

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-84928; File No. SR-CboeBZX-2018-092)

December 21, 2018

Self-Regulatory Organizations; Cboe BZX Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to Adopt Definitions of Ports and Discontinue Bulk Order Functionality and Implement Bulk Message Functionality

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 December 18, 2018, Cboe BZX Exchange, Inc. (the “Exchange” or “BZX”) 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

Cboe BZX Exchange, Inc. (the “Exchange” or “BZX Options”) proposes to adopt definitions of ports and discontinue bulk order functionality and implement bulk message functionality. 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

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

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

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. ("Cboe Global"), which is the parent company of Cboe Exchange, Inc. ("Cboe Options") and Cboe C2 Exchange, Inc. ("C2"), acquired the Exchange, Cboe EDGA Exchange, Inc. ("EDGA"), Cboe EDGX Exchange, Inc. ("EDGX or EDGX Options"), and Cboe BYX Exchange, Inc. ("BYX" and, together with C2, Cboe Options, the Exchange, EDGA, and EDGX, 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 technology to the same trading platform used by the Exchange, C2, and EDGX Options in the fourth quarter of 2019. The proposals set forth below are intended to add certain functionality to the Exchange's System that is more similar to functionality offered by Cboe Options in order to ultimately provide a consistent technology offering for market participants who interact with the Cboe Affiliated Exchanges, as well as codify certain functionality. Although the Exchange intentionally offers certain features that differ from those offered by its affiliates and will continue to do so, the Exchange believes that offering similar functionality to the extent practicable will reduce potential confusion for Users.

Port Definitions

The Exchange currently provides access to BZX Options to Users<sup>3</sup> through various ports. These ports have been previously described in multiple filings submitted by the Exchange<sup>4</sup> and are referenced on the Exchange's fee schedule. However, the Exchange has not previously maintained any language in its Rules related to such ports. The Exchange proposes to add language to Rule 21.1(l) to provide additional clarity in the Exchange's Rules and to conform to the Rules of other Cboe Affiliated Exchanges that include definitions of ports.<sup>5</sup>

The Exchange proposes to define three different types of ports, specifically, physical ports, logical ports, and bulk ports. Currently, the Exchange also offers bulk order ports. However, as discussed below, the Exchange intends to enhance those ports with bulk message functionality and rename them as bulk ports, so the proposed rule change does not define bulk order port.

The Exchange proposes to define a "physical port" as a port that provides a physical connection to the System. The Exchange also proposes to note that a physical port may provide access to multiple logical ports.<sup>6</sup>

The proposed rule change states that a "logical port" or "logical session" provides Users with the ability within the System to accomplish a specific function through a connection, such as order entry, data receipt, or access to information.<sup>7</sup>

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<sup>3</sup> The term "User" means any Options Member or Sponsored Participant who is authorized to obtain access to the Exchange's System (as defined below) pursuant to Rule 11.3. See current Rule 16.1(a)(63) (proposed subparagraph (64)).

<sup>4</sup> See Securities Exchange Act Release Nos. 82052 (November 9, 2017), 82 FR 53547 (November 16, 2017) (SR-BatsBZX-2017-76) (modifying fees for physical ports on an immediately effective basis); and 61650 (March 4, 2010), 75 FR 11951 (March 12, 2010) (SR-BATS-2010-005) (adopting initial fees for BZX Options, including description of logical and physical ports).

<sup>5</sup> See C2 Rule 1.1 (definition of port); and EDGX Options Rule 21.1(j).

<sup>6</sup> See proposed Rule 21.1(l)(1).

<sup>7</sup> See proposed Rule 21.1(l)(2).

## Bulk Message Functionality

Cboe Options currently offers quoting functionality to Market-Makers, which permits Market-Makers to update their electronic quotes in block quantities.<sup>8</sup> Quotes on Cboe Options do not route to other exchanges,<sup>9</sup> and Market-Makers generally enter new quotes at the beginning of the trading day based on then current market conditions.<sup>10</sup> The Exchange currently offers bulk order functionality, which is intended to provide Users, and Market-Makers in particular, with a way to submit orders that simulate quoting functionality.<sup>11</sup> However, while bulk order functionality simulates quoting functionality, bulk order functionality provides Users with a less efficient way to update multiple bids and offers. To update multiple bids and offers, a User must submit multiple messages at the same time, compared to quoting functionality, which generally permits a market participant to update multiple bids and offers in a single quote message. Specifically, a bulk order port is a dedicated logical port that provides Users with the ability to submit single and bulk order

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<sup>8</sup> See Cboe Options Rule 1.1(ppp).

<sup>9</sup> See Cboe Options Rule 6.14B (which describes how the Exchange routes orders (specifically intermarket sweep orders) but not quotes route to other exchanges); see also Nyse Arca, LLC (“Arca”) Rule 6.37-O(a)(3)(D) (which states quotes do not route).

<sup>10</sup> The Exchange understands this is common practice by Market-Makers throughout the industry, and is consistent with Cboe Options functionality, which cancels all unexecuted resting Market-Maker quotes at the close of each trading day. Additionally, it is consistent with Market-Makers’ obligation to update market quotations in response to changed market conditions. See Rule 22.5(a)(5); see also Cboe Options Rule 8.7(b)(iii).

<sup>11</sup> See Technical Specifications for binary order entry (BOE) available at <http://markets.cboe.com/us/options/support/technical/>. For instance, when initially adopted by the Exchange for its equities platform, bulk order entry was described as a “bulk-quoting interface” and such functionality was limited to BZX market makers. See Securities Exchange Act Release No. 65133 (August 15, 2011), 76 FR 52032 (August 19, 2011) (SR-BATS-2011-029). Bulk quoting was shortly thereafter expanded to be available to all participants on BZX Options but the focus remained on promoting liquidity provision on the Exchange, even though the types of messages permitted were not limited to liquidity providing orders. See Securities Exchange Act Release No. 65307 (September 9, 2011), 76 FR 57092 (September 15, 2011) (SR-BATS-2011-034).

messages to enter, modify, or cancel orders designated as Post Only Orders<sup>12</sup> with a Time-in-Force of Day<sup>13</sup> or Good-til-Date (“GTD”)<sup>14</sup> with an expiration time on that trading day. Like quotes, bulk order messages do not route to other exchanges because they include a Post Only instruction.<sup>15</sup> Use of the Day or GTD Time-in-Force is consistent with Market-Maker’s entry of new quotes at the beginning of each trading day.<sup>16</sup> Unlike current Cboe Options quoting functionality, bulk order ports on the Exchange are available to all Users, not just Market-Makers. The Exchange makes bulk order ports available to all Users to encourage them to provide liquidity to the Exchange’s market.

The Exchange proposes to replace bulk order functionality with bulk message functionality substantially similar to the quoting functionality available on Cboe Options. The proposed bulk message functionality is similar to but more efficient than currently available bulk order functionality.<sup>17</sup> A “bulk port” is a dedicated logical port that, as proposed, would provide Users with the ability to submit:

(1) bulk messages,<sup>18</sup> subject to the following:

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<sup>12</sup> See Rule 21.1(d)(8) for the definition of “Post Only Orders.”

<sup>13</sup> See Rule 21.1(f)(3) for the definition of the “Day” Time-in-Force.

<sup>14</sup> See Rule 21.1(f)(1) for the definition of the “GTD” Time-in-Force.

<sup>15</sup> See Rule 21.1(d)(8), which provides that an order with a Post Only instruction may not route away to another exchange.

<sup>16</sup> See supra note 12.

<sup>17</sup> See supra note 13.

<sup>18</sup> Proposed Rule 16.1(a)(4) defines a bulk message as a bid or offer included in a single electronic message a User submits to the Exchange in which the User may enter, modify, or cancel up to an Exchange-specified number of bids and offers (which number the Exchange will announce via Exchange notice or publicly available technical specifications). This is similar to Cboe Options Rule 1.1(ppp), which provides that electronic quotes may be updated in block quantities. The limit on bids and offers per message is a reasonable measure for the Exchange to use to manage message traffic and activity to protect the integrity of the System. Proposed Rule 16.1(a)(4) also states that a

- (a) a bulk message has a Time-in-Force of Day;
- (b) a Market-Maker with an appointment in a series may designate a bulk message for that series as Post Only or Book Only (which Post Only or Book Only designation, as applicable, applies to all bulk message bids and offers within a single message),<sup>19</sup> and other Users must designate a bulk message for that series as Post Only;
- (c) a User may establish a default Match Trade Prevention (“MTP”) Modifier of MTP Cancel Newest (“MCN”), MTP Cancel Oldest (“MCO”), or MTP Cancel Both (“MCB”), and a default value of Attributable or Non-Attributable, for a bulk port, each of which applies to all bulk messages submitted to the Exchange through that bulk port;
- (d) a User may designate a bulk message as “Price Improving” (which Price Improving designation applies to all bulk message bids and offers within a single message);<sup>20</sup> and
- (e) a bulk message is subject to the display-price sliding process in Rule 21.1(h)<sup>21</sup>; and

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User may submit a bulk message through a bulk port as set forth in proposed Rule 21.1(1)(3), and that the System handles a bulk messages in the same manner as it handles an order or quote, unless the Rules specify otherwise. In other words, a bulk message will be treated as an order (or quote if submitted by a Market-Maker) pursuant to the Rules, including with respect to priority and allocation. The proposed rule change identifies the rule provisions pursuant to which bulk messages will be handled in a different manner. The proposed rule change also amends the paragraph numbering in Rule 16.1(a) to account for the addition of bulk messages in subparagraph (a)(4).

<sup>19</sup> In other words, for example, a Market-Maker cannot designate one bulk message bid within a single message as Post Only and designate another bulk message bid within the same message as Book Only.

<sup>20</sup> See proposed change to Rule 21.1(d)(6).

(2) single orders in the same manner as Users may submit orders to the Exchange through any type of port,<sup>22</sup> including designated with any Order Type and any Time-in-Force in Rule 21.1(d) and (f), respectively.

Proposed Rule 21.1(l)(3)(A)(i) states that bulk messages have a Time-in-Force of Day. As discussed above, this is consistent with current Cboe Options quoting functionality, which cancels all resting quotes at the close of the trading day.<sup>23</sup> This is also consistent with a Market-Maker's obligation to update its quotations in response to changed market conditions in its appointed classes.<sup>24</sup> Unlike current bulk orders, the GTD Time-in-Force with an expiration time on that trading day will not be available for bulk messages. Users will continue to have the ability to manually cancel bulk messages at any time during the trading day, they will just not be able to have bulk messages automatically cancel at a specific time on that trading day. Additionally, Users may apply the GTD Order Type to orders submitted through a bulk port (as further discussed below) or other type of port.

Unlike Cboe Options quoting functionality, which is only available to Cboe Options market-makers, the proposed bulk messages will be available to all Users (as bulk orders are today). While all Users will be able to use bulk messages (and may currently use bulk orders), the primary purpose of bulk orders and the proposed bulk messages has always been to encourage market-maker quoting

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<sup>21</sup> See proposed change to Rule 21.1(h), which provides that the display-price sliding process applies to orders and all bulk messages, except that a Post Only bulk message that locks or crosses a Protected Quotation displayed by the Exchange (unlike a Post Only order) upon entry will be cancelled, as further discussed below (proposed Rule 21.1(l)(3)(A)(vi) states the System cancels or rejects a Post Only bulk message bid (offer) with a price that locks or crosses the Exchange best bid (offer) or ABO (ABB)).

<sup>22</sup> This is consistent with how Users may submit single orders to the Exchange through bulk order ports today, and thus the proposed rule change is merely codifying this functionality.

<sup>23</sup> See supra note 12.

<sup>24</sup> See Rule 22.5(a)(5).

on exchanges.<sup>25</sup> The proposed rule change provides that a Market-Maker with an appointment in a series may designate a bulk message for that series as “Post Only” or “Book Only.” This will provide Exchange Market-Makers with functionality substantially similar to Cboe Options quoting functionality currently available to Cboe Options market-makers, which permits Market-Makers’ incoming quotes to execute against resting orders and quotes.<sup>26</sup> The Exchange believes permitting Market-Makers to use bulk messages to remove liquidity from the Book (if they so elect) will put Exchange Market-Makers on an even playing field as market-makers on other exchanges that offer quoting functionality. Additionally, Market-Makers are subject to various obligations, including obligations to provide two-sided quotes, to provide continuous quotes, and to trade at least 75% of its contracts each quarter in appointed classes. The Exchange believes providing Market-Makers with flexibility to use the Post Only or Book Only instruction with respect to bulk messages will provide Market-Makers with additional tools to meet their obligations in a manner they deem appropriate. The Exchange further believes this may encourage liquidity providers to register as Market-Makers.

The proposed rule change provides that other Users (*i.e.*, non-Market-Makers or Market-Makers without an appointment in a series) must designate a bulk message for that series as “Post Only.” This is consistent with current bulk orders available to these Users, and will continue to provide Users with flexibility to avoid incurring a take fee if their intent is to add liquidity to the Book. The Exchange notes these Users may apply the Book Only instruction to orders submitted to the Exchange through bulk ports or other ports. The proposed rule change also amends Rule 21.9 to

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<sup>25</sup> See supra note 13.

<sup>26</sup> Incoming market-maker quotes on some options exchanges may execute against interest resting in the book (see, e.g., Arca Rule 6.37A-O(a)(3)), while on other options exchanges they may not (see, e.g., Box Options Exchange, LLC (“BOX”) Rule 8050, IM-8050-3).



make clear that bulk messages (like current bulk orders) are not eligible for routing (which is consistent with the Order Types of Post Only and Book Only, which do not route to other options markets).<sup>27</sup>

The proposed rule change also permits Users to establish a default MTP Modifier of MCN, MCO, or MCB that would apply to all bulk messages submitted through a bulk port. Cboe Options currently offers a Market-Maker Trade Prevention Order, which would be cancelled if it would trade against a resting quote or order for the same Market-Maker, and also cancel the resting order or quote.<sup>28</sup> This is equivalent to the MCB Modifier (except the MCB Modifier may be used by all Users rather than just Market-Makers). The proposed rule change provides Users with the ability to apply the same trade prevention designation that is available for quotes on Cboe Options to bulk messages (MCB), as well as two additional MTP options (MCN and MCO) (the Exchange notes there is currently no trade prevention functionality equivalent to MCN or MCO available on Cboe Options for quotes). Allowing three MTP designations for bulk messages will provide Users with additional control over the circumstances in which their bulk messages (and resting orders (including bulk messages)) will interact with each other. The Exchange does not believe there is demand by Users for the MDC and MCS modifies (which are available on the Exchange for orders) for bulk messages (the Exchange notes there is currently no trade prevention functionality equivalent to MDC or MCS available on Cboe Options for quotes). The Exchange notes all Users may continue to apply all MTP Modifiers to orders submitted through a bulk port (as further discussed below) or any other type of port.

The Exchange believes permitting Users to designate bulk messages as Price Improving and subjecting bulk messages to the display-price sliding process will encourage Users to submit

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<sup>27</sup> See also Cboe Options Rule 6.14B; and Arca Rule 6.37A-O(a)(3)(D).

<sup>28</sup> See Cboe Options Rule 6.53(v).

aggressive bids and offers and will provide market participants with additional opportunities for execution and price improvement. Price Improving bulk messages will function in the same manner as Price Improving Orders,<sup>29</sup> except all Price Improving bulk messages will be subject to the display-price sliding process. With respect to the display-price sliding process, bulk messages will be handled in the same manner as orders, except a Post Only bulk message that locks or crosses a Protected Quotation displayed by the Exchange upon entry will be cancelled.<sup>30</sup> This is unlike a Post Only Order, which, if it locks or crosses a Protected Quotation displayed by the Exchange upon entry and is subject to the display-price sliding process, will execute against an order resting on the BZX Options Book if the value of price improvement associated with such execution equals or exceeds the sum of fees charged for such execution and the value of any rebate that would be provided if the order posted to the BZX Options Book and subsequently provided liquidity.<sup>31</sup> The Exchange believes it is reasonable to cancel a Post Only bulk message, which will be subject to the display-price sliding process, rather than execute it if the price improvement value would exceed a rebate, because it is consistent with the purpose of a Post Only bulk message, which is to provide liquidity to the BZX Options Book.

Generally, the System will handle bulk messages in the same manner as it handles orders with the same Order Types and Times-in-Force that will be available for bulk messages, including prioritizing, displaying, and executing them pursuant to Rule 21.8. Proposed Rule 21.1(l)(3)(A)(vi) and (vii) adds detail regarding how the System will handle bulk messages. Specifically, proposed subparagraph (A)(vi) states the System will cancel or reject a Post Only bulk message bid (offer)

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<sup>29</sup> Users may enter an instruction to not subject Price Improving Orders to the display-price sliding process. See Rule 21.1(d)(6).

<sup>30</sup> See proposed Rule 21.1(h)(4); see also proposed Rule 21.1(l)(3)(A)(vi).

<sup>31</sup> See Rule 21.1(d)(8).

with a price that locks or crosses the Exchange best offer (bid) or the ABO (ABB).<sup>32</sup> This is consistent with how the System would handle a Post Only order not subject to the Price Adjust process.<sup>33</sup> Pursuant to the Post Only instruction, an order (or bulk message as proposed) may not remove liquidity from the Book or route away to another Exchange (subject to certain exceptions).<sup>34</sup> If a Post Only bulk message locked or crossed the best contra-side interest on the Exchange, the System would cancel it to prevent execution of the bulk message against the interest on the Exchange in accordance with the User's instructions and to prevent the Exchange from displaying a locked or crossed market.<sup>35</sup> Similarly, if a Post Only bulk message locked or crossed an away market, the System would cancel it since it cannot route in accordance with the User's instructions and to prevent the Exchange's dissemination of a locked or crossed market.<sup>36</sup>

Similarly, proposed subparagraph (A)(vii) states the System will execute a Book Only bulk message bid (offer) that locks or crosses the ABO (ABB) against offers (bids) resting in the Book at prices the same as or better than the ABO (ABB) and then cancels the unexecuted portion of that bid (offer). This is consistent with how the System would handle a Book Only order not subject to

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<sup>32</sup> "ABBO" means the best bid (offer) disseminated by other exchanges.

<sup>33</sup> See Rule 21.1(i). Pursuant to the Price Adjust process, the System ranks and displays a buy (sell) order that, at the time of entry, would lock a Protected Quotation of the Exchange or another Exchange at one minimum price increment below (above) the current NBO (NBB). The System executes a Book Only order against orders and quotes and cancels any unexecuted portion if displaying the order on the Book would create violation of Rule 27.3, and the System rejects a Post Only order that locks or crosses the opposite side Exchange best bid or offer ("BBO") or if displaying the order on the Book would create a violation of Rule 27.3. Bulk messages will not be eligible for the Price Adjust process, and thus will be handled similar to an order not subject to the Price Adjust process. See proposed Rule 21.1(i)(5) (which clarifies that the Price Adjust Process will not apply to bulk messages).

<sup>34</sup> See Rule 21.1(d)(8).

<sup>35</sup> See Chapter XXVII of the Rules; see also Options Order Protection and Locked/Crossed Market Plan (the "Linkage Plan").

<sup>36</sup> See id.

the Price Adjust process. Pursuant to the Book Only instruction, an order (or bulk message as proposed) may not route away to another Exchange. If a Book Only bulk message locked or crossed an away market, the System would execute it to the extent it could against contra-side interest on the Exchange and then cancel it since it cannot route in accordance with the User's instructions and to prevent the Exchange's dissemination of a locked or crossed market.<sup>37</sup> In addition to being similar to current Exchange Rules regarding the handling of Post Only and Book Only Orders not subject to the Price Adjust process, the Exchange notes that proposed subparagraphs (A)(vi) and (vii) are substantially the same as another exchange's handling rules applicable to quotes.<sup>38</sup>

Proposed Rule 21.6(a) provides that a User may enter only one bid and one offer for a series per Executing Firm ID ("EFID") per bulk port. The Exchange believes this will encourage Users to submit their best bids and offers in series, and thus provide displayed liquidity to the market and contribute to public price discovery. Note firms may have multiple EFIDs and multiple bulk ports, and thus will have the ability through separate ports or EFIDs to submit additional bids and offers using bulk messages in the same series if they choose. This provision is consistent with the rule interpretation of another exchange.<sup>39</sup>

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<sup>37</sup> See id.

<sup>38</sup> See Cboe Options Rule 6.14(b) (if Cboe Options is not at the NBBO, the System rejects a quote back to a Market-Maker if the quote locks or crosses the NBBO, which is the ABBO) and (c) (if the Cboe Options System accepts a quote that locks or crosses the NBBO, it executes the quote against quotes and orders in the Cboe Options Book at the price(s) that is the same or better than the best price disseminated by an away exchange(s) up to the size available on the Exchange and cancels the remaining size if the quote's price locks or crosses the ABBO or books any remaining size); see also Rule 6.37A-O(a)(3).

<sup>39</sup> See Cboe Options Regulatory Circular RG18-008 (March 6, 2018), which provides that each market-maker acronym may only have one quote (which is considered to be a two-sided quote) in each series at a time. An EFID is comparable to an acronym. Under Cboe Options rules, the term Market-Maker generally refers to an individual (and thus a

In addition to permitting Users to submit bulk orders (which functionality the Exchange will discontinue and replace with bulk message functionality), current bulk order ports permit Users to submit single orders to the Exchange. To encourage Users that may not have quoting systems to provide liquidity to the Exchange, the proposed rule change will permit Users to continue to submit single orders to the Exchange through these ports in the same manner as they do today, which are proposed to be renamed as bulk ports. Proposed Rule 21.1(1)(3)(B) will permit Users to designate these orders in the same manner Users may submit orders to the Exchange through any other type of port, including designated with any Order Type and any Time-in-Force in Rule 21.1(d) and (f), respectively. This will provide Users with the same functionality that is available for single orders submitted through bulk ports today, and allow their liquidity to rest on the Exchange for multiple trading days, if Users so choose. This will also provide Users with additional control over the orders they use to provide liquidity to the Exchange through bulk ports.

While liquidity providers are most commonly registered market-makers, other professional traders also provide liquidity to the options market, which contributes to price discovery. As a result, unlike other exchanges that restrict quoting functionality to market-makers, the Exchange believes it is appropriate to make bulk messages available to all Users to encourage them to provide liquidity, which is critical to the Exchange's market. Additionally, permitting orders to be submitted through bulk ports will continue to provide all liquidity providers with this functionality

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person with a specific acronym), except as otherwise provided in the Rules. See, e.g., Cboe Options Rule 8.7(d)(ii)(B) (which provides that market-maker continuous electronic quoting obligations may be satisfied by market-makers either individually or collectively with market-makers of the same TPH organization). The interpretation in the circular referenced above is consistent with this term and a Market-Maker's obligations set forth in Rule 8.7 (e.g. market-Makers must contribute to the maintenance of a fair and orderly market, including by competing to improve markets, update quotes in response to changed market conditions, and price options contracts fairly).

that is available today, as well as additional flexibility with respect to this functionality they may use to provide liquidity to the Exchange.

The proposed rule change adds a price protection mechanism for bulk messages similar to the fat finger check the Exchange currently provides for orders. Proposed Rule 21.17(f) states the System cancels or rejects any bulk message bid (offer) above (below) the NBO (NBB) by more than a specified amount determined by the Exchange. This is similar to the fat finger check currently applicable to limit orders.<sup>40</sup> Bulk messages that cross the NBBO by more than a specified amount are rejected as presumptively erroneous. This proposed check will not apply to bulk messages submitted prior to the conclusion of the Opening Process or when no NBBO is available. The Exchange believes it is appropriate to have the ability to not apply this check during the pre-open or opening rotation so that the check does not impact the determination of the opening price. The Exchange also believes it is appropriate to not apply this check when there is no NBBO, as the Exchange believes that is the most reliable measure against which to compare the price of the bulk message to determine its reasonability. The proposed change is similar to a quote price protection mechanism available at other options exchanges.<sup>41</sup>

Proposed Rule 21.17(g) states if, pursuant to the Rules, the System cancels or rejects a bulk message bid (offer) to update a resting bulk message bid (offer) submitted for the same EFID and bulk port, the System also cancels the resting bulk message bid (offer). The Exchange currently offers Users similar functionality for orders, which is optional.<sup>42</sup> Pursuant to the proposed rule

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<sup>40</sup> See Rule 21.17(b). Orders submitted through bulk ports will be subject to the current order price protection mechanisms, such as limit fat finger check in Rule 21.17. The proposed rule change amends Rule 21.17(a) through (e) (and the introductory language to that rule) to make clear that the price protections and risk controls in those paragraphs will not be applicable to bulk messages.

<sup>41</sup> See, e.g., Cboe Options Rule 6.14(a) and (b); Arca Rule 6.37A-O(a)(3).

<sup>42</sup> See “cancel on reject” functionality in technical specifications available at

change, the System will always apply this protection to bulk messages. The Exchange believes this will operate as an additional safeguard that causes liquidity providers to re-evaluate their bids and offers in a series before attempting to update them again. Additionally, when a User submits a new bulk message, it is implicitly instructing the Exchange to cancel any resting bulk message in the same series. Thus, even if the new bulk message is rejected as a result of this proposed check, the implicit instruction to cancel the resting bulk message remains valid nonetheless. The proposed rule change is substantially similar to a risk control applicable to quotes available at another options exchange.<sup>43</sup>

The proposed rule change also amends Rule 21.1(d), (f), and (g) to provide that eligible Order Types, Times in Force, and MTP Modifiers, respectively, are subject to the proposed restrictions in Rule 21.1(l) with respect to bulk messages submitted through bulk ports. The proposed rule change also amends Rule 21.1(c), (d), (f), and (g) to clarify which Orders, Order Types, Times in Force, and MTP Modifiers, respectively, are available and not available for bulk messages, as described above, in accordance with proposed Rule 21.1(l)(3)(A).

## 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>44</sup> Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>45</sup> requirements that the rules of an exchange be designed to prevent fraudulent and manipulative acts and

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<http://markets.cboe.com/us/options/support/technical/>.

<sup>43</sup> See, e.g., Cboe Options Rule 6.14(b); Arca Rule 6.37A-O(a)(3)(C).

<sup>44</sup> 15 U.S.C. 78f(b).

<sup>45</sup> 15 U.S.C. 78f(b)(5).

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>46</sup> requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

In particular, the Exchange is promoting transparency by adopting definitions within Rule 21.1 to describe various ports used to access the Exchange that are currently described on the Exchange's fee schedule and in filings previously made by the Exchange.<sup>47</sup> As noted above, the rules of EDGX Options and C2 include similar rules. As such, the proposed rule change would foster cooperation and coordination with persons engaged in facilitating transactions in securities and would remove impediments to and perfect the mechanism of a free and open market and a national market system.

The proposed rule change regarding bulk messages will remove impediments to and perfect the mechanism of a free and open market because it provides Users, including Market-Makers and other liquidity providers, with enhanced functionality to allow them to provide liquidity to the market and update bids and offers in response to changed market conditions. While current bulk orders simulate quotes, Users must submit multiple messages in bulk to update bids and offers in multiple series. The proposed bulk messages will permit Users to update multiple bids and offers in a single message, which will permit them to update bids and offers (for example, in response to changing market conditions) in a more efficient manner. The

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<sup>46</sup> Id.

<sup>47</sup> See supra note 13.



proposed ability to update bids and offers in block quantities is similar to that available on another options exchange.<sup>48</sup>

With respect to all Users, the proposed bulk messages are substantially similar to the current bulk orders available through bulk order ports – Users will be able to submit bulk messages that are Day and Post Only. However, the proposed rule change will permit them to do so in a single bulk message rather than in multiple messages. While the use of the GTD Time-in-Force will not be permitted for bulk messages as it currently is for bulk orders, Users may achieve the same result as GTD for their bulk messages by manually cancelling a bulk message at a specified time during the trading day – the proposed rule change merely does not provide a means for automatic cancellation of bulk messages at a specific time during the trading day. Additionally, Users may continue to apply GTD to orders submitted to the Exchange through bulk ports and other ports.

The Exchange believes the proposed rule change will permit liquidity providers to more efficiently update their resting bids and offers, which may help them manage their risk exposure when, for example, updating their bids and offers in response to changing market conditions. The Exchange believes this will continue to encourage all Users to provide liquidity on the Exchange and avoid incurring a taker fee if their intent is to submit bids and offers to add liquidity to the Book. Additionally, subjecting bulk messages to display-price sliding and permitting them to be designated as Price Improving may encourage Users to submit more aggressive bids and offers. As a result, this may increase liquidity, resulting in more trading opportunities and tighter spreads, which benefits all investors. The Exchange notes the proposed rule change provides Users with additional flexibility by permitting certain MTP Modifiers to be

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<sup>48</sup> See Cboe Options Rule 1.1(ppp), which provides that electronic quotes may be updated in block quantities.

applied to bulk messages to prevent their orders and bulk messages from trading against each other. The MTP Modifiers not available for bulk messages will continue to be available for Users on orders submitted through bulk ports and other ports. Unlike other options exchanges that limit the use of quoting functionality to market-makers, the proposed rule change will permit all Users to submit bulk messages. Additionally, the proposed rule change to permit Users to continue to submit orders through bulk ports will encourage Users that may not have quoting systems to provide liquidity to the Exchange by submitting single orders through bulk ports. This is also consistent with current bulk orders, which permits Users to submit both single and bulk orders through bulk order ports.

The proposed rule change further removes impediments to and perfects the mechanism of a free and open market and a national market system by providing appointed Market-Makers with the ability to submit Book Only bulk messages, because it will align functionality available to appointed Market-Makers on the Exchange with the quoting functionality available to market-makers on other options exchanges, including Cboe Options, which permit quotes to both add and remove liquidity.<sup>49</sup> Market-Makers are critical to providing liquidity and price discovery on the Exchange, and are subject to various obligations, as discussed above. The Exchange notes all other Users may continue to use the Book Only instruction (or other instructions that permit execution against resting orders on the Book) on orders submitted through bulk ports and other ports, as they may do today. The Exchange believes providing Market-Makers with flexibility to use the Post Only or Book Only instruction with respect to bulk messages will provide them with additional tools to meet their obligations in a manner they deem appropriate and is reasonable

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<sup>49</sup> Other options exchanges only permit market-makers to submit quotes. See, e.g., Cboe Options Rules 1.1(ppp) and 8.3(c); Arca Rule 6.37A-O(a)(1).

given the critical role Market-Makers play in the options market. The Exchange believes this may also encourage liquidity providers to register as Market-Makers.

The proposed rule change provides Market-Makers with a combination of functionality available to market-makers on other exchanges, as some exchanges permit market-makers to remove liquidity and others only permit market-makers to post liquidity using quotes.<sup>50</sup> As a result, the Exchange believes the proposed rule change will provide Market-Makers with greater control over their interactions with contra-side liquidity and would increase opportunities for such interaction. The Exchange believes this will provide Market-Makers with a greater level of determinism, in terms of managing their exposure, which may encourage them to be more aggressive when providing liquidity. The Exchange believes this may result in more trading opportunities and tighter spreads, which contributes to price discovery. Ultimately, this may improve overall market quality and enhance competition on the Exchange, which benefits all investors.

The proposed handling of bulk messages to prevent the display of a locked or crossed market will perfect the mechanism of a free and open market and national market system, as it is consistent with the Linkage Plan and the Exchange's handling of orders with similar instructions. This proposed handling of bulk messages is also consistent with handling of quotes on other options exchanges.<sup>51</sup> The proposed risk controls and price protection mechanisms that will apply to bulk messages promote just and equitable principles of trade and will protect investors by mitigating potential risks associated with Users submitting bulk messages at clearly unintended prices and trading at extreme and potentially erroneous prices. Additionally, the proposed rule change to cancel a User's resting bulk message when the System rejects a bulk message intended

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<sup>50</sup> See id. and Box Options Exchange, LLC ("BOX") Rule 8050, IM-8050-3.

<sup>51</sup> See Cboe Options Rule 6.14(b) and (c); see also Rule 6.37A-O(a)(3).

to update that resting bulk message provides Users with an additional safeguard that causes Users to reevaluate their bids and offers in the series before attempting to update them again. Additionally, when a User submits a new bulk message, it is implicitly instructing the Exchange to cancel any resting bulk message. Thus, even if the new bulk message is rejected, the Market-Maker's implicit instruction to cancel the resting bulk message remains valid nonetheless.

The options markets are quote driven markets and thus dependent on liquidity providers, which are most commonly registered market-makers but also other professional traders, for liquidity and price discovery. The Exchange believes the proposed enhanced functionality, including the additional flexibility for Market-Makers to manage their risk exposure and provide additional control over interactions with contra-side liquidity, for these liquidity providers to more efficiently enter and update bids and offers. This may encourage the provision of more aggressive liquidity, which may result in more trading opportunities and tighter spreads, which contributes to price discovery. This may improve overall market quality and enhance competition on the Exchange, which benefits all investors.

The proposed rule change is generally intended to align system functionality currently offered by the Exchange with Cboe Options functionality in order to provide a consistent technology offering for the Cboe Affiliated Exchanges. A consistent technology offering, in turn, will simplify the technology implementation, changes, and maintenance by Users of the Exchange that are also participants on Cboe Affiliated Exchanges. The proposed rule change would also provide Users with access to functionality that is generally available on markets other than the Cboe Affiliated Exchanges, which may result in the efficient execution of quotes and orders and provide Users with additional flexibility and increased functionality on the Exchange's System.

When Cboe Options migrates to the same technology as that of the Exchange and other Cboe Affiliated Exchanges, Users of the Exchange and other Cboe Affiliated Exchanges will have access to similar functionality on all Cboe Affiliated Exchanges. As such, the proposed rule change would foster cooperation and coordination with persons engaged in facilitating transactions in securities and would remove impediments to and perfect the mechanism of a free and open market and a national market system.

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 that is not necessary or appropriate in furtherance of the purposes of the Act, as the proposed bulk messages, like the current bulk orders, are optional for all Users. While only Market-Makers may submit Book Only bulk messages, the Exchange believes this is appropriate given the various obligations Market-Makers must satisfy under the Rules and the unique and critical role Market-Makers play in the options market, as discussed above. The Exchange believes providing Market-Makers with flexibility to use the Post Only or Book Only instruction with respect to bulk messages will provide Market-Makers with additional tools to meet their obligations in a manner they deem appropriate. The Exchange believes the proposed functionality for Market-Makers adds value to market-making on the Exchange and provides them with greater control over how their quotes interact with contra-side liquidity both on the Exchange. The Exchange notes all other Users may continue to use the Book Only instruction on orders submitted to the Exchange through bulk ports and other types of ports. The Post Only instruction for bulk messages will be available to all Users, and is substantially similar to the bulk orders currently available to all Users. Additionally, all Users may submit single orders

with all Times-in-Force and Order Types not available for bulk messages through bulk ports, which may encourage Users that may not have quoting systems to provide liquidity to the Exchange.

The proposed price protection mechanisms and risk controls applicable to bulk messages will apply in the same manner to all bulk messages submitted by market participants. The Exchange believes this protection for bulk messages provides liquidity providers with additional protection from anomalous or erroneous executions. Generally, once bulk messages are resting on the Book, the System will handle them no differently than resting orders – this includes how the System prioritizes orders and quotes when executing them against incoming orders or quotes. Bulk messages that are available to all Users will work in the same manner for all Users, and the additional bulk message functionality available to appointed Market-Makers will work in the same manner for all such Market-Makers. The Exchange believes it is reasonable to provide additional functionality to Market-Makers given their unique and critical role in the options market and the various obligations that Market-Makers must satisfy.

The Exchange does not believe the propose 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 will provide Market-Makers with bulk message functionality that is similar to that quoting available to market-makers on other options exchanges. The Exchange believes the proposed functionality will permit the Exchange to operate on an even playing field relative to other exchanges that have similar functionality. As discussed above, the options markets are quote driven markets and thus dependent on liquidity providers, which are most commonly registered market-makers but also other professional traders, for liquidity and price discovery. The Exchange believes the proposed enhanced functionality, including the additional flexibility

for Market-Makers to manage their risk exposure and provide additional control over interactions with contra-side liquidity, for these liquidity providers to more efficiently enter and update bids and offers. This may encourage the provision of more aggressive liquidity, which may result in more trading opportunities and tighter spreads, which contributes to price discovery. This may improve overall market quality and enhance competition on the Exchange, which benefits all investors.

The Exchange reiterates that the proposed rule change is being proposed in the context of the technology integration of the Cboe Affiliated Exchanges. Thus, the Exchange believes this proposed rule change permits fair competition among national securities exchanges. In addition, the Exchange believes the proposed rule change will benefit Exchange participants in that it will provide a consistent technology offering for Users by the Cboe Affiliated Exchanges.

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 after the date of the filing, or such shorter time as the Commission may designate, it has become effective pursuant to 19(b)(3)(A) of the Act<sup>52</sup> and Rule 19b-4(f)(6)<sup>53</sup> thereunder.

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<sup>52</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>53</sup> 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.

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 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](mailto:rule-comments@sec.gov). Please include File Number SR-CboeBZX-2018-092 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-CboeBZX-2018-092. 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-CboeBZX-2018-092 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.<sup>54</sup>

Brent J. Fields  
Secretary

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<sup>54</sup> 17 CFR 200.30-3(a)(12).