prices of the component orders) is determined by the time the contingent order is placed; (5) the component orders bear a derivative relationship to one another, represent different classes of shares of the same issuer, or involve the securities of participants in mergers or with intentions to merge that have been announced or cancelled; and (6) the transaction is fully hedged (without regard to any prior existing position) as a result of other components of the contingent trade.

side order or orders totaling an equal number of contracts. QCC orders may execute without exposure provided the execution (1) is not at the same price as a public customer order resting in the electronic book and (2) is at or between the NBBO.<sup>6</sup> QCC orders will be cancelled if they cannot be executed.<sup>7</sup>

Since QCC orders represent one component of a QCT, each QCC order must be paired with a stock order. When a TPH enters a QCC order, the TPH is responsible for executing the associated stock component of the QCT within a reasonable period of time after the QCC order is executed. The Exchange conducts surveillance of TPHs to ensure that TPHs execute the stock component of a QCT at or near the same time as the options component. While the Exchange does not specify how the TPH should go about executing the stock component of the trade, this process is often manual and is therefore a compliance risk for TPHs if they do not execute the stock component within a reasonable time period of execution of the options component. Thus, the Exchange is proposing to offer QCC with Stock Order functionality, pursuant to which the Exchange will automatically communicate the stock component of a QCT to a designated broker-dealer for execution in connection with the execution of a QCC order on the Exchange. This functionality will reduce the compliance burden on TPHs by providing an automated means of executing the stock component of a QCT, and also will provide benefits for the Exchange’s surveillance by providing an audit trail for the execution of the stock component. QCC with Stock Orders can be entered by TPHs through a front-end order and execution management system or through a TPH’s own electronic connection to the Exchange.

QCC with Stock Orders will be available to all TPHs on a voluntary basis.<sup>8</sup> Under the proposed rule, when a TPH enters a QCC with Stock Order on the Exchange, it enters a QCC order pursuant to current Rule 6.53(u) with a stock component (pursuant to proposed Rule 6.53(u)(iii)). When entering a QCC with Stock Order, the TPH must:

- Enter a net price for the stock and option components. Net-priced QCC with Stock Orders reduce the chance that TPHs will miss the market since the Exchange will calculate a price for the stock and options components that honors the net price of the package and

<sup>6</sup> See Rule 6.53(u)(ii).

<sup>7</sup> *Id.*

<sup>8</sup> See proposed Rule 6.53C, Interpretation and Policy .06(g).

current market prices, if possible. It is also consistent with the use of QCTs.<sup>9</sup> The Exchange will not allow QCC with Stock Orders with a specified price for the stock component or the option component;

- give up a Clearing TPH in accordance with Rule 6.21. Pursuant to Rule 6.21, a TPH must give up a Clearing TPH it previously identified to the Exchange as Designated Give Up for that TPH for all orders it submits to the Exchange. This is currently required for all stock-option orders pursuant to Rule 6.53C, Interpretation and Policy .06(a); and
- designate a specific broker-dealer to which the stock components will be communicated, which broker-dealer the Exchange must have identified as having connectivity to electronically communicate the stock components of QCC with Stock Orders to stock trading venues and with which the TPH must have entered into a brokerage agreement (the “designated broker-dealer”). The Exchange will have no financial arrangements with any broker-dealer it has identified with respect to communicating stock orders to them.<sup>10</sup> This is currently required for the submission of all stock-option orders pursuant to Rule 6.53C, Interpretation and Policy .06(a). The Exchange currently has one broker-dealer that has established connectivity for executing the stock component of QCC with Stock Orders. If the Exchange adds more in the future, and the TPH enters into brokerage agreements with multiple of the broker-dealers designated by the Exchange, the TPH must specify to which broker-dealer the Exchange should communicate the stock components of its QCC with Stock Orders when entering QCC with Stock Orders.

<sup>9</sup> See Securities Exchange Act Release No. 54389 (August 31, 2006), 71 FR 52829, 52831 (September 7, 2006) (Order Granting an Exemption for Qualified Contingent Trades from Rule 611(a) of Regulation NMS Under the Securities Exchange Act of 1934) (“QCT Exemption Order”). In its exemption request, the Securities Industry Association (“SIA”) indicated parties to a contingent transaction are focused on the spread or ratio between the transaction prices for each of the component instruments, rather than on the absolute price of any single component instrument. The SIA also noted the economics of a contingent trade are based on the relationship between the prices of the security and related derivative or security. See Letter to Nancy M. Morris, Secretary, Commission, from Andrew Madoff, SIA Trading Committee, SIA, dated June 21, 2006 (“SIA Exemption Request”), at 2.

<sup>10</sup> The Exchange also represents that broker dealers it identifies as having connectivity to electronically communicate the stock components of QCC with Stock Orders to stock trading venues do not receive other special benefits related to trading on the exchange.

Current Exchange fees applicable to stock-option orders will apply to the stock component of QCC with Stock Orders.<sup>11</sup> Further, current Exchange fees applicable to QCC orders will apply to the options component of QCC with Stock Orders.<sup>12</sup>

If the option component of a QCC with Stock Order satisfies the conditions of Rule 6.53(u) upon entry, the System executes the order in accordance with Rule 6.45(a) (which describes how simple option orders execute) or 6.53C(c) (which describes how complex orders execute). However, the Exchange does not immediately send the TPH a trade execution report for this option execution.<sup>13</sup> Because the TPH submitted a QCC with Stock Order to execute as a package, the Exchange waits to send a trade execution report to the TPH until after it has determined whether all components of the QCC with Stock Order have executed, as described below. After the QCC order is executed, the Exchange will then automatically communicate the stock component to the designated broker-dealer for execution.

Although the option component (which is a QCC order) of a QCC with Stock Order is eligible for automatic execution, it is possible that the option component order may not be executable based on market prices at the time the order is entered (e.g. the order would execute at the same price as a customer). If the QCC order cannot execute after one attempt, the System cancels the QCC with Stock Order, including both the stock and options components. This prevents execution of the stock component of a QCT where the options component has not been successfully executed, consistent with the purpose of contingent trades and the QCT exemption.

As noted above, if the option component executes, the System then automatically communicates the stock component to the designated broker-dealer for execution. If the System receives an execution report for the stock component of a QCC with Stock Order from the designated broker-dealer, the Exchange sends the TPH the trade execution report for the QCC with Stock Order, including execution information for both the stock and option components. However, if the System receives a report from the

designated broker-dealer that the stock component of the QCC with Stock Order cannot execute,<sup>14</sup> the Exchange nullifies the option component trade and notifies the TPH of the reason for the nullification.<sup>15</sup> This proposed rule change prevents execution of the option component of a QCT where the stock component has not been successfully executed, just as the proposed rule change prevents execution of the stock component of a QCT where the option component has not been successfully executed by cancelling the stock component if the option component cannot execute.

Currently, whenever a stock trading venue nullifies the stock leg of a stock-option order or whenever the stock leg cannot execute, the Exchange will nullify the option leg upon request of one of the parties to the transaction or on an Exchange Official’s own motion in accordance with the Rules.<sup>16</sup> As noted above, to qualify as a QCT, the execution of one component is contingent upon the execution of all other components at or near the same time.<sup>17</sup> Given this requirement, if the stock component does not execute at or near the same time as the option component, it is reasonable to expect a TPH that submitted a QCC with Stock Order to request such nullification.<sup>18</sup> If

<sup>14</sup> For example, if the stock execution venue to which the designated broker-dealer routed the stock component is experiencing system issues, the stock component may not be able to execute. Additionally, the Exchange understands certain stock execution venues apply risk controls to the stock components of QCTs, which may prevent execution of the stock components at certain prices.

<sup>15</sup> The Exchange will nullify the option component trade in the same manner as it currently nullifies any other trades (when nullification is permitted under the Rules).

<sup>16</sup> See Rule 6.25, Interpretation and Policy .07(c). Pursuant to Rule 6.25, other nullifications may generally occur only if both parties agree.

<sup>17</sup> See QCT Exemption Order, which requires the execution of one component of the QCT to be contingent upon the execution of all other components at or near the same time to qualify for the exemption. In the SIA Exemption Request, the SIA stated that for contingent trades, the execution of one order is contingent upon the execution of the other order. SIA further stated that, by breaking up one or more components of a contingent trade and requiring that such components be separately executed, one or more parties may trade “out of hedge.” See SIA Exemption Request at 3. In other words, it takes two (executions) to make a thing (a QCT) go right.

<sup>18</sup> As set forth in Rule 6.53(u), when submitting a QCC order, a Trading Permit Holder submits an order as well as a contra-side order or orders totaling an equal number of contracts, which execute against each other if they satisfy the conditions set forth in that Rule. As a result, if that Trading Permit Holder requests nullification of the QCC order execution (or as proposed, if the Exchange automatically nullifies the QCC order execution) if the stock component cannot execute, no other party is impacted by the nullification.

<sup>11</sup> See Cboe Exchange, Inc. Fees Schedule.

<sup>12</sup> *Id.*

<sup>13</sup> Even though the Exchange does not send the Trading Permit Holder an execution report immediately following execution of the option component, the Exchange disseminates the trade at that time pursuant to the OPRA Plan and creates a record to be sent to the Clearing Corporation.

the stock component does not execute, rather than require the TPH that submitted the QCC with Stock Order to contact the Exchange to request the nullification of the option component execution pursuant to Rule 6.25 if the stock component cannot execute, the proposed rule change simply eliminates this requirement for the submitting TPH to make such a request. Instead, the proposed rule states the Exchange will automatically nullify the option transaction if the stock component does not execute. The Exchange believes such nullification without a request from the TPH is consistent with the definitions of QCC and QCT orders. The proposed rule change merely automates a process that TPHs can manually do today.

Additionally, the Exchange believes this automatic nullification will reduce any compliance risk for the TPH associated with execution of a QCC order and lack of execution of a stock order at or near the same time.<sup>19</sup> The Exchange conducts surveillance to ensure a TPH executes the stock component of a QCT, which will also apply to QCC with Stock Orders, if the option component executed. As a result, if the stock component does not execute when initially submitted to a stock trading venue by the designated broker-dealer, a TPH may be subject to compliance risk if it does not execute the stock component within a reasonable time period of the execution of the option component. The proposed rule change reduces this compliance risk for TPHs.

#### Example 1:

Stock NBBO: \$100 × \$101  
Option NBBO: \$1 × \$2

A TPH submits a QCC with Stock Order buying 1,000 puts and 100,000 shares of stock with a net price of \$101.50. A QCC order is entered on the Exchange and executed at a price of \$1.50. The Exchange reports this trade to OPRA. The Exchange routes the stock component to an Exchange-designed broker-dealer at a price of \$100. The Exchange receives a trade execution report from the designated broker-dealer that the stock component executed at \$100, and sends a trade execution report

for both components of the QCC with Stock Order to the TPH.

#### Example 2:

Stock NBBO: \$100 × \$101  
Option NBBO: \$1 × \$2

A TPH submits a QCC with Stock Order buying 1,000 puts and 100,000 shares of stock with a net price of \$101.50. A QCC order is entered on the Exchange and executed at a price of \$1.50. The Exchange reports this trade to OPRA. The Exchange routes the stock component to an Exchange-designed broker-dealer at a price of \$100. The Exchange receives a report from the designated broker-dealer that the stock component did not execute. The Exchange nullifies the option component trade, and sends a report to the TPH of the reason for the nullification.

#### Example 3:

Stock NBBO: \$100 × \$101  
ABBO: \$1.00 × \$1.05  
Exchange BBO: \$1.00 (Priority Customer) × 1.01 (Priority Customer)

A TPH submits a QCC with Stock Order buying 1,000 puts and 100,000 shares of stock with a net price of 101.01. A QCC order is entered on the Exchange at a price of \$1.01. Because the QCC order is at the same price as a priority customer order resting on the Exchange, the Exchange cancels the QCC with Stock Order.

At a time following the effective and operative date of this rule change, the Exchange will announce the availability of QCC with Stock Orders via Exchange Notice.

## 2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the Securities Exchange Act of 1934 (the “Act”) and the rules and regulations thereunder applicable to the Exchange and, in particular, the requirements of Section 6(b) of the Act.<sup>20</sup> Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>21</sup> 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 facilitation transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest.

Additionally, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>22</sup> requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The Exchange believes the proposed rule change is designed to promote just and equitable principles of trade because it will provide TPHs with optional functionality to facilitate the stock component of a QCT. The QCC with Stock Order is an optional piece of functionality offered to TPHs to communicate the stock component of a QCT to a designated broker-dealer for execution. A TPH that does not wish to use QCC with Stock Order functionality can continue to execute a QCT by entering a QCC order on the Exchange and separately executing the stock component of the QCT [sic] another venue, as it may do today. A TPH can also build its own technology to electronically communicate the stock component of any QCT to a broker-dealer for execution.

QCC with Stock Orders reduce TPHs’ compliance burden because it allows for the automatic submission of the stock component of a QCT in connection with the execution of the options component(s) as a QCC order on the Exchange. QCC with Stock Order functionality also provides benefits to the Exchange by establishing an audit trail for the execution of the stock component of a QCT within a reasonable period of time after the execution of the QCC order. The proposed rule change further reduces TPHs’ compliance risk by providing that the Exchange will, in addition to cancelling the stock component if the option component cannot execute, nullify any option component execution when the stock component does not execute without a request from the TPH. Nullification of the option trade is consistent with the requirement that a TPH must execute the stock component of a QCT within a reasonable period of time after executing the option component on the Exchange as a QCC order. The proposed rule change simply eliminates the requirement that one party to the transaction request nullification of the option component trade before the Exchange nullifies the option trade, because such nullification is consistent with the definitions of QCC orders and QCT. The proposed rule change merely automates a process that TPHs can manually do today. As noted above, to qualify as a QCT, the execution of one component is contingent upon the execution of all

<sup>19</sup> In the SIA Exemption Request, the SIA stated that parties to a contingent trade will not execute one side of the trade without the other component or components being executed in full (or in ratio) and at the specified spread or ratio. See SIA Exemption Request at 2. While a broker-dealer could re-submit the stock component to a stock trading venue or execution after it initially fails to execute, there is a compliance risk that the time at which the stock component executes is not close enough to the time at which the option component executed.

<sup>20</sup> 15 U.S.C. 78f(b).

<sup>21</sup> 15 U.S.C. 78f(b)(5).

<sup>22</sup> *Id.*

other components at or near the same time.<sup>23</sup> Since the purpose of a QCC with Stock Order is for all components to trade at or near the same time, if the stock component does not execute at or near the same time as the option component, it is reasonable to expect a TPH that submitted a QCC with Stock Order to request such nullification to avoid any compliance risk associated with execution of a QCC order and lack of execution of a stock order at or near the same time.<sup>24</sup>

The Exchange conducts surveillance to ensure a TPH executes the stock component of a QCT, which will also apply to QCC with Stock Orders, if the option component executed. As a result, if the stock component does not execute when initially submitted to a stock trading venue by the designated broker-dealer, a TPH may be subject to compliance risk if it does not execute the stock component within a reasonable time period of the execution of the option component. The proposed rule change reduces this compliance risk for TPHs. The Exchange therefore believes the proposed rule change removes impediments to and perfects the mechanisms of a free and open market and a national market system, and in general, protects investors and the public interest.

The Exchange believes the proposed rule change to require a TPH to submit a QCC with Stock Order with a net price will also perfect the mechanism of a free and open market and a national market system and protect investors, because a net price will reduce the chance that TPHs will miss the market since the Exchange will calculate a price for the stock and options components that honors the net price of the package and current market prices, if possible. As noted above, a TPH that wants to enter a net price for the stock and option components can execute a QCT by entering a QCC order on the Exchange and separately executing the stock component of the QCT another venue, as it may do today. As noted above, submission of a QCC with Stock Order is consistent with the use of QCTs.<sup>25</sup>

Additionally, the proposed functionality is similar to functionality offered by another options exchange<sup>26</sup> and consistent with the QCT exemption previously approved by the Commission.<sup>27</sup>

<sup>23</sup> See *supra* note 13.

<sup>24</sup> See *supra* note 14.

<sup>25</sup> See *supra* note 8.

<sup>26</sup> See Nasdaq ISE, LLC ("ISE") Rules 715(t) and 721(c) and Supplementary Material.

<sup>27</sup> See QCT Exemption Order.

### *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. QCC with Stock Orders facilitate TPHs' compliance with the requirements associated with executing QCC orders on the Exchange, and are not designed to impose any unnecessary burden on competition. QCC with Stock Order functionality is available to TPHs on a voluntary basis, and TPHs are not required to use QCC with Stock Orders when executing QCTs. The proposed rule change has no impact on TPHs that elect to execute QCTs without using QCC with Stock Order functionality. Those TPHs may continue to execute QCTs in the same manner as they do today by entering a QCC order on the Exchange and separately executing the stock component of the QCT another venue. A TPH can also build its own technology to electronically communicate the stock component of any QCT to a broker-dealer for execution. For TPHs that elect to use QCC with Stock Order functionality to execute QCTs, the proposed rule change reduces those TPHs' compliance burdens to satisfy their obligation to execute the related stock component of the QCT within a reasonable period of time after the QCC order is executed on the Exchange, as this functionality provides an automated means for satisfying this obligation.

QCC with Stock Orders are available to all TPHs either through a front-end order and execution management system or through a TPH's own electronic connection to the Exchange. Additionally, the proposed functionality is similar to functionality offered by another options exchange<sup>28</sup> and consistent with the QCT exemption previously approved by the Commission.<sup>29</sup>

### *C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received From Members, Participants, or Others*

The Exchange neither solicited nor received comments on the proposed rule change.

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

Because the foregoing proposed rule change does not: (i) Significantly affect

<sup>28</sup> See ISE Rules 715(t) and 721(c) and Supplementary Material.

<sup>29</sup> See QCT Exemption Order.

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) of the Act<sup>30</sup> and Rule 19b-4(f)(6) thereunder.<sup>31</sup>

A proposed rule change filed under Rule 19b-4(f)(6) normally does not become operative for 30 days after the date of filing. However, Rule 19b-4(f)(6)(iii)<sup>32</sup> permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. In its filing with the Commission, the Exchange requests that the Commission waive the 30-day operative delay. The Exchange states that its proposal is consistent with QCT rules and is designed to (1) help reduce a TPH's compliance burdens by providing an automated means to facilitate compliance with the obligations applicable to QCC with stock orders and (2) assist the Exchange with maintaining an audit trail and conducting surveillance of TPHs for compliance with the rules governing these types of trades. In addition, the Exchange noted that this functionality is optional, and TPHs can continue to execute QCTs manually or through alternative means as they do today. According to the Exchange, waiving the operative delay will allow the Exchange to update its rules immediately to reflect this functionality, to the benefit of members and other market participants. The Commission believes that waiving the 30-day operative delay is consistent with the protection of investors and the public interest because the QCC with Stock Order functionality is designed to help Exchange members that choose to use the functionality comply with their qualified contingent trade obligations in connection with a QCC Order,<sup>33</sup> as well as help the Exchange surveil its members for compliance with the Exchange's rules for QCC Orders. Therefore, the Commission designates the proposed rule change operative upon filing.<sup>34</sup>

<sup>30</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>31</sup> 17 CFR 240.19b-4(f)(6). As required under Rule 19b-4(f)(6)(iii), the Exchange provided the Commission with 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.

<sup>32</sup> 17 CFR 240.19b-4(f)(6)(iii).

<sup>33</sup> See *supra* note 5 and accompanying text.

<sup>34</sup> For purposes only of waiving the 30-day operative delay, the Commission has considered the

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 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 email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-CBOE-2018-058 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-CBOE-2018-058. 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

proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

office of the Exchange. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-CBOE-2018-058 and should be submitted on or before September 14, 2018.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>35</sup>

**Eduardo A. Aleman**

*Assistant Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-83888; File No. SR-NASDAQ-2018-069]

### Self-Regulatory Organizations; The Nasdaq Stock Market LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Codify the Definitions of the Protocols to Enter Quotes and Orders

August 20, 2018.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on August 17, 2018, The Nasdaq Stock Market LLC ("Nasdaq" or "Exchange") filed with the Securities and Exchange Commission ("SEC" or "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 adopt new rule text within The Nasdaq Options Market LLC Rules at Chapter VI, Section 21. Specifically, the Exchange proposes to codify the definitions of the current protocols that Participants can use to enter quotes and orders on the Exchange and introduce a new protocol.

The text of the proposed rule change is available on the Exchange's website at <http://nasdaq.cchwallstreet.com>, at the principal office of the Exchange, and at

<sup>35</sup> 17 CFR 200.30-3(a)(12).

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

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

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 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 adopt new rule text at Chapter VI, Section 21 to codify the Financial Information eXchange ("FIX") and Specialized Quote Feed ("SQF") protocols. The Exchange proposes to adopt a new protocol and name it "Ouch to Trade Options" ("OTTO") and rename and amend the current OTTO protocol on NOM as "Quote Using Orders" or "QUO".<sup>3</sup> The Exchange believes that codifying definitions of current and new protocols in its rules will increase transparency around its operations. Furthermore, the proposed definitions will be harmonized where appropriate with definitions contained in the rules of the Exchange's affiliated options markets,<sup>4</sup> by using consistent terms to define the buckets of information transmitted, or the features available, on each protocol. The protocols used by NOM Participants to submit quotes and orders play an important role in the operation of the System.

The Exchange notes it has two protocols today, SQF and proposed to be renamed QUO (formerly known as OTTO), that NOM Market Makers can use to meet their quoting obligations. All quotes on SQF are counted toward market making obligations. While a NOM Market Maker may enter an Immediate-or-Cancel Order through SQF this order does not rest on the Exchange's order book and therefore does not count toward quoting

<sup>3</sup> Today the Exchange offers FIX, SQF and QUO (formerly known as OTTO) to its Participants.

<sup>4</sup> Rules have been filed for Nasdaq ISE, LLC ("ISE"), Nasdaq GEMX, LLC ("GEMX"), Nasdaq MRX, LLC ("MRX"), Nasdaq BX, Inc. and Nasdaq Phlx, LLC.