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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Form 19b-4

File No.* SR - 2020 - * 034
Amendment No. (req. for Amendments *) 2

Filing by Cboe Exchange, Inc.

Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial *	Amendment *	Withdrawal	Section 19(b)(2) *	Section 19(b)(3)(A) *	Section 19(b)(3)(B) *
☐	☑	☐	☑	☐	☐

Rule: 19b-4(f)(1), 19b-4(f)(2), 19b-4(f)(3), 19b-4(f)(4), 19b-4(f)(5), 19b-4(f)(6)

Pilot ☐

Extension of Time Period for Commission Action * ☐

Date Expires *

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010

Section 806(e)(1) * ☐

Section 806(e)(2) * ☐

Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934

Section 3C(b)(2) * ☐

Exhibit 2 Sent As Paper Document

Exhibit 3 Sent As Paper Document

Description

Provide a brief description of the action (limit 250 characters, required when Initial is checked *).

Contact Information

Provide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the action.

First Name * Laura
Last Name * Dickman
Title * VP, Associate General Counsel
E-mail *
Telephone *
Fax

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

Date 02/04/2021

By Laura G. Dickman

(Name *)

(Title *) VP, Associate General Counsel

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

Required fields are shown with yellow backgrounds and asterisks.

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For complete Form 19b-4 instructions please refer to the EFFS website.

Form 19b-4 Information * Add Remove View	The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.
Exhibit 1 - Notice of Proposed Rule Change * Add Remove View	The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO] -xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)
Exhibit 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies * Add Remove View	The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO] -xx-xx). A material failure to comply with these guidelines will result in the proposed rule change, security-based swap submission, or advance notice being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)
Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications Add Remove View Exhibit Sent As Paper Document ☐	Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.
Exhibit 3 - Form, Report, or Questionnaire Add Remove View Exhibit Sent As Paper Document ☐	Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.
Exhibit 4 - Marked Copies Add Remove View	The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.
Exhibit 5 - Proposed Rule Text Add Remove View	The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.
Partial Amendment Add Remove View	If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

PARTIAL AMENDMENT

Cboe Exchange, Inc. ("Cboe Options" or the "Exchange") submits this Amendment, constituting Amendment No. 2, to rule filing SR-CBOE-2020-034 (the "Rule Filing"), as amended by Amendment No. 1, in which the Exchange proposed to authorize for trading flexible exchange options ("FLEX Options") on full-value indexes with a contact multiplier of one.

First, this Amendment No. 2 adds the following paragraphs after the carryover paragraph on pages 6 to 7 of Amendment No. 1:

> The Exchange does not believe the 1993 FLEX Approval Order or the Initial Cboe FLEX Approval prevents the Commission from approving the proposed rule change, even if the Commission believes the proposed rule change is not consistent with those orders. Rule 9b-1(a)(4) defines "standardized options" as options contracts trading on a national securities exchange which relate to options classes the terms of which are limited to specific expiration dates and exercise prices, *or such other securities as the Commission may, by order, designate*. Current FLEX Options are considered standardized options under the options disclosure framework because the Commission designated them as such in the 1993 FLEX Approval Order in connection with its approval of the Exchange's first proposal to list FLEX Options on only two indexes. Since issuing that order, the Commission staff (by designated authority) has designated additional FLEX Options for both equities and indexes with other terms as standardized options under Rule 9b-1 (including, as discussed above, options with multipliers other than 100 that could be settled in currency other than U.S. dollars, despite the Initial Cboe Approval Order saying the multiplier was 100 and the currency was U.S. dollars for FLEX Options). The Initial Cboe FLEX

Approval was a Commission approval order regarding an Exchange proposed rule change. The Exchange may always propose additional rules that modify, expand, or differ from previously approved rules, as this proposed rule change does. If FLEX Options were always subject to the terms in the Initial Cboe FLEX Approval, then the Exchange would be able to list FLEX Options on only two indexes, rather than on all indexes and equities on which the Exchange is authorized to list options. Since the Initial Cboe FLEX Approval, the Exchange has submitted numerous proposed rule changes that have expanded FLEX Options significantly beyond what the Commission approved in the Initial Cboe FLEX Order. The proposed rule change is another proposal to expand the availability of FLEX Options in a manner consistent with the initial purpose of FLEX Options, which is to make available an exchange-listed alternative to options that trade in the OTC market and provide those options with the benefits that come with trading on an exchange. The Exchange sees no reason why the Initial Cboe FLEX Approval should prevent the Commission from approving the current proposed rule change, which is a different proposed rule change.

Additionally, Rule 9b-1 under the Act provides the Commission with authority to designate other options as standardized options under that rule, and the Exchange sees no reason why the Commission cannot use that same authority to designate FLEX Index Options with a multiplier of one as standardized options for purpose of the options disclosure framework (which options are already covered by the Options Disclosure Document required by Rule 9b-1, as described above), if it believes such designation to be appropriate.

> The Exchange notes the Commission in neither the 1993 FLEX Approval Order nor the Initial Cboe FLEX Approval imposed a requirement that FLEX Options were intended to trade in a side-by-side market environment with non-FLEX Options overlying the same index. Nor did the Commission indicate that its approval of FLEX Options was based in any on the fact that they would trade beside corresponding non-FLEX Options. In fact, the Exchange adopted a rule in 2009 (which rule the Commission permitted to submitted as non-controversial rule filing) that would permit the Exchange to list FLEX Options on securities even if the Exchange does not list non-FLEX Options on those same securities.[1] Therefore, it is possible today for the Exchange to list FLEX Options on an index (or equity) even if the Exchange lists no non-FLEX Options on the same index (or equity), and thus it is currently possible to have FLEX Options trading without a corresponding non-FLEX market. As a result, the proposed rule change to permit the Exchange to list FLEX Options in an index class (an index with a multiplier of 1) despite the Exchange not listing non-FLEX Options on the same class is not novel. This is consistent with the overall purpose of FLEX Options, which is to permit exchange trading of options that are not otherwise listed on an exchange.

Second, this Amendment No. 2 adds the following paragraphs after the carryover paragraph on pages 8 to 9 of Amendment No. 1:

> Ultimately, the Exchange believes the reduced liquidity in the FLEX market

[1] See Securities Exchange Act Release No. 60585 (August 28, 2009), 74 FR 46257 (September 8, 2009) (SR-CBOE-2009-053).

compared to the non-FLEX market would minimize/eliminate any potential benefit a market participant was attempting to gain by attempting to trade FLEX Index Options with a multiplier of one if a non-FLEX Index Option overlying the same index with a multiplier of 100 was listed for trading. Additionally, the Exchange believes the likelihood of a market participant achieving any price benefit by trading through the NBBO in the listed market is minimal (or non-existent). The Exchange understands that the same liquidity providers (primarily Market-Makers) that trade with market participants in the FLEX market are generally the same liquidity providers that quote and often set market prices in the non-FLEX market. A significant portion of FLEX trades are submitted to the Exchange as crossing transactions. As a result, a broker seeking execution for a FLEX order generally contacts liquidity providers to get their best bids or offers, as applicable, for the proposed order. Those liquidity providers, who as noted above are generally setting the non-FLEX market for the same underlying index, use the same pricing tools they use in the non-FLEX market when giving their best prices to the broker for the FLEX order. Therefore, liquidity providers would generally be willing to pay or receive, as applicable, a substantially similar (if not the same) amount for a FLEX Option and an economically equivalent non-FLEX Option. This ultimately creates competition for prices in the FLEX market. The Exchange believes this process provides orders with a measure of price protection within the FLEX market and makes it unlikely a market participant could achieve better pricing for a FLEX Option that is economically equivalent to a non-FLEX Option. As noted above, for a broker to receive a better price in the FLEX market than (and thus through) the price available

in the non-FLEX market, a counterparty would have to be willing to trade at a worse price than it could receive in the non-FLEX market. If prices in the market for a FLEX Option were significantly different than the market for an economically equivalent non-FLEX Option, a broker would have difficulty finding any counterparty with which to trade that FLEX Option.[2] For these reasons, in addition to those described above, the Exchange believes the potential for a market participant to obtain any financial benefit (i.e. buying at a price lower than the NBB or selling at a price higher than the NBO) by effecting a trade in a FLEX Micro Index that has an economically equivalent non-FLEX Index listed with the same expiration date, settlement, and strike price (but with a multiplier of 100) is de minimis or non-existent. Therefore, the Exchange believes the risk of market participants using FLEX Index Options with a one multiplier to trade through the prices available in the non-FLEX market or to bypass customer orders resting in the book is incredibly low.

In the unlikely event a market participant still believed it could obtain more beneficial pricing using FLEX Index Options with a multiplier of one rather than economically equivalent non-FLEX Options, the Exchange believes the fees that market participants must pay in connection with their trade activity would offset any such benefit and make it financially unviable to do so. In addition to transaction fees

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[2] Additionally, because FLEX Auctions expose orders for a minimum of three seconds, FLEX executions may take more time than non-FLEX executions (which require exposure of only one second, or less in certain auctions), which would not be practical for executions for which speed of execution is a priority.

charged by the Exchange (which are charged per contract),[3] other fees applicable to options transactions (including FLEX Options transactions) are often charged on a per contract basis. For example, the OCC charges $0.045 per contract for trades with contracts up to 1,222. Therefore, to clear a trade of one index option with a 100 multiplier, OCC would charge $0.045. However, to clear 100 FLEX Index Options with a multiplier of one, OCC would charge $4.50. In addition to the fees charged by OCC, the Exchange understands that clearing firms generally charge on a per contract basis, as do many brokers. Therefore, it would make little financial sense for a market participant to trade 100 times the number of contracts in the FLEX market if it can trade one economically equivalent contract in the non-FLEX market.

Rather than cause market participants to move volume from the non-FLEX market to the FLEX market, the Exchange believes the proposed rule change will move volume currently being executed in the OTC market to the Exchange. As discussed above, the precision the proposed rule change will add to the Exchange is currently available in the OTC market, and the Exchange understands this precision is necessary for certain market participants' investment strategies. The Exchange has heard from numerous institutional investors — insurance companies, in particular — who use index options to hedge their portfolio risk. These investors have indicated they execute a significant portion of their hedging transactions in the OTC market

[3] The Exchange notes it has not yet set fees for FLEX Micro options. However, as set forth in the Cboe Fees Schedule, the Exchange charges a FLEX Surcharge fee for several indexes, which the Exchange expects to apply to FLEX Micro index options, thus making trading in FLEX more expensive than in non-FLEX.

because the Exchange does not offer a product that provides them with the level of precision they need for their hedging activity. However, they have expressed their preference to transact on the Exchange to eliminate the counterparty risk they must incur by trading in the OTC market.

It is a critical and regular part of an insurance company's business to hedge their risk, which many do with index options. When insurance companies issue policies to their customers, those companies accumulate liabilities for the payouts they may need to make to their customers pursuant to those policies. Insurance companies regularly hedge the notional amount of these liabilities to protect against downturns in the market. Because they are looking to protect against broad market downturns, broad-based index options are a tool insurance companies often use for this protection. One insurance company informed the Exchange that it has hedged approximately 25% of the notional value of its $40 billion portfolio with index options executed in the OTC market, and the Exchange understands several other companies have similarly used index options to hedge significant portions of their portfolios. Given the size of insurance companies' portfolios, which can be in the tens of billions of dollars, that translates to index options with an aggregate notional value of billions of dollars being transacted annually in the nontransparent, unregulated, and riskier OTC market (where there is counterparty risk and no price protection exists for these customers).

For a customer to achieve a precise hedge for a specific notional value amount using currently available products on the Exchange, the Exchange understands a customer would need to make at least four separate trades (which multiple trades

introduce additional costs, inefficiencies, and execution risk) to achieve a result close to identical to the result it could achieve with a single trade in the OTC market. The inability of insurance companies to precisely hedge the notional value of their portfolios ultimately harms their customers. If an insurance company, for example, "underhedges" the notional value of its portfolio (which, again, is generally at least tens of billions of dollars), even 1% of such "slippage" would leave hundreds of millions of dollars of that portfolio unhedged,[4] which creates significant risk for that company.[5] Alternatively, if an insurance company "overhedges" the notional value of its portfolio, that would unnecessarily tie up some of its financial reasons, as the difference in value of the options and the value of the portfolio is serving no purpose. Either case will likely result in higher premiums or reduced benefits for customers. As a result, because these companies are unable to achieve a more precise hedge on the Exchange, they turn to the OTC market where the precision they need to more efficiently implement their hedging strategies is available and not unnecessarily harm their customers.

For example, if an insurance company sells to a customer a $247,589,000 annuity policy, the insurance company may seek to obtain positions in broad-based index options with an equivalent notional value. On the Exchange, if the company used SPX options, it would need 651 SPX contracts if the index level of the S&P 500

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4 For example, if an insurance company has a $40,000,000,000 portfolio, 1% of that portfolio equates to $400,000,000.

5 The Exchange notes the total unhedged risk across the insurance industry would be multiplied if each insurance company were unable to hedge the full notional value of its portfolio.

Index was 3801.19 (247,589,000/3801.19/100[6] = 651.34). However, 651 SPX contracts would equate to $247,457,469, leaving that one policy underhedged by $131,531. The company could also trade 6514 XSP options, which would equate to $247,609,517, which would overhedge the policy by $20,517 and unnecessarily use that amount of funds for hedging its portfolio rather than, for example, pay out insurance benefits to customers.[7] With a one multiplier, the company could instead trade 65135 FLEX SPX Option contracts with a multiplier of one (as the company may do today in the OTC market), which would equate to $247,590,511, which is far closer to the value of the policy and thus is the most efficient use of the insurance company's hedging resources.

This example demonstrates the value one insurance company could receive from the availability of FLEX Index Options with a multiplier of one for a hedge related to a single policy. The aggregate value to the insurance industry, and their customers, created by the availability of FLEX Index Options with a multiplier of one would be extensive if multiple insurance companies used these options to hedge their portfolios, as the Exchange expects them to do. As a result, a substantial number of index options transactions that currently occur with no transparency and counterparty risk would have the opportunity to receive the benefits of occurring on a national securities exchange. The availability of this product on the Exchange

6 The index multiplier is 100.

7 As this relates to only a single policy in the insurance company's portfolio, the harm that may be caused by the lack of precision only increases for each policy for which the company is unable to precisely hedge.

would provide these companies with a more transparent, lower risk option that would allow them to more efficiently use their resources and pass on those savings to their customers.

The Exchange requests accelerated approval of Amendment No. 2. Amendment No. 2 makes no substantive changes to the proposed rule change and has no impact on how the FLEX Index Options with an index multiplier of one will be traded and merely adds support for the proposal.