Required fields are shown with yellow backgrounds and asterisks.

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

File No.* SR - 2019 - * 064

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

Section 806(e)(1) * ☐

Section 806(e)(2) * ☐

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

Section 3C(b)(2) * ☐

Exhibit 2 Sent As Paper Document ▣

Exhibit 3 Sent As Paper Document ▣

Description

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

The Exchange proposes a rule change that amends the Solicited Auction Mechanism for complex orders ("C-SAM") in connection with the upcoming system 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 * Laura   Last Name * Dickman

Title * Vice President, Associate General Counsel

E-mail * dickman@cboe.com

Telephone * (312) 786-7572   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   09/23/2019

By   Laura G. Dickman

(Name *)

Vice President, Associate General Counsel

dickman@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.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information *

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

Exhibit 1 - Notice of Proposed Rule Change *

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

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

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

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

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

Exhibit 3 - Form, Report, or Questionnaire

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Exhibit Sent As Paper Document
☐

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

Exhibit 4 - Marked Copies

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

Exhibit 5 - Proposed Rule Text

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

Partial Amendment

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

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

(a)   Cboe Exchange, Inc. (the "Exchange" or "Cboe Options") proposes to amend its Rule regarding how complex orders are processed through the Solicitation Auction Mechanism ("C-SAM" or "C-SAM Auction"), and move that Rule 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) to delegated authority approved the proposed rule change on September 10, 2019. The proposed rule change would become operative on the date on which the Exchange 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 Laura G. Dickman, (312) 786-7572, 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. Cboe Options believes offering similar functionality to the extent practicable will reduce potential confusion for market participants.

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 add the provisions of its Rules regarding C-SAM Auctions, as proposed to be modified in this rule filing, to Rule 5.40 in the shell Rulebook.

The proposed rule change moves the provisions regarding SAM Auctions for complex orders from current Interpretation and Policy .01[1] to proposed Rule 5.40, and

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[1]   The Exchange proposed to delete Rule 6.74B, Interpretation and Policy .01 from current Rulebook in SR-CBOE-2019-063 (filed September 23, 2019).

provides additional detail to the Rules, as well as makes certain additional changes. Current Interpretation and Policy .01 states complex orders may be executed through a SAM Auction at a net debit or net credit price provided the eligibility requirements in current Rule 6.74B(a) are satisfied and the Agency Order is eligible for a SAM Auction considering its complex order type, order origin code (*i.e.*, non-broker-dealer public customer, broker-dealers that are not Market-Makers or specialists on an options exchange, and/or Market-Makers or specialists on an options exchange), class, and marketability as determined by the Exchange. Order allocation is the same as in current Rule 6.74B(b)(2), provided that complex order priority rules applicable to bids and offers in the individual series legs of a complex order contained in current Rule 6.53C(d) or Interpretation and Policy .06, as applicable, will continue to apply.

The Exchange believes it will provide more clarity to the Rules to have a separate rule regarding how SAM Auctions apply to complex orders ("C-SAM Auctions"), and thus proposes to add Rule 5.40 to the shell Rulebook. As they are today, complex orders will continue to be processed and executed in a C-SAM Auction in a substantially similar manner as simple orders are processed and executed in an SAM Auction pursuant to Rule

5.39,[2] and therefore proposed Rule 5.40 is substantially similar to Rule 5.39 in the shell

Rulebook.[3]

The proposed rule change adds to the proposed introductory paragraph[4] that the

Solicited Order may consist of one or more solicited orders.[5] This accommodates multiple

contra-parties and increases the opportunities for customer orders to be submitted into a C-

SAM Auction with the potential for price improvement, since the Solicited Order must stop

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[2]   See current Rule 6.74B, Interpretation and Policy .01 ("complex orders may be executed through the [SAM] Auction at a net debit or net credit price" with certain exceptions); see also Securities Exchange Act Release No. 57610 (April 3, 2008), 73 FR 19535, 19536 (April 10, 2008) (SR-CBOE-2008-14) (which approved current Rule 6.74B, Interpretation and Policy .01 and stated that the Exchange had "developed an enhanced auction mechanism for larger-sized simple and complex Agency Orders that are to be executed against solicited orders", which auction mechanism would not permit responds to be entered for the account of an options market-maker from another options exchange).

[3]   The Exchange recently proposed certain amendments to the simple SAM Auction, many of which the Exchange similarly proposes to apply to C-SAM Auctions. See SR-CBOE-2019-063 (filed September 23, 2019). The Exchange notes it proposed to delete all of current Rule 6.74B in that rule filing, and thus the proposed rule change merely adds all provisions that are applicable to C-SAM Auctions (as proposed to be amended) to the shell Rulebook.

[4]   The proposed rule change also adds to the proposed introductory paragraph that for purposes of proposed Rule 5.40, the term "SBBO" means the synthetic best bid or offer on the Exchange at the particular point in time applicable to the reference. This is merely an addition of terminology used throughout the Rule, but has no impact on functionality.

[5]   The Solicited Order cannot have a Capacity F for the same executing firm ID ("EFID") as the Agency Order. See current Rule 6.74B, Interpretation and Policy .03. Because the Solicited Order cannot be facilitated by the Initiating TPH, the Exchange currently enforces this restriction through surveillance. The Exchange proposes to add these systematic blocks, but will continue to conduct surveillance for compliance with the rule that prevents the Solicited Order from being a facilitation. The Agency Order and Solicited Order cannot both be for the accounts of a customer. Current Rule 6.74B does not contain a similar prohibition. However, the Exchange believes it is appropriate for such customer-to-customer crosses to be submitted to a C-AIM Auction pursuant to Rule 5.38 in the shell Rulebook, as that rule contains a provision for Customer-to-Customer Immediate C-AIM Crosses.

the full size of the Agency Order. This has no impact on the execution of the Agency Order, which may already trade against multiple contra-parties depending on the final auction price, as set forth in proposed paragraph (e) (and current Rule 6.74B(b)(2) and Interpretation and Policy .01). The Exchange notes that with regard to order entry, the first order submitted into the system is marked as the initiating/agency side and the second order is marked as the contra-side. Additionally, the Solicited Order will always be entered as a single order, even if that order consists of multiple contra-parties who are allocated their portion of the trade in a post-trade allocation.[6]

The proposed rule change deletes the restriction that a solicited order cannot be for the account of any Market-Maker appointed in the class. Current Rule 6.74B, Interpretation and Policy .03, which applies to SAM Auctions of complex orders), imposes this restriction.[7] With respect to the simple markets, appointed Market-Makers have a variety of obligations related to providing liquidity and making competitive markets in their appointed classes. Therefore, prohibiting Market-Makers from being solicited in a simple SAM Auction may encourage those Market-Makers to provide liquidity in that auction to provide

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[6]   The Exchange notes that while other exchange rules do not specify whether the contra-side order in a solicitation auction mechanism may consist of multiple orders, the contra-side order for Qualified Contingent Cross Orders (see Rule 6.53 of the current Rulebook and Rule 5.6(c) of the shell Rulebook), which similarly have a minimum quantity requirement and are fully crossed against an Solicited Order that must be for a minimum number of contracts, may consist of multiple contra-side orders. See also Rule 5.38, introductory paragraph of the shell Rulebook (which permits the contra-side order for automated improvement mechanism auctions of complex orders ("C-AIM Auctions") to consist of multiple solicited orders). However, Nasdaq ISE, LLC ("ISE") Regulatory Information Circular 2014-013 states that the contra-side order submitted into a crossing mechanism (including the ISE solicited order mechanism) may consist of one or more parties.

[7]   This restriction exists for simple SAM Auctions. See Rule 5.39, introductory paragraph in the shell Rulebook.

liquidity through responses, as well as quotes on the Book that may have the opportunity to execute against the Agency Order. Because Market-Makers have no obligations to provide liquidity to complex markets (and there is no quoting functionality available in the complex order book ("COB")), appointed Market-Makers are on equal footing with all other market participants with respect to C-SAM Auctions. Permitting Market-Makers to be solicited provides all market participants with the opportunity to provide liquidity to execute against Agency Orders in C-SAM Auctions in the same manner (both through solicitation, responses, and interest resting on the COB).[8] Rule 5.38 in the shell Rulebook similarly does not restrict appointed Market-Makers from being solicited to participate on the contra-side of C-AIM Auctions.

The Exchange does not believe permitting an appointed Market-Maker to be solicited for a C-SAM Auction provides the Market-Maker with any advantages with respect to its potential quotes in the applicable series in the Simple Book. Rule 4.18 prohibits any TPH from misusing material nonpublic information, and requires TPHs to have policies and procedures designed to prevent the misuse of material nonpublic information. When a market participant is solicited to be the contra-side in a crossing auction, the knowledge of that auction is not yet public. If an appointed Market-Maker was solicited for a C-SAM Auction and modified its quotes in the Simple Book in the applicable series in response to that auction, the Exchange may determine that to be a violation of Rule 4.18 (which the Exchange intends to move to Rule 8.17 of the shell Rulebook with no

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[8] See Rule 5.38 of the shell Rulebook (which permits appointed market-makers to be solicited for C-AIM Auctions); see also EDGX Options Rule 21.20; and NYSE American, LLC ("American") Rule 971.2NY(a)(1) (which permits all users except customers from being solicited as the contra-party). As further discussed below, the Exchange will no longer restrict Users that may submit responses to C-SAM Auctions.

substantive changes). Such an action would only impact C-SAM Auction execution prices

if those quotes were at the BBO in the applicable series. This is true for any TPH solicited

for a C-SAM Auction that modified the prices of any orders it has resting in the applicable

legs in the Simple Book or in the applicable complex strategy resting in the COB, as C-

SAM permissible execution prices are based on all interest resting in the Simple Book.

The proposed introductory paragraph for Rule 5.40 is the same as the corresponding

paragraph for C-AIM Auctions (Rule 5.38 in the shell Rulebook), which is the Exchange's

price improvement crossing auction for Agency Orders of all sizes and substantially similar

to the Exchange's C-SAM Auctions, except C-AIM Auctions permit facilitations and

customer-to-customer immediate crosses, while C-SAM Auctions only permit solicitations

and do not permit customer-to-customer immediate crosses, as set forth above.[9]

Proposed Rule 5.40(a) sets forth eligibility requirements for a C-SAM Auction.

Proposed Rule 5.40(a)(5) states the Trading Permit Holder that electronically submits an

order into a C-SAM Auction (the "Initiating TPH") may not designate an Agency Order or

Solicited Order as Post Only. A Post Only complex order is a complex order the System

ranks and executes pursuant to Rule 5.33 in the shell Rulebook,[10] subjects to the Price

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[9] The proposed introductory paragraph is also substantially the same as the introductory paragraph in Rule 5.39 in the shell Rulebook, which is the rule describing the Exchange's simple SAM Auction.

[10] The Exchange does not currently offer Post Only functionality, but will following the technology migration. See Rule 5.6(c) in the shell Rulebook (which describes Post Only functionality for simple orders). The Exchange intends to adopt a similar definition of Post Only for complex orders, which will be virtually identical to the definition of Post Only complex orders in the rules of Cboe Affiliated Exchanges. See C2 Rule 6.13(b)(5) and EDGX Options Rule 21.20(b) (which define a Post Only complex order as a complex order the System ranks and executes pursuant to C2 Rule 6.12 or EDGX Options Rule 21.20, respectively, or cancels or rejects, as applicable (in accordance with the User's instructions), except the order may not remove liquidity from the COB or the

Adjust process pursuant to Rule 5.32 in the shell Rulebook, or cancels or rejects (including

if it is not subject to the Price Adjust process and locks or crosses a Protected Quotation of

another exchange), as applicable (in accordance with User instructions), except the order or

quote may not remove liquidity from the Book or route away to another Exchange. The

Exchange does not currently offer Post Only order functionality, but will as of the

technology migration.[11] The Exchange believes it is appropriate to not permit the Agency

or Solicited Order to be designated as Post Only, as the purpose of a Post Only order is to

not execute upon entry and instead rest in the COB, while the purpose of a C-SAM Auction

is to receive an execution following the Auction but prior to entering the COB. Proposed

Rule 5.40(a)(6) states the Initiating TPH may only submit an Agency Order to a C-SAM

Auction after the COB opens. This is consistent with current functionality, as executions

cannot occur prior to the opening of trading. The proposed rule change clarifies this in the

Rule.

The proposed rule change moves the various other C-SAM Auction eligibility

requirements to proposed paragraph (a) and makes nonsubstantive changes:

- The requirement that an Agency Order be in a class of options the Exchange

    designates as eligible for C-SAM Auctions moves from current Interpretation and

    Policy .01 to proposed subparagraph (a)(1).[12]

Simple Book. The System cancels or rejects a Post Only market complex order unless it is subject to each exchange's drill-through protection.

[11]   See Cboe Options Rule 5.6(c) in the shell Rulebook; see also Securities Exchange Act Release No. 86173 (June 20, 2019), 84 FR 30267 (June 26, 2019) (SR-CBOE-2019-027) (which filing added the Post Only order instruction to the shell Rulebook).

[12]   The proposed rule change deletes the provisions that the Agency Order be an order type, have a Capacity (currently referred to as origin code), or meet marketability criteria determined by the Exchange, as the current and proposed

- The requirement that the Initiating TPH mark an Agency Order for C-SAM processing moves from current subparagraph (b)(1)(A) to proposed subparagraph (a)(2).

- The provision regarding the minimum size for Agency Orders moves from current Interpretation and Policy .03 to proposed subparagraph (a)(3) (the proposed rule change does not propose to amend the minimum size requirements. Additionally, the requirement that the Solicited Order be for the same size as the Agency Order moves from current subparagraphs (a)(2) and (a)(3) to proposed subparagraph (a)(3).[13]

- The provision regarding the minimum increment for the Agency Order and Solicited Order price moves from current subparagraph (a)(3) to proposed subparagraph (a)(4).

The proposed rule change also explicitly states that all of the eligibility requirements in proposed paragraph (a) must be met for a C-SAM Auction to be initiated, and that the System rejects or cancels both an Agency Order and Solicited Order submitted to a C-SAM Auction that do not meet the conditions in proposed paragraph (a). This is consistent with current functionality, and the proposed rule change is merely adding this detail to the Rule.

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rule explicitly state any applicable eligibility parameters. The Exchange will announce all determinations it may make with respect to a C-SAM Auction pursuant to Rule 1.5 in the shell Rulebook.

[13] The proposed rule change deletes the requirement that the Initiating TPH must designate the orders submitted into a C-SAM Auction as all-or-none ("AON"), as the C-SAM functionality will automatically handle any orders submitted to the Exchange on a C-SAM message as AON. Therefore, the proposed rule change indicates in proposed subparagraph (a)(3) that the System will handle each order submitted into a C-SAM Auction as AON.

Proposed Rule 5.40(a) is the same as the corresponding paragraph for C-AIM Auctions in Rule 5.38(a) of the shell Rulebook, other than the minimum size requirement applicable to C-SAM Auctions.[14]

Proposed Rule 5.40(b) sets forth the requirements for the stop price of the Agency Order. It states the Solicited Order must stop the entire Agency Order at a price that satisfies the following:

- If the Agency Order is to buy (sell) and (a) the applicable side of the BBO on any component of the complex strategy represents a Priority Customer order on the Simple Book, the stop price must be at least one minimum increment better than the SBB (SBO); or (b) the applicable side of the BBO on each component of the complex strategy represents a non-Priority Customer order or quote on the Simple Book, the stop price must be at or better than the SBB (SBO). This ensures the execution price of the Agency Order will improve the SBBO if there is a Priority Customer order in any of the legs on the Simple Book. The proposed rule change protects Priority Customers in any of the component legs of the Agency Order in the Simple Book. By permitting a Priority Customer Agency Order to trade at the SBBO if there is a resting non-Priority Customer order in the Book, the proposed rule change also protects Priority Customer orders submitted into a C-SAM Auction.

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[14]   Proposed paragraph (a) is also substantially the same as the corresponding eligibility requirements for simple SAM Auctions in Rule 5.39(a) of the shell Rulebook, except the proposed rule change does not provide that an Initiating TPH may not submit an Agency Order if the NBBO is crossed (unless the Agency Order is a SAM Sweep order). As noted above, there is no NBBO for complex orders, and the legs of complex orders are not subject to the restriction on NBBO trade-throughs. Additionally, the proposed rule change references the opening of the COB rather than the market open, as the opening of the COB is when complex orders may begin trading.

The Exchange believes the proposed rule change is consistent with general customer priority principles.[15]

• If the Agency Order is to buy (sell) and a buy (sell) complex order rests on the COB, the stop price must be at least one minimum increment better than the bid (offer) of the resting complex order, unless the Agency Order is a Priority Customer order and the resting order is not a Priority Customer, in which case the stop price must be at or better than the bid (offer) of the resting complex order. This ensures the execution price of the Agency Order will improve the price of any resting Priority Customer complex orders on the COB, and that the execution price of a Priority Customer Agency Order will not be inferior to the price of any resting non-Priority Customer complex orders on the COB. The proposed rule change protects Priority Customers on the same side of the COB as the current rule does. By permitting a Priority Customer Agency Order to trade at the same price as a resting non-Priority Customer order, the proposed rule change also protects Priority Customer orders submitted into a C-SAM Auction. Application of this check at the initiation of a C-SAM Auction may result in the Agency Order executing at a better price, since the stop price must improve any same-side complex orders (with the exception of a Priority Customer Agency Order and a resting non-Priority Customer order described above). The proposed rule change is consistent with general customer priority principles.[16]

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[15] See also Rule 5.38(b)(1) of the shell Rulebook. General principles of customer priority ensure the execution price of complex orders will not be executed at prices inferior to the SBBO or at a price equal to the SBBO when there is a Priority Customer at the BBO for any component.

[16] See also Rule 5.38(b)(2) of the shell Rulebook.

- If the Agency Order is to buy (sell) and (a) the BBO of any component of the complex strategy represents a Priority Customer order on the Simple Book, the stop price must be at least one minimum increment better than the SBO (SBB), or (b) the BBO of each component of the complex strategy represents a non-Priority Customer order on the Simple Book, the stop price must be at or better than the SBO (SBB). This ensures the execution price of the Agency Order will improve the price of any Priority Customer orders resting in the Simple Book at the opposite side of the SBBO, and not be through the opposite side of the SBBO.[17]

- If the Agency Order is to buy (sell) and the best-priced sell (buy) complex order on the COB represents (a) a Priority Customer complex order, the stop price must be at least one minimum increment better than the SBO (SBB); or (b) a complex order that is not a Priority Customer, the stop rice must be at or better than the price of the resting complex order. This ensures the execution price of the Agency Order will improve the price of any Priority Customer complex orders resting in the COB at the same price as the stop price, and not be through the price of any other complex order resting in the COB.[18]

These proposed price checks are consistent with the permissible execution prices as set forth in proposed paragraph (e), as described below.

Proposed paragraph (c) describes the C-SAM Auction process. Pursuant to proposed subparagraph (c)(1), one or more C-SAM Auctions in the same complex strategy

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[17]   See also Rule 5.38(b)(3) of the shell Rulebook.

[18]   There is no corresponding provision in Rule 5.38(b), because orders submitted into C-AIM auctions do not have AON contingencies, and Agency Orders submitted into those auctions may trade against both the contra-side order and other contra-side interest.

may occur at the same time. C-SAM Auctions in different complex strategies may be ongoing at any given time, even if the complex strategies have overlapping components. A C-SAM Auction may be ongoing at the same time as a SAM Auction in any component of the complex strategy.

To the extent there is more than one C-SAM Auction in a complex strategy underway at a time, the C-SAM Auctions conclude sequentially based on the exact time each C-SAM Auction commenced, unless terminated early pursuant to proposed Rule 5.40(d). In the event there are multiple C-SAM Auctions underway that are each terminated early pursuant to proposed paragraph (d), the System processes the C-SAM Auctions sequentially based on the exact time each C-SAM Auction commenced. If the System receives a simple order that causes both a SAM Auction and C-SAM Auction (or multiple SAM and/or C-SAM Auctions) to conclude pursuant to proposed Rules 5.39(d) and 5.40(d), the System first processes SAM Auctions (in price-time priority) and then processes C-SAM Auctions (in price-time priority). At the time each C-SAM Auction concludes, the System allocates the Agency Order pursuant to proposed paragraph (e) and takes into account all C-SAM Auction responses and unrelated orders in place at the exact time of conclusion.[19]

The Exchange believes it is appropriate to permit concurrent C-SAM Auctions in the same complex strategy for the same reasons it will permit concurrent C-AIM Auctions for larger-sized Agency Orders, and for the same reason it will permit concurrent simple SAM

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[19]   See also Rule 5.38(c)(1) in the shell Rulebook (which also permits concurrent C-AIM Auctions for series with more than 50 contracts to occur in the same manner); and Rule 5.39(c)(1) (which permits concurrent SAM Auctions to occur in the same manner, except the proposed change adds how the System will handle ongoing auctions that include an overlapping component (whether that component is the subject of an ongoing simple SAM Auction or part of a complex strategy for which a different C-SAM Auction is ongoing).

Auctions to occur. Different complex strategies are essentially different products, as orders in those strategies cannot interact, just as orders in different series or classes cannot interact. Similarly, while it is possible for a complex order to leg into the Simple Book, a complex order may only execute against simple orders if there is interest in each component in the appropriate ratio for the complex strategy. A simple order in one component of a complex strategy cannot on its own interact with a complex order in that complex strategy. Therefore, the Exchange believes it is appropriate to permit concurrent SAM and C-SAM Auctions that share a component. As proposed, C-SAM Auctions will ensure that Agency Orders execute at prices that protect Priority Customer orders in the Simple Book and that are not inferior to the SBBO at the conclusion of the C-SAM Auction, even when there are concurrent simple and complex auctions occurring. The proposed rule change sets forth how any SAM auctions with overlapping components will conclude if terminated due to the same event.

The Exchange notes it is currently possible for auctions in a component leg and a complex strategy containing that component (such as a simple SAM Auction in the component and a complex order auction ("COA") in the complex strategy that contains that component) to occur concurrently, and at the end of each auction, it is possible for interest resting in the Simple Book to trade against the complex order subject to the COA. While these auctions may be occurring at the same time, they will be processed in the order in which they are terminated (similar to how the System will process auctions as proposed above). In other words, suppose today there is a SAM Auction in a series and a COA in a complex strategy for which one of the components is the same series both occurring, which began and will terminate in that order, and each of which lasts 100 milliseconds. While it is

possible for both auctions to terminate nearly simultaneously, the System will still process them in the order in which they terminate. When the SAM Auction terminates, the System will process it in accordance with current Rule 6.74B (Rule 5.39 in the shell Rulebook), and the auctioned order may trade against any resting interest (and responses submitted to that SAM Auction, which may only trade against the order auctioned in that SAM current Rule 6.74B, or the contra-side order submitted to the SAM Auction (Rule 5.39 in the shell Rulebook)). The System will then process the COA Auction when it terminates, and the auctioned order may trade against any resting interest, including any simple interest that did not execute against the SAM order (in addition to the contra-side order and responses submitted to that COA Auction, which may only trade against the order auctioned in that COA), pursuant to current Rule 6.53C.

The proposed rule change moves and makes nonsubstantive changes to other provisions regarding the C-SAM Auction process to proposed paragraph (c):

- The proposed rule change moves the provision regarding the C-SAM Auction notification message (currently called a request for responses ("RFR")) from current subparagraph (b)(1)(B) to proposed subparagraph (c)(2). The proposed provision specifies that the message will detail the side, size, price, Capacity, Auction ID, and complex strategy of the Agency Order to all Users that elect to receive C-SAM Auction notification messages. This is consistent with the current RFR that is disseminated. The current rule states that the RFR states the price, side, and size of the Agency Order; the proposed rule change adds details regarding other information that is included in the notification messages. The proposed rule change

also adds that C-SAM Auction notification messages are not included in OPRA, which is also consistent with current functionality.

- The proposed rule change moves the provision regarding the length of the C-SAM Auction period from current subparagraph (b)(1)(C) to proposed subparagraph (c)(3). The proposed rule change makes no changes to the current range of permitted lengths of C-SAM Auction periods.

- The proposed rule change clarifies in proposed Rule 5.40(c)(4) that the Initiating TPH may not modify or cancel an Agency Order or Solicited Order after submission to a C-SAM Auction. This is consistent with current functionality, and the proposed rule change merely adds this detail to the Rules.

The proposed rule change also moves all provisions regarding C-SAM Auction responses into proposed subparagraph (c)(5), as well as makes certain changes described below, as well as nonsubstantive changes:

- The proposed rule change moves the provision regarding which market participants may respond to C-SAM Auctions, as well as what must be specified in the responses (including price, size, side, and Auction ID) from current subparagraphs (b)(1)(B) and (C) to proposed subparagraph (c)(5). Currently, all TPHs may submit responses to an RFR, except response may not be entered for the account of an options market-maker from another options exchange. The Exchange proposes to permit all Users, except for the Initiating TPH (the response cannot have the same EFID as the Agency Order),[20] to respond to C-SAM Auctions. By

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[20] The Exchange currently does not permit the Initiating TPH to respond to a C-SAM Auction, as that is the inconsistent with the purpose of the auction, which is to cross solicited interest, rather than facilitated interest. Similar to the restriction

permitting additional participants to submit responses to C-SAM Auctions, the Exchange believes this may provide the opportunity for additional liquidity in these auctions, which could lead to additional price improvement opportunities. The proposed rule change adds that a C-SAM response may only participate in the C-SAM Auction with the Auction ID specified in the response. This is consistent with current functionality. The Exchange proposes to include this language given the above proposal that permits concurrent C-SAM Auctions in the same complex strategies.

• The proposed rule change moves the provision regarding the permissible minimum increment for C-SAM responses from current subparagraph (b)(1)(E) to proposed subparagraph (c)(5)(A), but makes no substantive changes.

• Proposed subparagraph (c)(5)(B) states that C-SAM buy (sell) responses are capped at the following prices that exist at the conclusion of the C-SAM Auction: (i) the better of the SBO (SBB) or the offer (bid) of a resting complex order at the top of the COB; or (ii) one minimum increment lower (higher) than the better of the SBO (SBB) or the offer (bid) of a resting complex order at the top of the COB if the BBO of any component of the complex strategy or the resting complex order, respectively, is a Priority Customer order. The System executes these C-SAM responses, if possible, at the most aggressive permissible price not outside the SBBO at the conclusion of the C-SAM Auction or price of the resting complex order. This

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that the Solicited Order cannot be for the Initiating TPH, the Exchange currently enforces this restriction through surveillance. The Exchange proposes to add a systematic block, but will continue to conduct surveillance for compliance with the rule that prevents the response from being for the Initiating TPH (so that a response cannot be used in place of a facilitation order).

will ensure the execution price is at or better than the SBBO (or better than the

SBBO if any component is represented by a Priority Customer order) or prices of

resting complex orders (or better than the best-priced resting complex order if

represented by a Priority Customer complex order) at the end of the C-SAM Auction

as set forth in proposed Rule 5.40(e). Therefore, as proposed, the price at which any

response may be entered (and thus be executed) will ultimately not be through the

SBBO or the best-priced resting orders on the COB at the conclusion of the C-SAM

Auction.

- Proposed subparagraph (c)(5)(C) states a User may submit multiple C-SAM

responses at the same or multiple prices to a C-SAM Auction. This is consistent

with current functionality. Current Rule 6.74B contains no restriction on how many

responses a User may submit; the proposed rule change merely makes this explicit in

the Rules. The proposed rule change also states for purposes of a C-SAM Auction,

the System aggregates all of a User's complex orders on the COB and C-SAM

responses for the same EFID at the same price. This (combined with the proposed

size cap) will prevent a User from submitting multiple orders or responses at the

same price to obtain a larger pro-rata share of the Agency Order.

- Proposed subparagraph (c)(5)(D) states the System caps the size of a C-SAM

response, or the aggregate size of a User's complex orders on the COB and C-SAM

responses for the same EFID at the same price, at the size of the Agency Order (*i.e.*,

the System ignores size in excess of the size of the Agency Order when processing

the C-SAM Auction). This is consistent with current subparagraph (b)(1)(F), except

the proposed rule change caps the aggregate size of a User's interest at the same

price, rather than the size of an individual response. The Exchange believes this is

reasonable to prevent a User from submitting an order or response with an extremely

large size in order to obtain a larger pro-rata share of the Agency Order.

- Proposed subparagraph (c)(5)(E) states C-SAM responses must be on the

opposite side of the market as the Agency Order, and the System rejects a C-SAM

response on the same side of the market as the Agency Order. This is consistent

with current functionality, and the proposed rule change merely adds this detail to

the rules. Additionally, the Exchange believes this is reasonable given that the

purpose of a C-SAM response is to trade against the Agency Order in the C-SAM

Auction into which the C-SAM response was submitted.

- The provision that states C-SAM responses are not visible to C-SAM

Auction participants or disseminated to OPRA moves from current subparagraph

(b)(1)(D) to proposed subparagraph (c)(5)(F).

- The provision that states C-SAM responses may be cancelled moves from

current subparagraph (b)(1)(G) to proposed subparagraph (c)(5)(G). The proposed

rule change also clarifies that C-SAM responses may be modified (which is

consistent with current functionality and merely clarified in the rules).

Proposed Rule 5.40(c) is substantially similar to the corresponding provision applicable to

C-AIM Auctions in Rule 5.38(c) of the shell Rulebook.

Pursuant to proposed Rule 5.40(d), a C-SAM Auction concludes at the earliest to

occur of the following times:

- the end of the C-SAM Auction period;

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

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

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

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

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

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

- the market close; and

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

The proposed events that would cause a C-SAM Auction to conclude early are the same as those that would cause a C-AIM Auction to conclude early (as is currently the case).[21]

The Exchange proposes to conclude the C-SAM Auction in response to the incoming orders described above, as they would cause the SBBO or the best-priced complex order on the same side of the market as the Agency Order to be better priced than the stop price, or cause the stop price to be the same price as the SBBO with a Priority Customer order on the BBO for a component or a Priority Customer complex order on the COB. Similarly, the incoming orders described above would cause the opposite side SBBO to be at or better than the stop price. These events would create circumstances under which a C-SAM Auction would not have been initiated, and therefore, the Exchange believes it is appropriate to conclude a C-SAM Auction when they exist.

Additionally, the proposed rule change would conclude a C-SAM Auction in response to an incoming order that would cause the SBBO to be at a price not permissible under the Limit Up-Limit Down Plan or Regulation SHO,[22] and would conclude the C-SAM Auction without execution. This will ensure that the stock leg of a stock-option order submitted into a C-SAM Auction does not execute at a price not permissible under that plan

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[21]   See Rule 5.38(d) in the shell Rulebook and Rule 6.74B(b)(2) of the current Rulebook. The proposed events that will cause a C-SAM Auction to conclude early are also substantially as those that will cause a simple SAM Auction to conclude early, except they are based on the entry of simple or complex orders that impact the SBBO or the best available prices on the same side of the COB rather than the BBO.

[22]   See current Rule 6.53C, Interpretation and Policy .06(f).

or regulation. This is consistent with current C-SAM functionality to ensure that stock legs

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

SHO, and the proposed rule change codifies this in the Rules.

Proposed Rule 5.40(d)(2) states if the System receives an unrelated market or

marketable limit complex order (against the SBBO or the best price of a complex order

resting in the COB), including a Post Only complex order, on the opposite side of the

market during a C-SAM Auction, the C-SAM Auction does not end early, and the System

executes the order against interest outside the C-SAM Auction or posts the complex order to

the COB. If contracts remain from the unrelated complex order at the time the C-SAM

Auction ends, they may be allocated for execution against the Agency Order pursuant to

proposed Rule 5.40(e). Because these orders may have the opportunity to trade against the

Agency Order following the conclusion of the C-SAM Auction, which execution must still

be at or better than the SBBO and the best-priced complex orders on the COB, the Exchange

does not believe it is necessary to cause a C-SAM Auction to conclude early in the event the

Exchange receives such orders. This will provide more time for potential price

improvement, and the unrelated complex order will have the opportunity to trade against the

Agency Order in the same manner as all other contra-side interest.[23]

At the conclusion of a C-SAM Auction, the System will execute the Agency Order

against the Solicited Order or contra-side complex interest in a substantially similar manner

as it does today.[24] The System will execute the Agency Order against the Solicited Order or

contra-side complex interest (which includes complex orders on the COB and C-SAM

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[23]   This is the same as the corresponding provision for C-AIM Auctions (see Rule
         5.38(d)(2) in the shell Rulebook), and similar to the corresponding provision for
         simple SAM Auctions (see Rule 5.39(d)(2) in the shell Rulebook).

[24]   See Rule 5.38(e).

responses) at the best price(s). Any execution price(s) must be at or between the SBBO and the best prices of any complex orders resting on each side of the COB at the conclusion of the C-SAM Auction.[25] This is consistent with executions following a C-SAM Auction today, which must be consistent with complex order priority rules.[26] Executions following a C-SAM Auction for a complex Agency Order are subject to the complex order price restrictions and priority in Rule 5.33(f)(2) of the shell Rulebook.[27] The System cancels or rejects any unexecuted C-SAM response (or unexecuted portions) at the conclusion of the C-SAM Auction, which is consistent with current functionality and the provision above, which provides that responses may only execute in the C-SAM Auction into which they are submitted.

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[25]   Additionally, if there is a Priority Customer order representing any leg of the SBBO in the Simple Book, the execution price must be better than the SBBO, in accordance with complex order priority. See Rule 5.33(f)(2) in the shell Rulebook. Additionally, any execution price must be better than the price of any resting Priority Order complex order on the COB. As further discussed below, as proposed, an execution may only occur at such a price.

[26]   See current Rule 6.74B(2)(A)(I) (which refers to the NBBO, but is applied as SBBO with respect to complex orders) and Interpretation and Policy .01; see also current Rule 6.53C(d) and Interpretation and Policy .06.

[27]   See proposed Rule 5.40(e)(4) and current Rule 6.74B, Interpretation and Policy .01. Pursuant to Rule 5.33(f)(2) in the shell Rulebook, the System will not execute a complex order at a net price (i) that would cause any component of the complex strategy to be executed at a price of zero; (ii) worse than the SBBO or equal to the SBBO when there is a Priority Customer Order at the SBBO, except AON complex orders may only execute at prices better than the SBBO; (iii) that would cause any component of the complex strategy to be executed at a price worse than the individual component prices on the Simple Book; (iv) worse than the price that would be available if the complex order Legged into the Simple Book; or (v) that would cause any component of the complex strategy to be executed at a price ahead of a Priority Customer Order on the Simple Book without improving the BBO of at least one component of the complex strategy. The proposed execution provisions for C-SAM Auctions are consistent with this priority.

The Agency Order will execute against the Solicited Order if there are no Priority Customer complex orders resting on the COB on the opposite side of the Agency Order at or better than the stop price and the aggregate size of contra-side interest at an improved price(s) is insufficient to satisfy the Agency Order.[28] The System will execute the Agency Order against contra-side interest (and will cancel the Solicited Order) if (a) there is a Priority Customer complex order resting on the COB on the opposite side of the Agency Order at or better than the stop price and the aggregate size of that order and other contra-side interest is sufficient to satisfy the Agency Order or (b) the aggregate size of contra-side interest at an improve price(s) is sufficient to satisfy the Agency Order.[29]

The System will cancel an Agency Order and Solicited Order with no execution if:

- execution of the Agency Order against the Solicited Order would not be (1) at or between the SBBO at the conclusion of the SAM Auction; (2) better than the SBBO if there is a Priority Customer order in any leg component in the Simple Book; (3) at or better than the best-priced complex resting on the COB; or (4) better than the best-priced complex order resting on the COB if it is a Priority Customer complex order;

- there is a Priority Customer complex order resting on the COB on the opposite side of the Agency Order at or better than the stop price, and the aggregate size of the Priority Customer complex order and any other contra-side interest is insufficient to satisfy the Agency Order; or

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[28] See proposed Rule 5.40(e)(1) and current Rule 6.74B(b)(2)(A).

[29] See proposed Rule 5.40(e)(2) and current Rule 6.74B(b)(2)(A)(II) and (III). The Agency Order will execute against contra-side interest at each price level first against Priority Customer complex orders on the COB (in time priority) and then against remaining contra-side interest in a pro-rata manner.

- there is a non-Priority Customer complex order resting on the COB on the opposite side of the Agency Order at a price better than the stop price, and the aggregate size of the resting complex order and any other contra-side interest is insufficient to satisfy the Agency Order.[30]

Unlike today, the Agency Order will only execute against the Solicited Order or C-SAM responses and complex orders resting in the COB, and will not leg into the Simple Book, at the conclusion of a C-SAM Auction. As proposed, the execution prices for an Agency Order will always be better than the SBBO existing at the conclusion of the C-SAM Auction if it includes a Priority Customer order on any leg, as well as better than the best-priced complex order resting on the COB if it is a Priority Customer complex order, and thus is consistent with general customer priority principles with respect to complex orders, pursuant to which complex orders may only trade against complex interest at prices that improve the BBO of any component that is represented by a Priority Customer order.[31]

The Simple Book and the COB are separate, and orders on each do not interact unless a complex order legs into the Simple Book. As a result, the System is not able to calculate the aggregate size of complex auction responses and complex orders on the COB and the size of simple orders in the legs that comprise the complex strategy at each potential execution price (as executions may occur at multiple prices) prior to execution of an order following an auction for complex orders. The current priority following a C-SAM Auction provides that the System will first execute the complex order against all interest in the

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[30]   See proposed Rule 5.40(e)(3) and current Rule 6.74B(b)(2)(A)(I) and (II).

[31]   See proposed Rule 5.40(e)(5).

Simple Book, and then against interest in the COB.[32] If the Exchange were to permit legging into the Simple Book following a C-SAM Auction in accordance with the complex order allocation that will be in place following the technology migration, the System would first look to determine whether there are Priority Customer orders resting in the Simple Book at the final auction price(s) (and in the applicable ratio), and whether there was sufficient interest at improved prices to satisfy the Agency Order. The System would then look back at C-SAM responses and complex orders resting in the COB to determine whether there is interest at that price level that could execute against the Agency Order. Finally, the System would then look back at the Simple Book to determine whether any non-Priority Customer orders in the legs are able to trade against the Agency Order. The System would need to do this at each price level, and then determine whether there were any Priority Customer orders resting on the Simple Book that are part of the SBBO or COB at the stop price, and determine whether there was sufficient size at improved prices, or sufficient size with any Priority Customer orders at the stop price, to satisfy the Agency Order.

The amount of aggregate interest available to execute against the Agency Order is relevant in a C-SAM Auction with respect to the allocation of contracts against the Agency Order and other interest because of the all-or-none nature of the Agency Order. Because the System will not be able to determine the aggregate size of contra-side interest (including simple and complex) at improved prices, it would not be able to determine whether the Agency Order would execute against the Solicited Order or other contra-side interest.

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[32]   See current Rule 6.74B, Interpretation and Policy .01; see also current Rule 6.53C(d).

The Exchange notes there would be significant technical complexities associated with reprogramming priority within the System to permit Agency Orders to leg into the Simple Book following a C-SAM Auction and allocate the Agency Order in a manner consistent with standard priority principles and crossing auctions, while making the most crossing functionality available to TPHs. The proposed rule change will ensure the Agency Order executes in accordance with the C-SAM allocation principles, which provide Priority Customers with priority over the Solicited Order (and other contra-side interest) but also provide for the Solicited Order to execute against the Agency Order if there is no price improvement and no Priority Customer interest present. The Exchange believes providing this functionality will encourage TPHs to submit large complex orders into C-SAM Auctions and provide customer orders with opportunities for price improvement. It will also ensure orders (including Priority Customer orders) on the Simple Book are protected in accordance with standard complex order priority principles, as an Agency Order will only be permitted to execute at prices that do not trade at the SBBO existing at the conclusion of the C-SAM Auction if it includes a Priority Customer order on any leg, and that do not trade through the SBBO existing at the conclusion of the C-SAM Auction.

As noted above, the stop price of the Agency Order must be better than the same and opposite side of the SBBO if there is a Priority Customer order at the BBO in any component of the complex strategy. Additionally, the stop price must be better than the price of any Priority Customer order resting at the top of the COB on either side of the Agency Order. Further, a C-SAM Auction concludes upon receipt of an unrelated Priority Customer order in any component of the complex strategy that would post to the Simple Book and cause the SBBO on either side of the Agency Order to be equal to or better than

the stop price, or upon the receipt of an unrelated Priority Customer complex order on either side of the Agency Order that post to the COB with a price equal to or better than the stop price. Additionally, any execution prices at the conclusion of the C-SAM Auction are subject to the standard complex order priority, which will ensure an Agency Order must execute at a price that improves the SBBO if there is a Priority Customer order at the BBO in any leg.[33] Therefore, the proposed rule change protects Priority Customer orders in the Simple Book even though Agency Orders may not leg into the Simple Book.

Proposed Rule 5.40, Interpretations and Policies .01 and .02 are the same as current Rule 6.74B, Interpretations and Policies .02 and .03, which currently apply to C-SAM Auctions for complex orders.[34]

(b)   Statutory Basis

The Exchange believes the proposed rule change is consistent with the Securities Exchange Act of 1934 (the "Act") and the rules and regulations thereunder applicable to the Exchange and, in particular, the requirements of Section 6(b) of the Act.[35] Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)[36] requirements that the rules of an exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles

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[33]   If there was a Priority Customer order resting at the BBO in any leg of a complex strategy in the Simple Book, and a complex order was submitted to the Exchange (outside of a C-SAM Auction) with a price one minimum increment better than the SBBO, that complex order would not be able to execute against interest in the leg markets (including the Priority Customer order).

[34]   These provisions are also virtually identical to the ones applicable to simple SAM Auctions. See Rule 5.39, Interpretations and Policies .01 and .02 in the shell Rulebook.

[35]   15 U.S.C. 78f(b).

[36]   15 U.S.C. 78f(b)(5).

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

The Exchange's C-SAM will function in a substantially similar manner following the technology migration as it does today. The proposed rule change clarifies in the Rules that the Solicited Order may be comprised of multiple contra-party orders will benefit investors. Permitting the Solicited Order to be comprised of multiple contra-party orders may increase the opportunity for customers to have orders participate in a C-SAM Auction. As a result, this may increase opportunities for price improvement, because this will increase the liquidity available for the Solicited Order, which is consistent with the purpose of C-SAM Auctions. The Exchange believes that this is beneficial to participants because allowing multiple contra-parties should foster competition for filling the Solicited Order and thereby result in potentially better prices, as opposed to only allowing one contra-party and, thereby requiring that contra-party to do a larger size order which could result in a worse price for the trade.

The proposed rule change to prohibit Initiating TPHs from designating an Agency Order or Solicited Order as Post Only is appropriate, as the purpose of a Post Only order is

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[37]   Id.

to not execute upon entry and instead rest in the Book, while the purpose of a C-SAM Auction is to receive an execution following the Auction but prior to entering the COB.

The proposed rule change to require the stop price to be at least one minimum increment better than the best-priced complex order in the COB, unless the Agency Order is a Priority Customer order and the resting order is not a Priority Customer, in which case the stop price must be at or better than the price of the complex order will protect investors. It will protect Priority Customer orders on the same side of the COB. By permitting a Priority Customer Agency Order to trade at the same price as a resting non-Priority Customer order, the proposed rule change also protects Priority Customer orders submitted into a C-SAM Auction. Additionally, application of this check at the initiation of a C-SAM Auction may result in the Agency Order executing at a better price, since the stop price must improve any same-side orders (with the exception of a Priority Customer Agency Order and a resting non-Priority Customer order described above). The proposed rule change is consistent with general customer priority principles.

As noted above, the proposed rule change will allow C-SAM Auctions to occur concurrently with other C-SAM Auctions. Although C-SAM Auctions will be allowed to overlap, the Exchange does not believe that this raises any issues that are not addressed by the proposed rule change. For example, although overlapping, each C-SAM Auction will be started in a sequence and with a time that will determine its processing. Thus, even if there are two C-SAM Auctions that commence and conclude, at nearly the same time, each C-SAM Auction will have a distinct conclusion at which time the Auction will be allocated. In turn, when the first C-SAM Auction concludes, unrelated orders that then exist will be considered for participation in the Auction. If unrelated orders are fully executed in such C-

SAM Auction, then there will be no unrelated orders for consideration when the subsequent

Auction is processed (unless new unrelated order interest has arrived). If instead there is

remaining unrelated order interest after the first C-SAM Auction has been allocated, then

such unrelated order interest will be considered for allocation when the subsequent Auction

is processed. As another example, each C-SAM response is required to specifically identify

the Auction for which it is targeted and if not fully executed will be cancelled back at the

conclusion of the Auction. Thus, C-SAM responses will be specifically considered only in

the specified Auction.

The proposed rule change to allow multiple auctions to overlap is consistent with

functionality already in place on other exchanges.[38] Different complex strategies are

essentially different products – orders in different strategies cannot interact, just as orders in

different classes or series cannot interact. Therefore, the Exchange believes concurrent C-

SAM Auctions in different complex strategies is appropriate. Additionally, while it is

possible for a complex order to leg into the Simple Book, a complex order may only execute

against simple orders if there is interest in each component in the ratio of the complex

strategy. A simple order in one component of a complex strategy cannot on its own interact

with a complex order in that complex strategy. Therefore, the Exchange believes it is

appropriate to permit concurrent C-SAM Auctions in the same component. As proposed, C-

SAM Auctions will ensure that Agency Orders execute at prices that protect Priority

Customer orders in the Simple Book and that are not inferior to the SBBO, even when there

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[38]   See, e.g., EDGX Options Rule 21.21(c)(1); see also, e.g. ISE Rule Options 3,
Section 11(g); and Boston Options Exchange LLC ("BOX") Rule 7270 and BOX
IM-7150-3. The Exchange will also have rules that other auctions to occur
concurrently following the technology migration. See, e.g., Rules 5.37(c)(1),
5.38(c)(1), and 5.39(c)(1) of the shell Rulebook (which will permit concurrent
AIM, C-AIM, and SAM Auctions, respectively).

are concurrent Auctions occurring. The proposed rule change sets forth how any Auctions with in overlapping complex strategies overlapping components will conclude if terminated due to the same event. The Rules do not currently prevent a COA in a complex strategy from occurring at the same time as an SAM in one of the components of the complex strategy. Therefore, the Exchange believes it is similarly reasonable to permit multiple C-SAM in a complex strategy to occur at the same time as a SAM in one of the components of the complex strategy. The Exchange believes this new functionality may lead to an increase in Exchange volume and should allow the Exchange to better compete against other markets that permit overlapping price improvement auctions, while providing an opportunity for price improvement for Agency Orders and assuring that Priority Customers on the simple Book and COB are protected.

The proposed events that will conclude a C-SAM Auction are reasonable and promote a fair and orderly market and national market system, because they will ensure that executions at the conclusion of an Auction occur at permissible prices (such as not outside the SBBO (and not at the SBBO if there is a Priority Customer order in any component on the Simple Book) and not at the same price as a Priority Customer order on the COB). The proposed rule change will also benefit investors by providing clarity regarding what will cause a C-SAM Auction to conclude. These events would create circumstances under which a C-SAM Auction would not have been permitted to start, or that would cause the auction price no longer be consistent with the permissible prices at which executions at the conclusion of an Auction may occur. Thus the Exchange believes it is appropriate to conclude a C-SAM Auction if those circumstances occur. The Exchange will no longer conclude a C-SAM Auction early due to the receipt of an

opposite side complex order other than one proposed instance. The Exchange believes this promotes just and equitable principles of trade, because these orders may have the opportunity to trade against the Agency Order following the conclusion of the Auction, which execution must still be at or better than the SBBO, as well as prices of complex orders in the COB. The Exchange believes this will protect investors, because it will provide more time for price improvement, and the unrelated order will have the opportunity to trade against the Agency Order in the same manner as all other contra-side complex interest.

Executions following the conclusion of a C-SAM Auction will occur in a substantially similar manner as they do today, except the Agency Order may not leg into the simple market to trade against simple orders in the legs. Pursuant Rule 5.33 in the shell Rulebook (which will govern the electronic trading of complex orders following the migration), if an order is able to leg into the Simple Book, the System would first execute an order against Priority Customer orders in the Simple Book, then against any complex order interest in the COB (or auction responses), and last against any other simple interest in the Simple Book (with executions against the Simple Book occurring in the applicable ratio). This would occur at each price at which the complex order may execute. Requiring the System to make these determinations by going "back and forth" between the Simple Book and the COB at multiple price levels would be more complicated after a C-SAM Auction. The System must determine the aggregate amount of interest available at each execution price level before executing any portion of the Agency Order to determine the final auction price and how to allocate the Agency Order against contra-side interest at the conclusion of a C-SAM Auction. This is necessary because the System must determine at each price level

the aggregate non-Priority Customer interest to determine whether there is sufficient size of contra-side interest at improved prices and thus whether the Agency Order will execute against the Solicited Order or contra-side interest.

As noted above, there would be significant technical complexities associated with reprogramming priority within the System to permit Agency Orders to leg into the Simple Book following a C-SAM Auction[39] and allocate the Agency Order in a manner consistent with standard priority principles and crossing auctions, while making the most crossing functionality available to TPHs. Pursuant to the complex order priority principles in Rule 5.33(f)(2) in the shell Rulebook, if an order is able to leg into the Simple Book, the System first executes an order against Priority Customer orders in the Simple Book, then against any complex order interest in the COB (or auction responses), and last against any other simple interest in the Simple Book (with executions against the Simple Book occurring in the applicable ratio). This occurs at each price at which the complex order may execute. Requiring the System to make these determinations by going "back and forth" between the Simple Book and the COB at multiple price levels is more complicated after a C-SAM Auction. The System must determine the aggregate amount of interest available at each execution price level before determining whether the Agency Order will execute against the Solicited Order or contra-side complex interest.

As discussed above, the Exchange believes the proposed rule change protects Priority Customer orders on the Simple Book, because executions following a C-SAM

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[39]   The Exchange notes AON complex orders will not be able to leg into the Simple Book due to the same technical complexities. See Rule 5.33 in the shell Rulebook.

Auction will be subject to the general complex order priority[40] that will apply to all executions of all complex orders on the Exchange. It ensures an Agency Order will only execute at prices better than the SBBO existing at the conclusion of the C-SAM Auction if there is a Priority Customer order at the BBO on any leg, and at prices equal to or better than the SBBO existing at the conclusion of the C-SAM Auction if there is no Priority Customer order at the BBO on any leg. The proposed allocation will also ensure the Agency Order does not trade at the same price as a Priority Customer complex order resting on the COB or through the best-priced complex orders on the COB, and will protect investors by providing Priority Customer complex orders with priority at each price level.

Given the infrequency with which complex orders currently leg into the Simple Book, the Exchange believes it is in the best interest of investors to not implement additional technical complexities given the expected minimal impact, if any, that not permitting Agency Orders to leg into the Simple Book following a C-SAM Auction would have on execution opportunities for orders in the Simple Book.[41]

The proposed rule change to permit all Users to respond to C-SAM Auctions will benefit investors, because it may result in more Users having the opportunity to participate in executions at C-SAM Auctions, which may lead to more opportunities to price improvement. The Exchange believes the proposed rule change will remove impediments to and perfect the mechanism of a free and open market and a national market system,

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[40] See proposed Rule 5.40(e)(4) and current Rule 6.74B, Interpretation and Policy .01.

[41] The Exchange notes the complex order crossing auction of at least one other options exchange does not leg agency orders into the simple book at the conclusion of the auction as long as there is price improvement over the equivalent of the SBBO for that exchange. See, e.g., American Rule 971.2NY(c)(4).

because other exchanges permit all market participants to respond to similar price improvement auctions.[42]

The Exchange believes the proposed rule changes that add detail to the Rules, which are consistent with current functionality, will remove impediments to and perfect the mechanism of a free and open market and protect investors, as these changes provide transparency in the Rules regarding C-SAM Auctions. Additionally, the proposed rule change aligns rule language with corresponding provisions in the Exchange's other complex order price improvement crossing mechanism in Rule 5.38 of the shell Rulebook.

The proposed rule change is also consistent with Section 11(a)(1) of the Act[43] and the rules promulgated thereunder. Generally, Section 11(a)(1) of the Act restricts any member of a national securities exchange from effecting any transaction on such exchange for (i) the member's own account, (ii) the account of a person associated with the member, or (iii) an account over which the member or a person associated with the member exercises investment discretion (collectively, referred to as "covered accounts"), unless a specific exemption is available. Examples of common exemptions include the exemption for transactions by broker dealers acting in the capacity of a market maker under Section 11(a)(1)(A),[44] the "G" exemption for yielding priority to non-members

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[42]   See, e.g., EDGX Options Rule 21.21(c)(5).

[43]   15 U.S.C. 78k(a). Section 11(a)(1) prohibits a member of a national securities exchange from effecting transactions on that exchange for its own account, the account of an associated person, or an account over which it or its associated person exercises discretion unless an exception applies.

[44]   15 U.S.C. 78k(a)(1)(A).

under Section 11(a)(1)(G) of the Act and Rule 11a1-1(T) thereunder,[45] and "Effect vs. Execute" exemption under Rule 11a2-2(T) under the Act.[46]

The "Effect vs. Execute" exemption permits an exchange member, subject to certain conditions, to effect transactions for covered accounts by arranging for an unaffiliated member to execute transactions on the exchange. To comply with Rule 11a2-2(T)'s conditions, a member: (i) must transmit the order from off the exchange floor; (ii) may not participate in the execution of the transaction once it has been transmitted to the member performing the execution;[47] (iii) may not be affiliated with the executing member; and (iv) with respect to an account over which the member has investment discretion, neither the member nor its associated person may retain any compensation in connection with effecting the transaction except as provided in the Rule. For the reasons set forth below, the Exchange believes that TPHs entering orders into a C-SAM would satisfy the requirements of Rule 11a2-2(T).

In the context of automated trading systems, the Commission has found that the off-floor transmission requirement is met if a covered account order is transmitted from a remote location directly to an exchange's floor by electronic means.[48] Because the

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[45]   15 U.S.C. 78k(a)(1)(G) and 17 CFR 240.11a1-1(T).

[46]   17 CFR 240.11a2-2(T).

[47]   The member may, however, participate in clearing and settling the transaction.

[48]   See, e.g., Securities Exchange Act Release Nos. 61419 (January 26, 2010), 75 FR 5157 (February 1, 2010) (SR-BATS-2009-031) (approving BATS options trading); 59154 (December 23, 2008), 73 FR 80468 (December 31, 2008) (SR-BSE-2008-48) (approving equity securities listing and trading on BSE); 57478 (March 12, 2008), 73 FR 14521 (March 18, 2008) (SR-NASDAQ-2007-004 and SR-NASDAQ-2007-080) (approving NOM options trading); 53128 (January 13, 2006), 71 FR 3550 (January 23, 2006) (File No. 10-131) (approving The Nasdaq Stock Market LLC); 44983 (October 25, 2001), 66 FR 55225 (November 1, 2001) (SR-PCX-00-25) (approving Archipelago Exchange); 29237 (May 24, 1991), 56

Exchange's C-SAM Auction receives, and will continue to receive, orders from TPHs electronically through remote terminals or computer-to-computer interfaces, the Exchange believes that orders (as well as responses) submitted to the C-SAM Auction from off the Exchange's trading floor will satisfy the off-floor transmission requirement.[49]

The second condition of Rule 11a2-2(T) requires that neither a member nor an associated person of such member participate in the execution of its order once. The Exchange represents that, upon submission to the C-SAM Auction, an order or C-SAM response will be executed automatically pursuant to the rules set forth for C-SAM Auctions. In particular, execution of an order (including the Agency and Solicited Order) or a C-SAM response sent to the mechanism depends not on the TPH entering the order or response, but rather on what other orders and responses are present and the priority of those orders and responses. Thus, at no time following the submission of an order or response is a TPH or associated person of such TPH able to acquire control or influence over the result or timing of order or response execution.[50] Once the Agency Order and Solicited Order, or the

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FR 24853 (May 31, 1991) (SR-NYSE-90-52 and SR-NYSE-90-53) (approving NYSE's Off-Hours Trading Facility); and 15533 (January 29, 1979), 44 FR 6084 (January 31, 1979) ("1979 Release").

[49] A TPH may not enter an order for a covered account from on the trading floor and rely on the Effect v. Execute, and therefore another exception must apply. A TPH may not send an order for a covered account for an affiliated TPH on the floor and rely on the Effect v. Execute, and therefore another exception must apply.

[50] An Initiating TPH may not cancel or modify an Agency Order or Solicited Order after it has been submitted into C-SAM, but Users may modify or cancel their responses after being submitted into a C-SAM. See proposed Rule 5.40(c)(4) and (c)(5)(G). The Exchange notes that the Commission has stated that the non-participation requirement does not preclude members from cancelling or modifying orders, or from modifying instructions for executing orders, after they have been transmitted so long as such modifications or cancellations are also

response, as applicable, have been transmitted, the Initiating TPH that transmitted the orders, or the User that submitted the response, respectively, will not participate in the execution of the Agency Order or Solicited Order, or the response, respectively. No TPH, including the Initiating TPH, will see a C-SAM response submitted into C-SAM, and therefore and will not be able to influence or guide the execution of their Agency Orders, Solicited Orders, or C-SAM responses, as applicable.

Rule 11a2-2(T)'s third condition requires that the order be executed by an exchange member who is unaffiliated with the member initiating the order. The Commission has stated that the requirement is satisfied when automated exchange facilities, such as the C-SAM Auction are used, as long as the design of these systems ensures that members do not possess any special or unique trading advantages in handling their orders after transmitting them to the exchange.[51] The Exchange represents that the C-SAM Auction is designed so that no TPH has any special or unique trading advantage in the handling of its orders or responses after transmitting its orders to the mechanism.

A TPH (not acting in a market-maker capacity) could submit an order for a covered account from off of the Exchange's trading floor to an unaffiliated Floor Broker for submission for execution in the C-SAM Auction from the Exchange's trading floor

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transmitted from off the floor. See Securities Exchange Act Release No. 14563 (March 14, 1978), 43 FR 11542, 11547 (the "1978 Release").

[51] In considering the operation of automated execution systems operated by an exchange, the Commission noted that, while there is not an independent executing exchange member, the execution of an order is automatic once it has been transmitted into the system. Because the design of these systems ensures that members do not possess any special or unique trading advantages in handling their orders after transmitting them to the exchange, the Commission has stated that executions obtained through these systems satisfy the independent execution requirement of Rule 11a2-2(T). See 1979 Release.

and satisfy the effect-versus-execute exemption (assuming the other conditions are satisfied).[52] However, a TPH could not submit an order for a covered account to its "house" Floor Broker on the trading floor for execution and rely on this exemption. Because a TPH may not rely on the "G" exemption when submitting an order to a C-SAM Auction,[53] it would need to ensure another exception applies in this situation.

Rule 11a2-2(T)'s fourth condition requires that, in the case of a transaction effected for an account with respect to which the initiating member or an associated person thereof exercises investment discretion, neither the initiating member nor any associated person thereof may retain any compensation in connection with effecting the transaction, unless the person authorized to transact business for the account has expressly provided otherwise by written contract referring to Section 11(a) of the Act and Rule 11a2-2(T) thereunder.[54] The Exchange recognizes that TPHs relying on Rule 11a2-2(T) for transactions effected through the C-SAM Auction must comply with this

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[52]   Orders for covered accounts that rely on the "effect versus execute" exemption in this scenario must be transmitted from a remote location directly to the Floor Broker on the trading floor by electronic means.

[53]   See proposed Rule 5.40(e) (which describes the allocation of the Agency Order at the conclusion of the C-SAM Auction, which does not prioritize non-TPH broker-dealers, as would be required by the "G" exemption).

[54]   See 17 CFR 240.11a2-2(T)(a)(2)(iv). In addition, Rule 11a2-2(T)(d) requires a member or associated person authorized by written contract to retain compensation, in connection with effecting transactions for covered accounts over which such member or associated persons thereof exercises investment discretion, to furnish at least annually to the person authorized to transact business for the account a statement setting forth the total amount of compensation retained by the member in connection with effecting transactions for the account during the period covered by the statement which amount must be exclusive of all amounts paid to others during that period for services rendered to effect such transactions. See also 1978 Release, at 11548 (stating "[t]he contractual and disclosure requirements are designed to assure that accounts electing to permit transaction-related compensation do so only after deciding that such arrangements are suitable to their interests").

condition of the Rule and the Exchange will enforce this requirement pursuant to its obligations under Section 6(b)(1) of the Act to enforce compliance with federal securities laws.

The Exchange believes that the instant proposal is consistent with Rule 11a2-2(T), and that therefore the exception should apply in this case. Therefore, the Exchange believes the proposed rule change is consistent with Section 11(a) of the Act and the Rules thereunder.

The proposed rule change is generally intended to align certain system functionality currently offered by Cboe Options to the Exchange's System 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. This will provide Users with greater harmonization of price improvement auction mechanisms available among the Cboe Affiliated Exchanges.

Item 4. **Self-Regulatory Organization's Statement on Burden on Competition**

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange does not believe the proposed rule change to permit all Users to respond to C-SAM Auctions will impose any burden on intramarket competition that is not necessary or appropriate in furtherance of the purposes of the Act, because it will permit more types of market participants (*i.e.*, all Users) to submit responses to C-SAM Auctions. This may result in more Users having the opportunity to participate in executions at the conclusion of C-SAM Auctions. The Exchange does not believe the proposed rule change will impose any burden on intermarket competition that is not

necessary or appropriate in furtherance of the purposes of the Act, because it may increase liquidity in C-SAM Auctions, which may lead to more opportunities to price improvement. Additionally, other exchanges permit all market participants to respond to similar price improvement auctions.[55]

The Exchange does not believe the proposed rule change to amend the C-SAM Auction will impose any burden on intramarket competition that is not necessary or appropriate in furtherance of the purposes of the Act, as the proposed changes to the C-SAM Auction will apply to all orders submitted to an Auction in the same manner. C-SAM Auctions will continue to be voluntary for TPHs to use, and are available to all TPHs. The Exchange does not believe the proposed rule change will impose any burden on intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act, because the proposed changes are substantially the same as another options exchange's rules. The general framework and primary features of the Exchange's current C-SAM Auction is not changing, and will continue to protect orders, including Priority Customer orders, resting in the Book and the COB.

The proposed rule change will provide continued consistency across the Exchange's (and the Cboe Affiliated Exchanges', as applicable) price improvement mechanisms. The general framework and primary features of the proposed C-SAM Auction process (such as the eligibility requirements, auction response period, same-side stop price requirements, response requirements, and auction notification process), are substantively the same as the framework for the Exchange's AIM, C-AIM, and SAM price improvement auctions, as recently proposed to be amended in connection with the

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[55]   See, e.g., EDGX Options Rules 21.19(c)(5) and 21.21(c)(5); see also Rules
        5.37(c)(5) and 5.38(c)(5) in the shell Rulebook.

Exchange's upcoming technology migration.[56] Other exchanges have similar complex

order solicitation auction mechanisms.[57]

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[58] and Rule 19b-4(f)(6)[59] thereunder.

(b)   The Exchange designates that the proposed rule change effects a change

that (i) does not significantly affect the protection of investors or the public interest;

(ii) does not impose any significant burden on competition; and (iii) by its terms, does not

become operative for 30 days after the date of the filing, or such shorter time as the

Commission may designate if consistent with the protection of investors and the public

interest. Additionally, the Exchange has given the Commission written notice of its

intent to file the proposed rule change, along with a brief description and text of the

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[56]   See Rules 5.37 through 5.39 in the shell Rulebook.

[57]   See, e.g., ISE Rule Options 3, Section 11(e).

[58]   15 U.S.C. 78s(b)(3)(A).

[59]   17 CFR 240.19b-4(f)(6).

proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission.

The Exchange believes the proposed rule change does not significantly affect the protection of investors or the public interest. The Exchange's C-SAM Auction as proposed will function in a substantially similar manner following the technology migration as it does today. The proposed rule change will protect investors, as it codifies in the Rules various aspects of current C-SAM Auction functionality, and thus adds transparency to the Rules. Permitting the Solicited Order to be comprised of multiple contra-party orders may increase the opportunity for customers to have orders participate in a C-SAM auction. As a result, this may increase opportunities for price improvement, because this will increase the liquidity available for the Solicited Order, which is consistent with the purpose of C-SAM Auctions. The Exchange believes that this is beneficial to participants because allowing multiple contra-parties should foster competition for filling the Solicited Order and thereby result in potentially better prices, as opposed to only allowing one contra-party and, thereby requiring that contra-party to do a larger size order which could result in a worse price for the trade.

The Exchange believes it is appropriate to permit concurrent C-SAM Auctions in the same component. As proposed, C-SAM Auctions will ensure that Agency Orders execute at prices that protect Priority Customer orders in the Simple Book and that are not inferior to the SBBO, even when there are concurrent simple and complex auctions occurring. Concurrent auctions may provide additional opportunities for price improvement for Agency Orders.

The proposed rule change to prohibit Initiating TPHs from designating an Agency Order or Solicited Order as Post Only is appropriate, as the purpose of a Post Only order is to not execute upon entry and instead rest in the Book, while the purpose of a C-SAM Auction is to receive an execution following the auction but prior to entering the COB.

The Exchange does not believe the proposed rule change to permit all Users to respond to C-SAM Auctions will significantly affect the protection of investors or the public interest, it may increase liquidity in C-SAM Auctions, which may lead to more opportunities to price improvement. The Exchange does not believe the proposed rule change will impose any significant burden on competition, because it will permit all Users to submit responses to C-SAM Auctions, and no longer prohibit market-makers at other options exchanges from submitting responses. This may result in more Users having the opportunity to participate in executions at the conclusion of C-SAM Auctions. Additionally, other exchanges permit all market participants to similar price improvement auctions.[60]

The proposed rule change, including the changes regarding permissible stop prices and events that will conclude a C-SAM Auction, will protect investors, because they will ensure that executions at the conclusion of a C-SAM Auction will not be outside the SBBO (and will be better than the SBBO if there is a Priority Customer order on any leg in the Simple Book), and not at the same price as a Priority Customer orders on the COB. The proposed rule change will also benefit investors by providing clarity regarding permissible stop prices and what will cause a C-SAM Auction to conclude. The Exchange believes not concluding a C-SAM Auction early due to the receipt of an opposite side complex order, other than one proposed instance, as described above, will protect investors, because these

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[60]   See, e.g., EDGX Options Rules 21.19(c)(5) and 21.21(c)(5); see also Rules 5.37(c)(5) and 5.38(c)(5) in the shell Rulebook.

orders may have the opportunity to trade against the Agency Order following the conclusion

of the Auction, which execution must still be at or better than the SBBO (it must be better

than the SBBO if there is a Priority Customer order on any leg in the Simple Book), as well

as prices of complex orders in the COB. The Exchange believes this will provide more time

for price improvement, and the unrelated order will have the opportunity to trade against the

Agency Order in the same manner as all other contra-side complex interest.

The Exchange believes the proposed execution of Agency Orders will protect

customers, because the proposed rule change protects Priority Customer orders on the

Simple Book and the COB, because executions following a C-SAM Auction are subject

to the general complex order priority[61] that will apply to executions of all complex orders

on the Exchange.[62] It ensures an Agency Order will only execute at prices better than the

SBBO existing at the conclusion of the C-SAM Auction if there is a Priority Customer

order at the BBO on any leg, and at prices equal to or better than the SBBO existing at

the conclusion of the C-SAM Auction if there is no Priority Customer order at the BBO

on any leg. The proposed allocation will also ensure the Agency Order does not trade at

the same price as a Priority Customer complex order resting on the COB or through the

best-priced complex orders on the COB, and will protect investors by providing Priority

Customer complex orders with priority at each price level.

The Exchange believes the proposed rule change will not impose any significant

burden on competition. The proposed changes to the Exchange's C-SAM Auctions will

apply to all orders submitted to a C-SAM Auction in the same manner, and C-SAM

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[61]   See proposed Rule 5.38(e)(5).

[62]   See also Rule 5.33(d) and (e) in the shell Rulebook (which sets forth priority
provisions that will apply following the migration).

Auctions will continue to be voluntary for TPHs to use, and are available to all TPHs.

The proposed rule change will benefit investors by providing continued consistency

across the Exchange's (and the Cboe Affiliated Exchanges', as applicable) price

improvement mechanisms. The general framework and primary features of the

Exchange's current C-SAM Auction are not changing, and are substantially the same as

the Exchange's C-AIM Auction, and will continue to provide price improvement

opportunities and price competition while protecting Priority Customer orders resting in

the Book and the COB. The Exchange's continued similarity of its C-SAM Auction to its

C-AIM Auction will allow the Exchange's proposed price improvement functionality to

fit seamlessly into the options market and benefit market participants with consistency

among similar functionality across the Cboe Affiliated Exchanges and throughout the

industry. The Exchange also believes this will encourage Users to compete vigorously to

provide the opportunity for price improvement for customer orders in a competitive

auction process. Additionally, the proposed changes are based on functionality of other

options exchanges.[63] Other exchanges have similar complex order solicitation auction

mechanisms.[64]

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

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[63]   See EDGX Options Rule 21.21; see also American Rule 971.2NY(c)(4) (pursuant
          to which complex orders do not leg into the book at the conclusion of a complex
          price improvement auction).

[64]   See, e.g., ISE Rule Options 3, Section 11(e).

interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission will institute proceedings to determine whether the proposed rule change should be approved or disapproved.

The Exchange respectfully requests that the Commission waive the 30-day operative delay period after which a proposed rule change under Rule 19b-4(f)(6) becomes effective. As described below, the C-SAM Auction will function in a substantially similar manner following the technology migration as it does today. It is also substantially similar to the Exchange's C-AIM Auction and SAM Auction (for simple orders). The Commission recently approved EDGX Options Rule 21.21 (related to EDGX Options' C-AIM Auction, which is also substantially similar to the Exchange C-SAM Auction), after the rule filing to adopt that rule was subject to a public comment period, during which no comments were submitted. Therefore, the Exchange does not believe a 30-day operative delay is necessary. Additionally, the proposed changes are similar to functionality of other options exchanges.[65]

As noted above, the proposed rule change is generally intended to amend certain system functionality currently offered by Cboe Options 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. This will provide Users with greater harmonization of price improvement auction mechanisms available among the Cboe Affiliated Exchanges. The general framework and primary features of the Exchange's C-SAM are not changing, and will continue to provide price

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[65]   See, e.g., ISE Rule Options 3, Section 11(e).

improvement opportunities and price competition for larger-sized customer orders while protecting Priority Customer orders resting in the Book. The Exchange's system migration is scheduled for October 7, 2019, and a waiver of the operative delay will permit the Exchange to provide this functionality to market participants on a continuous, uninterrupted basis.

(c)   Not applicable.

(d)   Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

Item 11.   Exhibits

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

Exhibit 5.   Proposed rule text – shell Rulebook.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-   ; File No. SR-CBOE-2019-064]

[Insert date]

Self-Regulatory Organizations; Cboe Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to Amend its Rule Regarding How Complex Orders are Processed Through the Solicitation Auction Mechanism ("C-SAM" or "C-SAM Auction"), and Move that Rule 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")

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.   **Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change**

Cboe Exchange, Inc. (the "Exchange" or "Cboe Options") proposes to amend its Rule regarding how complex orders are processed through the Solicitation Auction Mechanism ("C-SAM" or "C-SAM Auction"), and move that Rule from the currently

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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).

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.

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. Cboe Options believes offering similar functionality to the extent practicable will reduce potential confusion for market participants.

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 add the provisions of its Rules regarding C-SAM Auctions, as proposed to be modified in this rule filing, to Rule 5.40 in the shell Rulebook.

The proposed rule change moves the provisions regarding SAM Auctions for complex orders from current Interpretation and Policy .01[5] to proposed Rule 5.40, and provides additional detail to the Rules, as well as makes certain additional changes. Current Interpretation and Policy .01 states complex orders may be executed through a SAM Auction at a net debit or net credit price provided the eligibility requirements in current Rule 6.74B(a) are satisfied and the Agency Order is eligible for a SAM Auction considering its complex order type, order origin code (*i.e.*, non-broker-dealer public customer, broker-dealers that are not Market-Makers or specialists on an options exchange, and/or Market-Makers or specialists on an options exchange), class, and marketability as determined by the Exchange. Order allocation is the same as in current Rule 6.74B(b)(2), provided that complex order priority rules applicable to bids and offers in the individual series legs of a

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[5]   The Exchange proposed to delete Rule 6.74B, Interpretation and Policy .01 from current Rulebook in SR-CBOE-2019-063 (filed September 23, 2019).

complex order contained in current Rule 6.53C(d) or Interpretation and Policy .06, as applicable, will continue to apply.

The Exchange believes it will provide more clarity to the Rules to have a separate rule regarding how SAM Auctions apply to complex orders ("C-SAM Auctions"), and thus proposes to add Rule 5.40 to the shell Rulebook. As they are today, complex orders will continue to be processed and executed in a C-SAM Auction in a substantially similar manner as simple orders are processed and executed in an SAM Auction pursuant to Rule 5.39,[6] and therefore proposed Rule 5.40 is substantially similar to Rule 5.39 in the shell Rulebook.[7]

The proposed rule change adds to the proposed introductory paragraph[8] that the Solicited Order may consist of one or more solicited orders.[9] This accommodates multiple

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[6]   See current Rule 6.74B, Interpretation and Policy .01 ("complex orders may be executed through the [SAM] Auction at a net debit or net credit price" with certain exceptions); see also Securities Exchange Act Release No. 57610 (April 3, 2008), 73 FR 19535, 19536 (April 10, 2008) (SR-CBOE-2008-14) (which approved current Rule 6.74B, Interpretation and Policy .01 and stated that the Exchange had "developed an enhanced auction mechanism for larger-sized simple and complex Agency Orders that are to be executed against solicited orders", which auction mechanism would not permit responds to be entered for the account of an options market-maker from another options exchange).

[7]   The Exchange recently proposed certain amendments to the simple SAM Auction, many of which the Exchange similarly proposes to apply to C-SAM Auctions. See SR-CBOE-2019-063 (filed September 23, 2019). The Exchange notes it proposed to delete all of current Rule 6.74B in that rule filing, and thus the proposed rule change merely adds all provisions that are applicable to C-SAM Auctions (as proposed to be amended) to the shell Rulebook.

[8]   The proposed rule change also adds to the proposed introductory paragraph that for purposes of proposed Rule 5.40, the term "SBBO" means the synthetic best bid or offer on the Exchange at the particular point in time applicable to the reference. This is merely an addition of terminology used throughout the Rule, but has no impact on functionality.

[9]   The Solicited Order cannot have a Capacity F for the same executing firm ID ("EFID") as the Agency Order. See current Rule 6.74B, Interpretation and Policy

contra-parties and increases the opportunities for customer orders to be submitted into a C-SAM Auction with the potential for price improvement, since the Solicited Order must stop the full size of the Agency Order. This has no impact on the execution of the Agency Order, which may already trade against multiple contra-parties depending on the final auction price, as set forth in proposed paragraph (e) (and current Rule 6.74B(b)(2) and Interpretation and Policy .01). The Exchange notes that with regard to order entry, the first order submitted into the system is marked as the initiating/agency side and the second order is marked as the contra-side. Additionally, the Solicited Order will always be entered as a single order, even if that order consists of multiple contra-parties who are allocated their portion of the trade in a post-trade allocation.[10]

.03. Because the Solicited Order cannot be facilitated by the Initiating TPH, the Exchange currently enforces this restriction through surveillance. The Exchange proposes to add these systematic blocks, but will continue to conduct surveillance for compliance with the rule that prevents the Solicited Order from being a facilitation. The Agency Order and Solicited Order cannot both be for the accounts of a customer. Current Rule 6.74B does not contain a similar prohibition. However, the Exchange believes it is appropriate for such customer-to-customer crosses to be submitted to a C-AIM Auction pursuant to Rule 5.38 in the shell Rulebook, as that rule contains a provision for Customer-to-Customer Immediate C-AIM Crosses.

[10] The Exchange notes that while other exchange rules do not specify whether the contra-side order in a solicitation auction mechanism may consist of multiple orders, the contra-side order for Qualified Contingent Cross Orders (see Rule 6.53 of the current Rulebook and Rule 5.6(c) of the shell Rulebook), which similarly have a minimum quantity requirement and are fully crossed against an Solicited Order that must be for a minimum number of contracts, may consist of multiple contra-side orders. See also Rule 5.38, introductory paragraph of the shell Rulebook (which permits the contra-side order for automated improvement mechanism auctions of complex orders ("C-AIM Auctions") to consist of multiple solicited orders). However, Nasdaq ISE, LLC ("ISE") Regulatory Information Circular 2014-013 states that the contra-side order submitted into a crossing mechanism (including the ISE solicited order mechanism) may consist of one or more parties.

The proposed rule change deletes the restriction that a solicited order cannot be for the account of any Market-Maker appointed in the class. Current Rule 6.74B, Interpretation and Policy .03, which applies to SAM Auctions of complex orders), imposes this restriction.[11] With respect to the simple markets, appointed Market-Makers have a variety of obligations related to providing liquidity and making competitive markets in their appointed classes. Therefore, prohibiting Market-Makers from being solicited in a simple SAM Auction may encourage those Market-Makers to provide liquidity in that auction to provide liquidity through responses, as well as quotes on the Book that may have the opportunity to execute against the Agency Order. Because Market-Makers have no obligations to provide liquidity to complex markets (and there is no quoting functionality available in the complex order book ("COB")), appointed Market-Makers are on equal footing with all other market participants with respect to C-SAM Auctions. Permitting Market-Makers to be solicited provides all market participants with the opportunity to provide liquidity to execute against Agency Orders in C-SAM Auctions in the same manner (both through solicitation, responses, and interest resting on the COB).[12] Rule 5.38 in the shell Rulebook similarly does not restrict appointed Market-Makers from being solicited to participate on the contra-side of C-AIM Auctions.

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[11]   This restriction exists for simple SAM Auctions. See Rule 5.39, introductory paragraph in the shell Rulebook.

[12]   See Rule 5.38 of the shell Rulebook (which permits appointed market-makers to be solicited for C-AIM Auctions); see also EDGX Options Rule 21.20; and NYSE American, LLC ("American") Rule 971.2NY(a)(1) (which permits all users except customers from being solicited as the contra-party). As further discussed below, the Exchange will no longer restrict Users that may submit responses to C-SAM Auctions.

The Exchange does not believe permitting an appointed Market-Maker to be solicited for a C-SAM Auction provides the Market-Maker with any advantages with respect to its potential quotes in the applicable series in the Simple Book. Rule 4.18 prohibits any TPH from misusing material nonpublic information, and requires TPHs to have policies and procedures designed to prevent the misuse of material nonpublic information. When a market participant is solicited to be the contra-side in a crossing auction, the knowledge of that auction is not yet public. If an appointed Market-Maker was solicited for a C-SAM Auction and modified its quotes in the Simple Book in the applicable series in response to that auction, the Exchange may determine that to be a violation of Rule 4.18 (which the Exchange intends to move to Rule 8.17 of the shell Rulebook with no substantive changes). Such an action would only impact C-SAM Auction execution prices if those quotes were at the BBO in the applicable series. This is true for any TPH solicited for a C-SAM Auction that modified the prices of any orders it has resting in the applicable legs in the Simple Book or in the applicable complex strategy resting in the COB, as C-SAM permissible execution prices are based on all interest resting in the Simple Book.

The proposed introductory paragraph for Rule 5.40 is the same as the corresponding paragraph for C-AIM Auctions (Rule 5.38 in the shell Rulebook), which is the Exchange's price improvement crossing auction for Agency Orders of all sizes and substantially similar to the Exchange's C-SAM Auctions, except C-AIM Auctions permit facilitations and customer-to-customer immediate crosses, while C-SAM Auctions only permit solicitations and do not permit customer-to-customer immediate crosses, as set forth above.[13]

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[13] The proposed introductory paragraph is also substantially the same as the introductory paragraph in Rule 5.39 in the shell Rulebook, which is the rule describing the Exchange's simple SAM Auction.

Proposed Rule 5.40(a) sets forth eligibility requirements for a C-SAM Auction. Proposed Rule 5.40(a)(5) states the Trading Permit Holder that electronically submits an order into a C-SAM Auction (the "Initiating TPH") may not designate an Agency Order or Solicited Order as Post Only. A Post Only complex order is a complex order the System ranks and executes pursuant to Rule 5.33 in the shell Rulebook,[14] subjects to the Price Adjust process pursuant to Rule 5.32 in the shell Rulebook, or cancels or rejects (including if it is not subject to the Price Adjust process and locks or crosses a Protected Quotation of another exchange), as applicable (in accordance with User instructions), except the order or quote may not remove liquidity from the Book or route away to another Exchange. The Exchange does not currently offer Post Only order functionality, but will as of the technology migration.[15] The Exchange believes it is appropriate to not permit the Agency or Solicited Order to be designated as Post Only, as the purpose of a Post Only order is to not execute upon entry and instead rest in the COB, while the purpose of a C-SAM Auction is to receive an execution following the Auction but prior to entering the COB. Proposed

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[14]   The Exchange does not currently offer Post Only functionality, but will following the technology migration. See Rule 5.6(c) in the shell Rulebook (which describes Post Only functionality for simple orders). The Exchange intends to adopt a similar definition of Post Only for complex orders, which will be virtually identical to the definition of Post Only complex orders in the rules of Cboe Affiliated Exchanges. See C2 Rule 6.13(b)(5) and EDGX Options Rule 21.20(b) (which define a Post Only complex order as a complex order the System ranks and executes pursuant to C2 Rule 6.12 or EDGX Options Rule 21.20, respectively, or cancels or rejects, as applicable (in accordance with the User's instructions), except the order may not remove liquidity from the COB or the Simple Book. The System cancels or rejects a Post Only market complex order unless it is subject to each exchange's drill-through protection.

[15]   See Cboe Options Rule 5.6(c) in the shell Rulebook; see also Securities Exchange Act Release No. 86173 (June 20, 2019), 84 FR 30267 (June 26, 2019) (SR-CBOE-2019-027) (which filing added the Post Only order instruction to the shell Rulebook).

Rule 5.40(a)(6) states the Initiating TPH may only submit an Agency Order to a C-SAM
Auction after the COB opens. This is consistent with current functionality, as executions
cannot occur prior to the opening of trading. The proposed rule change clarifies this in the
Rule.

The proposed rule change moves the various other C-SAM Auction eligibility
requirements to proposed paragraph (a) and makes nonsubstantive changes:

- The requirement that an Agency Order be in a class of options the Exchange
  designates as eligible for C-SAM Auctions moves from current Interpretation and
  Policy .01 to proposed subparagraph (a)(1).[16]

- The requirement that the Initiating TPH mark an Agency Order for C-SAM
  processing moves from current subparagraph (b)(1)(A) to proposed subparagraph
  (a)(2).

- The provision regarding the minimum size for Agency Orders moves from current
  Interpretation and Policy .03 to proposed subparagraph (a)(3) (the proposed rule
  change does not propose to amend the minimum size requirements. Additionally,
  the requirement that the Solicited Order be for the same size as the Agency Order
  moves from current subparagraphs (a)(2) and (a)(3) to proposed subparagraph
  (a)(3).[17]

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[16]   The proposed rule change deletes the provisions that the Agency Order be an
         order type, have a Capacity (currently referred to as origin code), or meet
         marketability criteria determined by the Exchange, as the current and proposed
         rule explicitly state any applicable eligibility parameters. The Exchange will
         announce all determinations it may make with respect to a C-SAM Auction
         pursuant to Rule 1.5 in the shell Rulebook.

[17]   The proposed rule change deletes the requirement that the Initiating TPH must
         designate the orders submitted into a C-SAM Auction as all-or-none ("AON"), as

- The provision regarding the minimum increment for the Agency Order and Solicited Order price moves from current subparagraph (a)(3) to proposed subparagraph (a)(4).

The proposed rule change also explicitly states that all of the eligibility requirements in proposed paragraph (a) must be met for a C-SAM Auction to be initiated, and that the System rejects or cancels both an Agency Order and Solicited Order submitted to a C-SAM Auction that do not meet the conditions in proposed paragraph (a). This is consistent with current functionality, and the proposed rule change is merely adding this detail to the Rule.

Proposed Rule 5.40(a) is the same as the corresponding paragraph for C-AIM Auctions in Rule 5.38(a) of the shell Rulebook, other than the minimum size requirement applicable to C-SAM Auctions.[18]

Proposed Rule 5.40(b) sets forth the requirements for the stop price of the Agency Order. It states the Solicited Order must stop the entire Agency Order at a price that satisfies the following:

- If the Agency Order is to buy (sell) and (a) the applicable side of the BBO on any component of the complex strategy represents a Priority Customer order on the

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the C-SAM functionality will automatically handle any orders submitted to the Exchange on a C-SAM message as AON. Therefore, the proposed rule change indicates in proposed subparagraph (a)(3) that the System will handle each order submitted into a C-SAM Auction as AON.

[18] Proposed paragraph (a) is also substantially the same as the corresponding eligibility requirements for simple SAM Auctions in Rule 5.39(a) of the shell Rulebook, except the proposed rule change does not provide that an Initiating TPH may not submit an Agency Order if the NBBO is crossed (unless the Agency Order is a SAM Sweep order). As noted above, there is no NBBO for complex orders, and the legs of complex orders are not subject to the restriction on NBBO trade-throughs. Additionally, the proposed rule change references the opening of the COB rather than the market open, as the opening of the COB is when complex orders may begin trading.

Simple Book, the stop price must be at least one minimum increment better than the SBB (SBO); or (b) the applicable side of the BBO on each component of the complex strategy represents a non-Priority Customer order or quote on the Simple Book, the stop price must be at or better than the SBB (SBO). This ensures the execution price of the Agency Order will improve the SBBO if there is a Priority Customer order in any of the legs on the Simple Book. The proposed rule change protects Priority Customers in any of the component legs of the Agency Order in the Simple Book. By permitting a Priority Customer Agency Order to trade at the SBBO if there is a resting non-Priority Customer order in the Book, the proposed rule change also protects Priority Customer orders submitted into a C-SAM Auction. The Exchange believes the proposed rule change is consistent with general customer priority principles.[19]

- If the Agency Order is to buy (sell) and a buy (sell) complex order rests on the COB, the stop price must be at least one minimum increment better than the bid (offer) of the resting complex order, unless the Agency Order is a Priority Customer order and the resting order is not a Priority Customer, in which case the stop price must be at or better than the bid (offer) of the resting complex order. This ensures the execution price of the Agency Order will improve the price of any resting Priority Customer complex orders on the COB, and that the execution price of a Priority Customer Agency Order will not be inferior to the price of any resting non-Priority Customer complex orders on the COB. The proposed rule change protects Priority

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[19] See also Rule 5.38(b)(1) of the shell Rulebook. General principles of customer priority ensure the execution price of complex orders will not be executed at prices inferior to the SBBO or at a price equal to the SBBO when there is a Priority Customer at the BBO for any component.

Customers on the same side of the COB as the current rule does. By permitting a Priority Customer Agency Order to trade at the same price as a resting non-Priority Customer order, the proposed rule change also protects Priority Customer orders submitted into a C-SAM Auction. Application of this check at the initiation of a C-SAM Auction may result in the Agency Order executing at a better price, since the stop price must improve any same-side complex orders (with the exception of a Priority Customer Agency Order and a resting non-Priority Customer order described above). The proposed rule change is consistent with general customer priority principles.[20]

- If the Agency Order is to buy (sell) and (a) the BBO of any component of the complex strategy represents a Priority Customer order on the Simple Book, the stop price must be at least one minimum increment better than the SBO (SBB), or (b) the BBO of each component of the complex strategy represents a non-Priority Customer order on the Simple Book, the stop price must be at or better than the SBO (SBB). This ensures the execution price of the Agency Order will improve the price of any Priority Customer orders resting in the Simple Book at the opposite side of the SBBO, and not be through the opposite side of the SBBO.[21]

- If the Agency Order is to buy (sell) and the best-priced sell (buy) complex order on the COB represents (a) a Priority Customer complex order, the stop price must be at least one minimum increment better than the SBO (SBB); or (b) a complex order that is not a Priority Customer, the stop rice must be at or better than the price of the

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[20]   See also Rule 5.38(b)(2) of the shell Rulebook.

[21]   See also Rule 5.38(b)(3) of the shell Rulebook.

resting complex order. This ensures the execution price of the Agency Order will improve the price of any Priority Customer complex orders resting in the COB at the same price as the stop price, and not be through the price of any other complex order resting in the COB.[22]

These proposed price checks are consistent with the permissible execution prices as set forth in proposed paragraph (e), as described below.

Proposed paragraph (c) describes the C-SAM Auction process. Pursuant to proposed subparagraph (c)(1), one or more C-SAM Auctions in the same complex strategy may occur at the same time. C-SAM Auctions in different complex strategies may be ongoing at any given time, even if the complex strategies have overlapping components. A C-SAM Auction may be ongoing at the same time as a SAM Auction in any component of the complex strategy.

To the extent there is more than one C-SAM Auction in a complex strategy underway at a time, the C-SAM Auctions conclude sequentially based on the exact time each C-SAM Auction commenced, unless terminated early pursuant to proposed Rule 5.40(d). In the event there are multiple C-SAM Auctions underway that are each terminated early pursuant to proposed paragraph (d), the System processes the C-SAM Auctions sequentially based on the exact time each C-SAM Auction commenced. If the System receives a simple order that causes both a SAM Auction and C-SAM Auction (or multiple SAM and/or C-SAM Auctions) to conclude pursuant to proposed Rules 5.39(d) and 5.40(d), the System first processes SAM Auctions (in price-time priority) and then processes C-SAM

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[22]   There is no corresponding provision in Rule 5.38(b), because orders submitted into C-AIM auctions do not have AON contingencies, and Agency Orders submitted into those auctions may trade against both the contra-side order and other contra-side interest.

Auctions (in price-time priority). At the time each C-SAM Auction concludes, the System allocates the Agency Order pursuant to proposed paragraph (e) and takes into account all C-SAM Auction responses and unrelated orders in place at the exact time of conclusion.[23]

The Exchange believes it is appropriate to permit concurrent C-SAM Auctions in the same complex strategy for the same reasons it will permit concurrent C-AIM Auctions for larger-sized Agency Orders, and for the same reason it will permit concurrent simple SAM Auctions to occur. Different complex strategies are essentially different products, as orders in those strategies cannot interact, just as orders in different series or classes cannot interact. Similarly, while it is possible for a complex order to leg into the Simple Book, a complex order may only execute against simple orders if there is interest in each component in the appropriate ratio for the complex strategy. A simple order in one component of a complex strategy cannot on its own interact with a complex order in that complex strategy. Therefore, the Exchange believes it is appropriate to permit concurrent SAM and C-SAM Auctions that share a component. As proposed, C-SAM Auctions will ensure that Agency Orders execute at prices that protect Priority Customer orders in the Simple Book and that are not inferior to the SBBO at the conclusion of the C-SAM Auction, even when there are concurrent simple and complex auctions occurring. The proposed rule change sets forth how any SAM auctions with overlapping components will conclude if terminated due to the same event.

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[23]   See also Rule 5.38(c)(1) in the shell Rulebook (which also permits concurrent C-AIM Auctions for series with more than 50 contracts to occur in the same manner); and Rule 5.39(c)(1) (which permits concurrent SAM Auctions to occur in the same manner, except the proposed change adds how the System will handle ongoing auctions that include an overlapping component (whether that component is the subject of an ongoing simple SAM Auction or part of a complex strategy for which a different C-SAM Auction is ongoing).

The Exchange notes it is currently possible for auctions in a component leg and a complex strategy containing that component (such as a simple SAM Auction in the component and a complex order auction ("COA") in the complex strategy that contains that component) to occur concurrently, and at the end of each auction, it is possible for interest resting in the Simple Book to trade against the complex order subject to the COA. While these auctions may be occurring at the same time, they will be processed in the order in which they are terminated (similar to how the System will process auctions as proposed above). In other words, suppose today there is a SAM Auction in a series and a COA in a complex strategy for which one of the components is the same series both occurring, which began and will terminate in that order, and each of which lasts 100 milliseconds. While it is possible for both auctions to terminate nearly simultaneously, the System will still process them in the order in which they terminate. When the SAM Auction terminates, the System will process it in accordance with current Rule 6.74B (Rule 5.39 in the shell Rulebook), and the auctioned order may trade against any resting interest (and responses submitted to that SAM Auction, which may only trade against the order auctioned in that SAM current Rule 6.74B, or the contra-side order submitted to the SAM Auction (Rule 5.39 in the shell Rulebook)). The System will then process the COA Auction when it terminates, and the auctioned order may trade against any resting interest, including any simple interest that did not execute against the SAM order (in addition to the contra-side order and responses submitted to that COA Auction, which may only trade against the order auctioned in that COA), pursuant to current Rule 6.53C.

The proposed rule change moves and makes nonsubstantive changes to other provisions regarding the C-SAM Auction process to proposed paragraph (c):

- The proposed rule change moves the provision regarding the C-SAM Auction notification message (currently called a request for responses ("RFR")) from current subparagraph (b)(1)(B) to proposed subparagraph (c)(2). The proposed provision specifies that the message will detail the side, size, price, Capacity, Auction ID, and complex strategy of the Agency Order to all Users that elect to receive C-SAM Auction notification messages. This is consistent with the current RFR that is disseminated. The current rule states that the RFR states the price, side, and size of the Agency Order; the proposed rule change adds details regarding other information that is included in the notification messages. The proposed rule change also adds that C-SAM Auction notification messages are not included in OPRA, which is also consistent with current functionality.

- The proposed rule change moves the provision regarding the length of the C-SAM Auction period from current subparagraph (b)(1)(C) to proposed subparagraph (c)(3). The proposed rule change makes no changes to the current range of permitted lengths of C-SAM Auction periods.

- The proposed rule change clarifies in proposed Rule 5.40(c)(4) that the Initiating TPH may not modify or cancel an Agency Order or Solicited Order after submission to a C-SAM Auction. This is consistent with current functionality, and the proposed rule change merely adds this detail to the Rules.

The proposed rule change also moves all provisions regarding C-SAM Auction responses into proposed subparagraph (c)(5), as well as makes certain changes described below, as well as nonsubstantive changes:

- The proposed rule change moves the provision regarding which market participants may respond to C-SAM Auctions, as well as what must be specified in the responses (including price, size, side, and Auction ID) from current subparagraphs (b)(1)(B) and (C) to proposed subparagraph (c)(5). Currently, all TPHs may submit responses to an RFR, except response may not be entered for the account of an options market-maker from another options exchange. The Exchange proposes to permit all Users, except for the Initiating TPH (the response cannot have the same EFID as the Agency Order),[24] to respond to C-SAM Auctions. By permitting additional participants to submit responses to C-SAM Auctions, the Exchange believes this may provide the opportunity for additional liquidity in these auctions, which could lead to additional price improvement opportunities. The proposed rule change adds that a C-SAM response may only participate in the C-SAM Auction with the Auction ID specified in the response. This is consistent with current functionality. The Exchange proposes to include this language given the above proposal that permits concurrent C-SAM Auctions in the same complex strategies.

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[24]   The Exchange currently does not permit the Initiating TPH to respond to a C-SAM Auction, as that is the inconsistent with the purpose of the auction, which is to cross solicited interest, rather than facilitated interest. Similar to the restriction that the Solicited Order cannot be for the Initiating TPH, the Exchange currently enforces this restriction through surveillance. The Exchange proposes to add a systematic block, but will continue to conduct surveillance for compliance with the rule that prevents the response from being for the Initiating TPH (so that a response cannot be used in place of a facilitation order).

- The proposed rule change moves the provision regarding the permissible minimum increment for C-SAM responses from current subparagraph (b)(1)(E) to proposed subparagraph (c)(5)(A), but makes no substantive changes.

- Proposed subparagraph (c)(5)(B) states that C-SAM buy (sell) responses are capped at the following prices that exist at the conclusion of the C-SAM Auction: (i) the better of the SBO (SBB) or the offer (bid) of a resting complex order at the top of the COB; or (ii) one minimum increment lower (higher) than the better of the SBO (SBB) or the offer (bid) of a resting complex order at the top of the COB if the BBO of any component of the complex strategy or the resting complex order, respectively, is a Priority Customer order. The System executes these C-SAM responses, if possible, at the most aggressive permissible price not outside the SBBO at the conclusion of the C-SAM Auction or price of the resting complex order. This will ensure the execution price is at or better than the SBBO (or better than the SBBO if any component is represented by a Priority Customer order) or prices of resting complex orders (or better than the best-priced resting complex order if represented by a Priority Customer complex order) at the end of the C-SAM Auction as set forth in proposed Rule 5.40(e). Therefore, as proposed, the price at which any response may be entered (and thus be executed) will ultimately not be through the SBBO or the best-priced resting orders on the COB at the conclusion of the C-SAM Auction.

- Proposed subparagraph (c)(5)(C) states a User may submit multiple C-SAM responses at the same or multiple prices to a C-SAM Auction. This is consistent with current functionality. Current Rule 6.74B contains no restriction on how many responses a User may submit; the proposed rule change merely makes this explicit in

the Rules. The proposed rule change also states for purposes of a C-SAM Auction, the System aggregates all of a User's complex orders on the COB and C-SAM responses for the same EFID at the same price. This (combined with the proposed size cap) will prevent a User from submitting multiple orders or responses at the same price to obtain a larger pro-rata share of the Agency Order.

- Proposed subparagraph (c)(5)(D) states the System caps the size of a C-SAM response, or the aggregate size of a User's complex orders on the COB and C-SAM responses for the same EFID at the same price, at the size of the Agency Order (*i.e.*, the System ignores size in excess of the size of the Agency Order when processing the C-SAM Auction). This is consistent with current subparagraph (b)(1)(F), except the proposed rule change caps the aggregate size of a User's interest at the same price, rather than the size of an individual response. The Exchange believes this is reasonable to prevent a User from submitting an order or response with an extremely large size in order to obtain a larger pro-rata share of the Agency Order.

- Proposed subparagraph (c)(5)(E) states C-SAM responses must be on the opposite side of the market as the Agency Order, and the System rejects a C-SAM response on the same side of the market as the Agency Order. This is consistent with current functionality, and the proposed rule change merely adds this detail to the rules. Additionally, the Exchange believes this is reasonable given that the purpose of a C-SAM response is to trade against the Agency Order in the C-SAM Auction into which the C-SAM response was submitted.

- The provision that states C-SAM responses are not visible to C-SAM Auction participants or disseminated to OPRA moves from current subparagraph (b)(1)(D) to proposed subparagraph (c)(5)(F).

- The provision that states C-SAM responses may be cancelled moves from current subparagraph (b)(1)(G) to proposed subparagraph (c)(5)(G). The proposed rule change also clarifies that C-SAM responses may be modified (which is consistent with current functionality and merely clarified in the rules).

Proposed Rule 5.40(c) is substantially similar to the corresponding provision applicable to C-AIM Auctions in Rule 5.38(c) of the shell Rulebook.

Pursuant to proposed Rule 5.40(d), a C-SAM Auction concludes at the earliest to occur of the following times:

- the end of the C-SAM Auction period;

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

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

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

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

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

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

- the market close; and

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

The proposed events that would cause a C-SAM Auction to conclude early are the same as those that would cause a C-AIM Auction to conclude early (as is currently the case).[25]

The Exchange proposes to conclude the C-SAM Auction in response to the incoming orders described above, as they would cause the SBBO or the best-priced complex order on the same side of the market as the Agency Order to be better priced than the stop

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[25] See Rule 5.38(d) in the shell Rulebook and Rule 6.74B(b)(2) of the current Rulebook. The proposed events that will cause a C-SAM Auction to conclude early are also substantially as those that will cause a simple SAM Auction to conclude early, except they are based on the entry of simple or complex orders that impact the SBBO or the best available prices on the same side of the COB rather than the BBO.

price, or cause the stop price to be the same price as the SBBO with a Priority Customer order on the BBO for a component or a Priority Customer complex order on the COB. Similarly, the incoming orders described above would cause the opposite side SBBO to be at or better than the stop price. These events would create circumstances under which a C-SAM Auction would not have been initiated, and therefore, the Exchange believes it is appropriate to conclude a C-SAM Auction when they exist.

Additionally, the proposed rule change would conclude a C-SAM Auction in response to an incoming order that would cause the SBBO to be at a price not permissible under the Limit Up-Limit Down Plan or Regulation SHO,[26] and would conclude the C-SAM Auction without execution. This will ensure that the stock leg of a stock-option order submitted into a C-SAM Auction does not execute at a price not permissible under that plan or regulation. This is consistent with current C-SAM functionality to ensure that stock legs do not trade at prices not permissible under the Limit Up-Limit Down Plan or Regulation SHO, and the proposed rule change codifies this in the Rules.

Proposed Rule 5.40(d)(2) states if the System receives an unrelated market or marketable limit complex order (against the SBBO or the best price of a complex order resting in the COB), including a Post Only complex order, on the opposite side of the market during a C-SAM Auction, the C-SAM Auction does not end early, and the System executes the order against interest outside the C-SAM Auction or posts the complex order to the COB. If contracts remain from the unrelated complex order at the time the C-SAM Auction ends, they may be allocated for execution against the Agency Order pursuant to proposed Rule 5.40(e). Because these orders may have the opportunity to trade against the

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[26]   See current Rule 6.53C, Interpretation and Policy .06(f).

Agency Order following the conclusion of the C-SAM Auction, which execution must still be at or better than the SBBO and the best-priced complex orders on the COB, the Exchange does not believe it is necessary to cause a C-SAM Auction to conclude early in the event the Exchange receives such orders. This will provide more time for potential price improvement, and the unrelated complex order will have the opportunity to trade against the Agency Order in the same manner as all other contra-side interest.[27]

At the conclusion of a C-SAM Auction, the System will execute the Agency Order against the Solicited Order or contra-side complex interest in a substantially similar manner as it does today.[28] The System will execute the Agency Order against the Solicited Order or contra-side complex interest (which includes complex orders on the COB and C-SAM responses) at the best price(s). Any execution price(s) must be at or between the SBBO and the best prices of any complex orders resting on each side of the COB at the conclusion of the C-SAM Auction.[29] This is consistent with executions following a C-SAM Auction today, which must be consistent with complex order priority rules.[30] Executions following a C-SAM Auction for a complex Agency Order are subject to the complex order price

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[27]   This is the same as the corresponding provision for C-AIM Auctions (see Rule 5.38(d)(2) in the shell Rulebook), and similar to the corresponding provision for simple SAM Auctions (see Rule 5.39(d)(2) in the shell Rulebook).

[28]   See Rule 5.38(e).

[29]   Additionally, if there is a Priority Customer order representing any leg of the SBBO in the Simple Book, the execution price must be better than the SBBO, in accordance with complex order priority. See Rule 5.33(f)(2) in the shell Rulebook. Additionally, any execution price must be better than the price of any resting Priority Order complex order on the COB. As further discussed below, as proposed, an execution may only occur at such a price.

[30]   See current Rule 6.74B(2)(A)(I) (which refers to the NBBO, but is applied as SBBO with respect to complex orders) and Interpretation and Policy .01; see also current Rule 6.53C(d) and Interpretation and Policy .06.

restrictions and priority in Rule 5.33(f)(2) of the shell Rulebook.[31] The System cancels or

rejects any unexecuted C-SAM response (or unexecuted portions) at the conclusion of the

C-SAM Auction, which is consistent with current functionality and the provision above,

which provides that responses may only execute in the C-SAM Auction into which they are

submitted.

The Agency Order will execute against the Solicited Order if there are no Priority

Customer complex orders resting on the COB on the opposite side of the Agency Order at or

better than the stop price and the aggregate size of contra-side interest at an improved

price(s) is insufficient to satisfy the Agency Order.[32] The System will execute the Agency

Order against contra-side interest (and will cancel the Solicited Order) if (a) there is a

Priority Customer complex order resting on the COB on the opposite side of the Agency

Order at or better than the stop price and the aggregate size of that order and other contra-

side interest is sufficient to satisfy the Agency Order or (b) the aggregate size of contra-side

interest at an improve price(s) is sufficient to satisfy the Agency Order.[33]

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[31]   See proposed Rule 5.40(e)(4) and current Rule 6.74B, Interpretation and Policy
         .01. Pursuant to Rule 5.33(f)(2) in the shell Rulebook, the System will not
         execute a complex order at a net price (i) that would cause any component of the
         complex strategy to be executed at a price of zero; (ii) worse than the SBBO or
         equal to the SBBO when there is a Priority Customer Order at the SBBO, except
         AON complex orders may only execute at prices better than the SBBO; (iii) that
         would cause any component of the complex strategy to be executed at a price
         worse than the individual component prices on the Simple Book; (iv) worse than
         the price that would be available if the complex order Legged into the Simple
         Book; or (v) that would cause any component of the complex strategy to be
         executed at a price ahead of a Priority Customer Order on the Simple Book
         without improving the BBO of at least one component of the complex strategy.
         The proposed execution provisions for C-SAM Auctions are consistent with this
         priority.

[32]   See proposed Rule 5.40(e)(1) and current Rule 6.74B(b)(2)(A).

[33]   See proposed Rule 5.40(e)(2) and current Rule 6.74B(b)(2)(A)(II) and (III). The

The System will cancel an Agency Order and Solicited Order with no execution if:

- execution of the Agency Order against the Solicited Order would not be (1) at or between the SBBO at the conclusion of the SAM Auction; (2) better than the SBBO if there is a Priority Customer order in any leg component in the Simple Book; (3) at or better than the best-priced complex resting on the COB; or (4) better than the best-priced complex order resting on the COB if it is a Priority Customer complex order;

- there is a Priority Customer complex order resting on the COB on the opposite side of the Agency Order at or better than the stop price, and the aggregate size of the Priority Customer complex order and any other contra-side interest is insufficient to satisfy the Agency Order; or

- there is a non-Priority Customer complex order resting on the COB on the opposite side of the Agency Order at a price better than the stop price, and the aggregate size of the resting complex order and any other contra-side interest is insufficient to satisfy the Agency Order.[34]

Unlike today, the Agency Order will only execute against the Solicited Order or C-SAM responses and complex orders resting in the COB, and will not leg into the Simple Book, at the conclusion of a C-SAM Auction. As proposed, the execution prices for an Agency Order will always be better than the SBBO existing at the conclusion of the C-SAM Auction if it includes a Priority Customer order on any leg, as well as better than the best-

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Agency Order will execute against contra-side interest at each price level first against Priority Customer complex orders on the COB (in time priority) and then against remaining contra-side interest in a pro-rata manner.

[34] See proposed Rule 5.40(e)(3) and current Rule 6.74B(b)(2)(A)(I) and (II).

priced complex order resting on the COB if it is a Priority Customer complex order, and thus is consistent with general customer priority principles with respect to complex orders, pursuant to which complex orders may only trade against complex interest at prices that improve the BBO of any component that is represented by a Priority Customer order.[35]

The Simple Book and the COB are separate, and orders on each do not interact unless a complex order legs into the Simple Book. As a result, the System is not able to calculate the aggregate size of complex auction responses and complex orders on the COB and the size of simple orders in the legs that comprise the complex strategy at each potential execution price (as executions may occur at multiple prices) prior to execution of an order following an auction for complex orders. The current priority following a C-SAM Auction provides that the System will first execute the complex order against all interest in the Simple Book, and then against interest in the COB.[36] If the Exchange were to permit legging into the Simple Book following a C-SAM Auction in accordance with the complex order allocation that will be in place following the technology migration, the System would first look to determine whether there are Priority Customer orders resting in the Simple Book at the final auction price(s) (and in the applicable ratio), and whether there was sufficient interest at improved prices to satisfy the Agency Order. The System would then look back at C-SAM responses and complex orders resting in the COB to determine whether there is interest at that price level that could execute against the Agency Order. Finally, the System would then look back at the Simple Book to determine whether any non-Priority Customer orders in the legs are able to trade against the Agency Order. The System

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[35]   See proposed Rule 5.40(e)(5).

[36]   See current Rule 6.74B, Interpretation and Policy .01; see also current Rule 6.53C(d).

would need to do this at each price level, and then determine whether there were any Priority Customer orders resting on the Simple Book that are part of the SBBO or COB at the stop price, and determine whether there was sufficient size at improved prices, or sufficient size with any Priority Customer orders at the stop price, to satisfy the Agency Order.

The amount of aggregate interest available to execute against the Agency Order is relevant in a C-SAM Auction with respect to the allocation of contracts against the Agency Order and other interest because of the all-or-none nature of the Agency Order. Because the System will not be able to determine the aggregate size of contra-side interest (including simple and complex) at improved prices, it would not be able to determine whether the Agency Order would execute against the Solicited Order or other contra-side interest.

The Exchange notes there would be significant technical complexities associated with reprogramming priority within the System to permit Agency Orders to leg into the Simple Book following a C-SAM Auction and allocate the Agency Order in a manner consistent with standard priority principles and crossing auctions, while making the most crossing functionality available to TPHs. The proposed rule change will ensure the Agency Order executes in accordance with the C-SAM allocation principles, which provide Priority Customers with priority over the Solicited Order (and other contra-side interest) but also provide for the Solicited Order to execute against the Agency Order if there is no price improvement and no Priority Customer interest present. The Exchange believes providing this functionality will encourage TPHs to submit large complex orders into C-SAM Auctions and provide customer orders with opportunities for price improvement. It will also ensure orders (including Priority Customer orders) on the Simple Book are protected in

accordance with standard complex order priority principles, as an Agency Order will only be permitted to execute at prices that do not trade at the SBBO existing at the conclusion of the C-SAM Auction if it includes a Priority Customer order on any leg, and that do not trade through the SBBO existing at the conclusion of the C-SAM Auction.

As noted above, the stop price of the Agency Order must be better than the same and opposite side of the SBBO if there is a Priority Customer order at the BBO in any component of the complex strategy. Additionally, the stop price must be better than the price of any Priority Customer order resting at the top of the COB on either side of the Agency Order. Further, a C-SAM Auction concludes upon receipt of an unrelated Priority Customer order in any component of the complex strategy that would post to the Simple Book and cause the SBBO on either side of the Agency Order to be equal to or better than the stop price, or upon the receipt of an unrelated Priority Customer complex order on either side of the Agency Order that post to the COB with a price equal to or better than the stop price. Additionally, any execution prices at the conclusion of the C-SAM Auction are subject to the standard complex order priority, which will ensure an Agency Order must execute at a price that improves the SBBO if there is a Priority Customer order at the BBO in any leg.[37] Therefore, the proposed rule change protects Priority Customer orders in the Simple Book even though Agency Orders may not leg into the Simple Book.

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[37]   If there was a Priority Customer order resting at the BBO in any leg of a complex strategy in the Simple Book, and a complex order was submitted to the Exchange (outside of a C-SAM Auction) with a price one minimum increment better than the SBBO, that complex order would not be able to execute against interest in the leg markets (including the Priority Customer order).

Proposed Rule 5.40, Interpretations and Policies .01 and .02 are the same as current Rule 6.74B, Interpretations and Policies .02 and .03, which currently apply to C-SAM Auctions for complex orders.[38]

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.[39] Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)[40] 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)[41] requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The Exchange's C-SAM will function in a substantially similar manner following the technology migration as it does today. The proposed rule change clarifies in the Rules

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[38]   These provisions are also virtually identical to the ones applicable to simple SAM Auctions. See Rule 5.39, Interpretations and Policies .01 and .02 in the shell Rulebook.

[39]   15 U.S.C. 78f(b).

[40]   15 U.S.C. 78f(b)(5).

[41]   Id.

that the Solicited Order may be comprised of multiple contra-party orders will benefit investors. Permitting the Solicited Order to be comprised of multiple contra-party orders may increase the opportunity for customers to have orders participate in a C-SAM Auction. As a result, this may increase opportunities for price improvement, because this will increase the liquidity available for the Solicited Order, which is consistent with the purpose of C-SAM Auctions. The Exchange believes that this is beneficial to participants because allowing multiple contra-parties should foster competition for filling the Solicited Order and thereby result in potentially better prices, as opposed to only allowing one contra-party and, thereby requiring that contra-party to do a larger size order which could result in a worse price for the trade.

The proposed rule change to prohibit Initiating TPHs from designating an Agency Order or Solicited Order as Post Only is appropriate, as the purpose of a Post Only order is to not execute upon entry and instead rest in the Book, while the purpose of a C-SAM Auction is to receive an execution following the Auction but prior to entering the COB.

The proposed rule change to require the stop price to be at least one minimum increment better than the best-priced complex order in the COB, unless the Agency Order is a Priority Customer order and the resting order is not a Priority Customer, in which case the stop price must be at or better than the price of the complex order will protect investors. It will protect Priority Customer orders on the same side of the COB. By permitting a Priority Customer Agency Order to trade at the same price as a resting non-Priority Customer order, the proposed rule change also protects Priority Customer orders submitted into a C-SAM Auction. Additionally, application of this check at the initiation of a C-SAM Auction may result in the Agency Order executing at a better price, since the stop price must improve any

same-side orders (with the exception of a Priority Customer Agency Order and a resting
non-Priority Customer order described above). The proposed rule change is consistent with
general customer priority principles.

As noted above, the proposed rule change will allow C-SAM Auctions to occur
concurrently with other C-SAM Auctions. Although C-SAM Auctions will be allowed to
overlap, the Exchange does not believe that this raises any issues that are not addressed by
the proposed rule change. For example, although overlapping, each C-SAM Auction will be
started in a sequence and with a time that will determine its processing. Thus, even if there
are two C-SAM Auctions that commence and conclude, at nearly the same time, each C-
SAM Auction will have a distinct conclusion at which time the Auction will be allocated. In
turn, when the first C-SAM Auction concludes, unrelated orders that then exist will be
considered for participation in the Auction. If unrelated orders are fully executed in such C-
SAM Auction, then there will be no unrelated orders for consideration when the subsequent
Auction is processed (unless new unrelated order interest has arrived). If instead there is
remaining unrelated order interest after the first C-SAM Auction has been allocated, then
such unrelated order interest will be considered for allocation when the subsequent Auction
is processed. As another example, each C-SAM response is required to specifically identify
the Auction for which it is targeted and if not fully executed will be cancelled back at the
conclusion of the Auction. Thus, C-SAM responses will be specifically considered only in
the specified Auction.

The proposed rule change to allow multiple auctions to overlap is consistent with
functionality already in place on other exchanges.[42] Different complex strategies are

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[42] See, e.g., EDGX Options Rule 21.21(c)(1); see also, e.g. ISE Rule Options 3,

essentially different products – orders in different strategies cannot interact, just as orders in different classes or series cannot interact. Therefore, the Exchange believes concurrent C-SAM Auctions in different complex strategies is appropriate. Additionally, while it is possible for a complex order to leg into the Simple Book, a complex order may only execute against simple orders if there is interest in each component in the ratio of the complex strategy. A simple order in one component of a complex strategy cannot on its own interact with a complex order in that complex strategy. Therefore, the Exchange believes it is appropriate to permit concurrent C-SAM Auctions in the same component. As proposed, C-SAM Auctions will ensure that Agency Orders execute at prices that protect Priority Customer orders in the Simple Book and that are not inferior to the SBBO, even when there are concurrent Auctions occurring. The proposed rule change sets forth how any Auctions with in overlapping complex strategies overlapping components will conclude if terminated due to the same event. The Rules do not currently prevent a COA in a complex strategy from occurring at the same time as an SAM in one of the components of the complex strategy. Therefore, the Exchange believes it is similarly reasonable to permit multiple C-SAM in a complex strategy to occur at the same time as a SAM in one of the components of the complex strategy. The Exchange believes this new functionality may lead to an increase in Exchange volume and should allow the Exchange to better compete against other markets that permit overlapping price improvement auctions, while providing an opportunity for

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Section 11(g); and Boston Options Exchange LLC ("BOX") Rule 7270 and BOX IM-7150-3. The Exchange will also have rules that other auctions to occur concurrently following the technology migration. See, e.g., Rules 5.37(c)(1), 5.38(c)(1), and 5.39(c)(1) of the shell Rulebook (which will permit concurrent AIM, C-AIM, and SAM Auctions, respectively).

price improvement for Agency Orders and assuring that Priority Customers on the simple Book and COB are protected.

The proposed events that will conclude a C-SAM Auction are reasonable and promote a fair and orderly market and national market system, because they will ensure that executions at the conclusion of an Auction occur at permissible prices (such as not outside the SBBO (and not at the SBBO if there is a Priority Customer order in any component on the Simple Book) and not at the same price as a Priority Customer order on the COB). The proposed rule change will also benefit investors by providing clarity regarding what will cause a C-SAM Auction to conclude. These events would create circumstances under which a C-SAM Auction would not have been permitted to start, or that would cause the auction price no longer be consistent with the permissible prices at which executions at the conclusion of an Auction may occur. Thus the Exchange believes it is appropriate to conclude a C-SAM Auction if those circumstances occur. The Exchange will no longer conclude a C-SAM Auction early due to the receipt of an opposite side complex order other than one proposed instance. The Exchange believes this promotes just and equitable principles of trade, because these orders may have the opportunity to trade against the Agency Order following the conclusion of the Auction, which execution must still be at or better than the SBBO, as well as prices of complex orders in the COB. The Exchange believes this will protect investors, because it will provide more time for price improvement, and the unrelated order will have the opportunity to trade against the Agency Order in the same manner as all other contra-side complex interest.

Executions following the conclusion of a C-SAM Auction will occur in a substantially similar manner as they do today, except the Agency Order may not leg into the simple market to trade against simple orders in the legs. Pursuant Rule 5.33 in the shell Rulebook (which will govern the electronic trading of complex orders following the migration), if an order is able to leg into the Simple Book, the System would first execute an order against Priority Customer orders in the Simple Book, then against any complex order interest in the COB (or auction responses), and last against any other simple interest in the Simple Book (with executions against the Simple Book occurring in the applicable ratio). This would occur at each price at which the complex order may execute. Requiring the System to make these determinations by going "back and forth" between the Simple Book and the COB at multiple price levels would be more complicated after a C-SAM Auction. The System must determine the aggregate amount of interest available at each execution price level before executing any portion of the Agency Order to determine the final auction price and how to allocate the Agency Order against contra-side interest at the conclusion of a C-SAM Auction. This is necessary because the System must determine at each price level the aggregate non-Priority Customer interest to determine whether there is sufficient size of contra-side interest at improved prices and thus whether the Agency Order will execute against the Solicited Order or contra-side interest.

As noted above, there would be significant technical complexities associated with reprogramming priority within the System to permit Agency Orders to leg into the Simple Book following a C-SAM Auction[43] and allocate the Agency Order in a manner consistent

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[43]   The Exchange notes AON complex orders will not be able to leg into the Simple Book due to the same technical complexities. See Rule 5.33 in the shell Rulebook.

with standard priority principles and crossing auctions, while making the most crossing functionality available to TPHs. Pursuant to the complex order priority principles in Rule 5.33(f)(2) in the shell Rulebook, if an order is able to leg into the Simple Book, the System first executes an order against Priority Customer orders in the Simple Book, then against any complex order interest in the COB (or auction responses), and last against any other simple interest in the Simple Book (with executions against the Simple Book occurring in the applicable ratio). This occurs at each price at which the complex order may execute. Requiring the System to make these determinations by going "back and forth" between the Simple Book and the COB at multiple price levels is more complicated after a C-SAM Auction. The System must determine the aggregate amount of interest available at each execution price level before determining whether the Agency Order will execute against the Solicited Order or contra-side complex interest.

As discussed above, the Exchange believes the proposed rule change protects Priority Customer orders on the Simple Book, because executions following a C-SAM Auction will be subject to the general complex order priority[44] that will apply to all executions of all complex orders on the Exchange. It ensures an Agency Order will only execute at prices better than the SBBO existing at the conclusion of the C-SAM Auction if there is a Priority Customer order at the BBO on any leg, and at prices equal to or better than the SBBO existing at the conclusion of the C-SAM Auction if there is no Priority Customer order at the BBO on any leg. The proposed allocation will also ensure the Agency Order does not trade at the same price as a Priority Customer complex order resting on the COB or

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[44]   See proposed Rule 5.40(e)(4) and current Rule 6.74B, Interpretation and Policy .01.

through the best-priced complex orders on the COB, and will protect investors by providing

Priority Customer complex orders with priority at each price level.

Given the infrequency with which complex orders currently leg into the Simple

Book, the Exchange believes it is in the best interest of investors to not implement additional

technical complexities given the expected minimal impact, if any, that not permitting

Agency Orders to leg into the Simple Book following a C-SAM Auction would have on

execution opportunities for orders in the Simple Book.[45]

The proposed rule change to permit all Users to respond to C-SAM Auctions will

benefit investors, because it may result in more Users having the opportunity to participate

in executions at C-SAM Auctions, which may lead to more opportunities to price

improvement. The Exchange believes the proposed rule change will remove impediments

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

because other exchanges permit all market participants to respond to similar price

improvement auctions.[46]

The Exchange believes the proposed rule changes that add detail to the Rules, which

are consistent with current functionality, will remove impediments to and perfect the

mechanism of a free and open market and protect investors, as these changes provide

transparency in the Rules regarding C-SAM Auctions. Additionally, the proposed rule

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[45]   The Exchange notes the complex order crossing auction of at least one other
         options exchange does not leg agency orders into the simple book at the
         conclusion of the auction as long as there is price improvement over the
         equivalent of the SBBO for that exchange. See, e.g., American Rule
         971.2NY(c)(4).

[46]   See, e.g., EDGX Options Rule 21.21(c)(5).

change aligns rule language with corresponding provisions in the Exchange's other complex

order price improvement crossing mechanism in Rule 5.38 of the shell Rulebook.

The proposed rule change is also consistent with Section 11(a)(1) of the Act[47] and

the rules promulgated thereunder. Generally, Section 11(a)(1) of the Act restricts any

member of a national securities exchange from effecting any transaction on such

exchange for (i) the member's own account, (ii) the account of a person associated with

the member, or (iii) an account over which the member or a person associated with the

member exercises investment discretion (collectively, referred to as "covered accounts"),

unless a specific exemption is available. Examples of common exemptions include the

exemption for transactions by broker dealers acting in the capacity of a market maker

under Section 11(a)(1)(A),[48] the "G" exemption for yielding priority to non-members

under Section 11(a)(1)(G) of the Act and Rule 11a1-1(T) thereunder,[49] and "Effect vs.

Execute" exemption under Rule 11a2-2(T) under the Act.[50]

The "Effect vs. Execute" exemption permits an exchange member, subject to

certain conditions, to effect transactions for covered accounts by arranging for an

unaffiliated member to execute transactions on the exchange. To comply with Rule

11a2-2(T)'s conditions, a member: (i) must transmit the order from off the exchange

floor; (ii) may not participate in the execution of the transaction once it has been

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[47]   15 U.S.C. 78k(a). Section 11(a)(1) prohibits a member of a national securities
        exchange from effecting transactions on that exchange for its own account, the
        account of an associated person, or an account over which it or its associated
        person exercises discretion unless an exception applies.

[48]   15 U.S.C. 78k(a)(1)(A).

[49]   15 U.S.C. 78k(a)(1)(G) and 17 CFR 240.11a1-1(T).

[50]   17 CFR 240.11a2-2(T).

transmitted to the member performing the execution;[51] (iii) may not be affiliated with the executing member; and (iv) with respect to an account over which the member has investment discretion, neither the member nor its associated person may retain any compensation in connection with effecting the transaction except as provided in the Rule. For the reasons set forth below, the Exchange believes that TPHs entering orders into a C-SAM would satisfy the requirements of Rule 11a2-2(T).

In the context of automated trading systems, the Commission has found that the off-floor transmission requirement is met if a covered account order is transmitted from a remote location directly to an exchange's floor by electronic means.[52] Because the Exchange's C-SAM Auction receives, and will continue to receive, orders from TPHs electronically through remote terminals or computer-to-computer interfaces, the Exchange believes that orders (as well as responses) submitted to the C-SAM Auction from off the Exchange's trading floor will satisfy the off-floor transmission requirement.[53]

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[51]   The member may, however, participate in clearing and settling the transaction.

[52]   See, e.g., Securities Exchange Act Release Nos. 61419 (January 26, 2010), 75 FR 5157 (February 1, 2010) (SR-BATS-2009-031) (approving BATS options trading); 59154 (December 23, 2008), 73 FR 80468 (December 31, 2008) (SR-BSE-2008-48) (approving equity securities listing and trading on BSE); 57478 (March 12, 2008), 73 FR 14521 (March 18, 2008) (SR-NASDAQ-2007-004 and SR-NASDAQ-2007-080) (approving NOM options trading); 53128 (January 13, 2006), 71 FR 3550 (January 23, 2006) (File No. 10-131) (approving The Nasdaq Stock Market LLC); 44983 (October 25, 2001), 66 FR 55225 (November 1, 2001) (SR-PCX-00-25) (approving Archipelago Exchange); 29237 (May 24, 1991), 56 FR 24853 (May 31, 1991) (SR-NYSE-90-52 and SR-NYSE-90-53) (approving NYSE's Off-Hours Trading Facility); and 15533 (January 29, 1979), 44 FR 6084 (January 31, 1979) ("1979 Release").

[53]   A TPH may not enter an order for a covered account from on the trading floor and rely on the Effect v. Execute, and therefore another exception must apply. A TPH may not send an order for a covered account for an affiliated TPH on the floor and

The second condition of Rule 11a2-2(T) requires that neither a member nor an associated person of such member participate in the execution of its order once. The Exchange represents that, upon submission to the C-SAM Auction, an order or C-SAM response will be executed automatically pursuant to the rules set forth for C-SAM Auctions. In particular, execution of an order (including the Agency and Solicited Order) or a C-SAM response sent to the mechanism depends not on the TPH entering the order or response, but rather on what other orders and responses are present and the priority of those orders and responses. Thus, at no time following the submission of an order or response is a TPH or associated person of such TPH able to acquire control or influence over the result or timing of order or response execution.[54] Once the Agency Order and Solicited Order, or the response, as applicable, have been transmitted, the Initiating TPH that transmitted the orders, or the User that submitted the response, respectively, will not participate in the execution of the Agency Order or Solicited Order, or the response, respectively. No TPH, including the Initiating TPH, will see a C-SAM response submitted into C-SAM, and therefore and will not be able to influence or guide the execution of their Agency Orders, Solicited Orders, or C-SAM responses, as applicable.

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rely on the Effect v. Execute, and therefore another exception must apply.

[54] An Initiating TPH may not cancel or modify an Agency Order or Solicited Order after it has been submitted into C-SAM, but Users may modify or cancel their responses after being submitted into a C-SAM. See proposed Rule 5.40(c)(4) and (c)(5)(G). The Exchange notes that the Commission has stated that the non-participation requirement does not preclude members from cancelling or modifying orders, or from modifying instructions for executing orders, after they have been transmitted so long as such modifications or cancellations are also transmitted from off the floor. See Securities Exchange Act Release No. 14563 (March 14, 1978), 43 FR 11542, 11547 (the "1978 Release").

Rule 11a2-2(T)'s third condition requires that the order be executed by an exchange member who is unaffiliated with the member initiating the order. The Commission has stated that the requirement is satisfied when automated exchange facilities, such as the C-SAM Auction are used, as long as the design of these systems ensures that members do not possess any special or unique trading advantages in handling their orders after transmitting them to the exchange.[55] The Exchange represents that the C-SAM Auction is designed so that no TPH has any special or unique trading advantage in the handling of its orders or responses after transmitting its orders to the mechanism.

A TPH (not acting in a market-maker capacity) could submit an order for a covered account from off of the Exchange's trading floor to an unaffiliated Floor Broker for submission for execution in the C-SAM Auction from the Exchange's trading floor and satisfy the effect-versus-execute exemption (assuming the other conditions are satisfied).[56] However, a TPH could not submit an order for a covered account to its "house" Floor Broker on the trading floor for execution and rely on this exemption.

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[55] In considering the operation of automated execution systems operated by an exchange, the Commission noted that, while there is not an independent executing exchange member, the execution of an order is automatic once it has been transmitted into the system. Because the design of these systems ensures that members do not possess any special or unique trading advantages in handling their orders after transmitting them to the exchange, the Commission has stated that executions obtained through these systems satisfy the independent execution requirement of Rule 11a2-2(T). See 1979 Release.

[56] Orders for covered accounts that rely on the "effect versus execute" exemption in this scenario must be transmitted from a remote location directly to the Floor Broker on the trading floor by electronic means.

Because a TPH may not rely on the "G" exemption when submitting an order to a C-

SAM Auction,[57] it would need to ensure another exception applies in this situation.

Rule 11a2-2(T)'s fourth condition requires that, in the case of a transaction

effected for an account with respect to which the initiating member or an associated

person thereof exercises investment discretion, neither the initiating member nor any

associated person thereof may retain any compensation in connection with effecting the

transaction, unless the person authorized to transact business for the account has

expressly provided otherwise by written contract referring to Section 11(a) of the Act and

Rule 11a2-2(T) thereunder.[58] The Exchange recognizes that TPHs relying on Rule 11a2-

2(T) for transactions effected through the C-SAM Auction must comply with this

condition of the Rule and the Exchange will enforce this requirement pursuant to its

obligations under Section 6(b)(1) of the Act to enforce compliance with federal securities

laws.

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[57]   See proposed Rule 5.40(e) (which describes the allocation of the Agency Order at the conclusion of the C-SAM Auction, which does not prioritize non-TPH broker-dealers, as would be required by the "G" exemption).

[58]   See 17 CFR 240.11a2-2(T)(a)(2)(iv). In addition, Rule 11a2-2(T)(d) requires a member or associated person authorized by written contract to retain compensation, in connection with effecting transactions for covered accounts over which such member or associated persons thereof exercises investment discretion, to furnish at least annually to the person authorized to transact business for the account a statement setting forth the total amount of compensation retained by the member in connection with effecting transactions for the account during the period covered by the statement which amount must be exclusive of all amounts paid to others during that period for services rendered to effect such transactions. See also 1978 Release, at 11548 (stating "[t]he contractual and disclosure requirements are designed to assure that accounts electing to permit transaction-related compensation do so only after deciding that such arrangements are suitable to their interests").

The Exchange believes that the instant proposal is consistent with Rule 11a2-2(T), and that therefore the exception should apply in this case. Therefore, the Exchange believes the proposed rule change is consistent with Section 11(a) of the Act and the Rules thereunder.

The proposed rule change is generally intended to align certain system functionality currently offered by Cboe Options to the Exchange's System 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. This will provide Users with greater harmonization of price improvement auction mechanisms available among the Cboe Affiliated Exchanges.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange does not believe the proposed rule change to permit all Users to respond to C-SAM Auctions will impose any burden on intramarket competition that is not necessary or appropriate in furtherance of the purposes of the Act, because it will permit more types of market participants (*i.e.*, all Users) to submit responses to C-SAM Auctions. This may result in more Users having the opportunity to participate in executions at the conclusion of C-SAM Auctions. The Exchange does not believe the proposed rule change will impose any burden on intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act, because it may increase liquidity in C-SAM Auctions, which may lead to more opportunities to price

improvement. Additionally, other exchanges permit all market participants to respond to similar price improvement auctions.[59]

The Exchange does not believe the proposed rule change to amend the C-SAM Auction will impose any burden on intramarket competition that is not necessary or appropriate in furtherance of the purposes of the Act, as the proposed changes to the C-SAM Auction will apply to all orders submitted to an Auction in the same manner. C-SAM Auctions will continue to be voluntary for TPHs to use, and are available to all TPHs. The Exchange does not believe the proposed rule change will impose any burden on intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act, because the proposed changes are substantially the same as another options exchange's rules. The general framework and primary features of the Exchange's current C-SAM Auction is not changing, and will continue to protect orders, including Priority Customer orders, resting in the Book and the COB.

The proposed rule change will provide continued consistency across the Exchange's (and the Cboe Affiliated Exchanges', as applicable) price improvement mechanisms. The general framework and primary features of the proposed C-SAM Auction process (such as the eligibility requirements, auction response period, same-side stop price requirements, response requirements, and auction notification process), are substantively the same as the framework for the Exchange's AIM, C-AIM, and SAM price improvement auctions, as recently proposed to be amended in connection with the

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[59]   See, e.g., EDGX Options Rules 21.19(c)(5) and 21.21(c)(5); see also Rules 5.37(c)(5) and 5.38(c)(5) in the shell Rulebook.

Exchange's upcoming technology migration.[60] Other exchanges have similar complex

order solicitation auction mechanisms.[61]

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

The Exchange neither solicited nor received comments on the proposed rule

change.

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

Because the foregoing proposed rule change does not:

> A. significantly affect the protection of investors or the public interest;

> B. impose any significant burden on competition; and

> C. become operative for 30 days from the date on which it was filed, or such

shorter time as the Commission may designate, it has become effective pursuant to

Section 19(b)(3)(A) of the Act[62] and Rule 19b-4(f)(6)[63] thereunder. At any time within

60 days of the filing of the proposed rule change, the Commission summarily may

temporarily suspend such rule change if it appears to the Commission that such action is

necessary or appropriate in the public interest, for the protection of investors, or

otherwise in furtherance of the purposes of the Act. If the Commission takes such action,

the Commission will institute proceedings to determine whether the proposed rule change

should be approved or disapproved.

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[60]   See Rules 5.37 through 5.39 in the shell Rulebook.

[61]   See, e.g., ISE Rule Options 3, Section 11(e).

[62]   15 U.S.C. 78s(b)(3)(A).

[63]   17 CFR 240.19b-4(f)(6).

IV.   **Solicitation of Comments**

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

Electronic comments:

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

- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-CBOE-2019-064 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-2019-064. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (http://www.sec.gov/rules/sro.shtml). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, D.C. 20549 on official business days between the hours of 10:00 a.m.

and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-CBOE-2019-064 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.[64]

Secretary

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[64]   17 CFR 200.30-3(a)(12).

EXHIBIT 5

(additions are underlined; deletions are [bracketed])

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Rules of Cboe Exchange, Inc.

(effective as of October 7, 2019)

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Rule 5.40. Complex Solicitation Auction Mechanism ("C-SAM" or "C-SAM Auction")

A Trading Permit Holder (the "Initiating TPH") may electronically submit for execution a complex order it represents as agent ("Agency Order") against a solicited complex order(s) (which cannot have a Capacity of F for the same EFID as the Agency Order) ("Solicited Order") if it submits the Agency Order for electronic execution into a C-SAM Auction pursuant to this Rule. The Agency Order and Solicited Order cannot both be for the accounts of Priority Customers. For purposes of this Rule, the term "SBBO" means the synthetic best bid or offer on the Exchange at the particular point in time applicable to the reference.

(a) *C-SAM Auction Eligibility Requirements.* The Initiating TPH may initiate a C-SAM Auction if all of the following conditions are met:

(1) *Class.* An Agency Order must be in any class of options the Exchange designates as eligible for C-SAM Auctions.

(2) *Marking.* The Initiating TPH must mark an Agency Order for C-SAM Auction processing.

(3) *Size.* The smallest leg of the Agency Order must be for at least the minimum size designated by the Exchange (which may not be less than 500 standard option contracts or 5,000 mini-option contracts). The Solicited Order must be for (or must total, if the Solicited Order is comprised of multiple solicited orders) the same size as the Agency Order. The System handles each of the Agency Order and Solicited Order as an AON order.

(4) *Minimum Increment.* The price of the Agency Order and Solicited Order must be in an increment the Exchange determines on a class basis, which may be no smaller than $0.01.

(5) *Post Only Orders.* The Initiating TPH may not designate an Agency Order or Solicited Order as Post Only.

(6) *Time.* The Initiating TPH may only submit an Agency Order to a C-SAM Auction after the COB opens.

The System rejects or cancels both an Agency Order and Solicited Order submitted to a C-SAM Auction that do not meet the conditions in this paragraph (a).

(b) *Stop Price.* The Solicited Order must stop the entire Agency Order at a price that satisfies the following:

(1) *Same-Side Simple Orders.* If the Agency Order is to buy (sell) and:

(A) the applicable side of the BBO on any component of the complex strategy represents a Priority Customer order on the Simple Book, the stop price must be at least one minimum increment better than the SBB (SBO); or

(B) the applicable side of the BBO on each component of the complex strategy represents a non-Priority Customer order or quote on the Simple Book, the stop price must be at or better than the SBB (SBO).

(2) *Same-Side Complex Orders.* If the Agency Order is to buy (sell) and a buy (sell) complex order rests on the COB, the stop price must be at least one minimum increment better than the bid (offer) of the resting complex order, unless the Agency Order is a Priority Customer order and the resting order is a non-Priority Customer order, in which case the stop price must be at or better than the bid (offer) of the resting complex order.

(3) *Opposite-Side Simple Orders.* If the Agency Order is to buy (sell) and:

(A) the BBO of any component of the complex strategy represents a Priority Customer order on the Simple Book, the stop price must be at least one minimum increment better than the SBO (SBB); or

(B) the BBO of each component of the complex strategy represents a non-Priority Customer quote or order on the Simple Book, the stop price must be at or better than the SBO (SBB).

(4) *Opposite-Side Complex Orders.* If the Agency Order is to buy (sell) and the best-priced sell (buy) complex order on the COB represents:

(A) a Priority Customer complex order, the stop price must be at least one minimum increment better than the price of the resting complex order; or

(B) a complex order that is not a Priority Customer, the stop price must be at or better than the price of the resting complex order.

The System rejects or cancels both an Agency Order and Solicited Order submitted to a C-SAM Auction that do not meet the conditions in this paragraph (b).

(c) *C-SAM Auction Process.* Upon receipt of an Agency Order that meets the conditions in paragraphs (a) and (b), the C-SAM Auction process commences.

(1) *Concurrent C-SAM Auctions in Same Complex Strategies.*

(A) One or more C-SAM Auctions in the same complex strategy may occur at the same time. C-SAM Auctions in different complex strategies may be ongoing at any given time, even if the complex strategies have overlapping components. A C-SAM Auction may be ongoing at the same time as a SAM Auction in any component of the complex strategy.

(B) To the extent there is more than one C-SAM Auction in a complex strategy underway at a time, the C-SAM Auctions conclude sequentially based on the exact time each C-SAM Auction commenced, unless terminated early pursuant to paragraph (d). In the event there are multiple C-SAM Auctions underway that are each terminated early pursuant to paragraph (d), the System processes the C-SAM Auctions sequentially based on the exact time each C-SAM Auction commenced. If the System receives a simple order that causes both a SAM Auction and C-SAM Auction (or multiple SAM and/or C-SAM Auctions) to conclude pursuant to Rule 5.39(d) and paragraph (d) below, respectively, the System first processes SAM Auctions (in price-time priority) and then processes C-SAM Auctions (in price-time priority).

(C) At the time each C-SAM Auction concludes, the System allocates the Agency Order pursuant to paragraph (e) and takes into account all C-SAM Auction responses and unrelated complex orders in place at the exact time of conclusion.

(2) *C-SAM Auction Notification Message.* The System initiates the C-SAM Auction process by sending a C-SAM Auction notification message detailing the side, size, price, Capacity, Auction ID, and complex strategy of the Agency Order to all TPHs that elect to receive C-SAM Auction notification messages. C-SAM Auction notification messages are not included in OPRA.

(3) *C-SAM Auction Period*. The "C-SAM Auction period" is a period of time determined by the Exchange, which may be no less than 100 milliseconds and no more than one second.

(4) *Modification or Cancellation.* An Initiating TPH may not modify or cancel an Agency Order or Solicited Order after submission to a C-SAM Auction.

(5) *C-SAM Auction Responses*. Any User other than the Initiating TPH (the response cannot have the same EFID as the Agency Order) may submit responses to a C-SAM Auction that are properly marked specifying price, size, side, and the Auction ID for the C-SAM Auction to which the User is submitting the response. A C-SAM

Auction response may only participate in the C-SAM Auction with the Auction ID specified in the response.

(A) The minimum price increment for C-SAM responses is the same as the one the Exchange determines for a class pursuant to subparagraph (a)(4) above. The System rejects a C-SAM response that is not in the applicable minimum increment.

(B) C-SAM buy (sell) responses are capped at the following prices that exist at the conclusion of the C-SAM Auction: (i) the better of the SBO (SBB) or the offer (bid) of a resting complex order at the top of the COB; or (ii) one minimum increment lower (higher) than the better of the SBO (SBB) or the offer (bid) of a resting complex order at the top of the COB if the BBO of any component of the complex strategy or the resting complex order, respectively, is a Priority Customer order. The System executes these C-SAM responses, if possible, at the most aggressive permissible price not outside the SBBO at the conclusion of the C-SAM Auction or price of the resting complex order.

(C) A User may submit multiple C-SAM responses at the same or multiple prices to a C-SAM Auction. The System aggregates all of a User's complex orders on the COB and C-SAM responses for the same EFID at the same price.

(D) The System caps the size of a C- SAM response, or the aggregate size of a User's complex orders on the COB and C- SAM responses for the same EFID at the same price, at the size of the Agency Order (*i.e.*, the System ignores size in excess of the size of the Agency Order when processing the C- SAM Auction).

(E) C-SAM responses must be on the opposite side of the market as the Agency Order. The System rejects a C-SAM response on the same side of the market as the Agency Order.

(F) C-SAM responses are not be visible to C-SAM Auction participants or disseminated to OPRA.

(G) A User may modify or cancel its C-SAM responses during the C-SAM Auction.

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

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

(a) the end of the C-SAM Auction period;

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

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

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

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

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

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

(h) the market close; and

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

(2) An unrelated market or marketable limit complex order (against the SBBO or the best price of a complex order resting in the COB), including a Post Only complex order, on the opposite side of the market received during a C-SAM Auction does not cause the C-SAM Auction to end early and executes against interest outside the C-SAM Auction or posts the complex order to the COB. If contracts remain from the unrelated complex order at the time the C-SAM Auction ends, they may be allocated for execution against the Agency Order pursuant to paragraph (e) below.

(e) *Execution of Agency Order.* At the conclusion of the C-SAM Auction, the System executes the Agency Order against the Solicited Order or contra-side complex interest (which includes complex orders on the COB and C-SAM responses) at the best price(s) as follows. Any execution price(s) must be at or between the SBBO and the best prices of any

complex orders resting on the each side of the COB at the conclusion of the C-SAM Auction.

(1) *Execution Against Solicited Order.* The System executes the Agency Order against the Solicited Order at the stop price if there are no Priority Customer complex orders on the opposite side of the Agency Order resting in the COB at or better than the stop price and the aggregate size of contra-side interest at an improved price(s) is insufficient to satisfy the Agency Order.

(2) *Execution Against Contra-Side Interest.* The System executes the Agency Order against contra-side interest (and cancels the Solicited Order) if (A) there is a Priority Customer complex order on the opposite side of the Agency Order resting on the COB at or better than the stop price and the aggregate size of that order and other contra-side interest at the stop price or an improved price(s) is sufficient to satisfy the Agency Order or (B) the aggregate size of contra-side interest at an improved price(s) is sufficient to satisfy the Agency Order. The Agency Order executes against such contra-side interest at each price level to the price at which the balance of the Agency Order can be fully executed, in the following order:

(A) Priority Customer complex orders on the COB (in time priority); and

(B) remaining contra-side trading interest (including non-Priority Customer orders in the COB and SAM responses) in a pro-rata manner.

(3) *No Execution.* The System cancels the Agency Order and Solicited Order with no execution if:

(A) execution of the Agency Order against the Solicited Order would not be (i) at or between the SBBO at the conclusion of the SAM Auction; (ii) better than the SBBO if there is a Priority Customer order in any leg component in the Simple Book; (iii) at or better than the best-priced complex order resting on the COB; or (iv) better than the best-priced complex order resting on the COB if it is a Priority Customer complex order;

(B) there is a Priority Customer complex order resting on the COB on the opposite side of the Agency Order at or better than the stop price, and the aggregate size of the Priority Customer complex order and any other contra-side interest is insufficient to satisfy the Agency Order; or

(C) there is a non-Priority Customer complex order resting on the COB on the opposite side of the Agency Order at a price better than the stop price, and the aggregate size of the resting complex order and any other contra-side interest is insufficient to satisfy the Agency Order.

(4) *Complex Order Priority.* Executions following a C-SAM Auction for a complex Agency Order are subject to the complex order price restrictions and priority in Rule 5.33(f)(2).

(5) *Unexecuted Responses.* The System cancels or rejects any unexecuted C-SAM responses (or unexecuted portions) at the conclusion of the C-SAM Auction.

Interpretations and Policies

.01 Prior to entering Agency Orders into a C-SAM Auction on behalf of customers, Initiating TPHs must deliver to the customer a written notification informing the customer that his order may be executed using the C-SAM Auction. The written notification must disclose the terms and conditions contained in this Rule 5.40 and be in a form approved by the Exchange.

.02 Under Rule 5.40, Initiating TPHs may enter contra-side orders that are solicited. C-SAM provides a facility for TPHs that locate liquidity for their customer orders. TPHs may not use the C-SAM Auction to circumvent Rule 5.9 or 5.38 limiting principal transactions. This may include, but is not limited to, TPHs entering contra-side orders that are solicited from (a) affiliated broker-dealers or (b) broker-dealers with which the TPH has an arrangement that allows the TPHs to realize similar economic benefits from the solicited transaction as it would achieve by executing the customer order in whole or in part as principal.

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