Required fields are shown with yellow backgrounds and asterisks.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Form 19b-4

File No.* SR - 2019 - * 053

Amendment No. (req. for Amendments *)

Filing by Cboe EDGX Exchange, Inc.

Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial * ☑	Amendment * ☐	Withdrawal ☐

Section 19(b)(2) * ☐	Section 19(b)(3)(A) * ☑	Section 19(b)(3)(B) * ☐

Rule

Pilot ☐

Extension of Time Period for Commission Action * ☐

Date Expires *

☐ 19b-4(f)(1)	☐ 19b-4(f)(4)
☐ 19b-4(f)(2)	☐ 19b-4(f)(5)
☐ 19b-4(f)(3)	☑ 19b-4(f)(6)

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010

Section 806(e)(1) * ☐

Section 806(e)(2) * ☐

Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934

Section 3C(b)(2) * ☐

Exhibit 2 Sent As Paper Document ☐

Exhibit 3 Sent As Paper Document ☐

Description

Provide a brief description of the action (limit 250 characters, required when Initial is checked *).

The Exchange proposes to amend Rules 21.20 and 21.22 in connection with stock-options orders.

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 * Rebecca   Last Name * Tenuta

Title * Counsel

E-mail * rtenuta@cboe.com

Telephone * (312) 786-7068   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 08/22/2019   Counsel

By Rebecca Tenuta
(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.

rtenuta@cboe.com

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information *

[Add] [Remove] [View]

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 *

[Add] [Remove] [View]

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 *

[Add] [Remove] [View]

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

[Add] [Remove] [View]

Exhibit Sent As Paper Document
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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

[Add] [Remove] [View]

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

[Add] [Remove] [View]

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

[Add] [Remove] [View]

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

[Add] [Remove] [View]

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 Rules 21.20 and 21.22 in connection with stock-options orders. 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 July 30, 2019. The Exchange intends to implement

the proposed rule change on August 22, 2019.

(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 Rebecca Tenuta, (312) 786-7068, Cboe EDGX Exchange, Inc., 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

On April 26, 2019, the Exchange filed a rule filing, SR-CboeEDGX-2019-028,

which was approved by the Securities and Exchange Commission (the "Commission") on

July 26, 2019, which permits use of it Automated Improvement Process ("AIM") for

complex orders. [1] Specifically, the filing describes how complex orders may be submitted to

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[1]   See Securities Exchange Act Release No. 85831 (May 10, 2019), 84 FR 22178
        (May 16, 2019) (Notice of Filing of a Proposed Rule Change To Adopt Rule
        21.22 (Complex Automated Improvement Mechanism)) (SR-CboeEDGX-2019-
        028); Securities Exchange Act Release No. 86493 (July 26, 2019) (Notice of
        Filing of Amendment No. 1 and Order Granting Accelerated Approval of a

and will be processed in an AIM Auction ("C-AIM" or "C-AIM Auction"). Also, on June 27, 2019, the Exchange filed SR-CboeEDGX-2019-039, which adopts stock-option order functionality on the Exchange.[2] The Exchange notes that it implemented the proposed changes under SR-CboeEDGX-2019-039 on August 16, 2019 as part of Feature Pack 9[3] in with the migration of Cboe Exchange, Inc. ("Cboe Options") technology to the same trading platform used by the Exchange, Cboe C2 Exchange, Inc. ("C2"), and Cboe BZX Exchange, Inc. ("BZX Options") in the fourth quarter of 2019. The Exchange now proposes an additional amendment under the rules proposed by SR-CboeEDGX-2019-028 and under the rules proposed by SR-CboeEDGX-2019-039. Specifically, the Exchange proposes to add an additional event under Rule 21.22(d)(1) (as proposed under SR-CboeEDGX-2019-028) that would cause a C-AIM Auction to conclude early. The Exchange also proposes to amend Rule 21.20(f)(2) (as proposed under SR-CboeEDGX-2019-039) to provide for how the Exchange will handle a stock-option order with one or multiple options legs when different minimum trading increments are allowed for the stock and options legs of such trades. The Exchange intends to implement these amendments to the proposed rules under SR-CboeEDGX-2019-028 and SR-CboeEDGX-2019-039 to be effective on August 22, 2019,

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Proposed Rule Change, as Modified by Amendment No. 1, to Adopt Rule 21.22 (Complex Automated Improvement Mechanism)).

[2] See Securities Exchange Act Release No. 86353 (July 11, 2019), 84 FR 34230 (July 17, 2019) (Notice of Filing and Immediate Effectiveness of a Proposed Rule Change To Add Stock-Option Order Functionality and Complex Qualified Contingent Cross ("QCC") Order With Stock Functionality, and To Make Other Changes to its Rules) (SR-CboeEDGX-2019-039).

[3] The Exchange notes that implementation of these changes as a part of Feature Pack 9 was recently postponed via Exchange notice from a roll-out of August 5, 2019 to August 16, 2019. See Exchange Notice No. C2019080200 (Updated August 02, 2019). The changes under SR-CboeEDGX-2019-028 have been postponed and are planned to be implemented soon after August 16, 2019.

or as close in time as possible to the Feature Pack 9 implementation date of August 16, 2019, so that the proposed changes may seamlessly coincide with the implementation of the rule changes under the two rule filings.

Currently, under Rule 21.22(d)(1) C-AIM Auction concludes at the earliest to occur of the following times:

a) the end of the C-AIM Auction period;

b) upon receipt by the System of an unrelated non-Priority Customer complex order on the same side as the Agency Order that would post to the COB at a price better than the stop price;

c) upon receipt by the System of an unrelated Priority Customer complex order on the same side as the Agency Order that would post to the COB at a price equal to or better than the stop price;

d) upon receipt by the System of an unrelated non-Priority Customer order or quote that would post to the Simple Book and cause the SBBO on the same side as the Agency Order to be better than the stop price;

e) upon receipt by the System of an unrelated Priority Customer order in any component of the complex strategy that would post to the Simple Book and cause the SBBO on the same side as the Agency Order to be equal to or better than the stop price;

f) upon receipt by the System of a simple non-Priority Customer order that would cause the SBBO on the opposite side of the Agency Order to be better than the stop price, or a Priority Customer order that would cause the SBBO on the opposite side of the Agency Order to be equal to or better than the stop price;

g) the market close; and

h) any time the Exchange halts trading in the complex strategy or any component of the complex strategy, provided, however, that in such instance, the C-AIM Auction concludes without execution.

The Exchange now proposes to add an event under Rule 21.22(g)[4] that would conclude a C-AIM Auction in response to an incoming order that would cause the SBBO to be at a price not permissible under the Limit Up-Limit Down Plan or Regulation SHO,[5] and would conclude the C-AIM Auction without execution. This will ensure that the stock leg of a stock-option order submitted into a C-AIM Auction does not execute at a price not permissible under that plan or regulation. This is consistent with current C-AIM functionality to ensure that stock legs do not trade at prices not permissible under the Limit Up-Limit Down Plan or Regulation SHO.[6]

The Exchange proposes to amend Rule 21.20(f)(2) to provide for how the Exchange will handle a stock-option order with one or multiple options legs when different minimum trading increments are allowed for the stock and options legs of such trades. Pursuant to SR-CboeEDGX-2019-039, Rule 21.20(f)(1)(B) provides that the option leg(s) of a stock-option order may be executed in $0.01 increments, regardless of the minimum increments otherwise applicable to the option leg(s), and the stock leg of a stock-option order may be executed in any decimal price permitted in the equity market. In a small subset of cases, generally as a result of unusual leg ratios, in calculating the total notional value a

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4   And subsequently re-letter the subparagraphs, changing current subparagraph (g) to (h), and current (h) to (i).

5   See Rule 21.20(j)(3).

6   Id.

stock leg may result in a price outside of the NBBO, thus cannot execute pursuant to Rule

21.20(f)(2)(B).[7] In order to allow for the strategy to execute, the proposed rule change

would offer functionality that allows the legs of the stock option order to trade outside of

their expected notional value by a specified amount determined by the Exchange.[8]

Therefore, the System could ensure that options legs and stock leg were priced in in line

with Rule 21.20, which includes ensuring that: 1) the option leg of a stock-option order with

one option leg does not trade at a price worse than the individual component price on the

Simple Book or at the same price as a Priority Customer Order on the Simple Book; 2) that

the option leg(s) of a stock-option order with more than one option leg trades does not

execute at a net price i) that would cause a leg to execute at a price of zero, ii) worse than the

SBBO or equal to the SBBO when there is a Priority Customer Order at the SBBO, except

AON complex orders may only execute at prices better than the SBBO, ii) that would cause

a leg to be executed at a price worse than the individual component prices on the Simple

Book, iv) worse than the price that would be available if the complex order Legged into the

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[7]   Pursuant to Rule 21.20(f)(2)(B), the System will only execute the stock leg of a
        stock-option order up to a buffer amount outside of the stock leg NBBO and that
        the execution price of the buy (sell) stock leg of a QCC with Stock Order may be
        any price (including outside the NBBO for the stock leg). While the QCT
        exemption permits a stock leg to execute outside of the NBBO, the Exchange still
        offers price protections to prevent execution too far away from the NBBO, which
        it understands is consistent with market participants' desire. Currently on EDGX,
        the buffer referenced in Rule 21.20(f)(2)(B) is set to zero, so the Exchange does
        not permit execution of the stock leg of a stock-option order outside of the NBBO
        (other than a QCC with stock order, which will execute immediately without
        exposure and thus is unlikely to trade too far outside of the NBBO). Current rules
        of other exchanges (such as Cboe Options) prevent execution of the stock
        component from being too far away from the NBBO, as do the rules of stock
        exchanges.

[8]   Pursuant to Rule 16.3, the Exchange announces to Options Members all
        determinations it makes pursuant to the Rules via specifications, Notices, or
        Regulatory Circulars with appropriate advanced notice, which will be posted on
        the Exchange's website, or electronic message.

Simple Book, or v) that would cause any component of the complex strategy to be executed at a price ahead of a Priority Customer Order on the Simple Book without improving the BBO of at least one component of the complex strategy; and 3) that a stock leg does not execute above (below) the buffer amount that is above (below) the NBBO.[9] Although this would result in a negligible difference (i.e. residual amount) between the expected notional value of the trade and the actual trade value, Users generally prefer not to forgo an execution for their stock-option strategies when the residual amount is miniscule compared to the total value of the trade. The value allowance would work, for example, as follows:

- Assume the Exchange has determined a trade value allowance of $0.50 from the expected trade value.

- Assume also that:

  (Equity) NBBO: 10.00 x 11.00

  (Option) NBBO: 1.00 x 1.05, BBO: 1.00 x 1.05

  SNBBO: 7.70 x 8.32 (i.e., bid = (47 x 10.00 / 100) + (3 x 1.00) = 7.70, and offer = (47 x 11.00/ 100) + (3 x 1.05) = 8.32)

- A User enters a stock-option order to Buy 47 shares of XYZ stock and Buy 3 June 10 XYZ calls with a net price of 8.30 and a quantity of 3.

- The order matches with corresponding contra order on the complex order book.

- The expected trade value based on the order's limit price, quantity and a contract multiplier of 100 is $2,490.00 (i.e., 8.30 x 3 x 100).

- The calculated options match price is 1.00 based on market prices and the stock match price is 11.2766 (rounded four decimals), therefore, outside of the NBBO.

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[9]   See supra note 7.

- The trade value allowance then calculates the stock match price that results in a total notional trade value of $2489.9934:

  Options leg notional = $1.05 x 100 x 3 x 3 = $945

  Stock Leg notional = $10.9574 x 47 x 3 = $1,544.9934

  Notional trade value = $2,489.9934, which is within the $0.50 trade value allowance.

The Exchange notes that a valid trade price within the NBBO for the stock leg with the smallest residual between the difference in actual trade value and expected notional trade value is $10.9574. Therefore, in this example, the corresponding options leg match price would be $1.05 because it is the options match price that could be paired with a valid stock trade price that would also allow for the smallest residual between the difference in actual trade value and expected notional trade value. If, for example, the next allowable options increment[10] within the BBO ($1.04) was used, the stock leg notional trade value matched to meet the notional value closest to the expected trade value would be $11.0213, and therefore still outside of the NBBO.[11] The Exchange also notes that $1.05 is consistent with the BBO in this example.

Under the proposed rule, the System will not apply the trade value allowance to orders with a "C" capacity code (for the account of a Priority Customer).[12] This limitation is

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[10] See Rule 21.20(f)(1)(B), which states that the option leg(s) of a stock-option order may be executed in $0.01 increments.

[11] The notional trade value would be: ($1.04 x 100 x 3 x 3) + ($11.0213 x 47 x 3) = $2,490.0033.

[12] See Rule 16.1, which states that a Priority Customer means any person or entity that is not a broker or dealer in securities or a Professional. See also Securities Exchange Act Release No. 86415 (July 19, 2019), 84 FR 35905 (July 25, 2019) (Notice of Filing and Immediate Effectiveness of a Proposed Rule Change

intended to function as an additional protection for customers who may not have the same

levels of trading sophistication or technological and informational advantages as that of

Professionals or broker-dealers. Therefore, customers may not have measures in place to

assume any level of risk that may be associated with trading outside of the expected trade

value (which risk the Exchange believes is de minimis given that the Exchange will impose

a reasonable cap, as described below, on the amount by which the actual trade value may

differ from the expected trade level). As a result, the Exchange believes that not applying the

trade value allowance to customer orders will further protect customers from assuming this

potential risk for which they may not have calculated.

Overall, this proposed functionality is a helpful feature which will allow Users to

receive an expeditious execution, and trade the stock and options components of a stock-

option strategy in a moving market without introducing legging risk. Without this

functionality members would be forced to resubmit their orders and potentially receive a

much worse price or miss an execution. The Exchange will announce to all market

participants the determined trade value allowance amount pursuant to Rule 1.5. The

Exchange would determine an allowance amount that would reasonably account for the

average differences in notional trade values as well as the cost benefit to market participants

between the differences in actual trade value versus expected notional trade value and the

imposition of resubmitting their orders and potentially receiving a much worse price or

missing an execution.[13] The Exchange notes that, if, however, a User determines that the

trade value allowance is more attractive or favorable on another venue, Users are free to

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Relating To Update Rule 16.1 To Include the Definition of Capacity, as well as Amend Its Fee Schedule To Reflect This Update) (SR-CboeEDGX-2019-046).

[13]   The Exchange expects this value to be initially set at $0.50 as represented in the example above.

execute on other such venues. The proposed Exchange determination of a value allowance

outside of the expected notional value is currently in place on other exchanges.[14]

(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.[15]

Specifically, the Exchange believes the proposed rule change is consistent with the

Section 6(b)(5)[16] 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

the Section 6(b)(5)[17] requirement that the rules of an exchange not be designed to permit

unfair discrimination between customers, issuers, brokers, or dealers.

In particular, the proposed additional event that will conclude a C-AIM Auction is

reasonable and promotes a fair and orderly market and national market system, because it

will ensure that executions at the conclusion of a C-AIM Auction occur at permissible

prices, specifically, that the stock leg of a stock-option order submitted into a C-AIM

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[14]   See Nasdaq ISE Rules, Supplementary Material .03 to Options 3, Section 14; and
         Nasdaq MRX Rules, Supplementary Material .03 to Options 3, Section 14.

[15]   15 U.S.C. 78f(b).

[16]   15 U.S.C. 78f(b)(5).

[17]   Id.

Auction does not execute at a price not permissible under the Limit Up-Limit Down Plan

or Regulation SHO. Moreover, the Exchanges notes that this is consistent with current C-

AIM functionality to ensure that stock legs do not trade at prices not permissible under

the Limit Up-Limit Down Plan or Regulation SHO, therefore, the Exchange believes it is

appropriate to conclude a C-AIM Auction if the proposed circumstance occurs.[18] The

proposed rule change will also benefit investors by providing additional clarity regarding

what will cause C-AIM Auction to conclude.

The proposed Exchange determination to set an allowable value outside of the

expected notional trade value for the legs of a stock-option order removes impediments to

and perfects the mechanism of a free and open market and a national market system because

it provides Users with functionality that allows a User's stock-option strategies to trade

outside of their specified net prices when the executable stock match price results in a small

difference between the expected notional value of the trade and the actual trade value. Users

generally prefer not to forgo an execution for their stock-option strategies when this occurs,

as the residual amount is miniscule compared to the value of the trade. As a result of the

proposed rule, Users will be able to receive an expeditious execution, and trade the stock

and options components of a stock-option strategy in a moving market without introducing

legging risk, instead of resubmitting their orders and potentially receiving a much worse

price or missing an execution. In addition to this, the Exchange also believes that not

permitting the trade value allowance to apply to customer orders will remove impediments

to and perfect the mechanism of a free and open market and national market system, and, in

general protect investors, in that it prevents customers from assuming potential risk (which

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18   See supra note 2.

the Exchange believes is de minimis given that the Exchange will impose a reasonable

variance, as reiterated below). The Exchange believes the proposed rule will protect

customers because customers may not have the same levels of trading sophistication or

technological and informational advantages as that of Professionals or broker-dealers and,

thus, may not have the measures in place to assume any level of risk that may be associated

with trading outside of the expected trade value.

As stated above, the proposed Exchange determination of a value allowance

outside of the expected notional value is currently in place on other exchanges.[19] The

Exchange believes that the differences between the proposed rule and the rules of other

exchanges will remove impediments to and perfect the mechanism of a free and open

market and national market system, and, in general, protect investors. The other

exchanges' rules allow for a notional variance based on a percentage, while the proposed

rule will allow for a specific dollar amount which the exchange believes is more

straightforward and less confusing for investors than the calculation of a percentage. The

other exchanges' rules allow for Member determination or a default to Exchange

determination of the notional variance, while the proposed rule will allow only for

Exchange determination, which the Exchange believes will also simplify the

implementation of this functionality and mitigate any potential investor confusion by

setting just one Exchange-determined notional variance. The other exchanges rules also

do not differentiate between the trade value application to customer and non-customer

orders, however, as described herein this filing, the Exchange believes this implements an

additional protection for customer orders. Finally, unlike other exchanges' rules, the

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[19]   See supra note 13.

proposed rule does not provide for a User opt-out function. Because the difference

between the expected notional value of the trade and the actual trade value is

inconsequential, especially as compared to the overall benefit to investors of an

expeditious execution, this proposed difference will not have any significant impact on

the Exchange's participants and, instead, will benefit participants overall. As stated, the

Exchange would determine an allowance amount that would reasonably account for the

average differences in notional trade values as well as the cost benefit to market

participants between the differences in actual trade value versus expected notional trade

value and the imposition of resubmitting their orders and potentially receiving a much

worse price or missing an execution. The Exchange notes that, if, however, a User

determines that the trade value allowance is more attractive or favorable on another

venue, Users are free to execute on other such venues.

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. The Exchange does not believe the proposed rule change to add an additional

event that would conclude a C-AIM Auction will impose any burden on intramarket

competition, as this event, if it is the earliest to occur of the list of events that would

conclude a C-AIM Auction, will conclude a C-AIM Auction in the manner which already

occurs for the other events currently listed under the rule, and a manner which is

consistent with current C-AIM functionality that ensures stock legs do not trade at prices

not permissible under the Limit Up-Limit Down Plan or Regulation SHO. The

subsequent conclusion of a C-AIM Auction applies in the same manner to all Users. The

Exchange does not believe the proposed change to allow option legs of a stock-option

strategy to trade outside of their expected notional value by a specified amount

determined by the Exchange and communicated to Members via specifications and/or

Regulatory Circular will impose any burden on intramarket competition because the

amount will apply to all User's non-customer stock-option strategies equally. As

described above, the Exchange does not believe that excluding customer orders from the

trade value allowance functionality would impose any significant burden on completion

as customers generally do not have the same levels of trading sophistication or

technological and informational advantages as that of Professionals or broker-dealers in

order to take on any level of risk associated with trading outside the expected trade value.

Rather, the proposed rule benefits customers by ensuring that customers will not assume

potential risk for which they have not calculated.

The Exchange does not believe the proposed rule change to add an additional

event that would conclude a C-AIM Auction will impose any burden on intermarket

competition because the proposed change is designed as a protection intended to ensure

that the stock leg of a stock-option order submitted into a C-AIM Auction does not

execute at a price not permissible under the Limit Up-Limit Down Plan or Regulation

SHO. As stated, current C-AIM functionality already exists which ensures stock legs do

not trade at prices not permissible under this plan or regulation. The Exchange does not

believe the proposed rule change to allow option legs of a stock-option strategy to trade

outside of their expected notional value by a specified amount determined by the

Exchange and communicated to Members via specifications and/or Regulatory Circular

will impose any burden on intermarket competition because it is substantially similar to other options exchanges' rules, previously filed with the Commission.[20]

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[21] and Rule 19b-4(f)(6)[22] 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 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.

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[20] See supra note 13.

[21] 15 U.S.C. 78s(b)(3)(A).

[22] 17 CFR 240.19b-4(f)(6).

The Exchange does not believe that the proposed rule change will significantly affect the protection of investors or the public interest, but rather will serve to protect investors because it ensures that executions at the conclusion of a C-AIM Auction will be permissible under the Limit Up-Limit Down Plan or Regulation SHO, which is consistent with the manner in which current C-AIM functionality ensures stock legs do not trade at prices not permissible under the Limit Up-Limit Down Plan or Regulation SHO. The proposed rule change will also benefit investors allowing their stock-option strategies to trade outside of their specified net prices when the executable stock match price results in a small difference between the expected notional value of the trade and the actual trade value, rather than forgoing an execution for their stock-option strategies when this occurs, as the residual amount is miniscule compared to the value of the trade. From this, investors will be able to receive the benefit of an expeditious execution, and may trade the stock and options components of a stock-option strategy in a moving market without introducing legging risk, instead of resubmitting their orders and potentially receiving a much worse price or missing an execution. In addition, the Exchange does not believe that barring the trade value allowance from applying to customer orders will significantly impact the protection of investors because it is intended to protect customers from assuming potential risk for which they may not have calculated as a result of not having the same levels of trading sophistication or technological and informational advantages as that of Professionals or broker-dealers.

The Exchange does not believe that the proposed rule change significantly affects the protection of investors because similar rules are currently in place on other

exchanges.[23] The Exchange notes that the provisions under other exchanges' rules allow for a notional variance based on a percentage, while the Exchange proposes to allow for a specific dollar amount, which the Exchange believes will benefit investors because a specific set dollar amount is more straightforward and less confusing for investors than the calculation of a percentage. The other exchanges rules also do not differentiate between the trade value application to customer and non-customer orders, however, the Exchange believes this proposed difference provides additional protection for customer orders. The Exchange also notes that the provision under other exchanges' rules allow for Member determination or a default to Exchange determination of the notional variance. The proposed rule to allow only for Exchange determination will benefit investors because the Exchange believes this proposed difference will also simplify the implementation of this functionality and mitigate any potential investor confusion by setting just one Exchange-determined notional variance. Finally, unlike the other exchanges' rules, the Exchange does not propose a User opt-out function, which the Exchange believes will not significantly affect the protection of investors because the difference between the expected notional value of the trade and the actual trade value is inconsequential, particularly when compared to the overall benefit to investors of an expeditious execution. As stated, the Exchange does not believe that the proposed rule change would significantly impact the protection of investors and the public interest because the Exchange would ensure that an allowance amount would reasonably account for the average differences in notional trade values as well as the cost benefit to market participants between the differences in actual trade value versus expected notional trade

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[23]   See supra note 13.

value and the imposition of resubmitting their orders and potentially receiving a much

worse price or missing an execution. The Exchange notes that, if, however, a User

determines that the trade value allowance is more attractive or favorable on another

venue, Users are free to execute on other such venues.

The Exchange does not believe that the proposed rule change will impose any

significant burden on competition. The Exchange does not believe the proposed rule

change to add an additional event that would conclude a C-AIM Auction will impose any

burden on intramarket competition, as this event would conclude a C-AIM Auction in the

manner which already occurs for the other events currently listed under the rule, and a

manner which is consistent with current C-AIM functionality that ensures stock legs do

not trade at prices not permissible under the Limit Up-Limit Down Plan or Regulation

SHO. As stated, the subsequent conclusion of a C-AIM Auction applies in the same

manner to all Users. The Exchange does not believe the proposed change to allow option

legs of a stock-option strategy to trade outside of their expected notional value by a

specified amount determined by the Exchange will impose any burden on intramarket

competition because the amount will apply to all User's stock-option strategies equally.

In addition to this the Exchange does not believe the proposed rule change to the events

triggering the conclusion of a C-AIM Auction will impose any burden on intermarket

competition because the proposed change is designed as a protection intended to ensure

that the stock leg of a stock-option order submitted into a C-AIM Auction does not

execute at a price not permissible under the Limit Up-Limit Down Plan or Regulation

SHO, which, as stated, is consistent with current C-AIM functionality. The Exchange

does not believe the proposed rule change to allow option legs of a stock-option strategy

to trade outside of their expected notional value will impose any burden on intermarket competition because it is substantially similar to other options exchanges' rules, previously filed with the Commission.[24]

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. As discussed above, the proposed rule change is consistent with the protection of investors and the public interest as it is not novel or unique because: 1) similar C-AIM functionality is already in place pursuant to SR-CboeEDGX-2019-028 that does not allow the stock leg of a stock-option order submitted into a C-AIM Auction to execute at a price not permissible under the Limit Up-Limit Down Plan or Regulation SHO and other events under Rule 21.22 are in place pursuant to SR-CboeEDGX-2019-028 that will trigger the conclusion of a C-AIM Auction; and 2) other exchanges' rules currently provide for similar notional variance for the legs in a stock-option strategy. As described above, the Exchange believes the minor differences between its proposed rule and other

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[24]   See supra note 13.

exchanges' rules will not significantly affect the protection of investors, but rather benefit

investors overall. The proposed change to implement a notional variance also serves to

benefit investors by allowing their stock-option strategies to trade outside of their

specified net prices when the executable stock match price results in a small difference

between the expected notional value of the trade and the actual trade value, instead of

forgoing an execution for their stock-option strategies when this occurs. As a result,

investors will be able to receive the benefit of an expeditious execution, and may trade

the stock and options components of a stock-option strategy in a moving market without

introducing legging risk, instead of resubmitting their orders and potentially receiving a

much worse price or miss an execution. The Exchange also believes that the waiver of the

operative delay is consistent with the protection of investors as it will allow the proposed

amendments to the rules that will be adopted pursuant SR-CboeEDGX-2019-028 and SR-

CboeEDGX-2019-039 to be effective on August 22, 2019, or as close in time as possible

to the implementation date as SR-CboeEDGX-2019-028 and SR-CboeEDGX-2019-039,

thereby ensuring that all of the Exchange's proposed rules regarding stock-option orders

align at the same point in time, thereby mitigating any potential investor confusion. For

these reasons, and the reasons described above, the Exchange respectfully requests that

the Commission waiver the 30-day operative delay.

      (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 to Rule 21.20(f)(2)(B) is based Supplementary Material .03 to Options 3, Section 14 of Nasdaq ISE ("ISE") Rules and Supplementary Material .03 to Rule 722 of Nasdaq MRX ("MRX") Rules. The Exchange notes that the provisions under MRX and ISE rules allows for a notional variance based on a percentage, while the Exchange proposes to allow for a specific dollar amount. The Exchange believes that a specific set dollar amount is more straightforward and less confusing for investors than the calculation of a percentage. The Exchange also notes that the provision under the ISE and MRX rules allows for Member determination or a default to Exchange determination of the notional variance. The proposed rule allow only for Exchange determination which the Exchange believes will also simplify the implementation of this functionality and mitigate any potential investor confusion by setting just one Exchange-determined notional variance. Additionally, the ISE and MRX rules also do not differentiate between the trade value allowance application to customer and non-customer orders, however, as described in detail above, the Exchange believes this difference serves as an additional protection for customer orders. Finally, unlike the ISE and MRX rules, the Exchange does not propose a User opt-out function. The Exchange believes that because the difference between the expected notional value of the trade and the actual trade value is inconsequential, especially as compared to the overall benefit to investors of an expeditious execution, that this proposed difference will not have any significant impact on the Exchange's participants.

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-2019-053]

[Insert date]

Self-Regulatory Organizations; Cboe EDGX Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to Amend Rules 21.20 and 21.22 in Connection with Stock-Options Orders

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 [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[3] and Rule 19b-4(f)(6) thereunder.[4] 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 amend Rules 21.20 and 21.22 in connection with stock-options orders. The text of the proposed rule change is provided in Exhibit 5.

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[1]   15 U.S.C. 78s(b)(1).

[2]   17 CFR 240.19b-4.

[3]   15 U.S.C. 78s(b)(3)(A)(iii).

[4]   17 CFR 240.19b-4(f)(6).

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 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 26, 2019, the Exchange filed a rule filing, SR-CboeEDGX-2019-028,

which was approved by the Securities and Exchange Commission (the "Commission") on

July 26, 2019, which permits use of it Automated Improvement Process ("AIM") for

complex orders. [5] Specifically, the filing describes how complex orders may be submitted to

and will be processed in an AIM Auction ("C-AIM" or "C-AIM Auction"). Also, on June

27, 2019, the Exchange filed SR-CboeEDGX-2019-039, which adopts stock-option order

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[5]   See Securities Exchange Act Release No. 85831 (May 10, 2019), 84 FR 22178 (May 16, 2019) (Notice of Filing of a Proposed Rule Change To Adopt Rule 21.22 (Complex Automated Improvement Mechanism)) (SR-CboeEDGX-2019-028); Securities Exchange Act Release No. 86493 (July 26, 2019) (Notice of Filing of Amendment No. 1 and Order Granting Accelerated Approval of a Proposed Rule Change, as Modified by Amendment No. 1, to Adopt Rule 21.22 (Complex Automated Improvement Mechanism)).

functionality on the Exchange.[6] The Exchange notes that it implemented the proposed

changes under SR-CboeEDGX-2019-039 on August 16, 2019 as part of Feature Pack 9[7] in

with the migration of Cboe Exchange, Inc. ("Cboe Options") technology to the same trading

platform used by the Exchange, Cboe C2 Exchange, Inc. ("C2"), and Cboe BZX Exchange,

Inc. ("BZX Options") in the fourth quarter of 2019. The Exchange now proposes an

additional amendment under the rules proposed by SR-CboeEDGX-2019-028 and under the

rules proposed by SR-CboeEDGX-2019-039. Specifically, the Exchange proposes to add an

additional event under Rule 21.22(d)(1) (as proposed under SR-CboeEDGX-2019-028) that

would cause a C-AIM Auction to conclude early. The Exchange also proposes to amend

Rule 21.20(f)(2) (as proposed under SR-CboeEDGX-2019-039) to provide for how the

Exchange will handle a stock-option order with one or multiple options legs when different

minimum trading increments are allowed for the stock and options legs of such trades. The

Exchange intends to implement these amendments to the proposed rules under SR-

CboeEDGX-2019-028 and SR-CboeEDGX-2019-039 to be effective on August 22, 2019,

or as close in time as possible to the Feature Pack 9 implementation date of August 16,

2019, so that the proposed changes may seamlessly coincide with the implementation of the

rule changes under the two rule filings.

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6   See Securities Exchange Act Release No. 86353 (July 11, 2019), 84 FR 34230 (July 17, 2019) (Notice of Filing and Immediate Effectiveness of a Proposed Rule Change To Add Stock-Option Order Functionality and Complex Qualified Contingent Cross ("QCC") Order With Stock Functionality, and To Make Other Changes to its Rules) (SR-CboeEDGX-2019-039).

7   The Exchange notes that implementation of these changes as a part of Feature Pack 9 was recently postponed via Exchange notice from a roll-out of August 5, 2019 to August 16, 2019. See Exchange Notice No. C2019080200 (Updated August 02, 2019). The changes under SR-CboeEDGX-2019-028 have been postponed and are planned to be implemented soon after August 16, 2019.

Currently, under Rule 21.22(d)(1) C-AIM Auction concludes at the earliest to occur of the following times:

a) the end of the C-AIM Auction period;

b) upon receipt by the System of an unrelated non-Priority Customer complex order on the same side as the Agency Order that would post to the COB at a price better than the stop price;

c) upon receipt by the System of an unrelated Priority Customer complex order on the same side as the Agency Order that would post to the COB at a price equal to or better than the stop price;

d) upon receipt by the System of an unrelated non-Priority Customer order or quote that would post to the Simple Book and cause the SBBO on the same side as the Agency Order to be better than the stop price;

e) upon receipt by the System of an unrelated Priority Customer order in any component of the complex strategy that would post to the Simple Book and cause the SBBO on the same side as the Agency Order to be equal to or better than the stop price;

f) upon receipt by the System of a simple non-Priority Customer order that would cause the SBBO on the opposite side of the Agency Order to be better than the stop price, or a Priority Customer order that would cause the SBBO on the opposite side of the Agency Order to be equal to or better than the stop price;

g) the market close; and

h) any time the Exchange halts trading in the complex strategy or any component of the complex strategy, provided, however, that in such instance, the C-AIM Auction concludes without execution.

The Exchange now proposes to add an event under Rule 21.22(g)[8] that would conclude a C-AIM Auction in response to an incoming order that would cause the SBBO to be at a price not permissible under the Limit Up-Limit Down Plan or Regulation SHO,[9] and would conclude the C-AIM Auction without execution. This will ensure that the stock leg of a stock-option order submitted into a C-AIM Auction does not execute at a price not permissible under that plan or regulation. This is consistent with current C-AIM functionality to ensure that stock legs do not trade at prices not permissible under the Limit Up-Limit Down Plan or Regulation SHO.[10]

The Exchange proposes to amend Rule 21.20(f)(2) to provide for how the Exchange will handle a stock-option order with one or multiple options legs when different minimum trading increments are allowed for the stock and options legs of such trades. Pursuant to SR-CboeEDGX-2019-039, Rule 21.20(f)(1)(B) provides that the option leg(s) of a stock-option order may be executed in $0.01 increments, regardless of the minimum increments otherwise applicable to the option leg(s), and the stock leg of a stock-option order may be executed in any decimal price permitted in the equity market. In a small subset of cases, generally as a result of unusual leg ratios, in calculating the total notional value a stock leg may result in a price outside of the NBBO, thus cannot execute pursuant to Rule

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[8] And subsequently re-letter the subparagraphs, changing current subparagraph (g) to (h), and current (h) to (i).

[9] See Rule 21.20(j)(3).

[10] Id.

21.20(f)(2)(B).[11] In order to allow for the strategy to execute, the proposed rule change

would offer functionality that allows the legs of the stock option order to trade outside of

their expected notional value by a specified amount determined by the Exchange.[12]

Therefore, the System could ensure that options legs and stock leg were priced in in line

with Rule 21.20, which includes ensuring that: 1) the option leg of a stock-option order with

one option leg does not trade at a price worse than the individual component price on the

Simple Book or at the same price as a Priority Customer Order on the Simple Book; 2) that

the option leg(s) of a stock-option order with more than one option leg trades does not

execute at a net price i) that would cause a leg to execute at a price of zero, ii) worse than the

SBBO or equal to the SBBO when there is a Priority Customer Order at the SBBO, except

AON complex orders may only execute at prices better than the SBBO, ii) that would cause

a leg to be executed at a price worse than the individual component prices on the Simple

Book, iv) worse than the price that would be available if the complex order Legged into the

Simple Book, or v) that would cause any component of the complex strategy to be executed

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[11]   Pursuant to Rule 21.20(f)(2)(B), the System will only execute the stock leg of a stock-option order up to a buffer amount outside of the stock leg NBBO and that the execution price of the buy (sell) stock leg of a QCC with Stock Order may be any price (including outside the NBBO for the stock leg). While the QCT exemption permits a stock leg to execute outside of the NBBO, the Exchange still offers price protections to prevent execution too far away from the NBBO, which it understands is consistent with market participants' desire. Currently on EDGX, the buffer referenced in Rule 21.20(f)(2)(B) is set to zero, so the Exchange does not permit execution of the stock leg of a stock-option order outside of the NBBO (other than a QCC with stock order, which will execute immediately without exposure and thus is unlikely to trade too far outside of the NBBO). Current rules of other exchanges (such as Cboe Options) prevent execution of the stock component from being too far away from the NBBO, as do the rules of stock exchanges.

[12]   Pursuant to Rule 16.3, the Exchange announces to Options Members all determinations it makes pursuant to the Rules via specifications, Notices, or Regulatory Circulars with appropriate advanced notice, which will be posted on the Exchange's website, or electronic message.

at a price ahead of a Priority Customer Order on the Simple Book without improving the

BBO of at least one component of the complex strategy; and 3) that a stock leg does not

execute above (below) the buffer amount that is above (below) the NBBO.[13] Although this

would result in a negligible difference (i.e. residual amount) between the expected notional

value of the trade and the actual trade value, Users generally prefer not to forgo an execution

for their stock-option strategies when the residual amount is miniscule compared to the total

value of the trade. The value allowance would work, for example, as follows:

- Assume the Exchange has determined a trade value allowance of $0.50 from the
  expected trade value.

- Assume also that:

  (Equity) NBBO: 10.00 x 11.00

  (Option) NBBO: 1.00 x 1.05, BBO: 1.00 x 1.05

  SNBBO: 7.70 x 8.32 (i.e., bid = (47 x 10.00 / 100) + (3 x 1.00) = 7.70, and

  offer = (47 x 11.00/ 100) + (3 x 1.05) = 8.32)

- A User enters a stock-option order to Buy 47 shares of XYZ stock and Buy 3 June
  10 XYZ calls with a net price of 8.30 and a quantity of 3.

- The order matches with corresponding contra order on the complex order book.

- The expected trade value based on the order's limit price, quantity and a contract
  multiplier of 100 is $2,490.00 (i.e., 8.30 x 3 x 100).

- The calculated options match price is 1.00 based on market prices and the stock
  match price is 11.2766 (rounded four decimals), therefore, outside of the NBBO.

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[13]   See supra note 11.

- The trade value allowance then calculates the stock match price that results in a total notional trade value of $2489.9934:

    Options leg notional = $1.05 x 100 x 3 x 3 = $945

    Stock Leg notional = $10.9574 x 47 x 3 = $1,544.9934

    Notional trade value = $2,489.9934, which is within the $0.50 trade value allowance.

The Exchange notes that a valid trade price within the NBBO for the stock leg with the smallest residual between the difference in actual trade value and expected notional trade value is $10.9574. Therefore, in this example, the corresponding options leg match price would be $1.05 because it is the options match price that could be paired with a valid stock trade price that would also allow for the smallest residual between the difference in actual trade value and expected notional trade value. If, for example, the next allowable options increment[14] within the BBO ($1.04) was used, the stock leg notional trade value matched to meet the notional value closest to the expected trade value would be $11.0213, and therefore still outside of the NBBO.[15] The Exchange also notes that $1.05 is consistent with the BBO in this example.

Under the proposed rule, the System will not apply the trade value allowance to orders with a "C" capacity code (for the account of a Priority Customer).[16] This limitation is

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[14] See Rule 21.20(f)(1)(B), which states that the option leg(s) of a stock-option order may be executed in $0.01 increments.

[15] The notional trade value would be: ($1.04 x 100 x 3 x 3) + ($11.0213 x 47 x 3) = $2,490.0033.

[16] See Rule 16.1, which states that a Priority Customer means any person or entity that is not a broker or dealer in securities or a Professional. See also Securities Exchange Act Release No. 86415 (July 19, 2019), 84 FR 35905 (July 25, 2019) (Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating To Update Rule 16.1 To Include the Definition of Capacity, as well as

intended to function as an additional protection for customers who may not have the same

levels of trading sophistication or technological and informational advantages as that of

Professionals or broker-dealers. Therefore, customers may not have measures in place to

assume any level of risk that may be associated with trading outside of the expected trade

value (which risk the Exchange believes is de minimis given that the Exchange will impose

a reasonable cap, as described below, on the amount by which the actual trade value may

differ from the expected trade level). As a result, the Exchange believes that not applying the

trade value allowance to customer orders will further protect customers from assuming this

potential risk for which they may not have calculated.

Overall, this proposed functionality is a helpful feature which will allow

Users to receive an expeditious execution, and trade the stock and options components of

a stock-option strategy in a moving market without introducing legging risk. Without this

functionality members would be forced to resubmit their orders and potentially receive a

much worse price or miss an execution. The Exchange will announce to all market

participants the determined trade value allowance amount pursuant to Rule 1.5. The

Exchange would determine an allowance amount that would reasonably account for the

average differences in notional trade values as well as the cost benefit to market

participants between the differences in actual trade value versus expected notional trade

value and the imposition of resubmitting their orders and potentially receiving a much

worse price or missing an execution.[17] The Exchange notes that, if, however, a User

determines that the trade value allowance is more attractive or favorable on another

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Amend Its Fee Schedule To Reflect This Update) (SR-CboeEDGX-2019-046).

[17] The Exchange expects this value to be initially set at $0.50 as represented in the example above.

venue, Users are free to execute on other such venues. The proposed Exchange

determination of a value allowance outside of the expected notional value is currently in

place on other exchanges.[18]

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.[19]

Specifically, the Exchange believes the proposed rule change is consistent with the

Section 6(b)(5)[20] 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

the Section 6(b)(5)[21] requirement that the rules of an exchange not be designed to permit

unfair discrimination between customers, issuers, brokers, or dealers.

In particular, the proposed additional event that will conclude a C-AIM Auction is

reasonable and promotes a fair and orderly market and national market system, because it

will ensure that executions at the conclusion of a C-AIM Auction occur at permissible

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[18]   See Nasdaq ISE Rules, Supplementary Material .03 to Options 3, Section 14; and
         Nasdaq MRX Rules, Supplementary Material .03 to Options 3, Section 14.

[19]   15 U.S.C. 78f(b).

[20]   15 U.S.C. 78f(b)(5).

[21]   Id.

prices, specifically, that the stock leg of a stock-option order submitted into a C-AIM

Auction does not execute at a price not permissible under the Limit Up-Limit Down Plan

or Regulation SHO. Moreover, the Exchanges notes that this is consistent with current C-

AIM functionality to ensure that stock legs do not trade at prices not permissible under

the Limit Up-Limit Down Plan or Regulation SHO, therefore, the Exchange believes it is

appropriate to conclude a C-AIM Auction if the proposed circumstance occurs.[22] The

proposed rule change will also benefit investors by providing additional clarity regarding

what will cause C-AIM Auction to conclude.

The proposed Exchange determination to set an allowable value outside of the

expected notional trade value for the legs of a stock-option order removes impediments to

and perfects the mechanism of a free and open market and a national market system because

it provides Users with functionality that allows a User's stock-option strategies to trade

outside of their specified net prices when the executable stock match price results in a small

difference between the expected notional value of the trade and the actual trade value. Users

generally prefer not to forgo an execution for their stock-option strategies when this occurs,

as the residual amount is miniscule compared to the value of the trade. As a result of the

proposed rule, Users will be able to receive an expeditious execution, and trade the stock

and options components of a stock-option strategy in a moving market without introducing

legging risk, instead of resubmitting their orders and potentially receiving a much worse

price or missing an execution. In addition to this, the Exchange also believes that not

permitting the trade value allowance to apply to customer orders will remove impediments

to and perfect the mechanism of a free and open market and national market system, and, in

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[22]   See supra note 6.

general protect investors, in that it prevents customers from assuming potential risk (which the Exchange believes is de minimis given that the Exchange will impose a reasonable variance, as reiterated below). The Exchange believes the proposed rule will protect customers because customers may not have the same levels of trading sophistication or technological and informational advantages as that of Professionals or broker-dealers and, thus, may not have the measures in place to assume any level of risk that may be associated with trading outside of the expected trade value.

As stated above, the proposed Exchange determination of a value allowance outside of the expected notional value is currently in place on other exchanges.[23] The Exchange believes that the differences between the proposed rule and the rules of other exchanges will remove impediments to and perfect the mechanism of a free and open market and national market system, and, in general, protect investors. The other exchanges' rules allow for a notional variance based on a percentage, while the proposed rule will allow for a specific dollar amount which the exchange believes is more straightforward and less confusing for investors than the calculation of a percentage. The other exchanges' rules allow for Member determination or a default to Exchange determination of the notional variance, while the proposed rule will allow only for Exchange determination, which the Exchange believes will also simplify the implementation of this functionality and mitigate any potential investor confusion by setting just one Exchange-determined notional variance. The other exchanges rules also do not differentiate between the trade value application to customer and non-customer orders, however, as described herein this filing, the Exchange believes this implements an

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[23]   See supra note 17.

additional protection for customer orders. Finally, unlike other exchanges' rules, the proposed rule does not provide for a User opt-out function. Because the difference between the expected notional value of the trade and the actual trade value is inconsequential, especially as compared to the overall benefit to investors of an expeditious execution, this proposed difference will not have any significant impact on the Exchange's participants and, instead, will benefit participants overall. As stated, the Exchange would determine an allowance amount that would reasonably account for the average differences in notional trade values as well as the cost benefit to market participants between the differences in actual trade value versus expected notional trade value and the imposition of resubmitting their orders and potentially receiving a much worse price or missing an execution. The Exchange notes that, if, however, a User determines that the trade value allowance is more attractive or favorable on another venue, Users are free to execute on other such venues.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange does not believe the proposed rule change to add an additional event that would conclude a C-AIM Auction will impose any burden on intramarket competition, as this event, if it is the earliest to occur of the list of events that would conclude a C-AIM Auction, will conclude a C-AIM Auction in the manner which already occurs for the other events currently listed under the rule, and a manner which is consistent with current C-AIM functionality that ensures stock legs do not trade at prices not permissible under the Limit Up-Limit Down Plan or Regulation SHO. The subsequent conclusion of a C-AIM Auction applies in the same manner to all Users. The

Exchange does not believe the proposed change to allow option legs of a stock-option

strategy to trade outside of their expected notional value by a specified amount

determined by the Exchange and communicated to Members via specifications and/or

Regulatory Circular will impose any burden on intramarket competition because the

amount will apply to all User's non-customer stock-option strategies equally. As

described above, the Exchange does not believe that excluding customer orders from the

trade value allowance functionality would impose any significant burden on completion

as customers generally do not have the same levels of trading sophistication or

technological and informational advantages as that of Professionals or broker-dealers in

order to take on any level of risk associated with trading outside the expected trade value.

Rather, the proposed rule benefits customers by ensuring that customers will not assume

potential risk for which they have not calculated.

The Exchange does not believe the proposed rule change to add an additional

event that would conclude a C-AIM Auction will impose any burden on intermarket

competition because the proposed change is designed as a protection intended to ensure

that the stock leg of a stock-option order submitted into a C-AIM Auction does not

execute at a price not permissible under the Limit Up-Limit Down Plan or Regulation

SHO. As stated, current C-AIM functionality already exists which ensures stock legs do

not trade at prices not permissible under this plan or regulation. The Exchange does not

believe the proposed rule change to allow option legs of a stock-option strategy to trade

outside of their expected notional value by a specified amount determined by the

Exchange and communicated to Members via specifications and/or Regulatory Circular

will impose any burden on intermarket competition because it is substantially similar to

other options exchanges' rules, previously filed with the Commission.[24]

> 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[25] and Rule 19b-4(f)(6)[26] 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

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24   See supra note 17.

25   15 U.S.C. 78s(b)(3)(A).

26   17 CFR 240.19b-4(f)(6).

concerning the foregoing, including whether the proposed rule change is consistent with

the Act. Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission's Internet comment form

  (http://www.sec.gov/rules/sro.shtml); or

- Send an e-mail to rule-comments@sec.gov. Please include File Number

  SR-CboeEDGX-2019-053 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-2019-053. 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-2019-053 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.[27]

Secretary

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[27]   17 CFR 200.30-3(a)(12).

EXHIBIT 5

(additions are <u>underlined</u>; deletions are [bracketed])

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Rules of Cboe EDGX Exchange, Inc.

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Rule 21.20.   Complex Orders

(a)-(e) No change.

(f) *Minimum Increments and Execution Prices.*

(1) No change.

(2) *Execution Prices and Complex Order Priority.*

(A) No change.

(B) *Stock-Option Orders.* For a stock-option order with one option leg, the option leg may not trade at a price worse than the individual component price on the Simple Book or at the same price as a Priority Customer Order on the Simple Book. For a stock-option order with more than one option leg, the option legs must trade at prices pursuant subparagraph (A) above. <u>To facilitate the execution of the stock leg and options leg(s) of an executable stock-option order at valid increments pursuant to subparagraph (f)(1)(B) above, the legs may trade outside of their expected notional trade value by a specified amount determined by the Exchange, unless the order has a capacity of "C".</u> A stock-option order may only execute if the stock leg is executable at the price(s) necessary to achieve the desired net price. The System executes the buy (sell) stock leg of a stock-option order pursuant to Rule 21.20 up to a buffer amount above (below) the NBO (NBB) for the stock leg. The execution price of the buy (sell) stock leg of a QCC with Stock Order may be any price (including outside the NBBO for the stock leg), except the price must be permitted by Regulation SHO and the Limit Up-Limit Down Plan.

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Rule 21.22. Complex Automated Improvement Mechanism ("C-AIM" or "C-AIM Auction")

(a)-(c) No change.

(d) *Conclusion of C-AIM Auction.*

(1) A C-AIM Auction concludes at the earliest to occur of the following times:

(a)-(f)   No change.

 (g) upon receipt by the System of an order that would cause the SBBO to be a price not permissible under the Limit Up-Limit Down Plan or Regulation SHO, provided, however, that in such instance, the C-AIM Auction concludes without execution;

([g]h) the market close; and

([h]i) any time the Exchange halts trading in the complex strategy or any component of the complex strategy, provided, however, that in such instance, the C-AIM Auction concludes without execution.

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