

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-83738; File No. SR-CboeBYX-2018-012)

July 30, 2018

Self-Regulatory Organizations; Cboe BYX Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Exchange Rule 11.13, Order Execution and Routing, to Amend the Operation of the Super Aggressive Order Instruction

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on July 16, 2018, Cboe BYX Exchange, Inc. (the “Exchange” or “BYX”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. The Exchange has designated this proposal as a “non-controversial” proposed rule change pursuant to Section 19(b)(3)(A) of the Act³ and Rule 19b-4(f)(6) thereunder,⁴ which renders it effective upon filing with the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Exchange filed a proposal to amend paragraph (b)(4)(C) of Exchange Rule 11.13 related to Super Aggressive order instructions.

The text of the proposed rule change is available at the Exchange’s website at www.markets.cboe.com, at the principal office of the Exchange, and at the Commission’s Public Reference Room.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A).

⁴ 17 CFR 240.19b-4(f)(6).

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in Sections A, B, and C below, of the most significant parts of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange proposes to amend the description of the Super Aggressive Re-Route instruction ("Super Aggressive instruction") under paragraph (b)(4)(C) of Exchange Rule 11.13, Order Execution and Routing to: (i) specify that an incoming BYX Post Only Order or Partial Post Only at Limit Order that would lock a resting order with a Super Aggressive instruction must be designated as eligible for display on the Exchange (a "displayed order") for the order with a Super Aggressive instruction to engage in a liquidity swap and execute against that incoming order; and (ii) modify language from the description of the Super Aggressive instruction that states if an order that does not contain a Super Aggressive instruction maintains higher priority than one or more Super Aggressive eligible orders, the Super Aggressive eligible order(s) with lower priority would not be converted and an incoming BYX Post Only Order or Partial Post Only at Limit Order would be posted or cancelled in accordance with Exchange Rule 11.9(c)(6) or 11.9(c)(7).

At the outset, the Exchange notes that based on the Exchange's current pricing schedule, because BYX offers rebates to remove liquidity and charges fees to add liquidity, BYX Post Only Orders and Partial Post Only at Limit Orders remove liquidity on entry against resting

interest and are not booked/displayed if there is contra-side interest. As such, the descriptions below of the changes to Rule 11.13(b)(4)(C), including the examples of the revised operation of the Super Aggressive functionality are currently inapplicable because BYX Post Only Orders and Partial Post Only at Limit Orders execute against resting liquidity first, before the logic discussed below is triggered. However, consistent with its prior practice, the Exchange is proposing the changes to Rule 11.13(b)(4)(C) related to the Super Aggressive instruction in this filing in order to retain consistent rules and functionality with its affiliated exchanges⁵ to the extent the Exchange decides to propose changes to its fee structure in the future such that “Post Only” functionality is more relevant to the operation of the Exchange.

Super Aggressive is an optional order instruction that directs the System⁶ to route an order when an away Trading Center locks or crosses the limit price of the order resting on the BYX Book.⁷ If an order with a Super Aggressive instruction were to be locked by an incoming BYX Post Only Order or Partial Post Only at Limit Order (hereafter collectively referred to as a “Post Only Order”) that does not remove liquidity pursuant to Rule 11.9(c)(6) or 11.9(c)(7), respectively,⁸ the order with a Super Aggressive instruction would be converted to an executable order and would remove liquidity against such incoming order.

⁵ The Exchange notes that its affiliates, Cboe BZX Exchange, Inc. and Cboe EDGX Exchange, Inc., also recently filed to adopt the functionality described in this filing and such functionality is applicable on such exchanges because orders equivalent to BYX Post Only Orders and/or Partial Post Only at Limit Orders can be entered on such exchanges and do not always remove against contra-side interest on entry pursuant to such exchanges’ fee schedules. See SR-CboeBZX-2018-051 and SR-CboeEDGX-2018-025, each filed July 11, 2018.

⁶ The term “System” is defined as “the electronic communications and trading facility designated by the Board through which securities orders of Users are consolidated for ranking, execution and, when applicable, routing away.” See Exchange Rule 1.5(aa).

⁷ See Exchange Rule 1.5(e).

⁸ A BYX Post Only Order will remove contra-side liquidity from the BYX Book if the

First, the Exchange proposes to modify the Super Aggressive instruction to require that the incoming Post Only Order that would lock a resting order with a Super Aggressive instruction must be designated as a displayed order for an execution to occur. The Super Aggressive instruction is generally utilized for best execution purposes because it enables the order to immediately attempt to access displayed liquidity on another Trading Center that is either priced equal to or better than the order with a Super Aggressive instruction's limit price. The Super Aggressive instruction would also enable the order to execute against an equally priced incoming Post Only Order that would otherwise not execute by being willing to act as the liquidity remover in such a scenario.⁹ Under BYX Rules, the incoming Post Only Order could either be a displayed order or a non-displayed order for it to engage in a liquidity swap with an order with a Super Aggressive instruction resting on the BYX Book.

Consistent with the Super Aggressive instruction to access liquidity displayed on other Trading Centers, the Exchange proposes to amend the Super Aggressive instruction such that an order with such instruction would execute against an equally priced incoming Post Only Order only when such order would be displayed on the BYX Book. The order with a Super Aggressive instruction would act as a liquidity remover in such a scenario. Should an equally priced

order is an order to buy or sell a security priced below \$1.00 or if the value of such execution when removing liquidity equals or exceeds the value of such execution if the order instead posted to the BYX Book and subsequently provided liquidity, including the applicable fees charged or rebates provided. See Exchange Rule 11.9(c)(6). A Partial Post Only at Limit Order will remove liquidity from the BYX Book up to the full size of the order if, at the time of receipt, it can be executed at prices better than its limit price. See Exchange Rule 11.9(c)(7). As noted above, due to the current BYX pricing schedule, which offers rebates to remove liquidity, Post Only Orders are not booked/displayed if there is contra-side interest and instead remove liquidity against resting interest. Accordingly, an order with a Super Aggressive instruction will not be converted under the current fee schedule.

⁹ But see supra note 8.

incoming Post Only Order not be designated as a displayed order, the resting order with a Super Aggressive instruction would remain on the BYX Book and await an execution where it may act as a liquidity provider. An incoming Post Only Order that would also be designated as a non-displayed order would be posted to the BYX Book at its limit price, creating an internally locked non-displayed book. As is the case today, an execution would continue to occur where an incoming Post Only Order is priced more aggressively than the order with a Super Aggressive instruction resting on the BYX Book, regardless of whether the incoming Post Only Order was designated as a displayed order or a non-displayed order.¹⁰

The Exchange notes that Users seeking to act as a liquidity remover once resting on the BYX Book in all cases (i.e., seeking to execute against incoming Post Only orders regardless of the display instruction) would be able to attach the Non-Displayed Swap (“NDS”) instruction to their order.¹¹ The NDS instruction is similar to the Super Aggressive instruction, in that it also would be an optional order instruction that a User may include on an order that directs the Exchange to have such order, when resting on the BYX Book, execute against an incoming Post Only Order rather than have it be locked by the incoming order. Under BYX Rules, because orders with either instruction (i.e., Super Aggressive and NDS) would execute against incoming Post Only Orders regardless of whether the order is to be displayed, the instructions are currently identical with two exceptions. First, an order with a Super Aggressive instruction would not convert into a liquidity removing order and execute against a Post Only Order if there is an order on the order book with priority over such order that does not also contain a Super Aggressive instruction. As further described below, the Exchange is proposing to modify this feature of the

¹⁰ See id.

¹¹ See Exchange Rule 11.9(c)(12).

Super Aggressive instruction. The second current distinction between the two instructions, which would remain, is that an order with a Super Aggressive instruction can be displayed on the Exchange whereas an order with the NDS instruction must be non-displayed. As amended, the additional distinction between the two instructions would be whether an order would become a liquidity removing order against any Post Only Order that would lock it (i.e., NDS) or only when the Post Only Order that would lock it also is a displayed order (i.e., Super Aggressive).

The below examples illustrate the proposed behavior should the Exchange propose to change its fee schedule such that “Post Only” functionality is more relevant to the operation of the Exchange.¹² Assume the National Best Bid and Offer (“NBBO”) is \$10.00 by \$10.10. An order to buy is displayed on the BYX Book at \$10.00 with a Super Aggressive instruction. There are no other orders resting on the BYX Book. An order to sell at \$10.00 with a Post Only that is designated as a displayed order is entered. The incoming order to sell would execute against the resting order to buy at \$10.00, the locking price, because the incoming order was designated as a displayed order. The order to buy would act as the liquidity remover and the order to sell would act as the liquidity adder. However, no execution would occur if the incoming order to sell was designated as a non-displayed order. Instead, the incoming order to sell would be posted non-displayed to the BYX Book at \$10.00, its limit price, causing the BYX Book to be internally locked.

Second, the Exchange proposes to enable a Post Only Order that is designated as a displayed order to execute against an equally priced non-displayed order with a Super Aggressive instruction where a non-displayed order without a Super Aggressive instruction maintains time priority over the Super Aggressive eligible order at that price. In such case, the

¹² See supra note 8.

non-displayed, non-Super Aggressive order would seek to remain a liquidity provider and would cede time priority to the order with a Super Aggressive instruction, which is willing to act as a liquidity remover to facilitate the execution. The Exchange proposes to effect this change by modifying language in the description of the Super Aggressive instruction to state that if an order displayed on the BYX Book does not contain a Super Aggressive instruction and maintains higher priority than one or more Super Aggressive eligible orders, the Super Aggressive eligible order(s) with lower priority will not be converted and the incoming Post Only Order will be posted or cancelled in accordance with Exchange Rule 11.9(c)(6) or Rule 11.9(c)(7). Thus, an order with a Super Aggressive instruction, whether displayed on the Exchange or non-displayed, would never execute ahead of a displayed order that maintains time priority.

Should the Exchange determine to change its fee schedule, the operation of the Super Aggressive instruction with respect to incoming contra-side orders received by the Exchange, would be designed to facilitate executions that would otherwise not occur due to the Post Only Order requirement to not remove liquidity. Users entering orders with the Super Aggressive instruction tend to be fee agnostic because an order with a Super Aggressive instruction is willing to route to an away Trading Center displaying an equally or better priced order (i.e., pay a fee at such Trading Center). Meanwhile, an order without the Super Aggressive instruction elects to remain on the BYX Book as the liquidity provider until it may execute against an incoming order that would act as the liquidity remover. Therefore, if the fee schedule is changed in the future, the proposed change to enable the Super Aggressive order to execute against an incoming order, regardless of whether a non-displayed order without a Super Aggressive instruction maintains priority, would be consistent with the User's intent for both orders – one chooses to remain the liquidity provider and forgo the execution while the other is willing to

execute irrespective of whether it is the liquidity provider or remover. The Exchange notes that similar behavior occurs for orders utilizing the NDS instruction,¹³ which also would seek to engage in a liquidity swap against incoming Post Only Orders. The Exchange, however, has proposed to retain the existing limitation with respect to orders displayed on the BYX Book.

The following example illustrates the operation of an order with a Super Aggressive instruction under the proposed rule change should the Exchange propose to change its fee schedule such that “Post Only” functionality is more relevant to the operation of the Exchange.¹⁴ Assume the NBBO is \$10.00 by \$10.04. There is a non-displayed Limit Order to buy resting on the BYX Book at \$10.03 (“Order A”). A second non-displayed Limit Order to buy at \$10.03 is then entered with a Super Aggressive instruction and has time priority behind the first Limit Order (“Order B”). A Post Only Order to sell priced at \$10.03 is entered. Under current behavior, the incoming sell Post Only Order would not execute against Order A and would post to the BYX Book¹⁵ because the value of such execution against the resting buy order when removing liquidity does not equal or exceed the value of such execution if the order instead posted to the BYX Book and subsequently provided liquidity, including the applicable fees charged or rebates provided. Further, the incoming sell Post Only Order could not execute against Order B because Order A is on the BYX Book and maintains time priority over Order B. Under the proposed change, the incoming sell order, if it was designated as a displayed order,

¹³ See Exchange Rule 11.9(c)(12). See also Securities Exchange Act Release No. 83536 (June 28, 2018), (SR-CboeBYX-2018-009) (including an example where an order cedes execution priority to an order with an NDS instruction).

¹⁴ See *supra* note 8.

¹⁵ Such order would be posted to the BYX Book in accordance with the Exchange’s re-pricing instructions to comply with Rule 610(d) of Regulation NMS. See Exchange Rules 11.9(g)(1) and (g)(2). See also 242 CFR 242.610(d).

would execute against Order B and Order B would become the remover of liquidity while the incoming sell Post Only Order would become the liquidity provider. In such case, Order A cedes priority to Order B because Order A did not also include a Super Aggressive instruction¹⁶ and thus the User that submitted the order did not indicate the preference to be treated as the remover of liquidity in favor of an execution; instead, by not using Super Aggressive, a User indicates the preference to remain posted on the BYX Book as a liquidity provider. However, if the incoming sell order was priced at \$10.02, it would receive sufficient price improvement to execute upon entry against all resting buy Limit Orders in time priority at \$10.03.¹⁷ Also, if Order A was displayed on the BYX Book, no execution would occur, as the proposed change would only apply to non-displayed liquidity.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act¹⁸ in general, and furthers the objectives of Section 6(b)(5) of the Act¹⁹ in particular, in that it is designed to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in 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.

¹⁶ This behavior is consistent with the operation of the Exchange's NDS instruction. See supra note 13.

¹⁷ The execution occurs here because the value of the execution against the buy order when removing liquidity exceeds the value of such execution if the order instead posted to the BYX Book and subsequently provided liquidity, including the applicable fees charged or rebates provided. See supra note 8.

¹⁸ 15 U.S.C. 78f(b).

¹⁹ 15 U.S.C. 78f(b)(5).

The proposed changes to the Super Aggressive order instruction are designed to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in 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. The Super Aggressive instruction is an optional feature that is intended to reflect the order management practices of various market participants. The proposal to limit the execution of an order with a Super Aggressive instruction to execute against incoming Post Only Orders that also are designated as displayed orders promotes just and equitable principles of trade because it would enable Users to elect an order instruction consistent with their intent to execute only against displayed orders, in part, for best execution purposes. The amended Super Aggressive instruction would ensure executions at the best available price displayed on another Trading Center or against an incoming order that would have been displayed on the BYX Book. Users seeking to act as a liquidity remover once resting on the BYX Book and execute against an incoming Post Only Order that is also designated as a non-displayed order may attach the NDS instruction to their order.²⁰

Should the Exchange determine to change its fee schedule such that “Post Only” functionality is more relevant to the operation of the Exchange, the proposed change to the Super Aggressive instruction would also remove impediments to and perfect the mechanism of a free and open market and a national market system because it would be designed to facilitate executions that would otherwise not occur due to the Post Only Order requirement to not remove liquidity under such amended fee schedule.²¹ The proposal enables non-displayed Super

²⁰ See Exchange Rule 11.9(c)(12).

²¹ See supra note 8.

Aggressive orders to execute against an incoming order, regardless of whether another non-displayed order without a Super Aggressive instruction maintains priority consistent with the User's intent for both orders – one chooses to remain the liquidity provider and forgo the execution while the other is willing to execute irrespective of whether it is the liquidity provider or remover. The non-Super Aggressive order would seek to remain a liquidity provider and would cede its time priority to the order with a Super Aggressive instruction, which would be willing to act as a liquidity remover to facilitate the execution. It also would enable an order without the Super Aggressive instruction to remain on the BYX Book as a liquidity provider, consistent with the expected operation of their resting order. The Exchange notes that similar behavior occurs for orders utilizing the NDS²² instruction, which also seeks to engage in a liquidity swap against incoming Post Only Orders. Finally, by limiting the proposed change to non-displayed orders, the proposal would remain consistent with NDS and also would retain existing functionality with respect to the handling of displayed orders.

For the reasons set forth above, the Exchange believes the proposal removes impediments to and perfects the mechanism of a free and open market and a national market system, and, in general, protects investors and the public interest.

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

The Exchange notes that there will be no burden on competition based on the Exchange's current fee schedule, because as described above, Post Only Orders remove against resting contra-side interest on entry, and thus, the revised functionality is inapplicable.²³ Further, in the event the Exchange modifies its fee schedule, the Exchange does not believe that the proposed

²² See supra note 13.

²³ See supra note 8.

rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act, as amended. On the contrary, the proposed changes to the Super Aggressive order instruction are intended to improve the usefulness of the instruction and to align its operation with the intention of the User, resulting in enhanced competition through increased usage and execution quality on the Exchange. Thus, to the extent the change is intended to improve functionality on the Exchange to encourage Users to direct their orders to the Exchange, the change is competitive, but the Exchange does not believe the proposed change will result in any burden on intermarket competition as it is a minor change to available functionality. The proposed changes to the Super Aggressive order instruction also promote intramarket competition because they will facilitate the execution of orders that would otherwise remain unexecuted consistent with the intent of the User entering the order, thereby increasing the efficient functioning of the Exchange. Further, the Super Aggressive order instruction will remain available to all Users in the same way it is today. Thus, Users can continue to choose between various optional order instructions, including Super Aggressive, NDS, and others, depending on the order handling they prefer the Exchange to utilize. Therefore, the Exchange does not believe the proposed rule change will result in any burden on intramarket competition that is not necessary or appropriate in furtherance of the purposes of the Act.

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

The Exchange has neither solicited nor received written 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 Act²⁴ and subparagraph (f)(6) of Rule 19b-4 thereunder.²⁵

A proposed rule change filed under Rule 19b-4(f)(6) normally does not become operative for 30 days after the date of the filing. However, Rule 19b-4(f)(6)(iii)²⁶ 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, BYX requested that the Commission waive the 30-day operative delay so that the Exchange can implement the proposed rule change promptly after filing. The proposed changes to the Super Aggressive instruction would not impact trading under the current pricing schedule, but the Exchange noted that it intends to update its systems to implement the proposed changes on a similar schedule to its affiliates.²⁷ BYX indicated its desire to maintain rules and functionality similar to its affiliated exchanges and noted that the proposed rule changes would be relevant if the Exchange decides to alter its pricing.

Should BYX determine to change its fee schedule such that the Post Only functionality is more relevant to the operation of the Exchange, BYX stated that the proposal to allow an order with a Super Aggressive instruction to execute against an incoming Post Only order only if the Post Only order is displayable would be consistent with the use of the Super Aggressive instruction to access liquidity displayed on other Trading Centers. Further, according to the

²⁴ 15 U.S.C. 78s(b)(3)(A)(iii).

²⁵ 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file 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.

²⁶ 17 CFR 240.19b-4(f)(6)(iii).

²⁷ See note 4 supra.

Exchange, users seeking to execute against incoming non-displayable Post Only orders would continue to be able to attach the NDS order instruction, as well as other order instructions that may permit such executions. In addition, the Exchange stated that the proposed priority change where non-displayed orders without a Super Aggressive instruction would cede priority to non-displayed orders with a Super Aggressive instruction is similar to, and consistent with, the Exchange's priority ceding functionality for orders with an NDS instruction and would facilitate executions that would otherwise not occur due to an incoming Post Only order's requirement not to remove liquidity.

The Commission believes that waiver of the 30-day operative delay is consistent with the protection of investors and the public interest, as such waiver will permit the Exchange to promptly update its rules and systems to maintain consistency with its affiliate exchanges. The Commission also notes that the proposed rule change relates to optional functionality that is consistent with existing functionality and, if selected by Exchange users, may enable them to better manage their orders and may increase order interaction on the Exchange in the event the Exchange changes its fee schedule such that the Post Only functionality is more relevant to the operation of the Exchange. Accordingly, the Commission hereby waives the 30-day operative delay and designates the proposed rule change operative upon filing.²⁸

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,

²⁸ For purposes only of waiving the 30-day operative delay, the Commission has also considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

IV. Solicitation of Comments

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

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-CboeBYX-2018-012 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-CboeBYX-2018-012. This file number should be included on the subject line if e-mail 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-CboeBYX-2018-012, and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²⁹

Robert W. Errett
Deputy Secretary

²⁹ 17 CFR 200.30-3(a)(12) and (59).