

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-85625; File No. SR-CboeEDGX-2019-020)

April 11, 2019

Self-Regulatory Organizations; Cboe EDGX Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to Add Certain Fees Related to the Listing and Trading of Options Contracts on the Mini-SPX Index

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on April 5, 2019, Cboe EDGX Exchange, Inc. (the “Exchange” or “EDGX”) filed with the Securities and Exchange Commission (the “Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. The 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 EDGX Exchange, Inc. (the “Exchange” or “EDGX”) proposes to add certain fees related to the listing and trading of options contracts on the Mini-SPX Index (“XSP”). The text of the proposed rule change is attached as Exhibit 5[sic].

The text of the proposed rule change is also available on the Exchange’s website (http://markets.cboe.com/us/options/regulation/rule_filings/edgx/), 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

¹ 15 U.S.C. 78s(b)(1).

² 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

On April 8, 2019, the Exchange’s equity options platform (“EDGX Options”) will begin listing XSP options for trading.³ Accordingly, the Exchange proposes to amend its Fee Schedule for EDGX Options to add: (i) Fee codes for XSP options that add or remove liquidity on the Exchange; (ii) Fee codes for XSP options executed through the Bats Auction Mechanism (“BAM”); (iii) Fee codes for complex orders in XSP options; (iv) Fee codes for XSP options that are routed away from the Exchange; and (v) to update the applicable fee codes under the Step Up Mechanism (“SUM”) Auction Pricing Tier. The proposed changes will be effective April 8, 2019.

Proposed Fee Codes for XSP Options – Add or Remove Liquidity

Proposed fee code XM will be appended to all Market Maker orders in XSP options that add liquidity, and will result in a fee of \$0.20 per contract. Proposed fee code XF will be appended to all Firm orders in XSP options that add or remove liquidity, and will result in a fee of \$0.45 per contract. Proposed fee code XC will be appended to all Customer orders in XSP options that add or remove liquidity, and will receive a rebate of \$0.05 per contract. Proposed

³ See Securities Exchange Act Release No. 85182 (February 22, 2019), 84 FR 6846 (February 28, 2019) (Notice of Deemed Approval of a Proposed Rule Change To Permit the Listing and Trading of P.M.-Settled Series on Certain Broad-Based Index Options on a Pilot Basis) (SR-CboeEDGX-2018-037), which deemed the Exchange’s proposed rule change to permit the listing and trading of P.M. settled XSP options with third-Friday-of-the-month expiration dates to have been approved January 28, 2019.

fee code XN will be appended to all Non-Customer or Non-Market Maker orders in XSP options that add or remove liquidity, and will result in a fee of \$0.48. Proposed fee code XO will be appended to all orders in XSP options that trade on the open, and will be free.

Proposed Fee Codes for XSP Options - BAM Orders

Proposed fee code XD will be appended to all BAM Customer orders in XSP options, which will be free. Proposed fee code XB will be appended to all BAM Customer-to-Customer Immediate Cross orders, which will also be free.

Proposed Fee Codes for XSP Options – Complex Orders

Proposed fee code XP will be appended to all Customer complex orders executed on the complex order book (“COB”) against a Non-Customer contra party order in XSP options that add or remove liquidity, and will receive a rebate of \$0.45 per contract. Proposed fee code XL will be appended to all Customer complex orders executed on the COB against a Customer contra party order in XSP options. Such orders will be free. Proposed fee code XV will be appended to all Customer complex orders that are not executed on the COB but instead leg into the Simple Book in XSP options. Such orders will also be free.

Proposed Fee Codes for XSP Options – Routed Away

Proposed fee code XR will be appended to all Customer orders in XSP options that are routed away from the Exchange and executed at another exchange, and will result in a fee of \$0.25 per contract. Proposed Fee code XT will be appended to all Non-Customer orders in XSP options that are routed away from the Exchange and executed at another exchange, and will result in a fee of \$0.90 per contract. Proposed Fee code XS will be appended to all orders in XSP options that route to another exchange at the open, and will be free.

Proposed Fee Codes for XSP Options Applicable to the SUM Auction Pricing Tier

The Exchange also proposes to add proposed fee codes XM, XF, XC, and XN to the applicable fee codes under footnote 3 for the SUM Auction Pricing Tier. Currently, under this tier, orders yielding the applicable fee codes (currently, there are 16 applicable fee codes) may receive an additional rebate of \$0.05 per contract if the Member responds to and executes against an order subject to the SUM Auction. This pricing tier encourages Members to respond to SUM auctions.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with the Section 6 of the Act,⁴ in general, and Section 6(b)(4),⁵ in particular, as it is designed to provide for the equitable allocation of reasonable dues, fees and other charges among its Members and other persons using its facilities.

Specifically, the Exchange believes it is reasonable to charge different fee amounts to different user types in the manner proposed because the proposed fees are consistent with the price differentiation and type of Member transactions that exists today on the Exchange's affiliated exchange, Cboe Exchange, Inc. ("Cboe Options") for index option products, including XSP options.⁶ Additionally, the Exchange believes the proposed fee amounts for XSP orders are reasonable because the proposed fee amounts are within the range of the transaction fee amounts charged (or not charged, as is the case for Cboe Options Customer orders in XSP options) for orders in XSP options at Cboe Options.⁷ The Exchange also notes that the proposed fees are

⁴ 15 U.S.C. 78f.

⁵ 15 U.S.C. 78f(b)(4).

⁶ See Cboe Options Fees Schedule, Index Options Rate Table.

⁷ See Cboe Options Fees Schedule, Index Options Rate Table, which shows that standard

reasonable as the Exchange's affiliated exchange, Cboe BZX Exchange, Inc. ("BZX Options") recently added comparable fee codes for a newly listed index option product, the Russell 2000 Index options ("RUT").⁸ The Exchange believes these types of fee codes for newly or recently listed index options are reasonable because they promote and encourage trading in such products.

The Exchange also believes that it is equitable and not unfairly discriminatory to assess lower fees or enhanced rebates to Customers as compared to other market participants because Customer order flow enhances liquidity on the Exchange for the benefit of all market participants. Specifically, Customer liquidity benefits all market participants by providing more trading opportunities, which attracts Market Makers. An increase in the activity of these market participants in turn facilitates tighter spreads, which may cause an additional corresponding increase in order flow from other market participants. Moreover, the options industry has a long history of providing preferential pricing to Customers, and the Exchange's current Fee Schedule currently does so in many places, as do the fees structures of multiple other exchanges. The Exchange notes that all fee amounts applicable to Customers will be applied equally to all Customers, i.e. all Customers will be assessed the same amount.

Additionally, the Exchange believes that it is equitable and not unfairly discriminatory to assess lower fees to Market Makers as compared to other market participants other than Customers because Market Makers, unlike other market participants, take on a number of obligations, including quoting obligations, that other market participants do not have. Further, these lower fees offered to Market Makers are intended to incent Market Makers to quote and

transaction fees for all index products (including XSP) orders range from \$0.00 per contract to \$0.75 per contract.

⁸ See Securities Exchange Act Release No. 84401 (October 11, 2018), 83 FR 52591 (October 17, 2018) (Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Related to Fees on Cboe BZX Exchange, Inc.) (SR-CboeBZX-2018-0750 [sic]).

trade more on EDGX Options, thereby providing more trading opportunities for all market participants. The Exchange notes that all fee amounts applicable to Market Makers will be applied equally to all Market Makers, i.e. all Market Makers will be assessed the same amount. Similarly, the Exchange notes that the XSP fee amounts for each separate type of other market participant will be assessed equally to all such market participants, i.e. all Firm orders will be assessed the same amount, and all Non-Customer and Non-Market Maker orders will be assessed the same amount. The Exchange also believes the lower fees assessed for Firm orders in XSP, as compared to Non-Customer or Non-Market Maker orders, are equitable and not unfairly discriminatory because the Exchange recognizes that Firms can be an important source of liquidity when they facilitate their own customers' trading activity, in turn, adding transparency and promoting price discovery to the benefit of all market participants.

The Exchange believes its proposed fees for XSP orders that are routed away from the Exchange are reasonable taking into account routing costs and also notes that the proposed fees are in line with amounts assessed by other exchanges.⁹ For the reasons described above, the Exchange also believes that it is equitable and not unfairly discriminatory to assess lower routing fees to Customers as compared to other market participants. The Exchange notes that routing through the Exchange is voluntary and market participants can readily direct order flow to another exchange if they deem Exchange fee levels to be excessive.

Finally, the Exchange believes that it is reasonable to apply fee codes XM, XF, XC, and XN under footnote 3 for the SUM Auction Pricing Tier because various other comparable fee codes are currently applied to the SUM Auction Pricing Tier and orders yielding these fee codes currently receive the additional rebate. The Exchange believes that adding the proposed fee

⁹ See C2 Fees Schedule, Linkage Routing Fees. See also BZX Options Fee Schedule, Fee Codes and Associated Fees.

codes regarding orders in XSP options to the SUM Auction Pricing Tier is reasonable because an additional rebate per contract in XSP options is designed to increase liquidity and price discovery by encouraging Members to enter orders in newly listed XSP options in response to SUM auctions on the Exchange. Moreover, the Exchange believes the proposed additional fee codes eligible for the additional rebate under the SUM Auction Pricing Tier is equitable and not unfairly discriminatory because it is applied uniformly to all Members yielding the applicable fee codes.

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

The Exchange believes the proposed amendments to its Fee Schedule will not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange does not believe that 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 because the XSP fee amounts for each separate type of market participant will be assessed equally to all such market participants. While different fees are assessed to different market participants in some circumstances, the obligations and circumstances between these market participants differ, as discussed above. For example, Market Makers have quoting obligations that are not applicable to other market participants. Further, the proposed fees structure for XSP is intended to encourage more trading of XSP, which brings liquidity to the Exchange and benefits all market participants.

The Exchange also does not believe that the proposed rule changes will impose any burden on intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act because the proposed XSP fees are in line with amounts assessed by other exchanges. The Exchange notes that to the extent that the proposed fee rates and rebates for

certain orders in XSP options make the Exchange a more attractive venue for market participants than other exchanges, market participants are welcome to become Members and execute such orders on the Exchange. Also, as stated, market participants are free to direct order flow to other competing venues if they deem the Exchange's fees excessive.

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

The Exchange has not solicited, and does not intend to solicit, comments on this proposed rule change. The Exchange has not received any written comments from members or other interested parties.

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A) of the Act¹⁰ and paragraph (f) of Rule 19b-4¹¹ thereunder. 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.

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

¹⁰ 15 U.S.C. 78s(b)(3)(A).

¹¹ 17 CFR 240.19b-4(f).

- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-CboeEDGX-2019-020 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-CboeEDGX-2019-020. 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-CboeEDGX-2019-020, 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.¹²

Eduardo A. Aleman
Deputy Secretary

¹² 17 CFR 200.30-3(a)(12).