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

File No.* SR - 2020 - * 017
Amendment No. (req. for Amendments *)

Filing by Cboe BZX 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) *
☑	☐	☐	☐	☑	☐

Pilot	Extension of Time Period for Commission Action *	Date Expires *
☐	☐	

Rule

☐ 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 codify the Cancel Back order type and amend the Post Only order instructions that may remove liquidity pursuant to Rule 21.1.

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.

Date 02/12/2020

By Rebecca Tenuta

(Name *)

(Title *)

Counsel

rtenuta@cboe.com

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.

Required fields are shown with yellow backgrounds and asterisks.

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 ☐	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. <u>Text of the Proposed Rule Change</u>

(a) Cboe BZX Exchange, Inc. (the "Exchange" or "BZX") proposes to codify the Cancel Back order type and amend the Post Only order instructions that may remove liquidity pursuant to Rule 21.1. The text of the proposed rule change is provided in Exhibit 5.

(b) Not applicable.

(c) Not applicable.

Item 2. <u>Procedures of the Self-Regulatory Organization</u>

(a) The Exchange's President (or designee) pursuant to delegated authority approved the proposed rule change on January 22, 2020.

(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 BZX Exchange, Inc., 400 South LaSalle, Chicago, Illinois 60605.

Item 3. <u>Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change</u>

(a) <u>Purpose</u>

The Exchange proposes to codify the Cancel Back order type, which is a System[1] functionality already in place and currently available to Users today. In addition, the Exchange proposes to add that a Post Only order designated as Cancel Back may, in addition to Post Only orders designated as a display-price sliding order,[2] remove liquidity.

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1 The "System" is the automated trading system used by BZX Options for the trading of options contracts. <u>See</u> Rule 21.1(a).

2 <u>See</u> Rule 21.1(h), which states that, unless a User enters instructions for an order (including a bulk message) to not be subject to the display-price sliding process in this paragraph (h), an order (including a bulk message) that, at the time of entry,

First, the System currently offers "Cancel Back" functionality for Users' orders, which is not currently defined in the Rules. Specifically, the functionality operates so that when a User designates an order not to be subject to the display-price sliding process or Price Adjust process,[3] then the order is subject to the Cancel Back instruction (note that an order will always include a Price Adjust, display-price sliding, or Cancel Back instruction). A Cancel Back order is immediately cancelled instead of re-priced when displaying the order at its limit price would create a violation of the linkage rules.[4] The Exchange also notes that Rule 21.6(f) provides affirmative instruction consistent with Cancel Back functionality as it specifically provides that an order entered with a price that would lock or cross a Protected Quotation of another options exchange that is not eligible for either routing, the display-price sliding process, or the Price Adjust process will be cancelled. The Exchange now proposes to codify the existing Cancel Back instruction in proposed Rule 21.1(m). The proposed definition is consistent (save for the provision in connection with Post Only – Cancel Back instructions, as described in greater detail below) with the corresponding definitions of a Cancel Back order under the rules of the Exchange's affiliated exchanges, Cboe EDGX Exchange, Inc. ("EDGX Options") and Cboe C2

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would lock or cross a Protected Quotation of another options exchange will be ranked at the locking price in the BZX Options Book and displayed by the System at one minimum price variation below the current NBO (for bids) or to one minimum price variation above the current NBB (for offers) ("display-price sliding").

3 See Rule 21.1(i), which states that an order that, at the time of entry, would lock or cross a Protected Quotation of another options exchange or the Exchange will be ranked and displayed by the System at one minimum price variation below the current NBO (for bids) or to one minimum price variation above the current NBB (for offers) ("Price Adjust").

4 See Chapter XXVII of the Rules. See also Options Order Protection and Locked/Crossed Market Plan (the "Linkage Plan").

Exchange, Inc. ("C2").[5] As proposed, a Cancel Back order is an order (including bulk messages)[6] a User designates to not be subject to the display-price sliding process or the Price Adjust process that the System cancels or rejects (immediately at the time the System receives the order or upon return to the System after being routed away) if displaying the order on the Book would create a violation of Rule 27.3 (Locked and Crossed Markets), or if the order cannot otherwise be executed or displayed in the BZX Options Book at its limit price. The System executes a Book Only – Cancel Back order against resting orders. The Exchange notes that pursuant to the Book Only instruction, an order or bulk message may not route away to another Exchange. Therefore, if an incoming Book Only order designated as Cancel Back locked or crossed an away market (i.e. the ABBO), the System would execute it to the extent it could against contra-side interest on the Exchange at prices the same as or better than the ABBO in accordance with the linkage rules. The System would then cancel it (or the remaining portion) to prevent a violation of Rule 27.3 of the intermarket linkage rules.

The proposed Cancel Back order definition also provides that the System executes a Post Only – Cancel Back order as set forth in Rule 21.1(d)(8) (as proposed). In particular, Rule 21.1(d)(8) currently defines a Post Only order as an order to be ranked and executed on the Exchange or cancelled, as appropriate, without routing away to another options exchange and will not remove liquidity from the BZX Options Book unless it is subject to

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5 See EDGX Options Rule 21.1(l) and C2 Rule 6.10(c).

6 Bulk messages allow Users to enter, modify or cancel up to an Exchange-specified number of bids and offers in a single message. Therefore, a Cancel Back designation for a bulk message applies to all bulk message bids and offers within a single message. The System handles bulk message bids and offers in the same manner as it handles an order, or quote if submitted by a Market Maker, unless the Rules specify otherwise. See Rule 21.1(l)(3).

the display-price sliding process and executing against on order on the Book would be economically beneficial to the User entering the order (i.e., if the value of price improvement associated with such execution equals or exceeds the sum of fees charged for such execution and the value of any rebate that would be provided if the order posted to the BZX Options Book and subsequently provided liquidity).[7] Thus, an executable order entered with a Post Only instruction is eligible to remove liquidity instead of having its display-price adjusted pursuant to those order handling instructions. The Exchange notes that the purpose of the display-price sliding instruction is to ensure compliance with the linkage rules like that of a Cancel Back instruction. The Exchange now proposes to amend Rule 21.1(d)(8) to make it explicit that a Post Only order with a Cancel Back instruction may also be eligible to remove liquidity instead of being cancelled or rejected back to the User in certain circumstances. The Exchange believes that removal of liquidity in these circumstances would be economically beneficial to Users that submit Post Only – Cancel Back orders, in that, instead of being cancelled or rejected back to the User upon locking or crossing the market, a Post Only – Cancel Back order would have the opportunity to execute at an improved price while contributing to liquidity and the price discovery process on the Exchange. The Exchange notes that this is consistent with the price improvement opportunities currently provided for a locking or crossing Post Only order subject to the display-price sliding process, instead of having its display-price adjusted. Users who wish for their Post Only orders to post to the Book and forego the opportunity to remove liquidity upon entry under Rule 21.1(d)(8) may continue to do so by electing that the Post Only order

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7 See Rule 21.1(h)(4). Any Post Only Order subject to the display-price sliding process that locks or crosses a Protected Quotation displayed by the Exchange upon entry will be executed as set forth in Rule 21.1(d)(8) or cancelled.

be subject to the Price Adjust process. As indicated above, this proposed description of a Post Only – Cancel Back order in proposed Rule 21.1(m) is unlike the description of a Post Only – Cancel Back order on the Exchange's affiliated options exchanges, C2 and EDGX Options, which cancel or reject a Post Only – Cancel Back order that locks or crosses the respective exchange's best bid or offer, as their rules do not currently offer the same price improvement opportunity (opportunities, as proposed) for their Post Only orders.[8]

Additionally, the Exchange proposes to amend Rule 21.1(h)(4), which describes the display-price sliding process as it applies to Post Only orders, to provide additional clarity within the Rule. Currently, Rule 21.1(h)(4) provides that any Post Only Order subject to the display-price sliding process described in this paragraph (h) that locks or crosses a Protected Quotation displayed by the Exchange upon entry will be executed as set forth in Rule 21.1(d)(8) or cancelled. A Post Only bulk message that locks or crosses a Protected Quotation displayed by the Exchange upon entry will be cancelled. Any Post Only Order that locks or crosses a Protected Quotation displayed by an external market upon entry will be subject to the display-price sliding process described in this paragraph (h). The Exchange now proposes to restructure the paragraph language so that it reads in a more uniform and explanatory manner that is easier to follow. Specifically, the Exchange proposes to amend the rule to first provide for the manner in which a Post Only order that is subject to the display-price sliding process will be handled if it either locks or crosses a Protected Quotation displayed by the Exchange or by an away market. The description of how a Post Only order subject to the display price-sliding message will be handled if it locks or crosses an away market is already in this provision, the Exchange is merely proposing to move this

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8 See EDGX Options Rule 21.1(d)(8) and C2 Rule 6.10(c)

clause into the same sentence that describes how such an order is handled upon locking or crossing the Book. As indicated above, this provision then goes on to describe the manner in which a Post Only bulk message that is subject to the display-price sliding process will be handled if it locks or crosses a Protected Quotation displayed by the Exchange. The Exchange proposes to also add to this clause the description of how a Post Only bulk message subject to the display-price sliding process will be handled if it locks or crosses a Protected Quotation displayed by an external market – to which, according to Rule 21.1(h)(1), the System would apply the display-price sliding process. The Exchange notes that it does not make any substantive changes to Rule 21.1(h)(4), but merely amends the rule to provide additional clarity and enhanced explanation within the Rule.

(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.[9] Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)[10] 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

9 15 U.S.C. 78f(b).

10 15 U.S.C. 78f(b)(5).

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

In particular, the Exchange believes the proposed definition of Cancel Back orders will provide additional transparency within the Rules and facilitate better understanding for market participants regarding their flexibility to designate orders as Cancel Back, as an alternative manner to comply with the linkage rules. The Exchange believes that the proposed rule change serves to remove impediments to and perfect the mechanism of a free and open market and a national market system because this change provides Users with Rules that clearly delineate an additional User flexibility regarding how they may instruct the System to handle their orders (i.e., designating their orders as Cancel Back by specifying that their orders are not subject to Price Adjust or display-price sliding). The Exchange also notes that permitting Users to elect that their orders to be treated as Cancel Back is an additional way to ensure compliance with the linkage rules, thereby protecting investors and the public interest. The Exchange also believes that this change is generally consistent with the Cancel Back definitions under the rules of the Exchange's affiliated exchanges, EDGX Options and C2.[12] The Exchange believes that generally mirroring the corresponding rule language of its affiliates will provide better understanding for Users that participate across the affiliated exchanges.

Moreover, the Exchange believes that it is consistent with just and equitable principles of trade to permit an order entered with a Post Only – Cancel Back instruction to remove liquidity when executing as the taker of liquidity would be economically beneficial to a User. This handling is designed to ensure that orders entered with a Post

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11 Id.

12 See supra note 4.

Only instruction are eligible to trade in certain circumstances where the User may have an interest in securing an execution on entry (i.e., as the taker of liquidity) notwithstanding a Post Only instruction. The Exchange does not believe that the proposed change would raise any new or novel issues for market participants, as the System currently allows for Post Only orders subject to the display-price sliding process, an instruction similarly designed to ensure compliance with the linkage rules, to remove liquidity when economically beneficial to the User. The Exchange also believes that the proposed rule change will present Users with increased trading opportunities at multiple price points, which will potentially encourage the provision of more liquidity to the market to interact with such orders. As a result, the Exchange believes that the proposed rule change is reasonably designed to facilitate the mechanism of price discovery and enhance competition and overall market quality on the Exchange to the benefit of all investors.

The Exchange also believes that the proposed change to the provision regarding Post Only orders subject to the display-price sliding process will provide market participants with additional clarity within the rules thereby facilitating increased understanding of the Exchange Rules. By making this provision easier to follow and understand the proposed rule change serves to remove impediments to and perfect the mechanism of a free and open market and national market system and benefit market participants. As noted, the proposed rule change is not of a substantive nature, as it merely reorganizes the provision and adds an order handling explanation that already applies and is provided within the general display-price sliding rule.

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 will impose any burden on intramarket competition that is not necessary or appropriate in furtherance of the purposes of the Act, because all Users would be able to designate their orders as Cancel Back orders, including Post Only orders. Cancel Back orders of all Users will be handled in the same manner. Additionally, all Post Only – Cancel Back orders that would remove liquidity will be handled in the same manner pursuant to the proposed rule change. Further, the use of the Cancel Back instruction and/or the Post Only – Cancel Back designation is voluntary and all Users may, instead, elect for their orders to be subject to the display-price sliding process or the Price Adjust process (specifically, if they wish for their Post Only orders not to remove liquidity).

The Exchange does not believe the proposed rule change will impose any burden on intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act. First, the Cancel Back instruction is functionality currently available and contemplated by the Rules. The instruction is intended as an additional order mechanism to ensure compliance with the linkage rules that provides Users with additional flexibility with respect to handling their orders. Second, the proposed rule change to allow Post Only – Cancel Back orders to remove liquidity pursuant to Rule 21.1(d)(8) does not impact intermarket competition as Post Only orders (with any additional instruction), by definition, do not route away to other options exchanges. To the extent that the proposed changes make BZX Options a more attractive marketplace for market participants at other exchanges, such market participants are welcome to become BZX Options market participants. Additionally, the Exchange notes that the proposed rule change to the rule governing Post Only orders subject to the display-price sliding process would not impose any burden on competition as the proposed changes are nonsubstantive and serve only to add clarity to the rule and make it easier to follow and understand.

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[13] and Rule 19b-4(f)(6)[14] 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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13 15 U.S.C. 78s(b)(3)(A).

14 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 Exchange does not believe the proposed definition of Cancel Back orders will significantly affect the protection of investors or the public interest, but rather, will benefit investors and the public interest by providing them with additional transparency within, and better understanding of, the Exchange Rules. The proposed change further benefits investors and the public interest by providing them with additional flexibility regarding how they may instruct the System to handle their orders and an additional way to ensure their orders are compliant with the linkage rules. As stated, this definition is generally consistent with the Cancel Back definitions under the rules of the Exchange's affiliated options exchanges,[15] which have previously been filed with the Commission. The Exchange also does not believe that the proposed rule change to permit an order entered with a Post Only – Cancel Back instruction to remove liquidity would significantly affect the protection of investors and the public interest because it is designed to benefit investors and the public interest by allowing the order to remove liquidity when it would be economically beneficial to a User. The Exchange does not believe that the proposed change would significantly affect the protection of investors or the public interest because the System already allows for Post Only orders subject to another instruction that ensures compliance with the linkage rules (i.e., the display-price sliding instruction) to remove liquidity when economically beneficial to the User. The proposed rule change is designed to benefit investors and the public interest by providing increased trading opportunities at multiple price points, thus, potentially encouraging the

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15 See supra note 4.

provision of more liquidity to the market to interact with such orders, and, as a result, facilitating increased price discovery and enhanced competition and overall market quality on the Exchange to the benefit of all investors. Also, the Exchange does not believe that the proposed change to the provision regarding Post Only orders subject to the display-price sliding process would significantly affect the protection of investors but instead would benefit investors by reorganizing the provision and adding certain explanation that is consistent with the current display-price sliding rules, thereby providing investors with additional clarity within the rules and facilitating increased understanding of the rules.

The Exchange does not believe that the proposed rule changes will impose a significant burden on competition because all Users will be able to designate their orders as Cancel Back orders, including Post only orders. As stated, a User's designation of an order as Cancel Back or as Post Only – Cancel Back is voluntary. If a User does not wish for their order to be cancelled or rejected upon locking or crossing the market, they may instead subject their order to the display-price sliding or Price Adjust processes. Likewise, if Users wish for their Post Only orders not to remove liquidity, they may subject their Post Only order to the Price Adjust process. Additionally, the Exchange notes that the proposed rule change regarding the Cancel Back instruction is functionality currently available and contemplated by the Rules and is an order mechanism intended to ensure compliance with the linkage rules and to provide Users with additional order handling flexibility. Also, as indicated above, the proposed change regarding Post Only – Cancel Back orders do not impact trading outside of that on the Exchange. To the extent that the proposed changes make BZX Options a more attractive marketplace for market participants at other exchanges, such market participants are welcome to become BZX Options market participants. Further, the Exchange does not believe that the proposed rule change to the Post Only display-price sliding provision would impose any burden on competition as the proposed rule change is not of a substantive nature, and merely reorganizes the provision and adds an order handling explanation that already applies and is provided within the general display-price sliding rule.

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.

(c) Not applicable.

(d) Not applicable.

Item 8. <u>Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission</u>

The proposed definition of a Cancel Back order is consistent with current functionality and is substantively identical to corresponding C2 Rule 6.10(c) and EDGX Options Rule 21.1(l), except that Post Only – Cancel Back orders will be treated differently on BZX Options according to the proposed rule change to Rule 21.1(d)(8) described in detail herein. As described above, the rules of C2 and EDGX Options do not currently provide for the same price improvement opportunity (opportunities, as proposed) in connection with their Post Only orders as the Exchange does, therefore, Post Only – Cancel Back orders on C2 and EDGX Options are instead cancelled or rejected if they lock or cross the respective exchange's best bid or offer.[16]

The proposed rule change in connection with Post Only – Cancel Back order to remove liquidity 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.

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16 See supra note 8.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34- ; File No. SR-CboeBZX-2020-017]

[Insert date]

Self-Regulatory Organizations; Cboe BZX Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to Codify the Cancel Back Order Type and Amend the Post Only Order Instructions that may Remove Liquidity Pursuant to Rule 21.1

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 BZX Exchange, Inc. (the "Exchange" or "BZX") 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 BZX Exchange, Inc. (the "Exchange" or "BZX") proposes to codify the Cancel Back order type and amend the Post Only order instructions that may remove liquidity pursuant to Rule 21.1. 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/equities/regulation/rule_filings/bzx/), 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

The Exchange proposes to codify the Cancel Back order type, which is a System[5] functionality already in place and currently available to Users today. In addition, the Exchange proposes to add that a Post Only order designated as Cancel Back may, in addition to Post Only orders designated as a display-price sliding order,[6] remove liquidity.

First, the System currently offers "Cancel Back" functionality for Users' orders, which is not currently defined in the Rules. Specifically, the functionality operates so that

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5 The "System" is the automated trading system used by BZX Options for the trading of options contracts. See Rule 21.1(a).

6 See Rule 21.1(h), which states that, unless a User enters instructions for an order (including a bulk message) to not be subject to the display-price sliding process in this paragraph (h), an order (including a bulk message) that, at the time of entry, would lock or cross a Protected Quotation of another options exchange will be ranked at the locking price in the BZX Options Book and displayed by the System at one minimum price variation below the current NBO (for bids) or to one minimum price variation above the current NBB (for offers) ("display-price sliding").

when a User designates an order not to be subject to the display-price sliding process or Price Adjust process,[7] then the order is subject to the Cancel Back instruction (note that an order will always include a Price Adjust, display-price sliding, or Cancel Back instruction). A Cancel Back order is immediately cancelled instead of re-priced when displaying the order at its limit price would create a violation of the linkage rules.[8] The Exchange also notes that Rule 21.6(f) provides affirmative instruction consistent with Cancel Back functionality as it specifically provides that an order entered with a price that would lock or cross a Protected Quotation of another options exchange that is not eligible for either routing, the display-price sliding process, or the Price Adjust process will be cancelled. The Exchange now proposes to codify the existing Cancel Back instruction in proposed Rule 21.1(m). The proposed definition is consistent (save for the provision in connection with Post Only – Cancel Back instructions, as described in greater detail below) with the corresponding definitions of a Cancel Back order under the rules of the Exchange's affiliated exchanges, Cboe EDGX Exchange, Inc. ("EDGX Options") and Cboe C2 Exchange, Inc. ("C2").[9] As proposed, a Cancel Back order is an order (including bulk messages)[10] a User designates to not be subject to the display-price sliding process or the

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7 See Rule 21.1(i), which states that an order that, at the time of entry, would lock or cross a Protected Quotation of another options exchange or the Exchange will be ranked and displayed by the System at one minimum price variation below the current NBO (for bids) or to one minimum price variation above the current NBB (for offers) ("Price Adjust").

8 See Chapter XXVII of the Rules. See also Options Order Protection and Locked/Crossed Market Plan (the "Linkage Plan").

9 See EDGX Options Rule 21.1(l) and C2 Rule 6.10(c).

10 Bulk messages allow Users to enter, modify or cancel up to an Exchange-specified number of bids and offers in a single message. Therefore, a Cancel Back designation for a bulk message applies to all bulk message bids and offers within a single message. The System handles bulk message bids and offers in the same

Price Adjust process that the System cancels or rejects (immediately at the time the System receives the order or upon return to the System after being routed away) if displaying the order on the Book would create a violation of Rule 27.3 (Locked and Crossed Markets), or if the order cannot otherwise be executed or displayed in the BZX Options Book at its limit price. The System executes a Book Only – Cancel Back order against resting orders. The Exchange notes that pursuant to the Book Only instruction, an order or bulk message may not route away to another Exchange. Therefore, if an incoming Book Only order designated as Cancel Back locked or crossed an away market (i.e. the ABBO), the System would execute it to the extent it could against contra-side interest on the Exchange at prices the same as or better than the ABBO in accordance with the linkage rules. The System would then cancel it (or the remaining portion) to prevent a violation of Rule 27.3 of the intermarket linkage rules.

The proposed Cancel Back order definition also provides that the System executes a Post Only – Cancel Back order as set forth in Rule 21.1(d)(8) (as proposed). In particular, Rule 21.1(d)(8) currently defines a Post Only order as an order to be ranked and executed on the Exchange or cancelled, as appropriate, without routing away to another options exchange and will not remove liquidity from the BZX Options Book unless it is subject to the display-price sliding process and executing against on order on the Book would be economically beneficial to the User entering the order (i.e., if the value of price improvement associated with such execution equals or exceeds the sum of fees charged for such execution and the value of any rebate that would be provided if the order posted to the

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manner as it handles an order, or quote if submitted by a Market Maker, unless the Rules specify otherwise. See Rule 21.1(l)(3).

BZX Options Book and subsequently provided liquidity).[11] Thus, an executable order entered with a Post Only instruction is eligible to remove liquidity instead of having its display-price adjusted pursuant to those order handling instructions. The Exchange notes that the purpose of the display-price sliding instruction is to ensure compliance with the linkage rules like that of a Cancel Back instruction. The Exchange now proposes to amend Rule 21.1(d)(8) to make it explicit that a Post Only order with a Cancel Back instruction may also be eligible to remove liquidity instead of being cancelled or rejected back to the User in certain circumstances. The Exchange believes that removal of liquidity in these circumstances would be economically beneficial to Users that submit Post Only – Cancel Back orders, in that, instead of being cancelled or rejected back to the User upon locking or crossing the market, a Post Only – Cancel Back order would have the opportunity to execute at an improved price while contributing to liquidity and the price discovery process on the Exchange. The Exchange notes that this is consistent with the price improvement opportunities currently provided for a locking or crossing Post Only order subject to the display-price sliding process, instead of having its display-price adjusted. Users who wish for their Post Only orders to post to the Book and forego the opportunity to remove liquidity upon entry under Rule 21.1(d)(8) may continue to do so by electing that the Post Only order be subject to the Price Adjust process. As indicated above, this proposed description of a Post Only – Cancel Back order in proposed Rule 21.1(m) is unlike the description of a Post Only – Cancel Back order on the Exchange's affiliated options exchanges, C2 and EDGX Options, which cancel or reject a Post Only – Cancel Back order that locks or crosses the

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11 See Rule 21.1(h)(4). Any Post Only Order subject to the display-price sliding process that locks or crosses a Protected Quotation displayed by the Exchange upon entry will be executed as set forth in Rule 21.1(d)(8) or cancelled.

respective exchange's best bid or offer, as their rules do not currently offer the same price improvement opportunity (opportunities, as proposed) for their Post Only orders.[12]

Additionally, the Exchange proposes to amend Rule 21.1(h)(4), which describes the display-price sliding process as it applies to Post Only orders, to provide additional clarity within the Rule. Currently, Rule 21.1(h)(4) provides that any Post Only Order subject to the display-price sliding process described in this paragraph (h) that locks or crosses a Protected Quotation displayed by the Exchange upon entry will be executed as set forth in Rule 21.1(d)(8) or cancelled. A Post Only bulk message that locks or crosses a Protected Quotation displayed by the Exchange upon entry will be cancelled. Any Post Only Order that locks or crosses a Protected Quotation displayed by an external market upon entry will be subject to the display-price sliding process described in this paragraph (h). The Exchange now proposes to restructure the paragraph language so that it reads in a more uniform and explanatory manner that is easier to follow. Specifically, the Exchange proposes to amend the rule to first provide for the manner in which a Post Only order that is subject to the display-price sliding process will be handled if it either locks or crosses a Protected Quotation displayed by the Exchange or by an away market. The description of how a Post Only order subject to the display price-sliding message will be handled if it locks or crosses an away market is already in this provision, the Exchange is merely proposing to move this clause into the same sentence that describes how such an order is handled upon locking or crossing the Book. As indicated above, this provision then goes on to describe the manner in which a Post Only bulk message that is subject to the display-price sliding process will be handled if it locks or crosses a Protected

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[12] See EDGX Options Rule 21.1(d)(8) and C2 Rule 6.10(c)

Quotation displayed by the Exchange. The Exchange proposes to also add to this clause the description of how a Post Only bulk message subject to the display-price sliding process will be handled if it locks or crosses a Protected Quotation displayed by an external market – to which, according to Rule 21.1(h)(1), the System would apply the display-price sliding process. The Exchange notes that it does not make any substantive changes to Rule 21.1(h)(4), but merely amends the rule to provide additional clarity and enhanced explanation within the Rule.

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.[13] Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)[14] 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)[15] requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

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13 15 U.S.C. 78f(b).

14 15 U.S.C. 78f(b)(5).

15 Id.

In particular, the Exchange believes the proposed definition of Cancel Back orders will provide additional transparency within the Rules and facilitate better understanding for market participants regarding their flexibility to designate orders as Cancel Back, as an alternative manner to comply with the linkage rules. The Exchange believes that the proposed rule change serves to remove impediments to and perfect the mechanism of a free and open market and a national market system because this change provides Users with Rules that clearly delineate an additional User flexibility regarding how they may instruct the System to handle their orders (i.e., designating their orders as Cancel Back by specifying that their orders are not subject to Price Adjust or display-price sliding). The Exchange also notes that permitting Users to elect that their orders to be treated as Cancel Back is an additional way to ensure compliance with the linkage rules, thereby protecting investors and the public interest. The Exchange also believes that this change is generally consistent with the Cancel Back definitions under the rules of the Exchange's affiliated exchanges, EDGX Options and C2.[16] The Exchange believes that generally mirroring the corresponding rule language of its affiliates will provide better understanding for Users that participate across the affiliated exchanges.

Moreover, the Exchange believes that it is consistent with just and equitable principles of trade to permit an order entered with a Post Only – Cancel Back instruction to remove liquidity when executing as the taker of liquidity would be economically beneficial to a User. This handling is designed to ensure that orders entered with a Post Only instruction are eligible to trade in certain circumstances where the User may have an interest in securing an execution on entry (i.e., as the taker of liquidity)

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16 See supra note 8.

notwithstanding a Post Only instruction. The Exchange does not believe that the proposed change would raise any new or novel issues for market participants, as the System currently allows for Post Only orders subject to the display-price sliding process, an instruction similarly designed to ensure compliance with the linkage rules, to remove liquidity when economically beneficial to the User. The Exchange also believes that the proposed rule change will present Users with increased trading opportunities at multiple price points, which will potentially encourage the provision of more liquidity to the market to interact with such orders. As a result, the Exchange believes that the proposed rule change is reasonably designed to facilitate the mechanism of price discovery and enhance competition and overall market quality on the Exchange to the benefit of all investors.

The Exchange also believes that the proposed change to the provision regarding Post Only orders subject to the display-price sliding process will provide market participants with additional clarity within the rules thereby facilitating increased understanding of the Exchange Rules. By making this provision easier to follow and understand the proposed rule change serves to remove impediments to and perfect the mechanism of a free and open market and national market system and benefit market participants. As noted, the proposed rule change is not of a substantive nature, as it merely reorganizes the provision and adds an order handling explanation that already applies and is provided within the general display-price sliding rule.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange does not believe the proposed rule change will impose any burden on intramarket competition that is not necessary or appropriate in furtherance of the purposes of the Act, because all Users would be able to designate their orders as Cancel Back orders, including Post Only orders. Cancel Back orders of all Users will be handled in the same manner. Additionally, all Post Only – Cancel Back orders that would remove liquidity will be handled in the same manner pursuant to the proposed rule change. Further, the use of the Cancel Back instruction and/or the Post Only – Cancel Back designation is voluntary and all Users may, instead, elect for their orders to be subject to the display-price sliding process or the Price Adjust process (specifically, if they wish for their Post Only orders not to remove liquidity).

The Exchange does not believe the proposed rule change will impose any burden on intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act. First, the Cancel Back instruction is functionality currently available and contemplated by the Rules. The instruction is intended as an additional order mechanism to ensure compliance with the linkage rules that provides Users with additional flexibility with respect to handling their orders. Second, the proposed rule change to allow Post Only – Cancel Back orders to remove liquidity pursuant to Rule 21.1(d)(8) does not impact intermarket competition as Post Only orders (with any additional instruction), by definition, do not route away to other options exchanges. To the extent that the proposed changes make BZX Options a more attractive marketplace for market participants at other exchanges, such market participants are welcome to become BZX Options market participants. Additionally, the Exchange notes that the proposed rule change to the rule governing Post Only orders subject to the display-price sliding process would not impose any burden on competition as the proposed changes are nonsubstantive and serve only to add clarity to the rule and make it easier to follow and understand.

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[17] and Rule 19b-4(f)(6)[18] thereunder. At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission will institute proceedings to determine whether the proposed rule change should be approved or disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with

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17 15 U.S.C. 78s(b)(3)(A).

18 17 CFR 240.19b-4(f)(6).

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-CboeBZX-2020-017 on the subject line.

Paper comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-CboeBZX-2020-017. 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-CboeBZX-2020-017 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.[19]

Secretary

[19] 17 CFR 200.30-3(a)(12).

EXHIBIT 5

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

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Rules of Cboe BZX Exchange, Inc.

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Rule 21.1. Definitions

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

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(d) The term "Order Type" shall mean the unique processing prescribed for designated orders, subject to the restrictions set forth in paragraph (l) below with respect to orders and bulk messages submitted through bulk ports, that are eligible for entry into the System. Unless otherwise specified in the Rules or the context indicates otherwise, the Exchange determines which of the following Order Types are available on a class or system basis.

(1)-(7) No change.

(8) "Post Only Orders" are orders that are to be ranked and executed on the Exchange pursuant to Rule 21.8 (Order Display and Book Processing) or cancelled, as appropriate, without routing away to another options exchange except that the order will not remove liquidity from the BZX Options Book, other than as described below. A Post Only Order subject to the display-price sliding process under paragraph (h) below <u>or designated as a Cancel Back order pursuant to paragraph (m) below</u> will execute against an order resting on the BZX Options Book if the value of price improvement associated with such execution equals or exceeds the sum of fees charged for such execution and the value of any rebate that would be provided if the order posted to the BZX Options Book and subsequently provided liquidity (except a Post Only bulk message in this situation will be cancelled). A Post Only Order will be subject to the display-price sliding process unless a User has entered instructions not to use the display-price sliding process as set forth in paragraph (h) below. Users may designate bulk messages as Post Only as set forth in paragraph (l) below.

* * * * *

(h) Display-Price Sliding.

(1)-(3) No change.

(4) Any Post Only Order subject to the display-price sliding process described in this paragraph (h) that <u>(A)</u> locks or crosses a Protected Quotation displayed by the Exchange

upon entry will be executed as set forth in Rule 21.1(d)(8) or cancelled, or (B) locks or crosses a Protected Quotation displayed by an external market upon entry will be subject to the display-price sliding process described in this paragraph (h). A Post Only bulk message that (A) locks or crosses a Protected Quotation displayed by the Exchange upon entry will be cancelled, or (B) locks or crosses a Protected Quotation displayed by an external market upon entry will be subject to the display-price sliding process described in this paragraph (h). [Any Post Only Order that locks or crosses a Protected Quotation displayed by an external market upon entry will be subject to the display-price sliding process described in this paragraph (h).] In the event the NBBO changes such that a Post Only Order subject to display-price sliding would be ranked at a price at which it could remove displayed liquidity from the BZX Options Book, the order will be cancelled.

* * * * *

(m) Cancel Back Order. A Cancel Back order (including bulk messages) is an order a User designates to not be subject to the display-price sliding process pursuant to paragraph (h) above or the Price Adjust process pursuant to paragraph (i) above that the System cancels or rejects (immediately at the time the System receives the order or upon return to the System after being routed away) if displaying the order on the Book would create a violation of Rule 27.3, or if the order cannot otherwise be executed or displayed in the Book at its limit price. The System executes a Book Only – Cancel Back order against resting orders. The System executes a Post Only – Cancel Back order as set forth in Rule 21.1(d)(8).

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