

should be submitted on or before September 24, 2019.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>56</sup>

Jill M. Peterson,

Assistant Secretary.

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-86772; File No. SR-CBOE-2019-042]

### Self-Regulatory Organizations; Cboe Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change To Amend Rules Related to How the System Handles Incoming Orders and Open Outcry Trading in Connection With the Migration of the Exchange's Trading Platform to the Same System Used by the Cboe Affiliated Exchanges

August 27, 2019.

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 9, 2019, Cboe Exchange, Inc. (the "Exchange" or "Cboe Options") filed with the Securities and Exchange Commission (the "Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. The Exchange filed the proposal as a "non-controversial" proposed rule change pursuant to Section 19(b)(3)(A)(iii) of the 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

Cboe Exchange, Inc. (the "Exchange" or "Cboe Options") proposes to amend certain Rules related to how the System<sup>5</sup> handles incoming orders and open outcry trading, as well as move

these Rules from the currently effective Rulebook ("current Rulebook") to the shell structure for the Exchange's Rulebook that will become effective upon the migration of the Exchange's trading platform to the same system used by the Cboe Affiliated Exchanges (as defined below) ("shell Rulebook"). The text of the proposed rule change is provided in Exhibit 5.

The text of the proposed rule change is also available on the Exchange's website (<http://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

In 2016, the Exchange's parent company, Cboe Global Markets, Inc. (formerly named CBOE Holdings, Inc.) ("Cboe Global"), which is also the parent company of Cboe C2 Exchange, Inc. ("C2"), acquired Cboe EDGA Exchange, Inc. ("EDGA"), Cboe EDGX Exchange, Inc. ("EDGX" or "EDGX Options"), Cboe BZX Exchange, Inc. ("BZX" or "BZX Options"), and Cboe BYX Exchange, Inc. ("BYX" and, together with Cboe Options, C2, EDGX, EDGA, and BZX, 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. Cboe Options intends to migrate its trading platform to the same system used by the Cboe Affiliated Exchanges, which the Exchange expects to complete on October 7, 2019. In connection with this technology migration, the Exchange has a shell Rulebook that resides alongside its current Rulebook, which shell

Rulebook will contain the Rules that will be in place upon completion of the Cboe Options technology migration.

Currently, the Exchange has an order handling system that determines how to handle incoming orders. The order handling system routes orders for automatic execution, book entry, open outcry, or manual handling (by a Floor Broker or PAR Official).<sup>6</sup> How the System handles an order depends on whether an order is eligible for electronic processing (i.e., eligible for automatic execution or book entry) or the Trading Permit Holder's instructions on the order (e.g., a Trading Permit Holder may route an order directly to a PAR workstation<sup>7</sup> for manual handling and potential open outcry trading). Additionally, certain Rules provide that an order will route for manual handling if it does not execute pursuant to those Rules.<sup>8</sup> The Exchange's new trading platform will not have an order handling system, and therefore deletes the majority of provisions in current Rule 6.12 and other provisions regarding the order handling system. Instead, the System will handle orders in accordance with their instructions. Certain orders will be eligible for electronic processing, while other orders will be eligible for manual handling and open outcry trading, as set forth in the proposed Rules and described below.

The proposed rule change adds the following order instructions to Rule 5.6 in the shell Rulebook:

- A "Default" order is an order a User designates for electronic processing, and which order (or unexecuted portion) routes to PAR for manual handling if not eligible for electronic processing.
- A "Direct to PAR" order is an order a User designates to be routed directly to a specified PAR workstation for manual handling. A User must

<sup>56</sup> See current Rule 6.12.

<sup>7</sup> A PAR workstation is an order management tool used on the Exchange's trading floor by Trading Permit Holders or PAR Officials (whose responsibilities are described in current Rule 6.12B (which the proposed rule change moves to proposed Rule 5.90)) to facilitate manual handling of orders and open outcry trading.

<sup>8</sup> See, e.g., Rule 6.12(a)(1) (which provides any remaining balance of an order that does not automatically execute are cannot enter the Book will route to a PAR workstation or order management terminal). Upon the migration of the trading platform, the Exchange will no longer offer order management terminals (as all Floor Brokers have PAR workstations on the trading floor, and order management terminals provide similar order management functionality), so all orders routed for manual handling will route to a PAR workstation.

<sup>56</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.

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

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

<sup>5</sup> The term "System" means the Exchange's hybrid trading platform that integrates electronic and open outcry trading of option contracts on the Exchange, and includes any connectivity to the foregoing trading platform that is administered by or on behalf of the Exchange, such as a communications hub. See Rule 1.1 in the current Rulebook and the shell Rulebook.

designate a Direct to PAR order as RTH Only.<sup>9</sup>

These Order Instructions, in addition to the Electronic Only<sup>10</sup> instruction in Rule 5.6(c) in the shell Rulebook, essentially “replace” the Exchange’s current order handling system.

Current Rule 6.12A(c) states unless otherwise specified in the Rules or the context indicates otherwise, all order types in current Rule 6.53 are eligible to route to PAR, except attributable orders, intermarket sweep orders (“ISOs”), AIM sweep orders, sweep and AIM orders, reserve orders,<sup>11</sup> qualified contingent cross (“QCC”) orders, and Market-Maker Trade Prevention Orders may not be routed to PAR. The proposed rule change provides in Rule 5.6(c) and (d) that Users may not designate orders with the following Order Instructions or Times-in-Force as Direct to PAR (and thus they may not route to PAR for manual handling<sup>12</sup> or trade in open outcry), because manual handling of these orders would generally be inconsistent with their defined purposes:<sup>13</sup>

- All Sessions;<sup>14</sup>
- Book Only;
- Cancel Back;
- ISO;<sup>15</sup>
- Post Only;
- Price Adjust;
- QCC;<sup>16</sup>
- Reserve;<sup>17</sup>

<sup>9</sup> Pursuant to Rule 5.1(c), trading during the Exchange’s Global Trading Hours (“GTH”) trading session is electronic only.

<sup>10</sup> An “Electronic Only” order is an order a User designates for electronic execution (in whole or in part) on the Exchange only, and does not route to PAR for execution in open outcry. The System cancels an Electronic Only order that would otherwise route to PAR pursuant to the Rules.

<sup>11</sup> The Exchange does not intend to offer reserve complex orders following the technology migration.

<sup>12</sup> As further discussed below, a Floor Broker that receives an order via PAR for manual handling has discretion with how to handle the order.

<sup>13</sup> See Rule 5.6(c) and (d) in the shell Rulebook. While stop and stop-limit orders are eligible for routing for manual handling today, the Exchange has authority pursuant to current Rules 6.12A and 6.53 to determine to make them not eligible for routing for manual handling. The Exchange believes there is minimal demand for these order types to route to PAR given the purpose of these order types (which is to rest and become eligible for automatic execution as soon as the series reaches a specified price), and Users have the ability to send these orders for electronic processing or send other orders to PAR for manual handling if they so desire.

<sup>14</sup> As noted above, there is no open outcry trading during the Exchange’s GTH trading session.

<sup>15</sup> This is consistent with current Rule 6.12A(c).

<sup>16</sup> This is consistent with current Rule 6.12A(c). The proposed rule change makes nonsubstantive changes to the definition of QCC orders, including to add subheadings, update paragraph lettering and numbering, and make other clarifying changes, as well as conform language to the definition of a QCC order in EDGX Options Rule 21.1(d).

<sup>17</sup> This is consistent with current Rule 6.12A(c).

- Stop;
- Stop-limit;
- Fill-or-kill;
- Good-till-date;
- Immediate-or-cancel;
- Limit-on-close;
- Market-on-close; and
- At the open.

Proposed Rule 5.6(c) also identifies certain Order Instructions that are only available for PAR routing and open outcry trading:

- Multi-Class Spread Order (which may only execute on the Exchange’s trading floor pursuant to current Rule 24.19);
- Not Held order (which by definition is subject to discretion regarding execution);<sup>18</sup> and
- SPX Combo (which may only execute on the Exchange’s trading floor pursuant to current Rule 24.20).

All other orders may be routed for electronic processing or manual handling.

The proposed rule change amends the definition of complex order in Rule 1.1 of the shell Rulebook. Currently, the term complex order means any order involving the concurrent execution of two or more different series in the same class, for the same account, occurring at or near the same time and for the purpose of executing a particular investment strategy with no more than the applicable number of legs (which number the Exchange determines on a class-by-class basis). The current definition also states for purposes of Rules 5.4 (regarding permissible minimum increments for bids and offers), 5.85 (regarding complex order priority in open outcry trading), 5.86 (regarding open outcry facilitations and solicitations), and 5.87 (regarding open outcry crossing) in the shell Rulebook, the term complex order means a spread order, combination order, straddle order, or ratio order (each as defined in Rule 5.6 in the shell Rulebook).<sup>19</sup>

The Exchange believes the current definition of complex order is unnecessarily restrictive on market participants. Market participants may determine that investment and hedging strategies within the specified ratio are appropriate for their investment purposes, and the Exchange believes it will benefit market participants if they can define the investment and hedging

<sup>18</sup> The proposed rule change deletes the language in the definition of a “not held” order regarding the need to be marked, as it is redundant of the not held order message that signifies it is a not held order.

<sup>19</sup> The current definition also provides that a definition for complex order for the purposes of electronic processing will be added to Rule 5.33 of the shell Rulebook (which the Exchange intends to add in a separate rule filing).

strategies that may help them achieve their desired investment results. The Exchange does not believe it is necessary to restrict complex orders submitted for execution to those that fit within the definitions of straddle, combination, or spread. Therefore, the proposed rule change deletes those defined terms, as well as the term ratio order, and provides that any multi-leg order (up to the maximum number of legs specified by the Exchange) with a ratio equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.00) (which ratio is consistent with the current definition of ratio order)<sup>20</sup> may be executed on the Exchange electronically or in open outcry on the Exchange’s trading floor.<sup>21</sup> Therefore, all multi-legged orders with a ratio equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.00) (and not just spread, straddle, and combination orders) may trade in penny increments pursuant to Rule 5.4 in the shell Rulebook (including electronically pursuant to Rule 5.33 and in open outcry pursuant to Rule 5.85 in the shell Rulebook), and may be eligible for the complex order priority in Rule 5.85(b)(1) in open outcry trading.<sup>22</sup> The proposed rule change makes conforming changes to Rules 5.4<sup>23</sup> and 5.30 in the shell Rulebook.<sup>24</sup> In other words, the proposed rule change has no impact on the minimum trading increment or priority of complex orders as currently defined in the shell Rulebook—it merely expands the types of complex order strategies within the permissible range of ratios that may receive complex order increment (electronically and in open

<sup>20</sup> See current Rule 6.53 (Rule 5.6(c) in the shell Rulebook).

<sup>21</sup> See proposed Rules 1.1, 5.6, and 5.30 in the shell Rulebook. In a separate rule filing, the Exchange intends to adopt rules regarding the trading of complex orders following the technology migration.

<sup>22</sup> See proposed Rules 1.1 (definition of complex order), 5.4(b), 5.6(c), and 5.85(b).

<sup>23</sup> The proposed rule change also updates the expiration date of the penny pilot program in Rule 5.4, Interpretation and Policy .03 of the shell Rulebook. The Exchange previously “moved” its rule regarding minimum increments from Rule 6.42 in the current Rulebook to Rule 5.4 of the shell Rulebook (see Securities Exchange Act Release No. 86173 (June 20, 2019), 84 FR 30267 (June 26, 2019) (SR-CBOE-2019-027). After that filing, the Exchange submitted a rule filing to extend the penny pilot program through December 31, 2019. See Securities Exchange Act Release No. 86148 (June 19, 2019), 84 FR 29906 (June 25, 2019) (SR-CBOE-2019-028). The proposed rule change amends Rule 5.4 to reflect the current expiration of the penny pilot program in the shell Rulebook, but makes no change to the penny pilot program.

<sup>24</sup> Proposed Rule 5.85(b) also clarifies that only complex orders with ratios greater than one-to-three (.333) or less than three-to-one (3.00) are eligible for complex order priority in open outcry trading.

outcry) and open outcry priority treatment.<sup>25</sup>

The proposed rule change also clarifies that market participants may submit a complex order with any strategy and any ratio for manual handling and open outcry trading.<sup>26</sup> The proposed rule change makes explicit that a complex order (and its legs) with a ratio of less than one-to-three (.333) or greater than three-to-one (3.00) may trade in open outcry on the Exchange's trading floor in the standard trading increment for the class, and that each leg price be better than the price of a Priority Customer order in the Book on each leg of the order. This is equivalent to a market participant submitting multiple simple orders in the same class for open outcry trading (they would trade in the permissible minimum increments in Rule 5.4(a) in the shell Rulebook, and each would need to be price better than a Priority Customer order in the book in the applicable series, as set forth in proposed Rule 5.85(a)).<sup>27</sup> The proposed rule change merely clarifies that market participants may submit these as a single complex order for manual handling and execution on the Exchange's trading floor, which will permit more efficient execution of complex trading strategies outside of the specified ratio.

The proposed rule change also adopts Rule 5.83 in the shell Rulebook to explicitly state which orders may be eligible for PAR routing (and open outcry trading), which include market and limit orders, all-or-none orders, minimum quantity orders, multi-class spread orders, not held orders, RTH Only orders, SPX combo orders, Day orders, and GTC orders. Additionally, the Exchange may make complex orders, including security future-option orders, and stock-option orders available for PAR routing and manual

handling, as it consistent with current functionality.<sup>28</sup>

The proposed rule change adopts Rule 5.84 in the shell Rulebook to provide that open outcry trading on the Exchange's trading floor may begin in a series after it opens for electronic trading pursuant to Rule 5.31 of the shell Rulebook. This is consistent with when open outcry trading may begin today, and the proposed rule change merely codifies this in the Rules.

The proposed rule change moves the following Rules (and deletes portions of those Rules that will no longer be applicable following the System migration) from the current Rulebook that apply solely to the Exchange's trading floor and open outcry trading into Chapter 5, Section G of the shell Rulebook. The Exchange believes it will benefit investors if all Rules that only relate to this type of trading are contained in the same portion of the Rulebook. Other than certain changes described below, the proposed rule change makes only nonsubstantive changes to these Rules, including to update paragraph lettering and numbering, make grammatical changes and make the language more plain English, change times from Central Time to Eastern Time (to be consistent with the Rule provisions in the shell Rulebook),<sup>29</sup> delete provisions regarding the announcement of Exchange determinations by Regulatory Circular (as those will occur pursuant to Rule 1.5 in the shell Rulebook), add paragraph headings, simplify certain provisions, update cross-references, and incorporate defined terms.

- Current Rule 6.9 regarding facilitated and solicited transactions moves to proposed Rule 5.86.<sup>30</sup> The proposed rule change deletes a reference to an old regulatory circular regarding front-running prohibitions, which are considered a violation of current Rule 4.1 (which the Exchange proposes to move to Rule 8.1 in the shell Rulebook). The Exchange intends to re-issue the circular and add certain portions to the Rules as appropriate, in a separate rule

filing. Additionally, current Rule 6.9(f) requires orders that result from a solicitation to be marked in a manner and form prescribed by the Exchange. The Exchange no longer intends to impose that requirement. Whether an order is solicited is only relevant with respect to how it is represented on the trading floor; however, the Exchange does not incorporate any such markings into its surveillances and thus does not believe it is necessary to require a systematic marking.

- Current Rules 6.12(a)(1) and 6.13(b) regarding how the System handles incoming orders (whether they automatically execute at one price or multiple prices, rest on the Book, or route to PAR for manual handling) to proposed Rule 5.8.<sup>31</sup> The proposed rule change deletes language regarding the Exchange designating an eligible order size, type, origin code, or classes for which automatic execution is available from Rule 6.13(a) and (b)(i) and (ii).<sup>32</sup> Orders in all classes of all sizes and for all origin codes may execute automatically upon entry, subject to a User's instructions (as discussed above, orders with certain Order Instructions and Times-in-Force are only eligible to route to PAR may not automatically execute upon entry or rest in the Book). The proposed rule change also deletes current Rule 6.13(c) regarding users that may access the System for automatic execution of orders. Rule 5.5 describes how Users (including order entry firms)<sup>33</sup> will be able to establish access and connectivity to the System following the technology migration to enter orders both for electronic processing and manual handling. The remainder of Rule 6.13(c) describes requirements that apply to all Users (such as complying with all Rules), and thus the proposed rule change deletes those redundant provisions. For example, all TPHs must comply with the Exchange's trading rules and procedures, and all features of automatic execution on the Exchange's System are available to the public in the

<sup>25</sup> Pursuant to the proposed rule change, complex orders with any ratio may trade on the Exchange's trading floor pursuant to the rules regarding solicitation and crossing (current Rules 6.9 and 6.74, which the proposed rule change moves to Rules 5.86 and 5.87, respectively). However, any complex order trades pursuant to those Rules will be subject to the minimum increment and priority Rules described in this rule filing. Other options exchanges have similar definitions of complex orders. See, e.g., BOX Exchange LLC ("BOX") Rule 7600(a)(4); and Nasdaq Phlx, LLC ("Phlx") Rule 1098(a)(i) and (c)(iii).

<sup>26</sup> By clarifying in the definition of complex order that, for purposes of Rule 5.33 in the shell Rulebook (which will be moved from Rule 6.53C in the current Rulebook and describe the electronic processing of complex orders), a complex order may only have a ratio equal to or greater than one-to-three and less than or equal to three-to-one to be eligible for electronic processing.

<sup>27</sup> See proposed Rules 1.1, 5.4, 5.6, and 5.85(b) in the shell Rulebook.

<sup>28</sup> See Rules 6.12A(c) and 6.53 (in the current Rulebook) (which provide that certain order types in Rule 6.53 are eligible for routing to PAR, and that the Exchange may determine which order types in Rule 6.53 are available on a class and system (including PAR) basis). In a separate rule filing, the Exchange intends to adopt rules regarding the trading of complex orders following the technology migration.

<sup>29</sup> See Rule 1.6 in the shell Rulebook.

<sup>30</sup> Proposed Rule 5.86 is renamed "Facilitated and Solicited Transactions." While current Rule 6.9 is called "Solicited Transactions," pursuant to current Rule 6.9, Interpretation and Policy .01, the rule applies to solicited orders, including facilitation orders. The Exchange believes updating the name of the Rule will clarify its application to investors.

<sup>31</sup> The proposed rule change also rennumbers Rule 5.8 in the shell Rulebook (regarding order exposure) to Rule 5.9 in the shell Rulebook.

<sup>32</sup> The proposed rule change also deletes current Rule 6.13(b)(vii), as it is redundant of language in Rule 5.32 of the shell Rulebook.

<sup>33</sup> Order entry firms is currently defined in Rule 1.1 in the shell Rulebook, so the proposed rule change deletes provisions in Rule 6.13 regarding the functions of an order entry firm. The proposed rule change also updates the definition of order entry firm in Rule 1.1 of the shell Rulebook to eliminate the cross-reference to Rule 3.51, as the Exchange does not anticipate having a separate rule regarding order entry firms. This is consistent with the definition of order entry firms in the rules of Cboe Affiliated Exchanges. See, e.g., C2 Rule 1.1 and EDGX Rule 16.1.

Exchange's Rules and other documents available on the Exchange's website.<sup>34</sup> Other Rules (for example, Rule 4.24 regarding supervision and Rule 9.8 regarding supervision of accounts) require TPHs to develop and maintain adequate procedures and controls over their business activities, which would include order entry.<sup>35</sup>

- Current Rule 6.12A regarding PAR moves to Rule 5.82. The proposed rule change deletes the portion of the current introductory paragraph in current Rule 6.12A regarding the order handling system (which, as discussed above, is being replaced by Order Instructions). The proposed rule change adds to current Rule 6.12A(b)(ii) (proposed Rule 5.82(c)(2)) that Trading Permit Holders may use PAR to trade against Priority Customer orders and other orders resting at the best available price in the Book, which is consistent with current functionality and open outcry priority and allocation rules (current Rule 6.45(b), which the proposed Rule change moves to Rule 5.85(a), as discussed below). The proposed rule change is merely adding this detail to the Rules. Additionally, the proposed rule change adds proposed Rule 5.82(c)(4) to provide that Trading Permit Holders may route orders to another PAR workstation. This is similar to current Rule 6.12(a)(2), which provides orders may be routed back and forth between order management terminals and PAR workstations. As noted above, the Exchange will no longer offer order management terminals, and so the Exchange will provide the same service for order routing between PAR workstations (which are merely a different type of order management terminals). As discussed above, the Exchange will no longer have an order handling system, and Order Instructions will determine whether an order may route to PAR. As discussed above, only orders not eligible for electronic processing (as specified in the proposed Rules) may be routed to PAR. Proposed Rule 5.83 sets forth whether a specific order type is eligible to route to PAR, as described above. The proposed rule change deletes current Rule 6.12A(d), as the proposed rule change describes PAR

functionality as of the System migration. The Exchange will continue to issue additional notices or technical specifications regarding the operation of PAR workstations.<sup>36</sup>

- Current Rule 6.12B regarding PAR Officials moves to proposed Rule 5.90. The Exchange notes proposed Rule 5.90(b)(1)(C) deletes references to market-if-touched, market-on-close (which includes limit-on-close pursuant to current Rule 6.53), stop, stop-limit, fill-or-kill, and immediate-or-cancel orders). Currently, those orders are excluded from a PAR Official's display obligation. However, as discussed above, these orders will no longer be eligible to route to PAR, and thus it is no longer necessary to reference them.

- Current Rule 6.20(a) through (d) regarding admission to and conduct on the Exchange's trading floor moves to proposed Rule 5.80. The proposed rule change deletes the last sentence of current Rule 6.20(d) regarding quote terminals on the trading floor, as quote terminals are obsolete and no longer used. Current Rule 6.20(e) regarding TPH education moves to proposed Rule 3.12, as it relates to a TPH's registration requirements rather than open outcry trading. The Exchange notes it deletes the provision from current Rule 6.20(e) (proposed Rule 3.12) that states any action taken by Floor Officials under that provision does not preclude further disciplinary action under current Chapter XVII (proposed Chapter 13) under the Rules. There is no action that Floor Officials may take with respect to TPH educational classes, and the Exchange may take action pursuant to current Chapter XVII (proposed Chapter 13), therefore this provision is unnecessary.

- Current Rule 6.23 regarding equipment and communications on the Exchange's trading floor moves to proposed Rule 5.81.

- Current Rules 6.41, Interpretation and Policy .01 and 24.8, Interpretation and Policy .01 regarding complex orders submitted with a cash price move to proposed Rule 5.85(f). The proposed rule change adds some detail regarding the submission and execution of these orders, but does not amend how these orders may be represented or execute on the Exchange's trading floor.<sup>37</sup> These details regarding the representation of orders with cash prices was set forth in

a previous rule filing submitted to the Commission.<sup>38</sup>

- Current Rule 6.45(b) regarding the priority and allocation of bids and offers in open outcry moves to proposed Rule 5.85(a) and (b). The proposed rule change also incorporates the on-floor DPM or LMM participation entitlement into the open outcry priority provisions, which is consistent with current Rules<sup>39</sup>—the proposed rule change merely clarifies where this priority overlay applies within the allocation and priority Rules for open outcry trades. The proposed rule change makes no change to how the on-floor participation entitlement is applied.<sup>40</sup> Current Rule 6.45, Interpretation and Policy .06 regarding the routing of the stock component of a stock-option order represented in open outcry moves to proposed Rule 5.85(b). The proposed rule change current Rule 6.45(b)(iii), which states the open outcry allocation and priority provisions are subject to current Rules 8.7, Interpretation and Policy .02 and Rule 8.51. Those Rules relate to Market-Maker obligations, to which Market-Makers are always subject, and thus the Exchange does not believe it is necessary to include a reference to those rules here.

- Current Rule 6.47 regarding split-price priority (which only applies to open outcry trading) moves to proposed Rule 5.85(c).

- Current Rule 6.56 regarding compression forums moves to proposed Rule 5.88.

- Current Rule 6.57 regarding risk-weighted asset (RWA) transactions moves to proposed Rule 5.89.

- Current Rule 6.73 regarding Floor Broker responsibilities moves to proposed Rule 5.91(a) and (b). Current Rule 6.73(c) is duplicative of language in current Rule 6.75 (which the proposed rule change moves to proposed Rule 5.91(c)), and thus the proposed rule change deletes the redundant language. The proposed rule change deletes current Rule 6.73(b), because the Exchange will no longer have market-if-touched orders following the System migration, and, as discussed

<sup>34</sup> Current Chapter IX (which the Exchange intends to move to Chapter 9 of the shell Rulebook) describes requirements for firms that do business with the public.

<sup>35</sup> Additionally, Rule 15c3-5 under the Exchange Act requires a broker-dealer with market access, or that provides any person with access to an exchange, to establish, document, and maintain a system of risk management controls and supervisory procedures reasonably designed to manage the financial, regulatory, and other risks, such as legal and operational risks, related to market access, which would include order entry.

<sup>36</sup> See, e.g., technical specifications on the Exchange's website at <http://markets.cboe.com/us/options/support/technical/>.

<sup>37</sup> The proposed rule change also adds an applicable cross-reference to Rule 5.3(e) of the shell Rulebook regarding bids and offers and updates subparagraph numbering as applicable.

<sup>38</sup> See Securities Exchange Act Release No. 74551 (March 20, 2015), 80 FR 16046 (March 26, 2015) (SR-CBOE-2015-010).

<sup>39</sup> See current Rules 8.15(d) and 8.87. As is the case for electronic trading (see Rule 5.32 in the shell Rulebook), the LMM/DPM participation entitlement may only be applied after Priority Customer orders at the same price trade.

<sup>40</sup> LMMs and DPMs will continue to only be able to receive a participation entitlement if they have an appointment in the relevant class, and if they have a quote at the best price. Additionally, LMMs and DPMs may not be allocated a total quantity of contracts greater than the quantity that they quote at the best price.

above, market-on-close (which includes limit-on-close pursuant to current Rule 6.53), stop, and stop limit orders will no longer be eligible to route to PAR, and thus will not be available for Floor Broker handling.<sup>41</sup> The proposed rule change amends current Rule 6.73, Interpretation and Policy .01 (which moves to proposed Rule 5.91(a)(1)) to state a Floor Broker must due diligence in handling and executing an order by announcing to the trading crowd a request for quotes, rather than making all persons in the trading crowd aware of a request for quotes. While a Floor Broker must use best efforts to make as many people in the crowd aware of a request for quotes, given the size and activity (and thus, noise volume) in certain trading crowds, a Floor Broker cannot guarantee that all persons in a trading crowd will hear and thus be aware of a request for quotes.

Additionally, the proposed rule change deletes references in current Rule 6.73, Interpretations and Policies .03 and .04 to the dissemination of the trading crowd market quote and a related obligation, as trading crowd quotes are no longer disseminated. Rule 8.51 regarding firm quote obligations (which the Exchange intends to move to Rule 5.52 in the shell Rulebook) applies to all orders and quotes on the Exchange.

- Current Rule 6.74 regarding crossing orders in open outcry moves to proposed Rule 5.87.

- Current Rule 6.75 regarding discretionary transactions moves to proposed Rule 5.91(c). The proposed rule change moves all rules regarding Floor Broker responsibilities into a single proposed Rule 5.91.<sup>42</sup>

- Current Rule 6.79 regarding Floor Broker practices moves to proposed Rule 5.91(d) through (j).<sup>43</sup> The proposed rule change deletes the portion of current Rule 6.79 that restates Exchange Act requirements regarding record retention requirements for Floor Brokers, as the Rule states a Floor Broker must comply with the Exchange Act and Exchange Rules regarding

documentation and record-keeping, making restatement of the Exchange Act provisions redundant and unnecessary.

- Current Rule 24.19(a) and (b) regarding the definition of a multi-class spread order moves to proposed Rule 5.6(c), so that all Order Instructions that will be available on the Exchange are included in the same place within the Rules. The proposed rule change adds to the Rules the current combinations of broad-based index options the Exchange has determined may trade as multi-class spread orders.<sup>44</sup> Current Rule 24.19(c) regarding how a multi-class spread order may execute moves to proposed Rule 5.85(d), so that all provisions regarding how orders may trade in open outcry are included in the same place within the Rules. The proposed rule change makes no changes regarding how multi-class spreads may execute on the Exchange.

- Current Rule 24.20(a) and Interpretation and Policy .01 regarding the definition of an SPX Combo Order move to proposed Rule 5.6(c), so that all Order Instructions that will be available on the Exchange are included in the same place within the Rules. Current Rule 24.20(b) regarding how an SPX Combo Order may execute moves to proposed Rule 5.85(e), so that all provisions regarding how orders may trade in open outcry are included in the same place within the Rules. The proposed rule change makes no changes regarding how SPX Combo Orders may execute on the Exchange. The proposed rule change deletes the requirement that TPHs apply an indicator one SPX Combo, as the new “SPX Combo” order instruction replaces the need for a separate indicator, as it will be the only order type that may execute pursuant to the procedures set forth in current Rule 24.20 (proposed Rule 5.85(e)).

- Current Rule 24.21 regarding crowd space dispute resolution procedures moves to proposed Rule 5.93. The current rule states the Exchange may apply these procedures to OEX, SPX, DJX, DIA and any index option not located at a station shared with equity options. Currently, these procedures apply only to the SPX and VIX index option crowds, so proposed Rule 5.93 explicitly states these procedures will only apply to spaces within those trading crowds.

- Current Rule 24.22 regarding the allocation of trading spaces moves to proposed Rule 5.92.

- Current Rule 24A.6 regarding a Floor Broker’s discretion with respect to the number of FLEX contracts it may

transact moves to proposed Rule 5.91(c)(2)(B), so that all provisions regarding Floor Broker discretion are contained within the same part of the Rules.

The proposed rule change also amends Rule 5.32 of the shell Rulebook to delete three inadvertent references to the “EDGX Options Book” and instead refers to the term “Book,” which is defined in Rule 1.1 of the shell Rulebook as the electronic book of simple orders and quotes maintained by the System, which single book is used during both the RTH and GTH trading sessions. In addition, the proposed rule change corrects an error in the paragraph number in Rule 5.32(b), which currently has two subparagraphs labeled as (2). These proposed changes make no changes to any functionality—they merely correct errors in the shell Rulebook.

## 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>45</sup> Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>46</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 facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest. Additionally, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>47</sup> requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

In particular, the proposed elimination of the Exchange’s order handling system, which the Exchange proposes to replace with Order Instructions that will dictate whether an order will route for electronic processing or manual handling, as well as specific Rules regarding eligibility of Order Instructions and Times-in-Force for electronic processing or manual handling (or both) will benefit investors

<sup>41</sup> Similarly, the Exchange deletes current Rules 21.17 and 23.12 (regarding the handling by Floor Brokers of contingency orders for government securities options and interest rate options (which the Exchange does not currently list for trading)), as those rules replace current Rule 6.73(b), which the proposed rule change deletes. Floor Brokers will no longer be able to handle any of these contingency orders.

<sup>42</sup> The proposed rule change also deletes Rules 6.76 and 6.76A from the current Rulebook, as they were previously deleted.

<sup>43</sup> These include practices related to the liquidation or reduction of error account positions, erroneously executed orders, lost or misplaced market orders, legging multi-part orders, print-throughs, stopping orders, and documentation of errors and recordkeeping requirements.

<sup>44</sup> See Cboe Options Regulatory Circular RG16–136 (August 11, 2016).

<sup>45</sup> 15 U.S.C. 78f(b).

<sup>46</sup> 15 U.S.C. 78f(b)(5).

<sup>47</sup> *Id.*

by providing them with more control regarding how their orders will be processed upon submission to the Exchange. The Exchange believes the proposed rule change simplifies the process pursuant to which the System handles order, and will provide Users with more certainty regarding how the Exchange will process their orders. The Exchange notes the proposed elimination of order management terminals will have minimal impact on Users on the trading floor, as all Floor Brokers use PAR workstations (which provide similar order management tools as order management terminals). The Exchange believes this will further simplify manual handling of orders on the Exchange's trading floor.

The proposed rule change also benefits investors by adding transparency regarding which orders are eligible for electronic processing, and which orders are eligible for manual handling. The Exchange currently has authority pursuant to Rules 6.12A and 6.53 in the current Rulebook to determine which orders are eligible for electronic processing and PAR routing, and the proposed rule change is consistent with that authority.

The proposed rule change regarding the definition of a complex order will remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors. Market participants may determine that investment and hedging strategies within the specified ratio are appropriate for their investment purposes and refer to submit those orders for execution. The Exchange believes it will benefit market participants if they can define the investment and hedging strategies that may help them achieve their desired investment results. As discussed above, the proposed rule change has no impact on which complex orders may trade in permissible complex order increments or receive complex order priority in open outcry trading—the proposed rule change merely expands the potential strategies with ratios of greater than or equal to one-to-three and less than or equal to three-to-one that may be executed on the Exchange (electronically or in open outcry), trade in complex order increments permissible in Rule 5.4 in the shell Rulebook, and receive complex order priority in open outcry trading in Rule 5.85(b) in the shell Rulebook (as proposed). The proposed rule change also benefits investors by clarifying that a complex order (and its legs) with a ratio less than one-to-three or greater than three-to-one is only eligible for

manual handling and open outcry trading in the standard increment for the class, and may not receive complex order priority in open outcry trading. Additionally, other options exchanges have similar definitions of complex orders.<sup>48</sup>

The Exchange believes the proposed reorganization of Rules to move all Rules that relate solely to open outcry trading on the Exchange's trading floor will also benefit investors and remove impediments to and perfect the mechanism of a free and open market and a national market system. The majority of the changes in the proposed rule change move rules from the current Rulebook to the shell Rulebook with no substantive changes. The proposed nonsubstantive changes to the Rules provide additional detail in the rule regarding current functionality, make the Rules more plain English, update cross-references and paragraph lettering and numbering, delete duplicative language, and simplify rule language, which all benefit investors. The Exchange believes these changes and transparency will protect investors, as they provide more clarity and reduce complexity within the Rules.

#### *B. Self-Regulatory Organization's Statement on Burden on Competition*

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange does not believe the proposed rule change will impose any burden on intramarket competition, as they will apply to all Users in the same manner. All Users may submit orders for electronic processing or manual handling (including complex orders as proposed) as eligible pursuant to the proposed rule change, and the System will handle orders from Users in the same manner. Submission of orders for electronic processing or manual handling will be within Users' discretion. The Exchange does not believe the proposed rule change will impose any burden on intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act, because it only impacts how the System will route orders for electronic processing or manual trading on the Exchange, but will have no impact on how orders will be executed on the Exchange. Regarding the expanded definition of complex orders that may be submitted to the

Exchange for electronic processing, the Exchange notes other options exchanges have similar definitions of complex orders.<sup>49</sup> The proposed nonsubstantive changes are not intended to have any impact on competition, as they do not impact trading on Cboe Options.

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

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

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

Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A)(iii) of the Act<sup>50</sup> and subparagraph (f)(6) of Rule 19b-4 thereunder.<sup>51</sup> At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission will institute proceedings to determine whether the proposed rule change should be approved or disapproved.

### **IV. Solicitation of Comments**

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

#### *Electronic Comments*

- Use the Commission's internet comment form (<http://www.sec.gov/rules/sro.shtml>); or

<sup>49</sup> See, e.g., BOX Rule 7600(a)(4); and Phlx Rule 1098(a)(i) and (c)(iii).

<sup>50</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>51</sup> 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6)(iii) requires the Exchange to give the Commission written notice of the Exchange's intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

<sup>48</sup> See, e.g., BOX Exchange LLC ("BOX") Rule 7600(a)(4); and Nasdaq Phlx, LLC ("Phlx") Rule 1098(a)(i) and (c)(iii).

- Send an email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-CBOE-2019-042 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-2019-042. 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 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-2019-042 and should be submitted on or before September 24, 2019.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>52</sup>

**Jill M. Peterson,**

*Assistant Secretary.*

[FR Doc. 2019-18870 Filed 8-30-19; 8:45 am]

**BILLING CODE 8011-01-P**

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-86774; File No. SR-NASDAQ-2019-065]

### Self-Regulatory Organizations; The Nasdaq Stock Market LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Correct and Clarify Rules 4702(b)(3)(B), 4702(b)(5)(B), and 4703(d)

August 27, 2019.

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 15, 2019, The Nasdaq Stock Market LLC ("Nasdaq" or "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 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 correct and clarify Rules 4702(b)(3)(B), 4702(b)(5)(B), and 4703(d).

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 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 amend Rules 4702 and 4703 to correct and clarify its various descriptions of the

circumstances in which the Exchange will cancel certain types of midpoint pegged Orders<sup>3</sup> after they post to the Nasdaq Book<sup>4</sup> and the National Best Bid and National Best Offer ("NBBO") or the Inside Bid and Inside Offer subsequently shifts.<sup>5</sup> The Exchange intended for these descriptions to be consistent and comprehensive, but upon review, they are somewhat discordant and confusing.

In 2015, the Exchange restated its Rules that describe its Order Types (Rule 4702) and Attributes (Rule 4703).<sup>6</sup> Among the topics that the restated Rules described were the circumstances in which the Exchange cancels orders priced at the Midpoint of the NBBO (the Inside Bid and the Inside Offer) or priced at their limit price when the NBBO (the Inside bid and the Inside Offer) changes after the order posts to the Nasdaq Book. The Exchange described these circumstances in three different provisions of its Rules pertaining to Orders with Midpoint pegging ("Midpoint-Pegged Orders").

First, in Rule 4702(b)(3)(B), the Exchange states as follows in describing the cancellation of a Non-Displayed Order with a Midpoint Pegging Order Attribute assigned to it:

If a Non-Displayed Order entered through OUCH or FLITE is assigned a Midpoint Pegging Order Attribute, and if, after being posted to the Nasdaq Book, the NBBO changes so that the Non-Displayed Order is no longer at the Midpoint between the NBBO, the Non-Displayed Order will be cancelled back to the Participant. In addition, if a Non-Displayed Order entered through OUCH or FLITE is assigned a Midpoint Pegging Attribute and also has a limit price that is lower than the midpoint between the NBBO for an Order to buy (higher than the

<sup>3</sup> Pursuant to Rule 4701(e), the term "Order" means an instruction to trade a specified number of shares in a specified System Security submitted to the Nasdaq Market Center by a Participant. An "Order Type" is a standardized set of instructions associated with an Order that define how it will behave with respect to pricing, execution, and/or posting to the Nasdaq Book when submitted to Nasdaq. An "Order Attribute" is a further set of variable instructions that may be associated with an Order to further define how it will behave with respect to pricing, execution, and/or posting to the Nasdaq Book when submitted to Nasdaq.

<sup>4</sup> Pursuant to Rule 4701(a)(1), the "Nasdaq Book" refers to a montage for Quotes and Orders that collects and ranks all Quotes and Orders submitted by Participants. The term "Quote" means a single bid or offer quotation submitted to the System by a Market Maker or Nasdaq ECN and designated for display (price and size) next to the Participant's MPID in the Nasdaq Book. See Rule 4701(d).

<sup>5</sup> Pursuant to Rule 4703(d), the terms "Inside Bid" and "Inside Offer" mean the price to which an Order is pegged for purposes of Rule 4703. The term "Midpoint" means the midpoint of the NBBO or the Inside Bid and Inside Offer.

<sup>6</sup> See Securities Exchange Act Release No. 34-74558 (Mar. 20, 2015), 80 FR 16050 (Mar. 26, 2015) (SR-NASDAQ-2015-024).

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

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

<sup>52</sup> 17 CFR 200.30-3(a)(12).