*Required fields are shown with yellow backgrounds and asterisks.*

| Page 1 of * 69 | SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4 | File No.* SR - 2019 - * 050 Amendment No. (req. for Amendments *) |
| --- | --- | --- |

Filing by   Cboe 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 | Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934 |
| --- | --- |
| Section 806(e)(1) * ☐        Section 806(e)(2) * ☐ | 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 the Rules regarding routing services, including the Hybrid Agency Liaison (HAL) system, and move those Rules from the currently effective Rulebook to the shell Rulebook to be effective upon migration.

## 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     08/23/2019

By       Rebecca Tenuta

(Name *)

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 \***

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

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

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Exhibit Sent As Paper Document
☐

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

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

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 Exchange, Inc. (the "Exchange" or "Cboe Options") proposes to amend the Exchange's Rules regarding routing services, including the Hybrid Agency Liaison ("HAL") system, and move those Rules from the currently effective Rulebook ("current Rulebook") to the shell structure for the Exchange's Rulebook that will become effective upon the migration of the Exchange's trading platform to the same system used by the Cboe Affiliated Exchanges (as defined below) ("shell Rulebook").  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 August 8, 2019.  The proposed rule change would become operative on the date on which Cboe Options completes the migration of its trading platform to the same system used by the Cboe Affiliated Exchanges (as defined below), which is expected to occur on October 7, 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 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

In 2016, the Exchange's parent company, Cboe Global Markets, Inc. (formerly named CBOE Holdings, Inc.) ("Cboe Global"), which is also the parent company of Cboe C2 Exchange, Inc. ("C2"), acquired Cboe EDGA Exchange, Inc. ("EDGA"), Cboe EDGX Exchange, Inc. ("EDGX" or "EDGX Options"), Cboe BZX Exchange, Inc. ("BZX" or "BZX Options"), and Cboe BYX Exchange, Inc. ("BYX" and, together with Cboe Options, C2, EDGX, EDGA, and BZX, the "Cboe Affiliated Exchanges"). The Cboe Affiliated Exchanges are working to align certain system functionality, retaining only intended differences, between the Cboe Affiliated Exchanges, in the context of a technology migration. Cboe Options intends to migrate its trading platform to the same system used by the Cboe Affiliated Exchanges, which the Exchange expects to complete on October 7, 2019. In connection with this technology migration, the Exchange has a shell Rulebook that resides alongside its current Rulebook, which shell Rulebook will contain the Rules that will be in place upon completion of the Cboe Options technology migration.

The Exchange proposes to harmonize its rules in connection with routing functions on the Exchange to that of the Cboe Affiliated Exchanges. Specifically, the Exchange proposes to update and amend current Rule 6.14A, which governs the operation of the HAL system to be consistent with of the corresponding rule of EDGX Options, Rule 21.18, which governs the operation of the Step Up Mechanism ("SUM"). The Exchange also proposes to harmonize Rule 6.6A, Rule 6.14B, and Rule 6.14C with that of its affiliate option exchange, C2, Rule 6.15, as well as EDGX and BZX Rule(s) 21.9, which provide for order routing rules of the exchange. The Exchange proposes these amendments to reflect the routing functions

rule language of the Cboe Affiliated Exchange rules, retaining only slight differences regarding Exchange-specific language/definitions.  In conforming its routing rules to that of the Cboe Affiliated Exchanges' rules, the Exchange proposes few substantive changes, namely amending the rules to allow for all Users[1] to respond to a SUM (the Exchange proposes to rename HAL as SUM, and refers to SUM herein) exposure message, to allow a User to opt out of having its exposed order routed to other exchanges at the conclusion of a SUM exposure period, to update the scenarios in which a SUM auction will terminate early (which includes incorporating provisions that account for All-or-None orders), and, finally, to adopt the order routing functionality currently in place on the Cboe Affiliated Exchanges.

The Exchange also proposes to make non-substantive changes to simplify, clarify, and generally update its routing rules by consolidating its routing provisions into a single rule, simplify rule language, update the rule text to read in plain English, reformat the paragraph lettering and/or numbering, and update cross-references to rules not yet in the shell Rulebook but that will be in the shell Rulebook and implemented upon migration.

Proposed Rule 5.35

Current Rule 6.14A governs the operation of HAL. SUM is the EDGX Options equivalent of the Exchange's HAL. Both systems allow for orders not automatically executed by the respective exchange to "step up" to meet the NBBO in order to interact with orders sent to the Exchange. Both rules govern the current handling of orders eligible for such automatic handling, which include i) an order that is marketable against the Exchange's disseminated quotation (the "BBO", as specifically defined in the Exchange's Rules) while

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[1]     The term "User" means any TPH or Sponsored User who is authorized to obtain access to the System.  See Rule 1.1 in the shell Rulebook.

not the NBBO and ii) an order that would improve the BBO and that is marketable against

quotations disseminated by other exchanges (the "ABBO") that are participants in the Options

Order Protection and Locked/Crossed Plan (the "Linkage Plan").[2] In anticipation of

migration, the Exchange proposes to move Rule 6.14A to proposed Rule 5.35 (and

subsequently delete Rule 6.14A upon migration) and amend the current provisions under Rule

6.14A to be consistent with EDGX Option's corresponding Rule 21.18. This includes

renaming "HAL" to be called "SUM", which, as stated, is a substantially similar system for

processing orders not automatically executed by the respective exchanges. The automatic

handling systems across the affiliated exchanges will function in a substantively identical

manner upon migration, therefore updating HAL to be called SUM will mitigate any potential

investor confusion and provide for uniform rules regarding the same functionality.

Currently on HAL, pursuant to Rule 6.14A(b), only Market-Makers with an

appointment in the relevant option class and Trading Permit Holders ("TPHs") acting as agent

for orders resting at the top of the Book in the relevant option series opposite the order

submitted to HAL may submit responses to the exposure message during the exposure period

(unless the Exchange determines, on a class-by-class basis, to allow all TPHs to submit

responses to the exposure message). The proposed rule change updates this provision to align

with the manner in which SUM responses function on EDGX Options; all Users may submit

responses to the exposure message during the exposure period.[3] The Exchange currently

allows all TPHs to respond to all classes during the exposure period, therefore this change

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[2]    The proposed rule deletes an additional eligible order provision that will no longer
       apply the rules and functionality on Cboe Options upon migration because the drill
       through provision referenced will mirror that of EDGX Options, which is not SUM
       specific.

[3]    See proposed 5.35(b)(2).

does not change or impact the manner in which the SUM process currently functions, but instead merely removes the flexibility for the Exchange to allow all TPHs to respond on a class-by-class basis, as this is the manner in which the Exchange intends for the SUM process to continue to function upon migration.

The Exchange notes that as a result of this proposed change, the proposed rule also removes: i) the current rule text which provides that an order will not be exposed if the Exchange quotation contains resting orders and does not contain sufficient Market Maker quotation interest to satisfy the entire order; ii) the early termination provision that terminate an exposure period if Market Maker interest decrements to an amount equal to the size of the exposed order; and iii) the current Interpretation and Policy .01 which prohibits the redistribution of exposure messages to market participants not eligible to respond to such messages. The proposed rule change removes these provisions because the Exchange proposes for SUM to not be dependent only on Market-Maker interest in any way and all Users will be permitted to respond to all exposure messages.

The proposed rule change also amends the current provision regarding allocation of exposed orders to allow for a User to opt out of having the remaining portion of its exposed order routed to other exchanges following the exposure period.[4] This is consistent with the EDGX Options SUM rule and the manner in which Users on EDGX Options may currently opt out of having their remaining portion of SUM exposed orders routed away.

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[4]     See proposed Rule 5.35(c)(4).

The proposed rule change also updates the rule to be consistent with how EDGX Options SUM process handles an All or None ("AON") order,[5] which is currently an order type available on the Exchange. Currently (and as proposed), any responses priced at the prevailing NBBO or better, and any unrelated order or quote on the opposite side of the market from the exposed order that could trade against the exposed order at the prevailing NBBO or better, will immediately trade against the exposed order, and the exposure period will continue. A SUM (current HAL) exposure period will currently terminate upon the receipt of a response (or unrelated order or quote) to trade the entire exposed order at the NBBO or better. Because an AON order cannot partially execute pursuant to its terms, the proposed rule change makes it explicit that during the exposure of an AON order, the System will hold responses priced at or better than the prevailing NBBO (rather than trade against the exposed AON immediately) until there is sufficient aggregate size to satisfy the AON order,[6] and that a SUM exposure period will terminate upon the receipt of multiple responses with sufficient aggregate size to satisfy the AON order.[7] This is the manner in which the HAL system currently functions, and the proposed change merely codifies this in the proposed rule. In addition to this, the proposed rule change provides that if an AON order is exposed and the Exchange receives an unrelated order or quote that would be displayed at a price at or better than the NBBO with insufficient size to satisfy the exposed order, the SUM exposure period terminates and the exposed order is processed pursuant to the allocation of exposed orders

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5       Pursuant to Rule 1.1 in shell Rulebook an "All-or-None" or "AON" order is an order to be executed in its entirety or not at all. An AON order may be a market or limit order.

6       See proposed Rule 5.35(c)(1).

7       See proposed Rule 5.35(d).

provision[8] under the SUM process.[9] This is consistent with current HAL functionality, to which an order is eligible for the process if its price is marketable against the Exchange's disseminated quotation that is not at the NBBO. Because a SUM auction would not have begun if the Exchange displayed a contra-side order at the NBBO, the Exchange believes it is appropriate to terminate the exposure period if that situation arises in connection with exposed AON orders during the exposure period.[10] As stated, this is consistent with the way in which the current HAL system and SUM on EDGX Options function.

The Exchange amends the other provisions in connection with early termination of exposure period to be consistent with the EDGX Option's SUM rule. The proposed rule change amends these provisions to include early termination when the exposed order is no longer marketable against the NBBO or if a resting order on the Exchange is locked or crossed by another options exchange.[11] In addition to aligning with the reasons a SUM auction may currently terminate on EDGX Options, the Exchange believes that these scenarios are reasonable to terminate the SUM process because if an order is no longer marketable, then it cannot be executed through the SUM process and no longer benefit from exposure, and

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8      See proposed Rule 5.35(c).

9      If an AON order is exposed and the Exchange receives an unrelated AON order with a price at or better than the NBBO with insufficient size to satisfy the exposed order the exposure period will continue because the incoming AON order would not be displayed at a price at or better than the NBBO.

10      For example, suppose the NBBO is 1.00 x 1.20 and the Cboe Options BBO is 1.00 x 1.25, and an AON order to buy 10 at 1.20 is exposed at 1.20 pursuant to SUM. During the exposure period, the Exchange receives an order to sell 5 at 1.20. The incoming order cannot satisfy the size of the exposed AON order, so it would enter the Cboe Options Book and would cause the Cboe Options BBO to become 1.00 x 1.20. Therefore, upon receipt of that order, the exposure period terminates and the exposed AON order will be process pursuant to proposed Rule 5.35(c).

11      See proposed Rule 5.35(d)(1)-(2).

continuing to expose a resting order resting in a locked or crossed market may likely presents difficulties with respect to the handling of the resting order, particularly if an exposed, routable order should be routed for potential price improvement to another options exchange that has published a crossing quotation. The proposed rule change also removes current early termination provisions which would terminate an exposure period when a same-side order is received by the Exchange and if the underlying security enters a limit up limit down state. The Exchange believes because a User will have the ability to cancel its order after the SUM process is initiated coupled with the fact that the Exchange will only execute an order that has been exposed via the SUM process to the extent the order is marketable against the NBBO (as proposed below) will mitigate any potential concern in removing these early termination provisions. As stated, this is consistent with the scenarios for early termination currently on EDGX Options and the Exchange does not believe that the proposed updates present any new or novel changes or significantly impact functionality of the step up process as it will operate in substantially the same manner as it currently does.

The Exchange notes other proposed changes such as making explicit that bulk messages will not be eligible for SUM. Cboe Options intends to implement bulk message functionality upon migration, therefore now proposes to reflect this functionality in its proposed SUM rule (as well as in proposed Rule 5.36 for order routing, described in detail below).[12] Bulk messages are the equivalent of the Exchange's current quoting functionality. Currently, quotes do not route to other exchanges, and thus are not eligible for HAL. Therefore, the proposed rule change is consistent with current functionality. EDGX Options Rule 21.18 also states that bulk messages are not eligible for SUM. The proposed change also

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[12]    See Rule 5.5(c).

includes a few additional details that are consistent with EDGX Options SUM rule and the manner in which the HAL process currently functions but are not made explicit in the current HAL rule. This includes making clear that responses are "cancelled back" at the end of the exposure period if unexecuted,[13] that responses may become executable based on changes to the prevailing NBBO,[14] and that the Exchange will not initiate the SUM process if the NBBO is crossed.[15] These updates do not alter the manner in which HAL currently functions but merely make explicit in the rules the operation of the proposed SUM process.[16]

Proposed Rule 5.36

The Exchange proposes to adopt the order routing rule of its affiliated options exchange, C2 Rule 6.15, under proposed Rule 5.36 in the shell Rulebook. The Exchange will continue to support orders that are designated to be routed to the NBBO as well as orders that will execute only within Cboe Options.

Proposed Rule 5.36(a) states for System securities, the order routing process is available to Users from 9:30 a.m. until market close. Users can designate an order as either available or not available for routing. Orders designated as not available for routing and bulk

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[13]     See proposed Rule 5.35(b)(3).

[14]     See proposed Rule 5.35(c)(3).

[15]     See proposed Rule 5.35(a). The Exchange notes that this is current EDGX Rule 21.18.02.

[16]     The Exchange also removes Interpretation and Policy .01 which provides that all pronouncements regarding determinations by the Exchange pursuant to Rule 6.14A and the Interpretations and Policies thereunder will be announced to Trading Permit Holders via Regulatory Circular as upon migration all Exchange determinations under the Rules will automatically be made pursuant to specifications, Notices, or Regulatory Circulars with appropriate advanced notice, which are posted on the Exchange's website, or electronic message. See Rule 1.5 in the shell Rulebook.

messages, which will not be for routing, are processed pursuant to Rule 5.32[17] (which will be the rule governing order and quote Book processing, display, priority, and execution upon migration). For an order designated as available for routing, the System first checks for the Book for available contracts for execution against the order pursuant to Rule 5.32. Unless otherwise instructed by the User, the System then designates the order (or unexecuted portion) as Immediate-or-Cancel ("IOC")[18] and routes it to one or more options exchanges for potential execution, per the User's instructions. After the System receives responses to the order, to the extent it was not executed in full through the routing process, the System processes the order (or unexecuted portion) as follows, depending on parameters set by the User when the incoming order was originally entered:

i)   Cancels the order (or unexecuted portion) back to the User; posts the unfilled balance of the order to the Book, subject to the Price Adjust process described in proposed Rule 5.32(b), if applicable;

ii)  repeats the process described above by executing against the Book and/or routing to the other options exchanges until the original, incoming order is executed in its entirety;

iii) repeats the process described above by executing against the Book and/or routing to the other options exchanges until the original, incoming order is executed in its

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[17]    See Rule 5.32 in the shell Rulebook.

[18]    Pursuant to Rule 1.1 in the shell Rulebook, the terms "Immediate-or-Cancel" and "IOC" mean, for an order so designated, a limit order that must execute in whole or in part as soon as the System receives it; the System cancels and does not post to the Book an IOC order (or unexecuted portion) not executed immediately on the Exchange or another options exchange.

entirety, or, if not executed in its entirety and a limit order, posts the unfilled balance of the order on the Book if the order's limit price is reached; or

iv) to the extent the System is unable to access a Protected Quotation and there are no other accessible Protected Quotations at the NBBO, cancels or rejects the order back to the User, provided, however, that this provision does not apply to Protected Quotations published by an options exchange against which the Exchange has declared self-help.

Currently, the Exchange automatically routes intermarket sweep orders, consistent with the definition in current Rule 6.80(8).[19] This routing process is functionally equivalent to the current Exchange routing process, and, as proposed, referred to as SWPA and is specifically described in proposed Rule 5.36(a)(2)(B), which is a routing option (and will be the default routing option following migration, and thus, if no other routing option is specified by a User, a User's order subject to routing will be handled in the same way it is today). Following the migration, the Exchange will offer additional routing options identical to the routing options offered by C2 Rule 6.15, as well as by EDGX Options and BZX Options Rule(s) 21.9. Under proposed Rule 5.36(a)(2), routing options may be combined with all available Order Instructions[20] and Times-in-Force, with the exception of those whose terms

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[19]     Pursuant to Rule 6.80(8), an "Intermarket Sweep Order ("ISO")" means a Limit Order for an options series that, simultaneously with the routing of the ISO, one or more additional ISOs, as necessary, are routed to execute against the full displayed size of any Protected Bid, in the case of a limit order to sell, or any Protected Offer, in the case of a limit order to buy, for the options series with a price that is 290 superior to the limit price of the ISO. See also Rule 1.1 in the shell Rulebook. The Exchange relies on the marking of an order by a User as an ISO order when handling such order, and thus, it is the entering User's responsibility, not the Exchange's responsibility, to comply with the requirements relating to ISOs.

[20]     See Rule 5.6 in shell Rulebook.

are inconsistent with the terms of a particular routing option. The System considers the quotations only of accessible markets. The term "System routing table" refers to the proprietary process for determining the specific options exchanges to which the System routes orders and the order in which it routes them. The Exchanges reserves the right to maintain a different System routing table for different routing options and to modify the System routing table at any time without notice. These additional routing options are ROUT, destination specific, and directed ISO:

i) ROUT is a routing option under which the System checks the Book for available contracts to execute against an order and then sends it to destinations on the System routing table. A User may select either Route To Improve ("RTI") or Route To Fill ("RTF") for the ROUT routing option. RTI may route to multiple destinations at a single price level simultaneously while RTF may route to multiple destinations and at multiple price levels simultaneously.

ii) Destination specific is a routing option under which the System checks the Book for available contracts to execute against an order and then sends it to a specific away options exchange.

iii) Directed ISO is a routing option under which the System does not check the Book for available contracts and sends the order to another options exchange specified by the User. It is the entering User's responsibility, not the Exchanges responsibility, to comply with the requirements relating to Intermarket Sweep Orders.

Proposed Rule 5.36(a)(3) offers two options for Re-Route instructions, Aggressive Re-Route and Super Aggressive Re-Route, either of which can be assigned to routable orders:

i)  Pursuant to the Aggressive Re-Route instruction, if the remaining portion of a routable order has been posted to the Book pursuant proposed subparagraph (a)(1) (i.e. routing away to options exchanges), if the order's price is subsequently crossed by the quote of another accessible options exchange, the System routes the order to the crossing options exchange if the User has selected the Aggressive Re-Route instruction.

ii) Pursuant to the Super Aggressive Re-Route instruction, to the extent the unfilled balance of a routable order has been posted to the Book pursuant to subparagraph (a)(1), if the order's price is subsequently locked or crossed by the quote of another accessible options exchange, the System routes the order to the locking or crossing options exchange if the User has selected the Super Aggressive Re-Route instruction.

Proposed Rule 5.36(b) states the System does not rank or maintain in the Book pursuant to Rule 5.32 orders it has routed to other options exchanges, and therefore those orders are not available to execute against incoming orders. Once routed by the System, an order becomes subject to the rules and procedures of the destination options exchange including, but not limited to, order cancellation. If a routed order (or unexecuted portion) is subsequently returned to the Exchange, the order (or unexecuted portion), the order receives a new time stamp reflected the time the System receives the returned order. Proposed Rule 5.36(c) states Users whose orders are routed to other options exchanges must honor trades of those orders executed on other options exchanges to the same extent they would be required to honor trades of those orders if they had executed on the Exchange. These provisions are consistent with the corresponding rules of its affiliated options exchanges, they are substantively identical to the current rule text and functionality of C2 Rule 6.15 and also substantively the same as EDGX Options and BZX Options Rule(s) 21.9.

Proposed Rule 5.36(d) and (f) make explicit certain requirements in connection with Cboe Trading, which, pursuant to current Exchange rules,[21] is an affiliate of the Exchange that provides inbound and outbound routing services, which currently apply to Cboe Trading today. Proposed Rule 5.36(d) states that the Exchange will route orders in options via Cboe Trading, which currently serves as the Outbound Router of the Exchange. The Outbound Router will route orders in options listed and open for trading on the Exchange to other options exchanges pursuant to Exchange Rules solely on behalf of the Exchange. The Outbound Router is subject to regulation as a facility of the Exchange, including the requirement to file proposed rule changes under Section 19 of the Exchange Act. Use of Cboe Trading or Routing Services (under current Rule 6.14B and proposed Rule 5.36(e)) to route orders to other market centers is optional. Parties that do not desire to use Cboe Trading or other Routing Services provided by the Exchange must designate orders as not available for routing. Proposed Rule 5.35(f) states that in addition to the Rules regarding routing to away options exchanges, Cboe Trading has, pursuant to Rule 15c3-5 under the Exchange Act, implemented certain tests designed to mitigate the financial and regulatory risks associated with providing Trading Permit Holders with access to away options exchanges. Pursuant to the policies and procedures developed by Cboe Trading to comply with Rule 15c3-5, if an order or series of orders are deemed to be erroneous or duplicative, would cause the entering Trading Permit Holder's credit exposure to exceed a preset credit threshold, or are noncompliant with applicable pre-trade regulatory requirements, Cboe Trading will reject the orders prior to routing and/or seek to cancel any orders that have been routed. As stated, these provisions are the same as C2 Rule 6.15(d) and (f) and EDGX Options and BZX Options Rule(s) 21.9(f),

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[21]     See Rule 3.11(c), Rule 3.12; and Rule 3.13.

and currently apply to Cboe Trading, therefore the proposed change just makes these provisions in connection with Cboe Trading explicit as well as harmonizes its order routing rules with that of its affiliated options exchanges' routing rules.

The proposed rule change moves current Rule 6.14B which governs the routing services provided by non-affiliated routing brokers, to proposed Rule 5.36(e) which is consistent with the corresponding rules of the Exchanges' affiliated options exchanges, C2, EDGX Options, and BZX Options. The Exchange does not proposed any substantive changes to the rule. The Exchange deletes current Interpretation and Policy .01 which states that a routing broker is not prohibited from designating a preferred market-maker at the other exchange to which the order is being routed, which is consistent with the agreements currently in place between the Exchange and its routing brokers, which do not allow for routing broker discretion in connection with order flow. The Exchange also notes that this proposed change is consistent with the corresponding order routing rules of the Exchange's affiliated options exchanges, C2, EDGX Options, and BZX Options.

Finally, the Exchange deletes current Rule 6.6A and current Rule 6.14C because they are duplicative of Exchange Rules and/ or routing broker agreements already in place. Current Rule 6.6A provides for the Exchange to cancel or release orders as it deems necessary to maintain fair and orderly markets if a technical or systems issue occurs. These provisions are already covered under other Exchange Rules: Rule 6.6A(a) and (b) are already provided for under current Rule 3.12(a)(6)[22] and current Rule 6.14B(f) (proposed Rule 5.36(e)(6)); and

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[22]     The Exchange notes that the Exchange's discretion to cancel orders as either it deems necessary to maintain fair and orderly markets if a technical or systems issue occurs pursuant to Rule 3.12(a)(6) entails its discretion to "release" orders being held awaiting an away exchange execution, that is such orders are cancelled back

Rule 6.6A(c) is already provided for under current Rule 3.12(a)(7)(C). Current Rule 6.14C provides for rules in connection with Routing Service Error Accounts. The provisions in connection with the Exchange's Error Account are currently provided for under Rule 3.12(7), which already requires Cboe Trading, as the Exchange's affiliated outbound router, to maintain an Error Account, provides the Exchange with the authority to assign resulting Error Positions to TPHs or have resulting Error Positions liquidated, and prohibits Cboe Trading from accepting any positions in its error account from an account of a TPH, or permitting any TPH to transfer any positions from the TPH's account to Cboe Trading's error account. The provisions regarding a routing broker's Error Account are already in place in all contracts between the Exchange and its routing brokers pursuant to current Rule 6.14B(a) and (h) (proposed Rule 5.36(e)(1) and (8)). As a result, the proposed rule change deletes current Rules 6.6A and 6.14C as they are duplicative of the current Exchange Rules. The Exchange also notes that this proposed change aligns the Exchange's Rules with that of its affiliated options exchanges, C2, EDGX Options, and BZX Options.

      (b)    <u>Statutory Basis</u>

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.[23] Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)[24] requirements that the rules of an exchange be designed to prevent fraudulent and

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        to Users if a technical or systems issue occurs at the Exchange, a routing broker, or another exchange to which an Exchange order has been routed.

[23]    15 U.S.C. 78f(b).

[24]    15 U.S.C. 78f(b)(5).

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)[25] requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The proposed rule changes are generally intended to add or align certain system functionality currently offered by the Exchange and the Cboe Affiliated Exchanges in order to provide a consistent technology offering for the Cboe Affiliated Exchanges. A consistent technology offering, in turn, will simplify the technology implementation, changes and maintenance by Users of the Exchange that are also participants on Cboe Affiliated Exchanges. The proposed rule change does not propose to implement new or unique functionality that has not been previously filed with the Commission, found to be consistent with the Act, or is not available on Cboe Affiliated Exchanges. The Exchange notes that the proposed rule text is primarily based on EDGX Options Rules, as well as substantially the same as BZX and C2 Options rules, and is different only to the extent that it makes non-substantive changes to retain some Exchange-specific language/definitions, simplify language and make the rule provisions plain English. The Exchange believes that consistent rules will simplify the regulatory requirements and increase the understanding of the Exchange's operations for Trading Permit Holders that are also participants on the Cboe

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[25]     Id.

Affiliated Exchanges. The proposed rule change seeks to provide greater harmonization between the rules of the Cboe Affiliated Exchanges, which would result in greater uniformity and less burdensome and more efficient regulatory compliance. As such, the proposed rule change would foster cooperation and coordination with persons engaged in facilitating transactions in securities and would remove impediments to and perfect the mechanism of a free and open market and a national market system. The Exchange also believes that the proposed amendments will contribute to the protection of investors and the public interest by making the Exchange's rules easier to understand.

The Exchange believes that the proposed rule change to make the current HAL process consistent with the EDGX Options SUM process will serve to remove impediments to and perfect the mechanism of a free and open market and national market system and facilitate transactions in securities because the current HAL process is already equivalent to the EDGX Options SUM process and the proposed rule changes do not raise any new or significant policy concerns, but instead serve to harmonize functionality and the rules across the affiliate exchanges so as to provide market participants with the same product offerings and bolster collective understanding of the rules upon migration.

In addition to protecting and benefitting market participants by providing consistent functionality and rules, the proposed change will continue to allow all Users to submit responses to the exposure message during the exposure period, which the Exchange already does, which will remove impediments to and perfect the mechanism of a free and open national market system in that it will continue to provide all Users with the opportunity to improve their prices and "step up" to meet the NBBO and interact with exposure messages and allow the market participant sending an order to the Exchange to increase its chances of

receiving an execution on the preferred venue in which it has chosen to participate (i.e., Cboe Options), thereby benefitting all market participants.  In addition to this, the proposed rule change that allows for a User to opt out of having the remaining portion of their exposed order routed to other exchanges following the exposure period will remove impediments to and perfect the mechanism of a free and open national market system by providing Users with additional control regarding the execution of their orders and by providing them with consistent opportunities and functionality across the affiliated exchanges upon migration.

The Exchange also believes the proposed rule change regarding the handling of AON orders exposed in a SUM auction will protect investors because it is identical to the handling of AON orders exposed in the EDGX Options SUM process. Additionally, the proposed rule change will provide AON orders with execution opportunities when the Exchange is not at the NBBO in a manner consistent with the current SUM process and makes it explicit that the exposure period for an AON order will terminate when there is sufficient aggregate contra-side interest to satisfy the exposed AON order (except it will not execute any incoming contra-side interest immediately against the exposed AON order, unless it has sufficient size which will prevent a partial execution in conflict with the AON size contingency), which is the manner in which the current HAL process already functions. This benefits market participants by providing them with rules that accurately reflect current functionality (as well as functionality that will be provided on the Exchange upon migration). The proposed rule change regarding an early termination of the exposure period of an AON order is consistent with current reasons that will cause an exposure period to terminate; it will prevent an exposure period from continuing when new conditions arise that would have prevented an exposure period from initiating in the first place. The proposed rule change will remove

impediments to and perfect the mechanism of free and open market and a national market system, because it ensures an AON order will be handled in a manner consistent with the current SUM process.

The proposed rule changes to the other provisions in connection with early termination of exposure period align with the reasons a SUM auction may currently terminate on EDGX Options and will remove impediments to and perfect the mechanism of a free and open market and national market system by terminating an orders that would no longer benefit from exposure or would likely present order handling difficulties, which could impact market participants. In addition to this, because a User will have the ability to cancel its order after the SUM process is initiated coupled with the fact that the Exchange will only execute an order that has been exposed via the SUM process to the extent the order is marketable against the NBBO will mitigate any potential concern in removing other early termination provisions. The Exchange believes that the other updates proposed to align the Exchange's proposed rule with that of the EDGX Options SUM process do not alter the manner in which HAL currently functions but merely make explicit in the rules the operation of the proposed SUM process.

The proposed change to adopt C2's order routing rules (which are also substantially the same as the routing rules on EDGX Options and BZX Options) will likewise serve to protect and benefit market participants by providing consistent functionality and rules in connection with order routing. As stated, the order routing rule of the Exchange's affiliated options exchanges have previously been filed with the Commission. Proposed Rule 5.36 will serve to remove impediments to and perfect the mechanism of a free and open market and national market system because it will allow Users to route orders in much the same way in which they may already route ISO orders on the Exchange today, and in the same manner as

Users may already route orders on the Exchange's affiliated options exchanges, C2, EDGX Options, and BZX Options. Under the proposed rules the System will still process, display and prioritize orders as it currently does as well as ensure the same price protections currently in place, thereby protecting investors. The additional routing options that the proposed rule change offers are the same routing options already available to Users on the Exchange's affiliated options exchange, therefore these options do not raise any new or novel functionality for market participants but ensure that upon migration market participants across the Cboe Affiliated Exchanges will have access to the same functionality and product offerings.

The proposed provisions regarding Cboe Trading will benefit market participants by making explicit certain rules that already apply to Cboe Trading on the Exchange, as well as serve to harmonize the Exchange's routing rules with the corresponding rules of C2 and EDGX Options, as well as BZX Options. The other proposed changes will also remove impediments to and perfect the mechanism of a free and open national market system by removing rules that are duplicative of other Exchange rules that currently provide for the same and are already effectively provided for in the contracts between the Exchange and its non-affiliated routing brokers. This, in turn, provides market participants with up-to-date, streamlined rules with are easy to understand, and mirror the corresponding rules of C2 and EDGX Options, as well as BZX Options.

The proposed rule change makes other various non-substantive changes throughout the rules that will protect investors and benefit market participants as these changes simplify the rules and use plain English throughout the rules.

**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 reiterates that the proposed rule change is being proposed in the context of a technology migration of the Cboe Affiliated Exchanges. As stated, the proposed changes to the rules that reflect functionality that will be in place come October 7, 2019 provide clear, consistent rules for market participants upon the completion of migration. The Exchange believes the proposed rule change will benefit Exchange participants in that it will provide a consistent technology offering for Users by the Cboe Affiliated Exchanges.

The Exchange does not believe the proposed rule change will impose any burden on intramarket competition. The proposed SUM process and order routing functionality will apply to all Users and order and quotes submitted by Users in the same manner. Like HAL currently, the Exchange's proposed SUM is open to all Users. Additionally, all Users will have the option to route orders to away exchanges, and apply the different proposed routing instructions, under the proposed order routing provisions.

The Exchange does not believe that the proposed rules change will impose any burden on intermarket competitions. As discussed above, the basis for the proposed rule changes in this filing are the rules of C2 and EDGX Options, as well as substantial similarities to the approved rules of BZX Options, which have already been filed with the Commission. The Exchange also notes that market participants on other exchanges are welcome to become participants on the Exchange if they determine that this proposed rule change has made Cboe Options a more attractive or favorable venue.

**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[26] and Rule 19b-4(f)(6)[27] 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.

The Exchange does not believe the proposed rule change will significantly affect the protection of investors or the public interest and, instead, will serve to benefit, overall, investors and the public interest. As described above in further detail, the proposed rule changes are based on the rules of C2 and EDGX Options, as well BZX Options, which have been previously been filed with the Commission.  The proposed rule change aligns the Exchange's System functionality across these affiliated options exchanges, simplifying

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[26]     15 U.S.C. 78s(b)(3)(A).

[27]     17 CFR 240.19b-4(f)(6).

the technology implementation, changes, and maintenance by Users of the Exchange that are also participants on other Cboe Affiliated Exchanges. The proposed rule change is consistent with the protection of investors and the public interest because it will allow the Exchange to continue to strive towards a complete technology integration of the Cboe Affiliated Exchanges in a timely manner to ensure stability of the System. All proposed System functionality will be available to all Users. The proposed rule change does not propose to implement new or unique functionality that has not been previously filed with the Commission or is not available on Cboe Affiliated Exchanges. The proposed rule change also provides greater harmonization between the rules of the Cboe Affiliated Exchanges, resulting in greater uniformity and less burdensome and more efficient regulatory compliance, as well as bolstered collective understanding for investors.

The Exchange believes that the proposed rule change to make the current HAL process consistent with the EDGX Options SUM process will not significantly affect the protection of investors or the public interest because the current HAL process is already equivalent to the EDGX Options SUM process, therefore, the proposed SUM process does not raise any new or significant policy concerns. The proposed change will continue to allow all Users to submit responses to the exposure message during the exposure period, as the Exchange currently does, which will benefit investors by providing all Users with the opportunity to improve their prices and "step up" to meet the NBBO and interact with exposure messages and allow all market participants sending an order to the Exchange to increase its chances of receiving an execution on the preferred venue in which it has chosen to participate (i.e., Cboe Options). The proposed rule change allowing a User to opt out of having the remaining portion of their exposed order routed to other exchanges following the

exposure period will benefit investors by providing Users with greater control regarding the execution of their orders and by providing them with consistent opportunities and functionality in connection with the SUM process across the affiliated exchanges upon migration. The proposed rule change regarding the handling of AON orders exposed in a SUM auction will not significantly affect the protection of investors or the public interest because it is identical to the handling of AON orders exposed in the EDGX Options SUM process, will provide AON orders with execution opportunities when the Exchange is not at the NBBO in a manner consistent with the current SUM process, makes explicit certain SUM process functionality already in place in connection with exposed AON orders, provides early termination provisions for AON orders, as well as non-AON orders, that are consistent with current reasons that will cause an exposure period to terminate, and ensures an AON order will be handled in a manner consistent with the current SUM process. Additionally, the proposed rule changes to the other provisions in connection with early termination of exposure period will benefit investors by terminating orders that would no longer benefit from exposure or would likely present order handling difficulties, which could impact market participants. The proposed change protects investors and the public interest by ensuring that the Exchange will only execute an order that has been exposed via the SUM process to the extent the order is marketable against the NBBO will mitigate any potential concern in removing other early termination provisions. The proposed updates to the current HAL process will benefit investors by aligning the Exchange's "step up" process with that of the EDGX Options SUM process and will not significantly affect investors because the proposed changes do not alter the manner in which HAL currently functions

The proposed change to adopt certain order routing rules will not significantly affect the protection of investors because the proposed changes adopt the order routing rules currently in place on C2, as well as consistent with the routing rules of EDGX Options and BZX Options, previously filed with the Commission. The proposed rules change will not significantly affect the protection of investors and the public interest because it will allow all Users to route orders in much the same way in which they may already route ISO orders on the Exchange today, and in the same manner as User may already route orders on C2, EDGX Options, and BZX Options. In addition, the proposed change will not affect investors because the System will still process, display and prioritize orders as it currently does and ensure the same price protections currently in place. The proposed rule change will benefit investors because it offers are the same routing options to the Exchange's Users as those available to Users on the Exchange's affiliated options exchanges. As such, these options do not raise any new or novel functionality for market participants but ensure that upon migration market participants across the Cboe Affiliated Exchanges will have access to the same functionality and product offerings.

The proposed provisions regarding Cboe Trading will benefit market participants by making explicit certain rules that already apply to Cboe Trading on the Exchange, as well as serve to harmonize the Exchange's routing rules with the corresponding rules of C2 and EDGX Options, as well as BZX Options. The other proposed changes will also benefit investors and the public interest by removing rules that are duplicative of other Exchange rules or covered (pursuant to the Exchange Rules) in the contracts between the Exchange and its non-affiliated routing brokers.

The Exchange believes the proposed reorganization of and non-substantive changes to the Rules add detail and transparency to the Rules, updates the rules to accurately reflect current practices and functions of the Exchange and its participants, as well as simplify the Rules, which also benefits investors.

The Exchange believes the proposed rule change will not impose any significant burden on competition. The Exchange reiterates that the proposed rule change is being proposed in the context of a technology migration of the Cboe Affiliated Exchanges. As stated, the proposed changes to the rules that reflect functionality that will be in place come October 7, 2019 will provide clear, consistent rules for market participants upon the completion of migration. The Exchange believes the proposed rule change will benefit Exchange participants in that it will provide a consistent technology offering for Users by the Cboe Affiliated Exchanges. As stated, the proposed SUM process and order routing functionality will apply to all Users and order and quotes submitted by Users in the same manner. Like HAL currently, the Exchange's proposed SUM is open to all Users. Additionally, all Users will have the option to route orders to away exchanges, and apply the different proposed routing instructions, under the proposed order routing provisions. Additionally, the basis for the proposed rule changes in this filing is the rules of C2 and EDGX Options, as well as substantial similarities to the approved rules of BZX Options, which have already been filed with the Commission. The Exchange also notes that market participants on other exchanges are welcome to become participants on the Exchange if they determine that this proposed rule change has made Cboe Options a more attractive or favorable venue.

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

As described above, proposed Rule 5.35 is change is based on and substantively the same as EDGX Options Rule 21.18 and proposed Rule 5.36 is based on and substantively the same as C2 Rule 6.15, as well as substantially similar to EDGX Options and BZX Options Rule(s) 21.9. The minor differences between the proposed rules and the corresponding rules of the respective affiliated options exchange are intentionally retained due to rule language/definitions unique to Cboe Options, as well as to simplify rule language and to make the rules in plain English, and are described in the purpose section of this filing.

**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 5A.      Proposed rule text – current Rulebook.

Exhibit 5B.      Proposed rule text – shell Rulebook.

<u>EXHIBIT 1</u>

**SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34-      ; File No. SR-CBOE-2019-050]

[Insert date]

Self-Regulatory Organizations; Cboe Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend Exchange Rules Regarding Routing Services, Including the Hybrid Agency Liaison System, and Move those Rules from the Currently Effective Rulebook to the Shell Rulebook to be Effective Upon Migration

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 Exchange, Inc. (the "Exchange" or "Cboe Options") 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.      <u>Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change</u>**

The Exchange proposes to amend the Exchange's Rules regarding routing services, including the Hybrid Agency Liaison ("HAL") system, and move those Rules from the currently effective Rulebook ("current Rulebook") to the shell structure for the Exchange's Rulebook that will become effective upon the migration of the Exchange's trading platform

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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).

to the same system used by the Cboe Affiliated Exchanges (as defined below) ("shell Rulebook"). The text of the proposed rule change is provided in Exhibit 5.

The text of the proposed rule change is also available on the Exchange's website (http://www.cboe.com/AboutCBOE/CBOELegalRegulatoryHome.aspx), at the Exchange's Office of the Secretary, and at the Commission's Public Reference Room.

## II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

### A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

#### 1. Purpose

In 2016, the Exchange's parent company, Cboe Global Markets, Inc. (formerly named CBOE Holdings, Inc.) ("Cboe Global"), which is also the parent company of Cboe C2 Exchange, Inc. ("C2"), acquired Cboe EDGA Exchange, Inc. ("EDGA"), Cboe EDGX Exchange, Inc. ("EDGX" or "EDGX Options"), Cboe BZX Exchange, Inc. ("BZX" or "BZX Options"), and Cboe BYX Exchange, Inc. ("BYX" and, together with Cboe Options, C2, EDGX, EDGA, and BZX, the "Cboe Affiliated Exchanges"). The Cboe Affiliated Exchanges are working to align certain system functionality, retaining only intended differences, between the Cboe Affiliated Exchanges, in the context of a technology migration. Cboe Options intends to migrate its trading platform to the same system used by the Cboe Affiliated Exchanges, which the Exchange expects to complete on October 7, 2019. In connection with

this technology migration, the Exchange has a shell Rulebook that resides alongside its current Rulebook, which shell Rulebook will contain the Rules that will be in place upon completion of the Cboe Options technology migration.

The Exchange proposes to harmonize its rules in connection with routing functions on the Exchange to that of the Cboe Affiliated Exchanges. Specifically, the Exchange proposes to update and amend current Rule 6.14A, which governs the operation of the HAL system to be consistent with of the corresponding rule of EDGX Options, Rule 21.18, which governs the operation of the Step Up Mechanism ("SUM"). The Exchange also proposes to harmonize Rule 6.6A, Rule 6.14B, and Rule 6.14C with that of its affiliate option exchange, C2, Rule 6.15, as well as EDGX and BZX Rule(s) 21.9, which provide for order routing rules of the exchange. The Exchange proposes these amendments to reflect the routing functions rule language of the Cboe Affiliated Exchange rules, retaining only slight differences regarding Exchange-specific language/definitions. In conforming its routing rules to that of the Cboe Affiliated Exchanges' rules, the Exchange proposes few substantive changes, namely amending the rules to allow for all Users[5] to respond to a SUM (the Exchange proposes to rename HAL as SUM, and refers to SUM herein) exposure message, to allow a User to opt out of having its exposed order routed to other exchanges at the conclusion of a SUM exposure period, to update the scenarios in which a SUM auction will terminate early (which includes incorporating provisions that account for All-or-None orders), and, finally, to adopt the order routing functionality currently in place on the Cboe Affiliated Exchanges.

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[5]    The term "User" means any TPH or Sponsored User who is authorized to obtain access to the System. <u>See</u> Rule 1.1 in the shell Rulebook.

The Exchange also proposes to make non-substantive changes to simplify, clarify, and generally update its routing rules by consolidating its routing provisions into a single rule, simplify rule language, update the rule text to read in plain English, reformat the paragraph lettering and/or numbering, and update cross-references to rules not yet in the shell Rulebook but that will be in the shell Rulebook and implemented upon migration.

Proposed Rule 5.35

Current Rule 6.14A governs the operation of HAL. SUM is the EDGX Options equivalent of the Exchange's HAL. Both systems allow for orders not automatically executed by the respective exchange to "step up" to meet the NBBO in order to interact with orders sent to the Exchange. Both rules govern the current handling of orders eligible for such automatic handling, which include i) an order that is marketable against the Exchange's disseminated quotation (the "BBO", as specifically defined in the Exchange's Rules) while not the NBBO and ii) an order that would improve the BBO and that is marketable against quotations disseminated by other exchanges (the "ABBO") that are participants in the Options Order Protection and Locked/Crossed Plan (the "Linkage Plan").[6] In anticipation of migration, the Exchange proposes to move Rule 6.14A to proposed Rule 5.35 (and subsequently delete Rule 6.14A upon migration) and amend the current provisions under Rule 6.14A to be consistent with EDGX Option's corresponding Rule 21.18. This includes renaming "HAL" to be called "SUM", which, as stated, is a substantially similar system for processing orders not automatically executed by the respective exchanges. The automatic

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[6]    The proposed rule deletes an additional eligible order provision that will no longer apply the rules and functionality on Cboe Options upon migration because the drill through provision referenced will mirror that of EDGX Options, which is not SUM specific.

handling systems across the affiliated exchanges will function in a substantively identical manner upon migration, therefore updating HAL to be called SUM will mitigate any potential investor confusion and provide for uniform rules regarding the same functionality.

Currently on HAL, pursuant to Rule 6.14A(b), only Market-Makers with an appointment in the relevant option class and Trading Permit Holders ("TPHs") acting as agent for orders resting at the top of the Book in the relevant option series opposite the order submitted to HAL may submit responses to the exposure message during the exposure period (unless the Exchange determines, on a class-by-class basis, to allow all TPHs to submit responses to the exposure message). The proposed rule change updates this provision to align with the manner in which SUM responses function on EDGX Options; all Users may submit responses to the exposure message during the exposure period.[7] The Exchange currently allows all TPHs to respond to all classes during the exposure period, therefore this change does not change or impact the manner in which the SUM process currently functions, but instead merely removes the flexibility for the Exchange to allow all TPHs to respond on a class-by-class basis, as this is the manner in which the Exchange intends for the SUM process to continue to function upon migration.

The Exchange notes that as a result of this proposed change, the proposed rule also removes: i) the current rule text which provides that an order will not be exposed if the Exchange quotation contains resting orders and does not contain sufficient Market Maker quotation interest to satisfy the entire order; ii) the early termination provision that terminate an exposure period if Market Maker interest decrements to an amount equal to the size of the exposed order; and iii) the current Interpretation and Policy .01 which prohibits the

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[7]     See proposed 5.35(b)(2).

redistribution of exposure messages to market participants not eligible to respond to such messages. The proposed rule change removes these provisions because the Exchange proposes for SUM to not be dependent only on Market-Maker interest in any way and all Users will be permitted to respond to all exposure messages.

The proposed rule change also amends the current provision regarding allocation of exposed orders to allow for a User to opt out of having the remaining portion of its exposed order routed to other exchanges following the exposure period.[8] This is consistent with the EDGX Options SUM rule and the manner in which Users on EDGX Options may currently opt out of having their remaining portion of SUM exposed orders routed away.

The proposed rule change also updates the rule to be consistent with how EDGX Options SUM process handles an All or None ("AON") order,[9] which is currently an order type available on the Exchange. Currently (and as proposed), any responses priced at the prevailing NBBO or better, and any unrelated order or quote on the opposite side of the market from the exposed order that could trade against the exposed order at the prevailing NBBO or better, will immediately trade against the exposed order, and the exposure period will continue. A SUM (current HAL) exposure period will currently terminate upon the receipt of a response (or unrelated order or quote) to trade the entire exposed order at the NBBO or better. Because an AON order cannot partially execute pursuant to its terms, the proposed rule change makes it explicit that during the exposure of an AON order, the System will hold responses priced at or better than the prevailing NBBO (rather than trade against the exposed

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8    See proposed Rule 5.35(c)(4).

9    Pursuant to Rule 1.1 in shell Rulebook an "All-or-None" or "AON" order is an order to be executed in its entirety or not at all. An AON order may be a market or limit order.

AON immediately) until there is sufficient aggregate size to satisfy the AON order,[10] and that a SUM exposure period will terminate upon the receipt of multiple responses with sufficient aggregate size to satisfy the AON order.[11] This is the manner in which the HAL system currently functions, and the proposed change merely codifies this in the proposed rule. In addition to this, the proposed rule change provides that if an AON order is exposed and the Exchange receives an unrelated order or quote that would be displayed at a price at or better than the NBBO with insufficient size to satisfy the exposed order, the SUM exposure period terminates and the exposed order is processed pursuant to the allocation of exposed orders provision[12] under the SUM process.[13] This is consistent with current HAL functionality, to which an order is eligible for the process if its price is marketable against the Exchange's disseminated quotation that is not at the NBBO. Because a SUM auction would not have begun if the Exchange displayed a contra-side order at the NBBO, the Exchange believes it is appropriate to terminate the exposure period if that situation arises in connection with exposed AON orders during the exposure period.[14] As stated, this is consistent with the way in which the current HAL system and SUM on EDGX Options function.

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[10]     See proposed Rule 5.35(c)(1).

[11]     See proposed Rule 5.35(d).

[12]     See proposed Rule 5.35(c).

[13]     If an AON order is exposed and the Exchange receives an unrelated AON order with a price at or better than the NBBO with insufficient size to satisfy the exposed order the exposure period will continue because the incoming AON order would not be displayed at a price at or better than the NBBO.

[14]     For example, suppose the NBBO is 1.00 x 1.20 and the Cboe Options BBO is 1.00 x 1.25, and an AON order to buy 10 at 1.20 is exposed at 1.20 pursuant to SUM. During the exposure period, the Exchange receives an order to sell 5 at 1.20. The incoming order cannot satisfy the size of the exposed AON order, so it would enter the Cboe Options Book and would cause the Cboe Options BBO to become 1.00 x 1.20. Therefore, upon receipt of that order, the exposure period terminates and the exposed AON order will be process pursuant to proposed Rule

The Exchange amends the other provisions in connection with early termination of exposure period to be consistent with the EDGX Option's SUM rule. The proposed rule change amends these provisions to include early termination when the exposed order is no longer marketable against the NBBO or if a resting order on the Exchange is locked or crossed by another options exchange.[15] In addition to aligning with the reasons a SUM auction may currently terminate on EDGX Options, the Exchange believes that these scenarios are reasonable to terminate the SUM process because if an order is no longer marketable, then it cannot be executed through the SUM process and no longer benefit from exposure, and continuing to expose a resting order resting in a locked or crossed market may likely presents difficulties with respect to the handling of the resting order, particularly if an exposed, routable order should be routed for potential price improvement to another options exchange that has published a crossing quotation. The proposed rule change also removes current early termination provisions which would terminate an exposure period when a same-side order is received by the Exchange and if the underlying security enters a limit up limit down state. The Exchange believes because a User will have the ability to cancel its order after the SUM process is initiated coupled with the fact that the Exchange will only execute an order that has been exposed via the SUM process to the extent the order is marketable against the NBBO (as proposed below) will mitigate any potential concern in removing these early termination provisions. As stated, this is consistent with the scenarios for early termination currently on EDGX Options and the Exchange does not believe that the proposed updates present any new

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5.35(c).

[15]     See proposed Rule 5.35(d)(1)-(2).

or novel changes or significantly impact functionality of the step up process as it will operate in substantially the same manner as it currently does.

The Exchange notes other proposed changes such as making explicit that bulk messages will not be eligible for SUM. Cboe Options intends to implement bulk message functionality upon migration, therefore now proposes to reflect this functionality in its proposed SUM rule (as well as in proposed Rule 5.36 for order routing, described in detail below).[16] Bulk messages are the equivalent of the Exchange's current quoting functionality. Currently, quotes do not route to other exchanges, and thus are not eligible for HAL. Therefore, the proposed rule change is consistent with current functionality. EDGX Options Rule 21.18 also states that bulk messages are not eligible for SUM. The proposed change also includes a few additional details that are consistent with EDGX Options SUM rule and the manner in which the HAL process currently functions but are not made explicit in the current HAL rule. This includes making clear that responses are "cancelled back" at the end of the exposure period if unexecuted,[17] that responses may become executable based on changes to the prevailing NBBO,[18] and that the Exchange will not initiate the SUM process if the NBBO is crossed.[19] These updates do not alter the manner in which HAL currently functions but merely make explicit in the rules the operation of the proposed SUM process.[20]

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[16] See Rule 5.5(c).

[17] See proposed Rule 5.35(b)(3).

[18] See proposed Rule 5.35(c)(3).

[19] See proposed Rule 5.35(a). The Exchange notes that this is current EDGX Rule 21.18.02.

[20] The Exchange also removes Interpretation and Policy .01 which provides that all pronouncements regarding determinations by the Exchange pursuant to Rule 6.14A and the Interpretations and Policies thereunder will be announced to Trading Permit Holders via Regulatory Circular as upon migration all Exchange determinations under the Rules will automatically be made pursuant to

Proposed Rule 5.36

The Exchange proposes to adopt the order routing rule of its affiliated options exchange, C2 Rule 6.15, under proposed Rule 5.36 in the shell Rulebook. The Exchange will continue to support orders that are designated to be routed to the NBBO as well as orders that will execute only within Cboe Options.

Proposed Rule 5.36(a) states for System securities, the order routing process is available to Users from 9:30 a.m. until market close. Users can designate an order as either available or not available for routing. Orders designated as not available for routing and bulk messages, which will not be for routing, are processed pursuant to Rule 5.32[21] (which will be the rule governing order and quote Book processing, display, priority, and execution upon migration). For an order designated as available for routing, the System first checks for the Book for available contracts for execution against the order pursuant to Rule 5.32. Unless otherwise instructed by the User, the System then designates the order (or unexecuted portion) as Immediate-or-Cancel ("IOC")[22] and routes it to one or more options exchanges for potential execution, per the User's instructions. After the System receives responses to the order, to the extent it was not executed in full through the routing process, the System

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specifications, Notices, or Regulatory Circulars with appropriate advanced notice, which are posted on the Exchange's website, or electronic message. See Rule 1.5 in the shell Rulebook.

[21] See Rule 5.32 in the shell Rulebook.

[22] Pursuant to Rule 1.1 in the shell Rulebook, the terms "Immediate-or-Cancel" and "IOC" mean, for an order so designated, a limit order that must execute in whole or in part as soon as the System receives it; the System cancels and does not post to the Book an IOC order (or unexecuted portion) not executed immediately on the Exchange or another options exchange.

processes the order (or unexecuted portion) as follows, depending on parameters set by the User when the incoming order was originally entered:

i) Cancels the order (or unexecuted portion) back to the User; posts the unfilled balance of the order to the Book, subject to the Price Adjust process described in proposed Rule 5.32(b), if applicable;

ii) repeats the process described above by executing against the Book and/or routing to the other options exchanges until the original, incoming order is executed in its entirety;

iii) repeats the process described above by executing against the Book and/or routing to the other options exchanges until the original, incoming order is executed in its entirety, or, if not executed in its entirety and a limit order, posts the unfilled balance of the order on the Book if the order's limit price is reached; or

iv) to the extent the System is unable to access a Protected Quotation and there are no other accessible Protected Quotations at the NBBO, cancels or rejects the order back to the User, provided, however, that this provision does not apply to Protected Quotations published by an options exchange against which the Exchange has declared self-help.

Currently, the Exchange automatically routes intermarket sweep orders, consistent with the definition in current Rule 6.80(8).[23] This routing process is functionally equivalent

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[23]     Pursuant to Rule 6.80(8), an "Intermarket Sweep Order ("ISO")" means a Limit Order for an options series that, simultaneously with the routing of the ISO, one or more additional ISOs, as necessary, are routed to execute against the full displayed size of any Protected Bid, in the case of a limit order to sell, or any Protected Offer, in the case of a limit order to buy, for the options series with a price that is 290 superior to the limit price of the ISO. See also Rule 1.1 in the shell Rulebook. The Exchange relies on the marking of an order by a User as an

to the current Exchange routing process, and, as proposed, referred to as SWPA and is specifically described in proposed Rule 5.36(a)(2)(B), which is a routing option (and will be the default routing option following migration, and thus, if no other routing option is specified by a User, a User's order subject to routing will be handled in the same way it is today). Following the migration, the Exchange will offer additional routing options identical to the routing options offered by C2 Rule 6.15, as well as by EDGX Options and BZX Options Rule(s) 21.9. Under proposed Rule 5.36(a)(2), routing options may be combined with all available Order Instructions[24] and Times-in-Force, with the exception of those whose terms are inconsistent with the terms of a particular routing option. The System considers the quotations only of accessible markets. The term "System routing table" refers to the proprietary process for determining the specific options exchanges to which the System routes orders and the order in which it routes them. The Exchanges reserves the right to maintain a different System routing table for different routing options and to modify the System routing table at any time without notice. These additional routing options are ROUT, destination specific, and directed ISO:

i) ROUT is a routing option under which the System checks the Book for available contracts to execute against an order and then sends it to destinations on the System routing table. A User may select either Route To Improve ("RTI") or Route To Fill ("RTF") for the ROUT routing option. RTI may route to multiple destinations at a

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ISO order when handling such order, and thus, it is the entering User's responsibility, not the Exchange's responsibility, to comply with the requirements relating to ISOs.

24      See Rule 5.6 in shell Rulebook.

single price level simultaneously while RTF may route to multiple destinations and at multiple price levels simultaneously.

ii) Destination specific is a routing option under which the System checks the Book for available contracts to execute against an order and then sends it to a specific away options exchange.

iii) Directed ISO is a routing option under which the System does not check the Book for available contracts and sends the order to another options exchange specified by the User. It is the entering User's responsibility, not the Exchanges responsibility, to comply with the requirements relating to Intermarket Sweep Orders.

Proposed Rule 5.36(a)(3) offers two options for Re-Route instructions, Aggressive Re-Route and Super Aggressive Re-Route, either of which can be assigned to routable orders:

i) Pursuant to the Aggressive Re-Route instruction, if the remaining portion of a routable order has been posted to the Book pursuant proposed subparagraph (a)(1) (i.e. routing away to options exchanges), if the order's price is subsequently crossed by the quote of another accessible options exchange, the System routes the order to the crossing options exchange if the User has selected the Aggressive Re-Route instruction.

ii) Pursuant to the Super Aggressive Re-Route instruction, to the extent the unfilled balance of a routable order has been posted to the Book pursuant to subparagraph (a)(1), if the order's price is subsequently locked or crossed by the quote of another accessible options exchange, the System routes the order to the locking or crossing options exchange if the User has selected the Super Aggressive Re-Route instruction.

Proposed Rule 5.36(b) states the System does not rank or maintain in the Book pursuant to Rule 5.32 orders it has routed to other options exchanges, and therefore those orders are not available to execute against incoming orders. Once routed by the System, an order becomes subject to the rules and procedures of the destination options exchange including, but not limited to, order cancellation. If a routed order (or unexecuted portion) is subsequently returned to the Exchange, the order (or unexecuted portion), the order receives a new time stamp reflected the time the System receives the returned order. Proposed Rule 5.36(c) states Users whose orders are routed to other options exchanges must honor trades of those orders executed on other options exchanges to the same extent they would be required to honor trades of those orders if they had executed on the Exchange. These provisions are consistent with the corresponding rules of its affiliated options exchanges, they are substantively identical to the current rule text and functionality of C2 Rule 6.15 and also substantively the same as EDGX Options and BZX Options Rule(s) 21.9.

Proposed Rule 5.36(d) and (f) make explicit certain requirements in connection with Cboe Trading, which, pursuant to current Exchange rules,[25] is an affiliate of the Exchange that provides inbound and outbound routing services, which currently apply to Cboe Trading today. Proposed Rule 5.36(d) states that the Exchange will route orders in options via Cboe Trading, which currently serves as the Outbound Router of the Exchange. The Outbound Router will route orders in options listed and open for trading on the Exchange to other options exchanges pursuant to Exchange Rules solely on behalf of the Exchange. The Outbound Router is subject to regulation as a facility of the Exchange, including the requirement to file proposed rule changes under Section 19 of the Exchange Act. Use of Cboe Trading or Routing

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[25]  See Rule 3.11(c), Rule 3.12; and Rule 3.13.

Services (under current Rule 6.14B and proposed Rule 5.36(e)) to route orders to other market centers is optional. Parties that do not desire to use Cboe Trading or other Routing Services provided by the Exchange must designate orders as not available for routing. Proposed Rule 5.35(f) states that in addition to the Rules regarding routing to away options exchanges, Cboe Trading has, pursuant to Rule 15c3-5 under the Exchange Act, implemented certain tests designed to mitigate the financial and regulatory risks associated with providing Trading Permit Holders with access to away options exchanges. Pursuant to the policies and procedures developed by Cboe Trading to comply with Rule 15c3-5, if an order or series of orders are deemed to be erroneous or duplicative, would cause the entering Trading Permit Holder's credit exposure to exceed a preset credit threshold, or are noncompliant with applicable pre-trade regulatory requirements, Cboe Trading will reject the orders prior to routing and/or seek to cancel any orders that have been routed. As stated, these provisions are the same as C2 Rule 6.15(d) and (f) and EDGX Options and BZX Options Rule(s) 21.9(f), and currently apply to Cboe Trading, therefore the proposed change just makes these provisions in connection with Cboe Trading explicit as well as harmonizes its order routing rules with that of its affiliated options exchanges' routing rules.

The proposed rule change moves current Rule 6.14B which governs the routing services provided by non-affiliated routing brokers, to proposed Rule 5.36(e) which is consistent with the corresponding rules of the Exchanges' affiliated options exchanges, C2, EDGX Options, and BZX Options. The Exchange does not proposed any substantive changes to the rule. The Exchange deletes current Interpretation and Policy .01 which states that a routing broker is not prohibited from designating a preferred market-maker at the other exchange to which the order is being routed, which is consistent with the agreements currently

in place between the Exchange and its routing brokers, which do not allow for routing broker discretion in connection with order flow. The Exchange also notes that this proposed change is consistent with the corresponding order routing rules of the Exchange's affiliated options exchanges, C2, EDGX Options, and BZX Options.

Finally, the Exchange deletes current Rule 6.6A and current Rule 6.14C because they are duplicative of Exchange Rules and/ or routing broker agreements already in place. Current Rule 6.6A provides for the Exchange to cancel or release orders as it deems necessary to maintain fair and orderly markets if a technical or systems issue occurs. These provisions are already covered under other Exchange Rules: Rule 6.6A(a) and (b) are already provided for under current Rule 3.12(a)(6)[26] and current Rule 6.14B(f) (proposed Rule 5.36(e)(6)); and Rule 6.6A(c) is already provided for under current Rule 3.12(a)(7)(C). Current Rule 6.14C provides for rules in connection with Routing Service Error Accounts. The provisions in connection with the Exchange's Error Account are currently provided for under Rule 3.12(7), which already requires Cboe Trading, as the Exchange's affiliated outbound router, to maintain an Error Account, provides the Exchange with the authority to assign resulting Error Positions to TPHs or have resulting Error Positions liquidated, and prohibits Cboe Trading from accepting any positions in its error account from an account of a TPH, or permitting any TPH to transfer any positions from the TPH's account to Cboe Trading's error account. The provisions regarding a

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[26]    The Exchange notes that the Exchange's discretion to cancel orders as either it deems necessary to maintain fair and orderly markets if a technical or systems issue occurs pursuant to Rule 3.12(a)(6) entails its discretion to "release" orders being held awaiting an away exchange execution, that is such orders are cancelled back to Users if a technical or systems issue occurs at the Exchange, a routing broker, or another exchange to which an Exchange order has been routed.

routing broker's Error Account are already in place in all contracts between the Exchange and its routing brokers pursuant to current Rule 6.14B(a) and (h) (proposed Rule 5.36(e)(1) and (8)). As a result, the proposed rule change deletes current Rules 6.6A and 6.14C as they are duplicative of the current Exchange Rules. The Exchange also notes that this proposed change aligns the Exchange's Rules with that of its affiliated options exchanges, C2, EDGX Options, and BZX Options.

### 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.[27] Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)[28] 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)[29] requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

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[27]   15 U.S.C. 78f(b).

[28]   15 U.S.C. 78f(b)(5).

[29]   Id.

The proposed rule changes are generally intended to add or align certain system functionality currently offered by the Exchange and the Cboe Affiliated Exchanges in order to provide a consistent technology offering for the Cboe Affiliated Exchanges. A consistent technology offering, in turn, will simplify the technology implementation, changes and maintenance by Users of the Exchange that are also participants on Cboe Affiliated Exchanges. The proposed rule change does not propose to implement new or unique functionality that has not been previously filed with the Commission, found to be consistent with the Act, or is not available on Cboe Affiliated Exchanges. The Exchange notes that the proposed rule text is primarily based on EDGX Options Rules, as well as substantially the same as BZX and C2 Options rules, and is different only to the extent that it makes non-substantive changes to retain some Exchange-specific language/definitions, simplify language and make the rule provisions plain English. The Exchange believes that consistent rules will simplify the regulatory requirements and increase the understanding of the Exchange's operations for Trading Permit Holders that are also participants on the Cboe Affiliated Exchanges. The proposed rule change seeks to provide greater harmonization between the rules of the Cboe Affiliated Exchanges, which would result in greater uniformity and less burdensome and more efficient regulatory compliance. As such, the proposed rule change would foster cooperation and coordination with persons engaged in facilitating transactions in securities and would remove impediments to and perfect the mechanism of a free and open market and a national market system. The Exchange also believes that the proposed amendments will contribute to the protection of investors and the public interest by making the Exchange's rules easier to understand.

The Exchange believes that the proposed rule change to make the current HAL process consistent with the EDGX Options SUM process will serve to remove impediments to and perfect the mechanism of a free and open market and national market system and facilitate transactions in securities because the current HAL process is already equivalent to the EDGX Options SUM process and the proposed rule changes do not raise any new or significant policy concerns, but instead serve to harmonize functionality and the rules across the affiliate exchanges so as to provide market participants with the same product offerings and bolster collective understanding of the rules upon migration.

In addition to protecting and benefitting market participants by providing consistent functionality and rules, the proposed change will continue to allow all Users to submit responses to the exposure message during the exposure period, which the Exchange already does, which will remove impediments to and perfect the mechanism of a free and open national market system in that it will continue to provide all Users with the opportunity to improve their prices and "step up" to meet the NBBO and interact with exposure messages and allow the market participant sending an order to the Exchange to increase its chances of receiving an execution on the preferred venue in which it has chosen to participate (i.e., Cboe Options), thereby benefitting all market participants. In addition to this, the proposed rule change that allows for a User to opt out of having the remaining portion of their exposed order routed to other exchanges following the exposure period will remove impediments to and perfect the mechanism of a free and open national market system by providing Users with additional control regarding the execution of their orders and by providing them with consistent opportunities and functionality across the affiliated exchanges upon migration.

The Exchange also believes the proposed rule change regarding the handling of AON orders exposed in a SUM auction will protect investors because it is identical to the handling of AON orders exposed in the EDGX Options SUM process. Additionally, the proposed rule change will provide AON orders with execution opportunities when the Exchange is not at the NBBO in a manner consistent with the current SUM process and makes it explicit that the exposure period for an AON order will terminate when there is sufficient aggregate contra-side interest to satisfy the exposed AON order (except it will not execute any incoming contra-side interest immediately against the exposed AON order, unless it has sufficient size which will prevent a partial execution in conflict with the AON size contingency), which is the manner in which the current HAL process already functions. This benefits market participants by providing them with rules that accurately reflect current functionality (as well as functionality that will be provided on the Exchange upon migration). The proposed rule change regarding an early termination of the exposure period of an AON order is consistent with current reasons that will cause an exposure period to terminate; it will prevent an exposure period from continuing when new conditions arise that would have prevented an exposure period from initiating in the first place. The proposed rule change will remove impediments to and perfect the mechanism of free and open market and a national market system, because it ensures an AON order will be handled in a manner consistent with the current SUM process.

The proposed rule changes to the other provisions in connection with early termination of exposure period align with the reasons a SUM auction may currently terminate on EDGX Options and will remove impediments to and perfect the mechanism of a free and open market and national market system by terminating an orders that would no longer benefit from

exposure or would likely present order handling difficulties, which could impact market participants. In addition to this, because a User will have the ability to cancel its order after the SUM process is initiated coupled with the fact that the Exchange will only execute an order that has been exposed via the SUM process to the extent the order is marketable against the NBBO will mitigate any potential concern in removing other early termination provisions. The Exchange believes that the other updates proposed to align the Exchange's proposed rule with that of the EDGX Options SUM process do not alter the manner in which HAL currently functions but merely make explicit in the rules the operation of the proposed SUM process.

The proposed change to adopt C2's order routing rules (which are also substantially the same as the routing rules on EDGX Options and BZX Options) will likewise serve to protect and benefit market participants by providing consistent functionality and rules in connection with order routing. As stated, the order routing rule of the Exchange's affiliated options exchanges have previously been filed with the Commission. Proposed Rule 5.36 will serve to remove impediments to and perfect the mechanism of a free and open market and national market system because it will allow Users to route orders in much the same way in which they may already route ISO orders on the Exchange today, and in the same manner as Users may already route orders on the Exchange's affiliated options exchanges, C2, EDGX Options, and BZX Options. Under the proposed rules the System will still process, display and prioritize orders as it currently does as well as ensure the same price protections currently in place, thereby protecting investors. The additional routing options that the proposed rule change offers are the same routing options already available to Users on the Exchange's affiliated options exchange, therefore these options do not raise any new or novel functionality

for market participants but ensure that upon migration market participants across the Cboe Affiliated Exchanges will have access to the same functionality and product offerings.

The proposed provisions regarding Cboe Trading will benefit market participants by making explicit certain rules that already apply to Cboe Trading on the Exchange, as well as serve to harmonize the Exchange's routing rules with the corresponding rules of C2 and EDGX Options, as well as BZX Options. The other proposed changes will also remove impediments to and perfect the mechanism of a free and open national market system by removing rules that are duplicative of other Exchange rules that currently provide for the same and are already effectively provided for in the contracts between the Exchange and its non-affiliated routing brokers. This, in turn, provides market participants with up-to-date, streamlined rules with are easy to understand, and mirror the corresponding rules of C2 and EDGX Options, as well as BZX Options.

The proposed rule change makes other various non-substantive changes throughout the rules that will protect investors and benefit market participants as these changes simplify the rules and use plain English throughout the rules.

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 reiterates that the proposed rule change is being proposed in the context of a technology migration of the Cboe Affiliated Exchanges. As stated, the proposed changes to the rules that reflect functionality that will be in place come October 7, 2019 provide clear, consistent rules for market participants upon the completion of migration.  The Exchange believes the proposed rule change will benefit Exchange

participants in that it will provide a consistent technology offering for Users by the Cboe Affiliated Exchanges.

The Exchange does not believe the proposed rule change will impose any burden on intramarket competition. The proposed SUM process and order routing functionality will apply to all Users and order and quotes submitted by Users in the same manner. Like HAL currently, the Exchange's proposed SUM is open to all Users. Additionally, all Users will have the option to route orders to away exchanges, and apply the different proposed routing instructions, under the proposed order routing provisions.

The Exchange does not believe that the proposed rules change will impose any burden on intermarket competitions. As discussed above, the basis for the proposed rule changes in this filing are the rules of C2 and EDGX Options, as well as substantial similarities to the approved rules of BZX Options, which have already been filed with the Commission. The Exchange also notes that market participants on other exchanges are welcome to become participants on the Exchange if they determine that this proposed rule change has made Cboe Options a more attractive or favorable venue.

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

The Exchange neither solicited nor received comments on the proposed rule change.

**III.**     <u>**Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action**</u>

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[30] and Rule 19b-4(f)(6)[31] thereunder. At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission will institute proceedings to determine whether the proposed rule change should be approved or disapproved.

## IV.   **Solicitation of Comments**

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

Electronic comments:

- Use the Commission's Internet comment form (http://www.sec.gov/rules/sro.shtml); or

- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-CBOE-2019-050 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-CBOE-2019-050. This file number should be included on the subject line if e-mail is used. To help the Commission process

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[30]     15 U.S.C. 78s(b)(3)(A).

[31]     17 CFR 240.19b-4(f)(6).

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-CBOE-2019-050 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.[32]

Secretary

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[32]     17 CFR 200.30-3(a)(12).

EXHIBIT 5A

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

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Rules of Cboe Exchange, Inc.

(currently effective)

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[Rule 6.6A. Order Cancellation/Release

(a)     The Exchange may cancel orders as it deems to be necessary to maintain fair and orderly markets if a technical or systems issue occurs at the Exchange, a routing broker in connection with the routing service provided under Rule 6.14B, or another exchange to which an Exchange order has been routed. A routing broker may only cancel orders being routed to another exchange based on the Exchange's standing or specific instructions or as otherwise provided in the Exchange Rules. The Exchange shall provide notice of the cancellation to affected Trading Permit Holders as soon as practicable.

(b) The Exchange may release orders being held on the Exchange awaiting an away exchange execution as it deems necessary to maintain fair and orderly markets if a technical or systems issue occurs at the Exchange, a routing broker, or another exchange to which an Exchange order has been routed.

(c) For purposes of this Rule, technical or system issues shall include, without limitation, instances where the Exchange has not received confirmation of an execution (or cancellation) on another exchange from a routing broker within a response time interval designated by the Exchange, which interval may not be less than three (3) seconds.]

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[Rule 6.14A.   Hybrid Agency Liaison (HAL)

This Rule governs the operation of the Hybrid Agency Liaison ("HAL") system. HAL is a feature within the Hybrid Trading System that provides automated order handling in designated classes for qualifying electronic orders that are not automatically executed.

(a)     HAL Eligibility. The Exchange shall designate eligible order size, eligible order type, eligible order origin code (i.e., public customer orders, non-Market Maker broker-dealer orders, and Market Maker broker-dealer orders), and classes in which HAL shall be activated. ISOs will not be processed pursuant to Rule 6.14A. HAL shall automatically process upon receipt:

(i)     an eligible order that is marketable against the Exchange's disseminated quotation while that quotation is not the NBBO, unless the

Exchange's quotation contains resting orders and does not contain sufficient Market-Maker quotation interest to satisfy the entire order;

(ii)     an eligible order that would improve the Exchange's disseminated quotation and that is marketable against quotations disseminated by other exchanges that are participants in the Options Order Protection and Locked/Crossed Plan and;

(iii)    an order (or any unexecuted portion) submitted to HAL pursuant to Rule 6.13(b)(v)(B)(I).

(b)     Order Handling and Responses. Upon receipt by HAL, the System will immediately expose electronically orders at the NBBO price, if received pursuant to subparagraphs (a)(i) through (iii), or at the better of the NBBO and the drill through price (as defined in Rule 6.13(b)(v)(B)), if received pursuant to subparagraph (a)(iv). The exposure shall be for a period of time determined by the Exchange on a class-by-class basis, which period of time shall not exceed 1 second.

Market-Makers with an appointment in the relevant option class and Trading Permit Holders acting as agent for orders resting at the top of the Exchange's book in the relevant option series opposite the order submitted to HAL may submit responses to the exposure message during the exposure period, unless the Exchange determines, on a class-by-class basis, to allow all Trading Permit Holders to submit responses to the exposure message.

Responses (i) must be priced equal to or better than the Exchange's best bid/offer; (ii) must be limited to the size of the order being exposed; and (iii) may be cancelled and/or replaced any time during the exposure period.

(c)     Allocation of Exposed Orders. Any responses priced at the prevailing NBBO or better shall immediately trade against the order (on a first come, first served basis). At the conclusion of the exposure period, the Exchange will evaluate all remaining responses as well as the disseminated best bid/offer on other exchanges and execute any remaining portion of the exposed order to the fullest extent possible at the best price(s) by first executing against responses (pursuant to the matching algorithm in effect for the class except that the participation entitlement and market turner status shall not apply to responses), and, second, routing IOC ISOs to other exchanges. Any portion of a routed IOC ISOs that returns unfilled shall trade against the Exchange's best bid/offer unless another exchange is quoting at a better price in which case new IOC ISOs shall be generated and routed to trade against such better prices. Any executions at the Exchange's best bid/offer will first trade against interest that was resting at the price at the time the exposed order was received, and any remaining balance will trade against all new interest at that price (in both cases pursuant to the matching algorithm for that class). All executions on the Exchange pursuant to this paragraph shall comply with Rule 6.81. Executions will be subject to the price check parameter set forth in Rule 6.13(b)(v)(B) when such price check functionality is enabled, and any unexecuted portion of an order that does not execute following the exposure period will be handled as set forth in Rule 6.13(b)(v) (B)(III).

(d)    Early Termination of Exposure Period. In addition to the receipt of a response to trade the entire exposed order at the NBBO or better, the exposure period will also terminate early under the following circumstances:

(i)    If during the exposure period the Exchange receives an unrelated order (or quote) on the opposite side of the market from the exposed order that could trade against the exposed order at the prevailing NBBO price or better, then the orders will trade at the prevailing NBBO price unless the unrelated order is a customer order in which case the orders will trade at the midpoint of the unrelated order's limit price and the prevailing NBBO. The exposure period shall not terminate if a quantity remains on the exposed order after such trade;

(ii)    If during the exposure period the Exchange receives an unrelated order on the same side of the market as the exposed order that is priced equal to or better than the exposed order, then the exposure period shall terminate and the exposed order shall be processed in accordance with paragraph (c);

(iii)    If during the exposure of an order that is marketable against the Exchange's best bid/offer at the time the order was exposed "Exchange Initial BBO"), Market-Maker interest at the Exchange Initial BBO decrements to a contract size equal to the size of the exposed order, then the exposure period shall terminate and the exposed order shall be processed in accordance with paragraph (c).

(iv)    If during the exposure period of a market order the underlying security enters a limit up- limit down state, as defined in Rule 6.3A, then the exposure period shall terminate and any unexecuted portion of the exposed order shall cancelled.

*. . . Interpretations and Policies:*

.01    Redistributing the exposure messages provided by the Exchange to persons not eligible to respond to such messages pursuant to paragraph (b) above is prohibited, except in classes in which the Exchange allows all Trading Permit Holders to respond to such messages.

.02    The Exchange may determine, on a class-by-class basis, to not route ISOs to other exchanges on behalf of non-public customer orders that are exposed pursuant to this Rule. In such cases, any unexecuted balance of such non-public customer orders shall be cancelled at the conclusion of the exposure period.

.03    All pronouncements regarding determinations by the Exchange pursuant to Rule 6.14A and the Interpretations and Policies thereunder will be announced to Trading Permit Holders via Regulatory Circular.]

[Rule 6.14B.   Non-Affiliated Routing Brokers

The Exchange may automatically route intermarket sweep orders to other exchanges under certain circumstances, including pursuant to Rule 6.14A ("Routing Services"). Routing Services may be provided in conjunction with one or more routing brokers that are not affiliated with the Exchange. In connection with such services provided by a non-affiliated routing broker, the following shall apply:

(a)     For each routing broker used by the Exchange, an agreement will be in place between the Exchange and the routing broker that will, among other things, restrict the use of any confidential and proprietary information that the routing broker receives to legitimate business purposes necessary for routing orders at the direction of the Exchange.

(b)     The Exchange shall establish and maintain procedures and internal controls reasonably designed to adequately restrict the flow of confidential and proprietary information between the Exchange and the routing broker, and any other entity, including any affiliate of the routing broker, and, if the routing broker or any of its affiliates engages in any other business activities other than providing routing services to the Exchange, between the segment of the routing broker or affiliate that provides the other business activities and the segment of the routing broker that provides the routing services.

(c)     The Exchange may not use a routing broker for which the Exchange or any affiliate of the Exchange is the DEA.

(d)     The Exchange will provide its Routing Services in compliance with the provisions of the Act and the rules thereunder, including, but not limited to, the requirements in Section 6(b)(4) and (5) of the Exchange Act that the rules of a national securities exchange provide for the equitable allocation of reasonable dues, fees, and other charges among its Trading Permit Holders and issuers and other persons using its facilities, and not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

(e)     For all Routing Services, the Exchange will determine the logic that provides when, how, and where orders are routed away to other exchanges.

(f)     The routing broker will receive routing instructions from the Exchange, to route orders to other exchanges and report such executions back to the Exchange. The routing broker cannot change the terms of an order or the routing instructions, nor does the routing broker have any discretion about where to route an order.

(g)     Any bid or offer entered on the Exchange routed to another exchange via a routing broker that results in an execution shall be binding on the Trading Permit Holder that entered such bid/offer.

(h)     Each routing broker is required to establish, document, and maintain a system of risk management controls and supervisory procedures reasonably designed to manage the financial, regulatory and other risks of providing Trading Permit Holders and their customers access to other exchanges, pursuant to Rule 15c3-5 under the Exchange

Act. Pursuant to the policies and procedures developed by the routing broker to comply with Rule 15c3-5, if an order or series of orders are deemed by the routing broker to violate the applicable pre-trade requirements of Rule 15c3-5, the routing broker will reject the order(s) prior to routing and may seek to cancel any orders that have been routed.

*. . . Interpretations and Policies:*

.01 Rule 6.14B does not prohibit a routing broker from designating a preferred market-maker at the other exchange to which the order is being routed pursuant to Rule 6.14B.]

[Rule 6.14C.   Routing Service Error Accounts

Each routing broker shall maintain, in the name of the routing broker, one or more accounts for the purpose of liquidating unmatched trade positions that may occur in connection with the routing service provided under Rule 6.14B ("error positions"). The Exchange may also maintain, in the name of the Exchange, one or more accounts (each an "Exchange Error Account") for the purpose of liquidating error positions in the circumstances described below.

For purposes of this Rule:

(a)      Errors to which this Rule applies include any action or omission by the Exchange, a routing broker, or another exchange to which an Exchange order has been routed, that result in an unmatched trade position due to the execution of an order that is subject to the away market routing service and for which there is no corresponding order to pair with the execution (each a "routing error"). Such routing errors would include, without limitation, positions resulting from determinations by the Exchange to cancel or release an order pursuant to Rule 6.6A.

(b)      An error position will generally be liquidated in a routing broker's error account. An Exchange Error Account may (but is not required to) be utilized in instances where a routing broker is unable to utilize its own error account or when the routing error is due to a technical or systems issue at the Exchange.

(c)      The Exchange shall not accept any positions in an Exchange Error Account from an account of a Trading Permit Holder or permit any Trading Permit Holder to transfer any positions from the Trading Permit Holder's account to an Exchange Error Account.

(d)      To the extent a routing broker utilizes its own account to liquidate error positions, the routing broker shall liquidate the error positions as soon as practicable. The routing broker shall:

(i)      establish and enforce policies and procedures reasonably designed to (1) adequately restrict the flow of confidential and proprietary information associated with the liquidation of the error positions in accordance with Rule 6.14B, and (2) prevent the use of information associated with other orders subject to the

routing services when making determinations regarding the liquidation of error positions; and

(ii)    make and keep records associated with the liquidation of such routing broker error positions and shall maintain such records in accordance with Rule 17a-4 under the Exchange Act.

(e)    To the extent the Exchange utilizes an Exchange Error Account to liquidate error positions, the Exchange shall liquidate error positions as soon as practicable. The Exchange shall:

(i)    provide complete time and price discretion for the trading to liquidate error positions in an Exchange Error Account to a third-party broker-dealer and shall not attempt to exercise any influence or control over the timing or methods of such trading. Such a third-party broker-dealer may include a routing broker not affiliated with the Exchange;

(ii)    establish and enforce policies and procedures reasonably designed to adequately restrict the flow of confidential and proprietary information between the Exchange and the third- party broker-dealer associated with the liquidation of the error positions; and

(iii)    make and keep records to document all determinations to treat positions as error positions under this Rule (whether or not an Exchange Error Account is utilized to liquidate such error positions), as well as records associated with the liquidation of Exchange Error Account error positions through a third-party broker-dealer, and shall maintain such records in accordance with Rule 17a-1 under the Exchange Act.]

* * * * *

EXHIBIT 5B

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

\* \* \* \* \*

Rules of Cboe Exchange, Inc.

(Effective October 7, 2019)

\* \* \* \* \*

<u>Rule 5.35.      Step Up Mechanism ("SUM")</u>

<u>This Rule governs the operation of the Step Up Mechanism ("SUM"). SUM is a feature within the System that provides automated order handling in designated classes trading for qualifying orders that are not automatically executed by the System.</u>

<u>(a) *SUM Eligibility*. The Exchange determines eligible order size, eligible order type, eligible order Capacity (e.g., Priority Customer orders, non-Market Maker non-Priority Customer orders, and Market Maker orders), and classes in which SUM is activated. Bulk messages are not eligible for SUM. The Exchange does not initiate the SUM process if the NBBO is crossed. SUM automatically processes upon receipt of:</u>

<u>(1) an eligible order that is marketable against the BBO that is not the NBBO; or</u>

<u>(2) an eligible order that would improve the Exchange's BBO and that is marketable against the ABBO.</u>

<u>(b) *Order Handling and Responses*. Upon receipt of an order eligible for SUM pursuant to paragraph (a):</u>

<u>(1) the System electronically exposes the order at the NBBO immediately upon receipt. The order is exposed for a period of time determined by the Exchange on a class-by-class basis, which period of time may not exceed one second.</u>

<u>(2) All Users may submit responses to the exposure message.</u>

<u>(3) Responses (A) must be limited to the size of the order being exposed; (B) may be modified, cancelled or replaced any time during the exposure period; and (C) are cancelled back at the end of the exposure period if unexecuted.</u>

<u>(c) *Allocation of Exposed Orders*.</u>

(1) Any responses priced at the prevailing NBBO or better will immediately trade against the order (in time priority), unless the exposed order is an AON order, in which case the System holds the responses until there is sufficient aggregate size to satisfy the AON order or the exposure period terminates.

(2) If during the exposure period the Exchange receives an unrelated order (or quote) on the opposite side of the market from the exposed order that could trade against the exposed order at the prevailing NBBO price or better, then the orders will trade at the prevailing NBBO price. The exposure period will not terminate if a quantity remains on the exposed order after such trade.

(3) Responses that are not immediately executable based on the prevailing NBBO may become executable during the exposure period based on changes to the NBBO. In the event of a change to the NBBO and at the conclusion of the exposure period, the Exchange will evaluate remaining responses as well as the ABBO and execute any remaining portion of the exposed order to the fullest extent possible at the best price(s) by executing against responses and unrelated orders (pursuant to the allocation algorithm in effect for the class).

(4) Following the exposure period, the Exchange will route the remaining portion of the exposed order to other exchanges, unless otherwise instructed by the User. Any portion of a routed order that returns unfilled shall trade against the Exchange's best bid/offer unless another exchange is quoting at a better price in which case new orders shall be generated and routed to trade against such better prices.

(5) All executions on the Exchange pursuant to this paragraph will comply with Rule 5.66.

(d) *Early Termination of Exposure Period.* In addition to the receipt of a response, or unrelated order or quote (or, if the exposed order is an AON order, multiple responses or unrelated orders and quotes with sufficient aggregate size to satisfy the AON order), to trade the entire exposed order at the NBBO or better, the exposure period also terminates prior to its expiration, and the System processes the exposed order in accordance with paragraph (c) above if during the exposure period:

(1) the NBBO updates such that the exposed order is no longer marketable against the prevailing NBBO;

(2) the Exchange is displaying an unrelated order on the same side of the market as the exposed order and such displayed order is subsequently locked or crossed by another options exchange; or

(3) if an AON order is exposed, the Exchange receives an unrelated order or quote that would be displayed at a price at or better than the NBBO with insufficient size to satisfy the exposed order.

Rule 5.36.      Order Routing

(a) *General*. For System Securities, the order routing process is available to Users from 9:30 a.m. until market close. Users can designate orders as either available or not available for routing. Orders designated as not available for routing and bulk messages, which are not eligible for routing, are processed pursuant to Rule 5.32.

(1) *Routing to Away Options Exchanges*. For an order designated as available for routing, the System first checks the Book for available contracts for execution against the order pursuant to Rule 5.32. Unless otherwise instructed by the User, the System then designates the order (or unexecuted portion) as IOC and routes it to one or more options exchanges for potential execution, per the entering User's instructions. After the System receives responses to the order, to the extent it was not executed in full through the routing process, the System processes the order (or unexecuted portion) as follows, depending on parameters set by the User when the incoming order was originally entered:

(A) cancels the order (or unexecuted portion) back to the User;

(B) posts the unfilled balance of the order to the Book, subject to the Price Adjust process described in Rule 5.32(b), if applicable;

(C) repeats the process described above by executing against the Book and/or routing to other options exchanges until the original, incoming order is executed in its entirety;

(D) repeats the process described above by executing against the Book and/or routing to other options exchanges until the original, incoming order is executed in its entirety, or, if not executed in its entirety and a limit order, posts the unfilled balance of the order on the Book if the order's limit price is reached; or

(E) to the extent the System is unable to access a Protected Quotation and there are no other accessible Protected Quotations at the NBBO, cancels or rejects the order back to the User, provided, however, that this provision does not apply to Protected Quotations published by an options exchange against which the Exchange has declared self-help.

(2) *Routing Options.* Routing options may be combined with all available Order Instructions and Times-in-Force, with the exception of Order Instructions and Times-in-Force whose terms are inconsistent with the terms of a particular routing option. The System considers the quotations only of accessible markets. The term

"System routing table" refers to the proprietary process for determining the specific options exchanges to which the System routes orders and the order in which it routes them. The Exchange reserves the right to maintain a different System routing table for different routing options and to modify the System routing table at any time without notice. The System routing options are:

(A) *ROUT.* ROUT is a routing option under which the System checks the Book for available contracts to execute against an order and then sends it to destinations on the System routing table. A User may select either Route To Improve ("RTI") or Route To Fill ("RTF") for the ROUT routing option. RTI may route to multiple destinations at a single price level simultaneously while RTF may route to multiple destinations and at multiple price levels simultaneously.

(B) *SWPA.* SWPA is a routing option (which is the default routing option) under which the System checks the Book for available contracts to execute against an order and then sends it to only Protected Quotations and only for displayed size. Any unexecuted portion of the routed order is posted to the Book at the order's limit price, unless otherwise instructed by the User.

(C) *Destination Specific.* Destination Specific is a routing option under which the System checks the Book for available contracts to execute against an order and then sends it to a specified away options exchange.

(D) *Directed ISO.* Directed ISO is a routing option under which the System does not check the Book for available contracts and sends the order to another options exchange specified by the User. It is the entering User's responsibility, not the Exchange's responsibility, to comply with the requirements relating to Intermarket Sweep Orders.

(3) *Re-Route Instructions.* Unless otherwise specified, the Re-Route instructions set forth below may be combined with any of the System routing options specified in subparagraph (a)(2) above.

(A) *Aggressive.* If the unexecuted portion of a routable order has been posted to the Book pursuant to subparagraph (a)(1) above, if the order's price is subsequently crossed by the quote of another accessible options exchange, the System routes the order to the crossing options exchange if the User has selected the Aggressive Re-Route instruction.

(B) *Super Aggressive.* If the unexecuted portion of a routable order has been posted to the Book pursuant to subparagraph (a)(1) above, if the order's price is subsequently locked or crossed by the quote of another accessible options exchange, the System routes the order to the locking or crossing options exchange if the User has selected the Super Aggressive Re-Route instruction.

(b) *Priority of Routed Orders.* The System does not rank or maintain in the Book pursuant to Rule 5.32 orders it has routed to other options exchanges, and therefore those orders are not available to execute against incoming orders. Once routed by the System, an order becomes subject to the rules and procedures of the destination options exchange, including, but not limited to, order cancellation. If a routed order (or unexecuted portion) is subsequently returned to the Exchange, the order (or unexecuted portion) receives a new time stamp reflecting the time the System receives the returned order.

(c) *Honoring Executions of Routed Orders.* Users whose orders are routed to other options exchanges must honor trades of those orders executed on other options exchanges to the same extent they would be required to honor trades of those orders if they had executed on the Exchange.

(d) *Cboe Trading as Outbound Router.* The Exchange routes orders via Cboe Trading, which serves as the Outbound Router of the Exchange, pursuant to Rule 3.12. The Outbound Router routes orders in options listed and open for trading on the Exchange to other options exchanges pursuant to the Rules solely on behalf of the Exchange. The Outbound Router is subject to regulation as a facility of the Exchange, including the requirement to file proposed rule changes under Section 19 of the Exchange Act. Use of Cboe Trading or Routing Services described in paragraph (e) below to route orders to other market centers is optional. Parties that do not desire to use Cboe Trading for routing or other Routing Services provided by the Exchange must designate orders as not available for routing.

(e) *Non-Affiliated Routing Brokers.* Routing Services may be provided in conjunction with one or more routing brokers that are not affiliated with the Exchange. In connection with such services provided by a non-affiliated routing broker, the following shall apply:

(1) For each routing broker used by the Exchange, an agreement will be in place between the Exchange and the routing broker that will, among other things, restrict the use of any confidential and proprietary information that the routing broker receives to legitimate business purposes necessary for routing orders at the direction of the Exchange.

(2) The Exchange shall establish and maintain procedures and internal controls reasonably designed to adequately restrict the flow of confidential and proprietary information between the Exchange and the routing broker, and any other entity, including any affiliate of the routing broker, and, if the routing broker or any of its affiliates engages in any other business activities other than providing routing services to the Exchange, between the segment of the routing broker or affiliate that provides the other business activities and the segment of the routing broker that provides the routing services.

(3) The Exchange may not use a routing broker for which the Exchange or any affiliate of the Exchange is the DEA.

(4) The Exchange will provide its Routing Services in compliance with the provisions of the Act and the rules thereunder, including, but not limited to, the requirements in Section 6(b)(4) and (5) of the Exchange Act that the rules of a national securities exchange provide for the equitable allocation of reasonable dues, fees, and other charges among its Trading Permit Holders and issuers and other persons using its facilities, and not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

(5) For all Routing Services, the Exchange will determine the logic that provides when, how, and where orders are routed away to other exchanges.

(6) The routing broker will receive routing instructions from the Exchange, to route orders to other exchanges and report such executions back to the Exchange. The routing broker cannot change the terms of an order or the routing instructions, nor does the routing broker have any discretion about where to route an order.

(7) Any bid or offer entered on the Exchange routed to another exchange via a routing broker that results in an execution shall be binding on the Trading Permit Holder that entered such bid/offer.

(8) Each routing broker is required to establish, document, and maintain a system of risk management controls and supervisory procedures reasonably designed to manage the financial, regulatory and other risks of providing Trading Permit Holders and their customers access to other exchanges, pursuant to Rule 15c3-5 under the Exchange Act. Pursuant to the policies and procedures developed by the routing broker to comply with Rule 15c3-5, if an order or series of orders are deemed by the routing broker to violate the applicable pre-trade requirements of Rule 15c3-5, the routing broker will reject the order(s) prior to routing and may seek to cancel any orders that have been routed.

(9) Each routing broker shall maintain, in the name of the routing broker, one or more accounts for the purpose of liquidating unmatched trade positions that may occur in connection with the routing service provided under the Rule.

> (1) establish and enforce policies and procedures reasonably designed to (i) adequately restrict the flow of confidential and proprietary information associated with the liquidation of the error positions in accordance with this paragraph (e), and (ii) prevent the use of information associated with other orders subject to the routing services when making determinations regarding the liquidation of error positions; and

> (2) make and keep records associated with the liquidation of such routing broker error positions.

(f) *Market Access*. In addition to Rules regarding routing to away options exchanges, Cboe Trading has, pursuant to Rule 15c3-5 under the Exchange Act, implemented certain tests designed to mitigate the financial and regulatory risks associated with providing Trading Permit Holders with access to away options exchanges. Pursuant to the policies and

procedures developed by Cboe Trading to comply with Rule 15c3-5, if an order or series of orders are deemed to be erroneous or duplicative, would cause the entering Trading Permit Holder's credit exposure to exceed a preset credit threshold, or are noncompliant with applicable pre-trade regulatory requirements (as defined in Rule 15c3- 5), Cboe Trading will reject the orders prior to routing and/or seek to cancel any orders that have been routed.

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