

Required fields are shown with yellow backgrounds and asterisks.

Filing by Cboe EDGX Exchange, Inc.  
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial * <input checked="" type="checkbox"/>	Amendment * <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input type="checkbox"/>	Section 19(b)(3)(A) * <input checked="" type="checkbox"/>	Section 19(b)(3)(B) * <input type="checkbox"/>
Pilot <input type="checkbox"/>			Rule		
Extension of Time Period for Commission Action * <input type="checkbox"/>		Date Expires * <input type="text"/>	<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input checked="" type="checkbox"/> 19b-4(f)(6)	

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010	Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934
Section 806(e)(1) * <input type="checkbox"/>	Section 806(e)(2) * <input type="checkbox"/>
	Section 3C(b)(2) * <input type="checkbox"/>

Exhibit 2 Sent As Paper Document <input type="checkbox"/>	Exhibit 3 Sent As Paper Document <input type="checkbox"/>
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**Description**  
Provide a brief description of the action (limit 250 characters, required when Initial is checked \*).

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

First Name \*  Last Name \*   
 Title \*   
 E-mail \*   
 Telephone \*  Fax

**Signature**  
Pursuant to the requirements of the Securities Exchange Act of 1934,  
has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.  
(Title \*)

Date  Assistant General Counsel  
 By    
 (Name \*)

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

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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

**Form 19b-4 Information \***

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The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

**Exhibit 1 - Notice of Proposed Rule Change \***

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies \***

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change, security-based swap submission, or advance notice being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications**

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Exhibit Sent As Paper Document

Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

**Exhibit 3 - Form, Report, or Questionnaire**

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Exhibit Sent As Paper Document

Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

**Exhibit 4 - Marked Copies**

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The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

**Exhibit 5 - Proposed Rule Text**

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The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

**Partial Amendment**

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If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

**Item 1. Text of the Proposed Rule Change**

(a) Cboe EDGX Exchange, Inc. (the “Exchange” or “EDGX”) proposes to amend its rules relating to Directed Market Makers and Primary Market Makers. The text of the proposed rule change is provided in Exhibit 5.

(b) Not applicable.

(c) Not applicable.

**Item 2. Procedures of the Self-Regulatory Organization**

(a) The Exchange’s President (or designee pursuant to delegated authority approved the proposed rule change on November 8, 2018.

(b) Please refer questions and comments on the proposed rule change to Pat Sexton, Executive Vice President, General Counsel, and Corporate Secretary, (312) 786-7467, or Corinne Klott, (312) 786-7793, 400 South LaSalle, Chicago, Illinois 60605.

**Item 3. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change**

(a) Purpose

The Exchange proposes to amend its rules related to Directed Market Makers and Primary Market Makers. Particularly, the Exchange proposes to (1) rename “Directed Market Makers” and “Primary Market Makers”, (2) clarify the applicable participation entitlements when a market participation is both a Directed Market Maker and Primary Market Maker, and (3) amend the definition of small size orders.

The Exchange first proposes to update the names of “Directed Market Makers” and “Primary Market Makers”. Specifically, the Exchange proposes to replace all references to “Directed Market Makers” to “Preferred Market Makers” (or “PMMs”) and make a corresponding change to replace references to “Directed Orders” to “Preferred Orders.” The

Exchange also proposes to replace all references to “Primary Market Makers” to “Designated Primary Market Makers” (or “DPMs”). The Exchange notes the proposed name changes conforms its terminology with respect to these types of Market Makers to the terminology used by its affiliated exchange, Cboe Options, for similar market participants.<sup>1</sup> The Exchange notes that Directed Market Makers and Primary Market Makers will be referred to herein as “PMMs” and “DPMs”, respectively.

Next, the Exchange proposes to provide in the rules which participation entitlement applies in the event an order is preferred to a DPM (i.e., the DPM is also the PMM) and both PMM and DPM participation entitlements are in effect. Although not explicitly specified in the rules, currently, if a DPM is also the PMM, the PMM entitlements apply. The Exchange proposes to expressly provide under Rule 21.18(h)(1) that, going forward, if the DPM is also a PMM with respect to an incoming order, that PMM/DPM will be treated as a DPM and the DPM participation entitlements under paragraph (g) of Rule 21.8 will apply to that order. The Exchange believes that the proposed rule change is appropriate given a DPM’s heightened quoting obligations.<sup>2</sup> Put another way, the Exchange believes that a DPM that is preferred on an order should not be subject to a potentially lesser entitlement just because that DPM happened to also be preferred.<sup>3</sup> Moreover, the Exchange believes that it is appropriate to provide the DPM entitlements when the DPM is also designated as a PMM as

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<sup>1</sup> See e.g., Cboe Exchange, Inc.’s (“Cboe Options”) Rules 8.13 and 8.80.

<sup>2</sup> See EDGX Options Rule 22.2.

<sup>3</sup> For example, if a DPM is preferred on a small size order (i.e., 5 or less contracts), that DPM should receive the small size order entitlement, which is a 100% allocation, notwithstanding the fact that DPM was also preferred on that order (i.e., it would otherwise receive 60% or 40% allocation under Rule 21.8(f)(1)). The Exchange notes that its affiliate exchange, Cboe Options, as well as other exchanges similarly apply the small order preference allocation where a DPM is also preferred on an order. See Cboe Options Regulatory Circular RG15-011. See also, Nasdaq ISE Rule 713, Supplementary Material to Rule 713 .03(c)(iii).

the obligations that the DPM has to the market are not diminished when it receives a Preferred Order.

The Exchange lastly proposes to amend the definition of a small size order. More specifically, Rule 21.8(g)(2) provides that small size orders are allocated in full to the DPM if the DPM has a priority quote at the NBBO. The rule also provides that small size orders are defined as five (5) or fewer contracts. The Exchange proposes to provide that in order to qualify as a small size order, the incoming order must be a size of five or fewer contracts (i.e., the size of the original order determines whether the definition is met, not the number of contracts remaining after customer orders have been satisfied). The Exchange notes that a similar preference is given for small orders on Cboe Options as well as other exchanges and that such preference is based on the original size of the order.<sup>4</sup>

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

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<sup>4</sup> See Cboe Options Rule 6.45(a)(ii)(C). See also, NYSE Arca Rule 6.76A-O(a)(B).

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

<sup>6</sup> 15 U.S.C. 78f(b)(5).

interest. Additionally, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>7</sup> requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

First, the Exchange believes its proposal to rename Directed Market Makers and Primary Market Makers standardizes the naming conventions used for similar market participants (i.e., Market Makers) across affiliated exchanges (i.e., Cboe Options and EDGX), thereby making the rules easier to read and reducing potential confusion. Similarly, the Exchange believes explicitly stating in the rules which participation entitlements a Market Maker will receive when it's both a DPM and PMM with respect to a particular order alleviates confusion and provides clarity in the rules. Providing clarity and reducing confusion in the rules removes impediments to and perfects the mechanism of a free and open market and a national market system, and, in general, protects investors and the public interest.

The Exchange also believes the proposal to apply the DPM participation entitlements to an order that is preferred to a DPM is appropriate given DPMs' heightened quoting obligations.<sup>8</sup> The regular allocation entitlements for DPMs, including the small size order entitlement, are designed to balance the obligations that the DPM has to the market with corresponding benefits. The Exchange believes that it is appropriate to provide DPM entitlements when the DPM is also a PMM as the obligations that the DPM has to the market are not diminished when it receives a Preferred Order. The proposed rule change also applies equally to similarly situated market participants. Moreover, the

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<sup>7</sup> Id.

<sup>8</sup> See EDGX Options Rule 22.2.

proposed change is consistent with other Exchanges' rules, including the Exchange's affiliate, Cboe Options.<sup>9</sup>

The Exchange lastly believes the proposal to use the size of the original order to determine whether an order meets the small size order definition for purposes of the small size order entitlement is reasonable as it better achieves the purpose of the participation entitlement, which is to provide a benefit to DPMs when an order involves a small number of contracts in exchange for their heightened quoting obligations. The Exchange does not believe the DPM should receive that same benefit where the order involves a small number of contracts only as a result of prior executions. For example, without the proposed rule change, a DPM may receive full allocation on an order that was originally 1,000 contracts because 995 contracts were first executed by Customers. The Exchange no longer wishes to allow such orders to qualify for the small size order entitlement. The Exchange notes the proposed rule change applies to all DPMs uniformly. As noted above, the proposed change also conforms to how small orders are determined on its affiliated exchange, Cboe Options and other Exchanges (i.e., determined by the size of the original order).<sup>10</sup>

**Item 4. 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. Particularly, the Exchange notes that the proposed changes apply equally to similarly situated market participants. Moreover, the proposed changes provide greater clarity in the rules and greater harmonization between the Exchange and its affiliated

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<sup>9</sup> See Cboe Options Regulatory Circular RG15-011. See also, Nasdaq ISE Rule 713, Supplementary Material to Rule 713 .03(c)(iii).

<sup>10</sup> See Cboe Options Rule 6.45(a)(ii)(C). See also, NYSE Arca Rule 6.76A-O(a)(B).

exchange, Cboe Options. Moreover, the proposed changes only apply to EDGX. To the extent that the proposed changes may make the Exchange a more attractive trading venue for market participants on other exchanges, such market participants may elect to become Exchange market participants.

**Item 5. 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.

**Item 6. Extension of Time Period for Commission Action**

Not applicable.

**Item 7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2) or Section 19(b)(7)(D)**

(a) The proposed rule change is filed for immediate effectiveness pursuant to Section 19(b)(3)(A) of Act<sup>11</sup> and Rule 19b-4(f)(6)<sup>12</sup> thereunder.

(b) The Exchange designates that the proposed rule change effects a change that (i) does not significantly affect the protection of investors or the public interest; (ii) does not impose any significant burden on competition; and (iii) by its terms, does not become operative for 30 days after the date of the filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest. Additionally, the Exchange has given the Commission written notice of its intent to file the proposed rule change, along with a brief description and text of the

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<sup>11</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>12</sup> 17 CFR 240.19b-4(f)(6).

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 proposed rule change does not significantly affect the protection of investors or the public interest because it does not present novel issues. As discussed above, each of the proposed changes already exist on the Exchange's affiliated exchange, Cboe Options. Additionally, the proposed changes to (i) harmonize the Market Maker naming conventions and (ii) explicitly state which participation entitlements apply when a DPM is preferred on an order in its appointed class, provide greater clarity in the rules and reduce potential investor confusion. The Exchange also believes that the proposed rule change relating to the DPM/PMM entitlements does not significantly affect the protection of investors or the public interest as it is designed to ensure DPM allocation entitlement(s) to DPMs that receive Preferred Orders. The Exchange believes that it is appropriate to provide this incentive on a DPM's Preferred Orders as the obligations that the DPM has to the market are not diminished when trading against orders that have been preferred. Moreover, the Exchange believes that the proposed rule change will not impose any significant burden on competition because similar allocation entitlements exist on other options exchanges, including Cboe Options as discussed above.<sup>13</sup> Similarly, the Exchange notes that other exchanges also determine whether an order qualifies for a small order size entitlement based on original order size.<sup>14</sup> The Exchange therefore believes that the proposed rule change qualifies for immediate effectiveness as a "non-controversial" rule change.

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<sup>13</sup> See Cboe Options Regulatory Circular RG15-011. See also, Nasdaq ISE Rule 713, Supplementary Material to Rule 713 .03(c)(iii).

<sup>14</sup> See Cboe Options Rule 6.45(a)(ii)(C). See also, NYSE Arca Rule 6.76A-O(a)(B).

For the foregoing reasons, this rule filing qualifies as a “non-controversial” rule change under Rule 19b-4(f)(6), which renders the proposed rule change effective upon filing with the Commission. At any time within 60 days of the filing of this 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. The Exchange respectfully requests that the Commission waive the 30-day operative delay period after which a proposed rule change under Rule 19b-4(f)(6) becomes effective. The Exchange notes that the proposed changes relating to (i) which participation entitlement applies when a DPM is also a PMM and (ii) determining whether an order qualifies for a small order size entitlement based on original order size will be available for implementation starting November 29, 2018. Waiver of the operative delay would allow the proposed changes to be implemented as soon as it’s available. The implementation of the conforming and clarifying changes would also immediately reduce confuse and provide further harmonization across affiliated exchanges. As described above, the proposed changes do not significantly affect the protection of investors or the public interest and does not present novel issues.

(c) Not applicable.

(d) Not applicable.

**Item 8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission**

The proposed rule change is not based on a rule either of another self-regulatory organization or of the Commission.

**Item 9. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act**

Not applicable.

**Item 10. Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act**

Not applicable.

**Item 11. Exhibits**

Exhibit 1. Completed Notice of Proposed Rule Change for publication in the Federal Register.

Exhibit 5. Proposed rule text.

EXHIBIT 1

**SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34- ; File No. SR-CboeEDGX-2018-057]

[Insert date]

Self-Regulatory Organizations; Cboe EDGX Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to Directed Market Makers and Primary Market Makers

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on [insert date], 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, II, and III below, which Items have been prepared by the Exchange. The Exchange filed the proposal as a “non-controversial” 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**

The Exchange proposes to amend its rules relating to Directed Market Makers and Primary Market Makers.

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.

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<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).

## **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**

The Exchange proposes to amend its rules related to Directed Market Makers and Primary Market Makers. Particularly, the Exchange proposes to (1) rename “Directed Market Makers” and “Primary Market Makers”, (2) clarify the applicable participation entitlements when a market participation is both a Directed Market Maker and Primary Market Maker, and (3) amend the definition of small size orders.

The Exchange first proposes to update the names of “Directed Market Makers” and “Primary Market Makers”. Specifically, the Exchange proposes to replace all references to “Directed Market Makers” to “Preferred Market Makers” (or “PMMs”) and make a corresponding change to replace references to “Directed Orders” to “Preferred Orders.” The Exchange also proposes to replace all references to “Primary Market Makers” to “Designated Primary Market Makers” (or “DPMs”). The Exchange notes the proposed name changes conforms its terminology with respect to these types of Market Makers to the terminology used by its affiliated exchange, Cboe Options, for similar

market participants.<sup>5</sup> The Exchange notes that Directed Market Makers and Primary Market Makers will be referred to herein as “PMMs” and “DPMs”, respectively.

Next, the Exchange proposes to provide in the rules which participation entitlement applies in the event an order is preferred to a DPM (i.e., the DPM is also the PMM) and both PMM and DPM participation entitlements are in effect. Although not explicitly specified in the rules, currently, if a DPM is also the PMM, the PMM entitlements apply. The Exchange proposes to expressly provide under Rule 21.18(h)(1) that, going forward, if the DPM is also a PMM with respect to an incoming order, that PMM/DPM will be treated as a DPM and the DPM participation entitlements under paragraph (g) of Rule 21.8 will apply to that order. The Exchange believes that the proposed rule change is appropriate given a DPM’s heightened quoting obligations.<sup>6</sup> Put another way, the Exchange believes that a DPM that is preferred on an order should not be subject to a potentially lesser entitlement just because that DPM happened to also be preferred.<sup>7</sup> Moreover, the Exchange believes that it is appropriate to provide the DPM entitlements when the DPM is also designated as a PMM as the obligations that the DPM has to the market are not diminished when it receives a Preferred Order.

The Exchange lastly proposes to amend the definition of a small size order. More specifically, Rule 21.8(g)(2) provides that small size orders are allocated in full to the

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<sup>5</sup> See e.g., Cboe Exchange, Inc.’s (“Cboe Options”) Rules 8.13 and 8.80.

<sup>6</sup> See EDGX Options Rule 22.2.

<sup>7</sup> For example, if a DPM is preferred on a small size order (i.e., 5 or less contracts), that DPM should receive the small size order entitlement, which is a 100% allocation, notwithstanding the fact that DPM was also preferred on that order (i.e., it would otherwise receive 60% or 40% allocation under Rule 21.8(f)(1)). The Exchange notes that its affiliate exchange, Cboe Options, as well as other exchanges similarly apply the small order preference allocation where a DPM is also preferred on an order. See Cboe Options Regulatory Circular RG15-011. See also, Nasdaq ISE Rule 713, Supplementary Material to Rule 713 .03(c)(iii).

DPM if the DPM has a priority quote at the NBBO. The rule also provides that small size orders are defined as five (5) or fewer contracts. The Exchange proposes to provide that in order to qualify as a small size order, the incoming order must be a size of five or fewer contracts (i.e., the size of the original order determines whether the definition is met, not the number of contracts remaining after customer orders have been satisfied). The Exchange notes that a similar preference is given for small orders on Cboe Options as well as other exchanges and that such preference is based on the original size of the order.<sup>8</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>9</sup> Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>10</sup> requirements that the rules of an exchange be designed to prevent fraudulent and manipulative acts and 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

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<sup>8</sup> See Cboe Options Rule 6.45(a)(ii)(C). See also, NYSE Arca Rule 6.76A-O(a)(B).

<sup>9</sup> 15 U.S.C. 78f(b).

<sup>10</sup> 15 U.S.C. 78f(b)(5).

the Section 6(b)(5)<sup>11</sup> requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

First, the Exchange believes its proposal to rename Directed Market Makers and Primary Market Makers standardizes the naming conventions used for similar market participants (i.e., Market Makers) across affiliated exchanges (i.e., Cboe Options and EDGX), thereby making the rules easier to read and reducing potential confusion. Similarly, the Exchange believes explicitly stating in the rules which participation entitlements a Market Maker will receive when it's both a DPM and PMM with respect to a particular order alleviates confusion and provides clarity in the rules. Providing clarity and reducing confusion in the rules removes impediments to and perfects the mechanism of a free and open market and a national market system, and, in general, protects investors and the public interest.

The Exchange also believes the proposal to apply the DPM participation entitlements to an order that is preferred to a DPM is appropriate given DPMs' heightened quoting obligations.<sup>12</sup> The regular allocation entitlements for DPMs, including the small size order entitlement, are designed to balance the obligations that the DPM has to the market with corresponding benefits. The Exchange believes that it is appropriate to provide DPM entitlements when the DPM is also a PMM as the obligations that the DPM has to the market are not diminished when it receives a Preferred Order. The proposed rule change also applies equally to similarly situated

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<sup>11</sup> Id.

<sup>12</sup> See EDGX Options Rule 22.2.

market participants. Moreover, the proposed change is consistent with other Exchanges' rules, including the Exchange's affiliate, Cboe Options.<sup>13</sup>

The Exchange lastly believes the proposal to use the size of the original order to determine whether an order meets the small size order definition for purposes of the small size order entitlement is reasonable as it better achieves the purpose of the participation entitlement, which is to provide a benefit to DPMs when an order involves a small number of contracts in exchange for their heightened quoting obligations. The Exchange does not believe the DPM should receive that same benefit where the order involves a small number of contracts only as a result of prior executions. For example, without the proposed rule change, a DPM may receive full allocation on an order that was originally 1,000 contracts because 995 contracts were first executed by Customers. The Exchange no longer wishes to allow such orders to qualify for the small size order entitlement. The Exchange notes the proposed rule change applies to all DPMs uniformly. As noted above, the proposed change also conforms to how small orders are determined on its affiliated exchange, Cboe Options and other Exchanges (i.e., determined by the size of the original order).<sup>14</sup>

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. Particularly, the Exchange notes that the proposed changes apply equally to similarly situated market participants. Moreover, the proposed changes provide greater clarity in the rules and greater harmonization between the Exchange and its affiliated

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<sup>13</sup> See Cboe Options Regulatory Circular RG15-011. See also, Nasdaq ISE Rule 713, Supplementary Material to Rule 713 .03(c)(iii).

<sup>14</sup> See Cboe Options Rule 6.45(a)(ii)(C). See also, NYSE Arca Rule 6.76A-O(a)(B).

exchange, Cboe Options. Moreover, the proposed changes only apply to EDGX. To the extent that the proposed changes may make the Exchange a more attractive trading venue for market participants on other exchanges, such market participants may elect to become Exchange market participants.

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:

- 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>15</sup> and Rule 19b-4(f)(6)<sup>16</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.

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

<sup>16</sup> 17 CFR 240.19b-4(f)(6).

#### **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-2018-057 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-2018-057. 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, D.C. 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; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-CboeEDGX-2018-057 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>17</sup>

Secretary

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

EXHIBIT 5

(additions are underlined; deletions are [bracketed])

\* \* \* \* \*

**Rules of Cboe EDGX Exchange, Inc.**

\* \* \* \* \*

Rule 21.8. Order Display and Book Processing

\* \* \* \* \*

(d) Additional Priority Overlays Applicable to the Pro-Rata Allocation Method. In connection with the allocation methodology set forth in paragraph (c) above, the Exchange may apply, on a class-by-class basis, one or more of the following designated market participant overlay priorities in a sequence determined by the Exchange. The Exchange will issue a notice to Options Members which will specify which classes of options are initially subject to these additional priority overlays and will provide such Options Members with reasonable advance notice of any changes to the application of such overlays.

\* \* \* \* \*

(2) [Directed] Preferred Market Maker. The Exchange may determine to grant [Directed] Preferred Market Makers (“PMMs”) participation entitlements pursuant to the provisions of paragraph (f) below. As indicated in such paragraph, the [Directed] PMM participation entitlement may only be in effect when the Customer Overlay is also in effect.

(3) Designated Primary Market Maker. The Exchange may determine to grant Designated Primary Market Makers (“DPMs”) participation entitlements pursuant to the provisions of paragraph (g) below. As indicated in such paragraph, the [Primary Market Maker] DPM participation entitlement may only be in effect when the Customer Overlay is also in effect.

\* \* \* \* \*

(f) [Directed] Preferred Market Maker Participation Entitlements. An Options Member may designate a Market Maker (“[Directed] Preferred Market Maker” or “PMM”) on orders it enters into the System (“[Directed] Preferred Orders”). The [Directed Market Maker] PMM must be registered with the Exchange as a Market Maker in the relevant option class at the time of receipt of the [Directed] Preferred Order to be eligible to receive the [Directed Market Maker] PMM participation entitlement. Only Priority Customer Orders will be eligible to be [directed] preferred by an Options Member. The [Directed Market Maker] PMM participation entitlement shall not be in effect unless the Customer Overlay is in effect and the participation entitlement shall only

apply to any remaining balance after Priority Customer Orders have been satisfied. The [Directed Market Maker] PMM participation entitlements are as follows:

(1) For each incoming order, if the [Directed Market Maker] PMM has a priority quote at the NBBO, its participation entitlement is equal to the greater of (i) the proportion of the total size at the best price represented by the size of its quote, or (ii) sixty percent (60%) of the contracts to be allocated if there is only one (1) other Market Maker quotation or non-Customer order at the NBBO and forty percent (40%) if there are two (2) or more other Market Maker quotes and/or non-Customer orders at the NBBO.

\* \* \* \* \*

(g) Designated Primary Market Maker Participation Entitlements. A [Primary Market Maker] DPM may be appointed by the Exchange in option classes in accordance with Rule 22.2. The [Primary Market Maker] DPM participation entitlements shall not be in effect unless the Customer Overlay is in effect and the participation entitlements shall only apply to any remaining balance after Priority Customer Orders have been satisfied. The [Primary Market Maker] DPM participation entitlements are as follows:

(1) For each incoming order, if the [Primary Market Maker] DPM has a priority quote at the NBBO, its participation entitlement is equal to the greater of (i) the proportion of the total size at the best price represented by the size of its quote, or (ii) sixty percent (60%) of the contracts to be allocated if there is only one (1) other Market Maker quotation or non-Customer order at the NBBO and forty percent (40%) if there are two (2) or more other Market Maker quotes and/or non-Customer orders at the NBBO.

(2) Small size orders will be allocated in full to the [Primary Market Maker] DPM if the [Primary Market Maker] DPM has a priority quote at the NBBO. The Exchange will review this provision quarterly and will maintain the small order size at a level that will not allow small size orders executed by [Primary Market Makers] DPMs to account for more than 40% of the volume executed on the Exchange. Small size orders are defined as incoming orders of five (5) or fewer contracts.

\* \* \* \* \*

(h) Conditions of Participation Entitlements. In allocating the participation entitlements set forth in this Rule 21.8 to the [Directed Market Maker] PMM and the [Primary Market Maker] DPM the following shall apply:

(1) In a class of options where both the [Directed Market Maker] PMM and the [Primary Market Maker] DPM participation entitlements are in effect and an Options Member has [directed] preferred an order to a [Directed Market Maker] PMM:

(A) if the [Directed Market Maker's] PMM's priority quote is at the NBBO, the [Directed Market Maker's] PMM's participation entitlement will supersede the [Primary Market Maker's] DPM's participation entitlements for an order [directed] preferred to such [Directed Market Maker] PMM;

(B) if the [Directed Market Maker's] PMM's priority quote is not at the NBBO, the [Primary Market Maker's] DPM's participation entitlement will apply to that order, provided the [Primary Market Maker's] DPM's priority quote is at the NBBO[: and];

(C) if an order is preferred to the DPM (i.e., the DPM is also the PMM), the DPM receives the DPM participation entitlement, provided the DPM/PMM's priority quote is at the NBBO; and

[(C)D] if neither the [Directed Market Maker's] PMM's nor the [Primary Market Maker's] DPM's priority quote is at the NBBO then executed contracts will be allocated in accordance with the pro-rata allocation methodology as described in paragraphs (c) and (e) above without regard to any participation entitlement.

(2) If an incoming order has not been [directed] preferred to a [Directed Market Maker] PMM by an Options Member, then the [Primary Market Maker's] DPM's participation entitlement will apply to that order, provided the [Primary Market Maker's] DPM's priority quote is at the NBBO.

\* \* \* \* \*

(4) Neither the [Primary Market Maker] DPM nor the [Directed Market Maker] PMM may be allocated a total quantity greater than the quantity they are quoting at the execution price. If the [Primary Market Maker's] DPM's or the [Directed Market Maker's] PMM's allocation of an order pursuant to its participation entitlement is greater than its pro-rata share of priority quotes at the best price at the time that the participation entitlement is granted, neither the [Primary Market Maker] DPM nor the [Directed Market Maker] PMM shall receive any further allocation of that order.

(5) In establishing the counterparties to a particular trade, the participation entitlements must first be counted against the [Primary Market Maker's] DPM's highest priority bids and offers or the [Directed Market Maker's] PMM's highest priority bids or offers.

(6) These participation entitlements only apply to the allocation of executions among competing Market Maker priority quotes existing on the EDGX Options Book at the time the order is received by the Exchange. No market participant is allocated any portion of an execution unless it has an existing interest at the execution price. Moreover, no market participant can execute a greater number of contracts than is

associated with its interest at a given price. Accordingly, the [Primary Market Maker] DPM and the [Directed Market Maker] PMM participation entitlements contained in this Rule are not guarantees.

\* \* \* \* \*

RULE 22.2. Options Market Maker Registration and Appointment

\* \* \* \* \*

(c) The Exchange may appoint one [Primary Market Maker] DPM per option class. An unlimited number of Market Makers may be registered in each class unless the number of Market Makers registered to make a market in a particular option class should be limited whenever, in the Exchange's judgment, quotation system capacity in an option class or classes is not sufficient to support additional Market Makers in such class or classes. The Exchange will not restrict access in any particular option class until such time as the Exchange has submitted objective standards for restricting access to the SEC for its review and approval.

(d) A Market Maker must register to make markets in individual series of options as set forth in Rule 22.3, below. Market Makers may select from among any option issues traded on the Exchange to request appointment as a [Primary Market Maker] DPM, subject to the approval of the Exchange. In considering the approval of the appointment of a [Primary Market Maker] DPM in each security, the Exchange will consider:

(e) Market Makers may request a change to the option issues for which they are appointed as [Primary Market Maker] DPM, subject to the approval of the Exchange. Such requests must be made in a form and manner prescribed by the Exchange. In considering whether to approve a Market Maker's request to change their appointment, the Exchange will consider the factors set forth in subsection (d), above.

(f) Market Makers may withdraw from trading an option issue that is within their appointment as a [Primary Market Maker] DPM by providing the Exchange with three business days' written notice of such withdrawal. Market Makers who fail to give advance written notice of withdrawal to the Exchange may be subject to formal disciplinary action pursuant to Chapter VIII of the Exchange's Rules.

(g) The Exchange may suspend or terminate any appointment of a [Primary Market Maker] DPM in one or more option issues under this Rule whenever, in the Exchange's judgment, the interests of a fair and orderly market are best served by such action.

\* \* \* \* \*

(i) Performance Standards for [Primary Market Makers] DPMs. The Exchange will periodically conduct an evaluation of [Primary Market Makers] DPMs to determine whether they have fulfilled performance standards relating to, among other things, quality of markets, competition among Market Makers, observance of ethical standards, and administrative factors. The Exchange may consider any relevant information including, but not limited to, the results of a Market Maker evaluation, trading data, a Market Maker's regulatory history and such other factors and data as may be pertinent in the circumstances.

\* \* \* \* \*

(3) suspension, termination, or restriction of a [Primary Market Maker] DPM appointment in one or more option issues; or

If a Market Maker's appointment in an option issue or issues has been terminated pursuant to this paragraph (i), the Market Maker may not be re-appointed as a [Primary Market Maker] DPM in that option issue or issues for a period not to exceed 6 months.

\* \* \* \* \*