

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-85989; File No. SR-CboeEDGX-2019-032)

May 31, 2019

Self-Regulatory Organizations; Cboe EDGX Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to Qualified Contingent Cross Orders (“QCC Orders”) with More than One Option Leg (“Complex QCC Orders”)

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 May 22, 2019, Cboe EDGX Exchange, Inc. (the “Exchange” or “EDGX”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. The Exchange filed the proposed rule change pursuant to Section 19(b)(3)(A)(iii) of the Act<sup>3</sup> and Rule 19b-4(f)(6) thereunder.<sup>4</sup> The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

Cboe EDGX Exchange, Inc. (the “Exchange” or “EDGX”) proposes to permit qualified contingent cross orders (“QCC Orders”) with more than one option leg (“Complex QCC Orders”). The text of the proposed rule change is provided below and in Exhibit 1.

(additions are underlined; deletions are [bracketed])

\* \* \* \* \*

Rules of Cboe EDGX Exchange, Inc.

\* \* \* \* \*

Rule 21.1. Definitions

---

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

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

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

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

The following definitions apply to Chapter XXI for the trading of options listed on EDGX Options.

(a) – (c) No change.

(d) The term “Order Type” shall mean the unique processing prescribed for designated orders, subject to the restrictions set forth in paragraph (j) below with respect to orders and bulk messages submitted through bulk ports, that are eligible for entry into the System, and shall include:

(1) – (9) No change.

(10) A “Qualified Contingent Cross Order” or “QCC Order” is comprised of an originating order to buy or sell at least 1,000 standard option contracts (or 10,000 mini-option contracts) that is identified as being part of a qualified contingent trade, as that term is defined in subparagraph (A) below, coupled with a contra-side order or orders totaling an equal number of contracts. If a QCC Order has more than one option leg (a “Complex QCC Order”), each option leg must have at least 1,000 standard option contracts (or 10,000 mini-option contracts). See Rule 21.20 for a definition of a QCC with Stock Order. For purposes of this order type:

(A) No change.

(B) [Qualified Contingent Cross]QCC Orders with one option leg may execute automatically on entry without exposure [provided]if the execution: (i) is not at the same price as a Priority Customer Order resting in the EDGX Options Book; and (ii) is at or between the NBBO. Rule 22.12, related to exposure of orders on EDGX Options, does not apply to [Qualified Contingent Cross]QCC Orders (including Complex QCC Orders).

(C) Complex QCC Orders may execute automatically on entry without exposure if: (i) each option leg executes at a price that complies with Rule 21.20(c)(1)(C), provided that no option leg executes at the same price as a Priority Customer Order in the Simple Book; (ii) each option leg executes at a price at or between the NBBO for the applicable series; and (iii) the execution price is better than the price of any complex order resting in the COB, unless the Complex QCC Order is a Priority Customer Order and the resting complex order is a non-Priority Customer Order, in which case the execution price may be the same as or better than the price of the resting complex order.

[(C)D] [Qualified Contingent Cross]QCC Orders (including Complex QCC Orders) will be cancelled if they cannot be executed.

[(D)E] [Qualified Contingent Cross]QCC Orders with one option leg may only be entered in the standard increments applicable to the options class under Rule 21.5, and Complex QCC Orders may be entered in the increments applicable to complex orders set forth in Rule 21.20(c)(1).

([E]F) Users may not submit bulk messages as [Qualified Contingent Cross]QCC Orders.

\* \* \* \* \*

Rule 21.5. Minimum Increments

(a) – (c) No change.

(d) Complex Orders. The minimum increment for bids and offers on complex orders is set forth in Rule 21.20(c)(1).

\* \* \* \* \*

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/](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 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 BZX Exchange, Inc. (“BZX or BZX Options”), and Cboe BYX Exchange, Inc. (“BYX” and, together with C2, Cboe

Options, the Exchange, EDGA, and BZX, the “Cboe Affiliated Exchanges”). The Cboe Affiliated Exchanges are working to align certain system functionality, retaining only intended differences between the Cboe Affiliated Exchanges, in the context of a technology migration. Cboe Options intends to migrate its technology to the same trading platform used by the Exchange, C2, and BZX Options in the fourth quarter of 2019. The proposal set forth below is intended to add certain functionality to the Exchange’s System that is available on Cboe Options in order to ultimately provide a consistent technology offering for market participants who interact with the Cboe Affiliated Exchanges. 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.

The Exchange proposes to make QCC Order functionality available for complex orders (“Complex QCC Orders”). A QCC order is comprised of an originating order to buy or sell at least 1,000 contracts<sup>5</sup> that is identified as being part of a QCT,<sup>6</sup> coupled with a contra-side order

---

<sup>5</sup> The proposed rule change also provides that a QCC Order consisting of mini-option contracts would need to be comprised of at least 10,000 mini-option contracts, which is the equivalent of 1,000 standard option contracts, as mini-option contracts are 1/10<sup>th</sup> the size of standard option contracts. See proposed Rule 21.1(d)(10); see also Cboe Options Rule 6.53(u) and Nasdaq ISE LLC (“ISE”) Rule 504, Supplementary Material .13(e). This is consistent with current functionality and is merely adding detail to the Rule. See Rule 19.6, Interpretation and Policy .07 (which permits the listing of mini-options).

<sup>6</sup> See Rule 21.1(d)(10). A “qualified contingent trade” is a transaction consisting of two or more component orders, executed as agent or principal, where: (1) at least one component is an NMS stock, as defined in Rule 600 of Regulation NMS under the Exchange Act; (2) all components are effected with a product or price contingency that either has been agreed to by all the respective counterparties or arranged for by a broker-dealer as principal or agent; (3) the execution of one component is contingent upon the execution of all other components at or near the same time; (4) the specific relationship between the component orders (e.g., the spread between the prices of the component orders) is determined by the time the contingent order is placed; (5) the component orders bear a derivative relationship to one another, represent different classes of shares of the same issuer, or involve the securities of participants in mergers or with intentions to merge that have been announced or cancelled; and (6) the transaction is fully hedged

or orders totaling an equal number of contracts. QCC orders may execute without exposure provided the execution (1) is not at the same price as a public customer order resting in the electronic book and (2) is at or between the national best bid or offer (“NBBO”).<sup>7</sup> QCC orders will be cancelled if they cannot be executed.<sup>8</sup> QCC Orders may only be entered in the standard increments applicable to the options class under Rule 21.5. A QCT may consist of one or more components, and thus may include multiple option legs.

The proposed Complex QCC Order functionality facilitates the execution of the option component (which option component is a “Qualified Contingent Cross Order” or “QCC Order”)<sup>9</sup> of qualified contingent trades (“QCTs”) when the option component consists of more than one option leg.<sup>10</sup> The proposed rule change requires each leg of a Complex QCC Order to consist of at least 1,000 standard option contracts (or 10,000 mini-option contracts).<sup>11</sup> This is consistent with the current requirement that a QCC order must consist of at least 1,000 standard option contracts (or 10,000 mini-option contracts).

Complex QCC Orders will execute in a similar manner as QCC Orders currently execute. A QCC Order (with one option leg) may only execute automatically upon entry if the execution is not at the same price as a priority customer order resting in the EDGX Options Book, and is at

---

(without regard to any prior existing position) as a result of other components of the contingent trade. The proposed rule change amends Rule 21.1(d)(10) to add a cross-reference to the proposed definition of a QCC with Stock Order in Rule 21.20.

<sup>7</sup> See Rule 21.1(d)(10).

<sup>8</sup> Id.

<sup>9</sup> The proposed rule change amends Rule 21.1(d)(10) to provide that a Qualified Contingent Cross Order may also be referred to in the Rules as a QCC Order.

<sup>10</sup> See also Cboe Options Rule 6.53(u) and Regulatory Circular RG13-102 (July 19, 2013); ISE Rule 721(d); and Miami International Securities Exchange LLC (“MIAX”) Rule 515(h)(4) (which rules describe similar complex QCC order functionality).

<sup>11</sup> See proposed Rule 21.1(d)(10).

or between the NBBO. The proposed rule change mirrors these execution price requirements for simple QCC Orders by providing that a Complex QCC Order may execute automatically on entry without exposure if: (1) each option leg executes at a price that complies with Rule 21.20(c)(1)(C),<sup>12</sup> provided that no option leg executes at the same price as a Priority Customer Order in the Simple Book; (2) each option leg executes at a price at or between the NBBO for the applicable series; and (3) the execution price is better than the price of any complex order resting in the complex order book (“COB”), unless the Complex QCC Order is a priority order customer [sic] and the resting complex order is a non-priority customer order, in which case the execution price may be the same as or better than the price of the resting complex order.<sup>13</sup> Complex QCC Orders will be cancelled if they cannot be executed.<sup>14</sup> The purpose of these requirements is to ensure that priority customer orders on the COB in the same complex strategy and the Simple Book in the individual option series are protected.

The proposed rule change provides that Complex QCC Orders may be entered in the increments applicable to complex orders set forth in Rule 21.20(c)(1).<sup>15</sup> Rule 21.20(c)(1) permits the entry of legs of a complex order in \$0.01 increments (regardless of the standard trading increment applicable to the options class of each leg). The nature of the pricing of a complex order, whether it is a QCC Order or otherwise, is such that the pricing is based on the

---

<sup>12</sup> Rule 21.20(c)(1)(C) states a complex order will not be executed at a net price that would cause any component of the complex strategy to be executed (i) at a net price of zero; or (ii) ahead of a Priority Customer Order on the Simple Book without improving the best bid or offer (BBO) of at least one component of the complex strategy.

<sup>13</sup> See proposed Rule 21.1(d)(10)(C).

<sup>14</sup> See proposed Rule 21.1(d)(10)(D).

<sup>15</sup> See proposed Rule 21.1(d)(10)(E); see also Cboe Options Rule 6.53(u) and Regulatory Circular RG13-102 (July 19, 2013); ISE Rule 721(d); and MIAX Rule 515(h)(4). The proposed rule change also amends Rule 21.5 to provide that the minimum increment for bids and offers on complex orders is set forth in Rule 21.20(c)(1).

relative price of one option versus another (as opposed to the outright price of a single option). For this reason, the standard increment of trading of the individual option legs of a complex order (whether a QCC Order or otherwise) is less relevant to the pricing of the complex order. While there are differences between Complex QCC Orders and other complex orders, this rationale applies to both. The Exchange therefore believes that, as the legs of non-QCC complex orders can be entered in \$0.01 increments (regardless of the standard trading increment applicable to the options class of each leg), and a QCC Order with multiple legs is a form of a complex order, QCC Orders with multiple legs should also be able to be entered in \$0.01 increments. This change would put the trading of Complex QCC Orders on the same footing as the trading of other types of complex orders.

The Exchange requires an Options Member that submits a QCC Order to provide certain information to the Exchange regarding the execution of the stock component, including the stock price, quantity, and execution time, and will require this same information from Options Members with respect to Complex QCC Orders.<sup>16</sup>

## 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>17</sup> Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>18</sup> requirements that the rules of an exchange be designed to prevent fraudulent and manipulative acts and

---

<sup>16</sup> See EDGX Regulatory Circular 17-002 (March 3, 2017). The Exchange intends to issue an updated Regulatory Circular to notify market participants that these reporting requirements will apply to Complex QCC Orders.

<sup>17</sup> 15 U.S.C. 78f(b).

<sup>18</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>19</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 believes the proposed rule change will promote just and equitable principles of trade because it will provide Users with optional functionality to facilitate a QCT with multiple option components, similar to functionality currently available to facilitate a QCT with one option component, which may provide for increased opportunities for the execution of complex orders. Complex QCC Orders will execute in a similar manner to QCC Orders. As described above, the proposed pricing requirements for Complex QCC Orders align with the current pricing requirements for QCC Orders and are consistent with current principles of customer priority. The proposed rule change will protect investors, because it will protect priority customer complex orders in the same strategy, and will prevent a component of a Complex QCC Order from being executed at the same price as a priority customer order in any component on the Simple Book.<sup>20</sup> Therefore, the proposed pricing requirements establish a limited exception to the general principle of exposure and retain the general principle of customer priority in the options markets in accordance with prior Securities and Exchange

---

<sup>19</sup>

Id.

<sup>20</sup>

See Securities Exchange Act Release No. 34-81891 (October 17, 2017), 82 FR 49058, 49066 (October 23, 2017) (SR-BatsEDGX-2017-29) (order granting approval of proposed rule change to adopt rules governing the trading of complex orders on the Exchange).

Commission (“Commission”) approvals of QCC Order functionality.<sup>21</sup> Furthermore, not only must a Complex QCC Order be part of a QCT by satisfying each of the six underlying requirements of the QCT exemption, the requirements that a Complex QCC Order be for a minimum size of 1,000 contracts per leg provides another limit to its use by ensuring only transactions of significant size may avail themselves of this order type.<sup>22</sup>

As the Commission noted in its order approving the original QCT exemption, the parties to a contingent trade are focused on the spread or ratio between the transaction prices for each of the component instruments (*i.e.*, the net price of the entire contingent trade), rather than on the absolute price of any single component.<sup>23</sup> Pursuant to the requirements of the QCT Exemption, the spread or ratio between the relevant instruments must be determined at the time the order is placed, and this spread or ratio stands regardless of the market prices of the individual orders at their times of execution. The Commission further noted “the difficulty of maintaining a hedge, and the risk of falling out of hedge, could dissuade participants from engaging in contingent trades, or at least raise the cost of such trades.”<sup>24</sup> Thus, the Commission found that, if each stock leg of a QCT were required to meet the trade-through provision of Rule 611 of Regulation NMS, such trades could become too risky and costly to be employed successfully and noted that the elimination or reduction of this trading strategy potentially could remove liquidity from the market. This is also true for Complex QCC Orders, and thus the Exchange believes its proposal is consistent with the QCT Exemption.

---

<sup>21</sup> See supra note 15; see also Securities Exchange Act Release No. 34-81131 (July 12, 2017), 82 FR 32900, 32903 (July 18, 2017) (SR-MIAX-2017-19) (order approving complex QCC order functionality).

<sup>22</sup> See id.

<sup>23</sup> Securities Exchange Act Release No. 54389 (August 31, 2006), 71 FR 52829 (September 7, 2006) (“QCT Exemption”).

<sup>24</sup> Id.

The proposed rule change will also provide Users who enter Complex QCC Orders with the same trading increment as those who enter other types of complex orders. This change would put the trading of Complex QCC Orders on the same footing as the trading of other types of complex orders.

The proposed clarification to state that the minimum size requirement for QCC Orders applies to the corresponding number of mini-option contracts (*i.e.*, 10,000 mini-option contracts) protects investors, because it is consistent with current functionality. Rule 19.6, Interpretation and Policy .07 permits the listing of mini-options, which is an option with a 10 share deliverable of the underlying security rather than 100 share deliverable of the underlying security (which is the standard deliverable for a standard option contract). The proposed change to state that the 1,000 standard option contracts minimum size of a QCC Order (or each leg of a Complex QCC Order) is consistent with 10,000 mini-option contracts is consistent with this definition of mini-options. This provides transparency to investors that QCC Order functionality is available for mini-options as well as standard options. The proposed clarification also promotes just and equitable principles of trade, because the minimum size requirement applies in the same manner to an equivalent number of contracts in a standard option and a mini-option.

The proposed rule change will remove impediments to and perfect the mechanism of a free and open market and a national market system, and promote competition, which benefits investors, as other options exchange provide similar complex QCC order functionality.<sup>25</sup>

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

---

<sup>25</sup> See, e.g., Cboe Options Rule 6.53(u) and Regulatory Circular RG13-102; ISE Rules 504, Supplementary Material .13(e) and 721(d); and MIAX Rule 515(h)(4).

turn, will simplify the technology implementation, changes, and maintenance by Users of the Exchange that are also participants on Cboe Affiliated Exchanges. The Exchange believes this consistency will promote a fair and orderly national options market 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 proposed rule change will not impose any burden on intramarket competition that is not necessary or appropriate in furtherance of the purposes of the Act, because Complex QCC Order functionality is optional and available to all Users. Complex QCC Orders of all Users will be subject to the same requirements and will execute in the same manner pursuant to the proposed rule change. The proposed rule change will not impose any burden on intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act, because other options exchange provide similar functionality.<sup>26</sup>

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.

---

<sup>26</sup> See id.

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

Because the foregoing proposed rule change does not:

- A. significantly affect the protection of investors or the public interest;
- B. impose any significant burden on competition; and
- C. 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) of the Act<sup>27</sup> and Rule 19b-4(f)(6)<sup>28</sup> 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. If the Commission takes such action, the Commission will institute proceedings to determine whether the proposed rule change should be approved or disapproved.

### IV. Solicitation of Comments

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

#### Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-CboeEDGX-2019-032 on the subject line.

---

<sup>27</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>28</sup> 17 CFR 240.19b-4(f)(6).

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-2019-032. 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-2019-032 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>29</sup>

Eduardo A. Aleman  
Deputy Secretary

---

<sup>29</sup> 17 CFR 200.30-3(a)(12).