| OMB APPROVAL |
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| OMB Number: 3235-0045<br>Estimated average burden<br>hours per response............38 |

*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 - * 084
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) * |
|---|---|---|---|---|---|
| ☑ | ☐ | ☐ | ☐ | ☑ | ☐ |

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

Rule

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

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

Section 806(e)(1) * ☐
Section 806(e)(2) * ☐

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

Section 3C(b)(2) * ☐

Exhibit 2 Sent As Paper Document ☐
Exhibit 3 Sent As Paper Document ☐

### Description

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

The Exchange proposes a rule change to amend FLEX rules in connection with the exchange's 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.

Date 10/02/2019
By Laura G. Dickman
(Name *)

(Title *)
Vice President, Associate General Counsel

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.

dickman@cboe.com

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

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

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| **Form 19b-4 Information *** <br> Add Remove View | The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act. |
| **Exhibit 1 - Notice of Proposed Rule Change *** <br> Add Remove View | The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO] -xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3) |
| **Exhibit 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies *** <br> Add Remove View | The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO] -xx-xx). A material failure to comply with these guidelines will result in the proposed rule change, security-based swap submission, or advance notice being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3) |
| **Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications** <br> Add Remove View <br> Exhibit Sent As Paper Document ☐ | Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G. |
| **Exhibit 3 - Form, Report, or Questionnaire** <br> Add Remove View <br> 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** <br> Add Remove View | The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working. |
| **Exhibit 5 - Proposed Rule Text** <br> Add Remove View | The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change. |
| **Partial Amendment** <br> Add Remove View | If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions. |

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

(a) Cboe Exchange, Inc. (the "Exchange" or "Cboe Options") proposes to amend the Exchange's Rules regarding the trading of flexible exchange options "FLEX Options"[1] and moves those Rules from the currently effective Rulebook ("current Rulebook") to the shell structure for the Exchange's Rulebook that will become effective upon the migration of the Exchange's trading platform to the same system used by the Cboe Affiliated Exchanges (as defined below) ("shell Rulebook"). The text of the proposed rule change is provided in Exhibit 5.

(b) Not applicable.

(c) Not applicable.

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

(a) The Exchange's President (or designee) pursuant to delegated authority approved the proposed rule change on August 1, 2019. The Exchange has provided market participants with notice of this change in advance of the system migration.[2] The proposed

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1 See current Rule 24A.1(d), (f), and (g) (which define a FLEX Option, FLEX Index Option, and FLEX Equity Option) and proposed definition of FLEX Option in Rule 1.1 of the shell Rulebook (with nonsubstantive changes to simplify the definition of FLEX Options). A FLEX Option on an equity security may be referred to as a "FLEX Equity Option," and a FLEX Option on an index may be referred to as a "FLEX Index Option." The proposed rule change also adds a period following the rule number of Rule 1.1 to conform to the formatting of other Rules in the shell Rulebook. The proposed rule change also deletes the corresponding definitions of Non-FLEX Option, Non-FLEX Equity Option, and Non-FLEX Index Option, as the Exchange believes the meanings of those terms are self-evident, making the definitions unnecessary. See current Rule 24A.1(o), (p), and (q).

2 See, e.g, Exchange Notice C2019092500, Trading of FLEX Options on Cboe Options Exchange (September 25, 2019); Exchange Notice 2019092501, Cboe Town Hall on FLEX Trading on the New Cboe Options Exchange Platform (September 25, 2019); BOE and FIX Specifications, available at http://markets.cboe.com/us/options/support/technical/.

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. 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.

As part of this effort, the Exchange is reorganizing its Rules within the shell Rulebook to, among other things, include all rules regarding the Exchange's trading hours in a single rule, include all rules related to listing of options products within one chapter, and include all rules related to trading of all products within one chapter. The Exchange has provided market participants with notice of this change in advance of the system migration.[3] Subject to regulatory review, these proposed rule changes will be in effect October 7, 2019, in conjunction with the system migration. For example, rules related to the classes and series of FLEX Options the Exchange may list for trading will be in the same chapter as the rules related to the classes and series of equity options and index options the Exchange may list for trading. Additionally, the rules related to the manner in which FLEX Options may trade will be in the same chapter as the rules related to the manner in which all other types of options may trade.[4] The shell Rulebook will clearly identify the Rules that apply to the trading of FLEX Options.

Chapter XXIVA of the current Rulebook sets forth the Rules applicable to the trading of FLEX Options on the Exchange's hybrid trading system (*i.e.*, trading in both open outcry and electronically). Trading of FLEX Options is subject to all other Rules applicable

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3 See, e.g, Exchange Notice C2019092500, Trading of FLEX Options on Cboe Options Exchange (September 25, 2019); Exchange Notice 2019092501, Cboe Town Hall on FLEX Trading on the New Cboe Options Exchange Platform (September 25, 2019); BOE and FIX Specifications, available at http://markets.cboe.com/us/options/support/technical/.

4 In separate rule filings, the Exchange will move to the shell Rulebook certain FLEX Rules not being moved in this rule filing. These rules include Rule 24A.6 regarding discretionary transactions, Rule 24A.7 regarding position limits and reporting requirements, Rule 24A.8 regarding exercise limits, and Rule 24A.13 regarding Letters of guarantee or authorizations. The Exchange notes it will not be making any substantive changes to those Rules, but will rather merely be moving them into the shell Rulebook (and thus will update the rule number, as well as the paragraph lettering and numbering), and therefore these Rules will continue to apply to FLEX trading in the same manner they apply today.

to the trading of options on the Exchange, unless otherwise specified in Chapter XXIVA of the current Rulebook (proposed Chapter 5, Section F in the shell Rulebook).[5] A Trading Permit Holder (a "TPH") may trade FLEX Options if the Exchange has approved the TPH to trade FLEX Options on the Exchange; such a TPH is referred to as a "FLEX Trader."[6] Currently, FLEX Options trade on the Exchange's FLEX Hybrid Trading System, which is the Exchange's trading platform that allows FLEX Traders to submit electronic and open outcry request for quotes ("RFQs"), FLEX quotes in response to those RFQs, and FLEX Orders into the electronic book.[7] Upon the Exchange's trading platform migration, FLEX trading will occur on the same Exchange System[8] as all other options trading occurs on the Exchange.

Pursuant to current Rule 24A.3, there are no trading rotations in FLEX Options, either at the opening or at the close of trading. The proposed rule change moves the provision that states there is no opening rotation in FLEX Options to Rule 5.71(a) of the shell Rulebook. The proposed rule change deletes the provisions from current Rule 24A.3

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5 See current Introduction to Chapter XXIVA and proposed Rule 5.72(a).

6 See current Rule 24A.1(l) in the current Rulebook and proposed Rule 3.57 in the shell Rulebook. The proposed rule change makes nonsubstantive changes to the definition of a FLEX Trader, including to make the definition plain English by eliminating passive voice and deleting the unnecessary language "FLEX-participating," as that is redundant of the provision that provides the TPH is approved to trade FLEX Options on the Exchange.

7 See current Rule 24A.1(e).

8 The term "System" means the Exchange's hybrid trading platform that integrates electronic and open outcry trading of option contracts on the Exchange, and includes any connectivity to the foregoing trading platform that is administered by or on behalf of the Exchange, such as a communications hub. See Rule 1.1 in the shell Rulebook. Because there will no longer be a separate FLEX system, the proposed rule change deletes the definition of FLEX Hybrid Trading System in current Rule 24A.1(e).

regarding the absence of closing rotations for FLEX Options, as closing rotations do not occur in any class of options on the Exchange.

Currently, FLEX Options open for trading at a randomly selected time within a number of seconds after 9:30 a.m. Eastern Time.[9] Currently, the Exchange has set that number of seconds at one. Proposed Rule 5.71(b) states the times when FLEX Traders may begin submitting FLEX Orders into an electronic FLEX Auction pursuant to proposed Rule 5.72(c), a FLEX AIM pursuant to proposed Rule 5.73, or a FLEX SAM pursuant to proposed Rule 5.74,[10] or initiate an open outcry FLEX Auction the Exchange's trading floor pursuant to proposed Rule 5.72(c).[11] Specifically, FLEX Traders may begin submitting FLEX Orders (a) with respect to the Regular Trading Hours ("RTH") trading session, after the System's observation after 9:30 a.m. Eastern Time of the first disseminated (1) transaction on the primary market in the security underlying an equity option or (2) index value for the index underlying an index option, and (b) with respect to the Global Trading Hours ("GTH") trading session, after 3:00 a.m. Eastern Time.[12]

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9 See current Rule 24A.3 (the current rule includes times in Central Time, while the proposed rule includes times in Eastern Time, consistent with Rule 1.6 in the shell Rulebook).

10 The Exchange intends to amend and move current Rules 24A.5A and 24A.5B regarding FLEX AIM and SAM Auctions, respectively, from the currently Rulebook to Rules 5.73 and 5.74, respectively, of the shell Rulebook in a separate rule filing.

11 This is consistent with current Rule 24A.3, which states after the time at which a FLEX Option series opens for trading, a FLEX auction may be initiated. The proposed rule change deletes the provision that states FLEX Orders may be entered directly into the electronic book (if available), because, as discussed below, the Exchange will not have an electronic book available for FLEX Options.

12 See Securities Exchange Act Release No. 86879 (September 5, 2019), 84 FR 47984 (September 11, 2019) (SR-CBOE-2019-034) (approval of proposed rule change to provide that the opening rotation for non-FLEX Options will be

As discussed further below, while the Exchange currently has an electronic book for orders for FLEX Options, it has only been used in recent months by one customer for limited purpose, and for a minimal amount of FLEX volume. Because of the limited usage of an electronic book for FLEX Orders, the Exchange has determined there will be no electronic book of resting orders for FLEX Options available following the technology migration, which lack of availability of a FLEX Book is consistent with current Exchange authority. Additionally, because there will also be no opening rotation, at the time at which FLEX Trading opens, there will be no automatic executions. Therefore, being "open" for FLEX trading merely means that FLEX Traders may submit FLEX Orders into one of the various FLEX Auctions, at the conclusion of which executions in FLEX Auctions may occur (which are all discussed below). Because market participants incorporate transaction prices of underlying securities or the values of underlying indexes when pricing options (including FLEX Options), the Exchange believes it will benefit investors for FLEX Options trading to not be available until that information has begun to be disseminated in the market. Additionally, the proposed trigger events occur for many underlying securities or indexes within one second of 9:30 a.m. Eastern Time (which is consistent with the current

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triggered by the same events, which are substantially the same as those in current Rule 6.2(b)). Pursuant to Rule 5.1(b)(3) in the shell Rulebook, Regular Trading Hours for FLEX Options are the same as the corresponding non-FLEX Options, except the Exchange may determine to narrow or otherwise restrict the trading hours for FLEX Options. The rule change clarifies in Rule 5.1(b)(3)(A) that Regular Trading Hours for FLEX Options are the same as the Regular Trading Hours for the corresponding non-FLEX Options, as the Exchange inadvertently omitted the phrase "the Regular Trading Hours for" from that Rule (therefore, the proposed rule change makes no substantive changes to the trading hours for FLEX Options). Additionally, pursuant to Rule 5.1(c)(1) in the shell Rulebook, if the Exchange designates a class of index options as eligible for trading during Global Trading Hours, FLEX Options with the same underlying index are also deemed eligible for trading during Global Trading Hours.

time at which the Exchange has determined to open FLEX Option classes), and the majority occur within ten seconds. Therefore, pursuant to the proposed rule change, the opening of FLEX Options for trading may occur over a longer timeframe, which would further reduce any potential market impact of the change to the opening time for FLEX Options. While the Exchange believes it is important to open series for trading as soon as possible, the Exchange also believes the proposed rule change will permit it to manage the number of FLEX Option series that may begin to trade during a short time period to ensure a fair and orderly opening in all options listed on the Exchange. The Exchange also notes that FLEX Options trading volume currently represents approximately 1.5% of total trading volume on the Exchange, and therefore the Exchange believes any potential market impact of this change would be de minimis.

The proposed rule change moves the provision in current Rule 24A.3 that states a new FLEX Option series may be established on any business day prior to the expiration date and opened for trading pursuant to the procedures and principles for trading as provided in other rules within current Chapter XXIV, to proposed Rule 4.21(a)(2). As described below, other current rules have the same provision, and the Exchange does not believe they also need to be in the rule regarding the opening of trading, but rather in the rules regarding permissible series.[13] The Exchange moves these provisions to the shell Rulebook as set forth below. The Exchange also makes nonsubstantive changes to provisions moved from current Rule 24A.3 to proposed Rule 5.71, including changes to make the language more

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[13] See, e.g., current Rule 24A.4(a)(1) (which the proposed rule change moves to proposed Rule 4.21(a)(2)). The table below describes the proposed changes to the language of this provision.

plain English, update cross-references, update times to Eastern Time, and incorporate defined terms.

Current Rule 24A.4 (and other Rules in current Chapter XXIVA) sets forth the terms of FLEX Options. The Exchange moves these provisions to Chapter 4, Section C of the shell Rulebook.[14] The Exchange moves the provisions that state the Exchange may authorize for trading a FLEX Option class on any equity security or index if it may authorize for trading a non-FLEX Option class on that equity security or index pursuant to Rules 4.3 and 4.10,[15] respectively, of the shell Rulebook, even if the Exchange does not list that non-FLEX Option class for trading, from current Rule 24.4A(b)(1) and (c)(1) to proposed Rule 4.20.[16] Because the provisions related to FLEX Index Options and FLEX Equity Options provide the Exchange with the same authority with respect to each type of FLEX Options, the proposed rule change combines them into a single one.

The proposed rule change moves the following provisions regarding the terms of FLEX Option series from the current Rulebook to the shell Rulebook. In addition to the substantive changes described below, the proposed rule change makes additional nonsubstantive changes to these Rules, including to make the rule text plain English, simplify the rule provisions, use consistent language throughout the Rules, use active voice, incorporate defined terms, update cross-references and paragraph numbering and lettering, and eliminate redundant provisions.

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14 Chapter 4 of the shell Rulebook will contain all Rules related to the listing of options on the Exchange.

15 The Exchange intends to move current Rules 5.3 and 24.2 to Rules 4.3 and 4.10, respectively, in the shell Rulebook in a separate rule filing.

16 See also proposed Rule 4.21(a) (which states the Exchange may approve a FLEX Option series for trading on any FLEX Option class it may authorize for trading pursuant to proposed Rule 4.20).

| Rule Provision | Current Rule (current Rulebook) | Proposed Rule (shell Rulebook) | Proposed Changes |
|---|---|---|---|
| FLEX Option series are not pre-established. | Rule 24A.4(a)(1) | Rule 4.21(a) | The proposed rule change incorporates the term FLEX Option series (rather than options series) into this rule provision. |
| The Exchange may approve a FLEX Option series for trading in any FLEX Option class it may authorize for trading pursuant to proposed Rule 4.20. | Rule 24A.4(b)(1) and (c)(1) | 4.21(a) (introductory paragraph) | The proposed rule change combines the provisions for trading FLEX Index Options and FLEX Equity Options into a single provision, as they provide the Exchange with the same authority. As further discussed below, a FLEX Option series is not created (and thus not eligible to trade) until a FLEX Order for the series is submitted into one of the FLEX Auctions. Therefore, the proposed rule change deletes the reference to the Exchange being able to "open for trading" any FLEX Option series. |
| A FLEX Option series is eligible for trading on the Exchange upon submission to the System of a FLEX Order for that series pursuant to proposed Rule 5.72 (as well as Rules 5.73 and 5.74).[17] | Rules 24A.4(a)(1) and 24A.5(a). | Rule 4.21(a) (introductory paragraph) | The current rule states FLEX Option series are established through the bidding and offering mechanics detailed in current Rule 24A.5. As discussed below, the proposed rule change amends the provisions governing how FLEX Options may trade on the Exchange. A FLEX Option series may only be eligible for trading after submission into one of the various auctions available for FLEX trading. A FLEX Option series may be established under current rules upon submission of a FLEX Order to a FLEX auction, as is the case pursuant to the proposed rule change, but will no longer be able to be established upon submission of a FLEX Order into the book (as there will be no book).[18] See additional discussion |

17 As noted above, the Exchange intends to move current Rules 24A.5A and 24A.5B regarding FLEX AIM and SAM Auctions, respectively, to Rules 5.73 and 5.74, respectively, in the shell Rulebook in a separate filing.

18 The Exchange notes there is an electronic book available for FLEX Options today, but only being used by one FLEX Trader for a limited purpose, as further

| Rule Provision | Current Rule (current Rulebook) | Proposed Rule (shell Rulebook) | Proposed Changes |
|---|---|---|---|
| | | | below regarding the elimination of an electronic book for FLEX Options. |
| The Exchange only permits trading in a put or call FLEX Option series that does not have the same exercise style, same expiration date, and same exercise price as a non-FLEX Option series on the same underlying security or index that is already available for trading. This includes permitting trading in a FLEX Option series before a series with identical terms is listed for trading as a non-FLEX Option series. If the Exchange lists for trading a non-FLEX Option series with identical terms as a FLEX Option series, the FLEX Option series will become fungible with the non-FLEX Options series pursuant to proposed Rule 4.22. The System does not accept a FLEX Order for a put or call FLEX Option series if a non-FLEX Option series on the same underlying security or index with the same expiration date, exercise price, and exercise style is already listed for trading. | Rule 24A.4, Interpretation and Policy .02(b) | Rule 4.21(a)(1) | The proposed rule change deletes the introductory clause in current Rule 24A.4, Interpretation and Policy .02(b) that references the requirement that options on an underlying security or index to be otherwise eligible for FLEX Trading, as that language is redundant of the language in proposed Rule 4.21(a). The proposed rule change also eliminates the use of passive voice and makes other nonsubstantive changes to this provision. |
| A FLEX Order for a FLEX Option series may be established on any trading day prior to the expiration date. | Rule 24A.3 and Rule 24A.4(a)(1) | Rule 4.21(a)(2) | Updated to reflect the proposed changes to the FLEX trading procedures, which provide that a FLEX Option series is only available for trading upon submission of a FLEX Order (as |

discussed below, and only for approximately 1.2% of FLEX trading. Therefore, the vast majority of FLEX Option series are established for trading today in the same manner as they will be able to be established pursuant to the proposed rule change. See current Rule 24A.5(a) (which states the Request for Quotes ("RFQ") process is required to open trading in a new series (unless the auction process under Rule 24A.5A or 24A.5B is used to open trading in a new series); and (b).

| Rule Provision | Current Rule (current Rulebook) | Proposed Rule (shell Rulebook) | Proposed Changes |
|---|---|---|---|
| | | | noted above). |
| The Exchange may halt trading in a FLEX Option class pursuant to Rule 5.20, and always halts trading in a FLEX Option class when trading in a non-FLEX Option class with the same underlying equity security or index is halted on the Exchange. The System does not accept a FLEX Order for a FLEX Option series while trading in a FLEX Option class is halted. | N/A | Rule 4.21(a)(3) | This provision is not explicitly stated in current Chapter XXIV. However, it is consistent with Exchange authority to halt trading in options classes listed for trading on the Exchange (see current Rules 6.3 and 24.7, which were moved to Rule 5.20 in the shell Rulebook), and current Exchange practice. The reasons why the Exchange would halt trading in a non-FLEX Option class (e.g., trading in the underlying security is halted) would generally be reasons why the Exchange would halt a FLEX Option class, and therefore the Exchange will always halt trading in a FLEX Option class when trading in a non-FLEX Option class with the same underlying equity security or index is halted on the Exchange.[19] |

19 Rule 5.20 in the shell Rulebook also provides the Exchange with authority to halt trading in a FLEX Option, even if trading in a non-FLEX Option with the same underlying is not halted. While such situation would be rare, there may be unusual circumstances that would cause the Exchange to halt trading in the FLEX Option (see Rule 5.20(a)(5) in the shell Rulebook).

| Rule Provision | Current Rule (current Rulebook) | Proposed Rule (shell Rulebook) | Proposed Changes |
|---|---|---|---|
| When submitting a FLEX Order for a FLEX Option series to the System, the submitting FLEX Trader must include one of each of the following terms in the FLEX Order, which terms constitute the FLEX Option series: | Rules 24A.1(w) and 24A.4(a)(2) | Rule 4.21(b) | The current definition of a series of FLEX Options (the proposed rule change uses the term FLEX Option series) is all option contracts of the same class having the same exercise price, exercise style, and expiration date (and with respect to FLEX Index Options, the same settlement value and index multiplier). The current Rules also require a FLEX Request for Quotes ("RFQ"), FLEX Order, or FLEX Option contract contain one element from the categories of underlying security, type, exercise style, expiration date, and exercise price. As noted above, a FLEX Option series may only be established through the submission of a FLEX Order, and therefore, the proposed rule change combines the provisions to provide that a FLEX Order must contain one element of each of the listed terms, which terms constitute the actual FLEX Option series being established by that order. |
| • underlying equity security or index, as applicable (the index multiplier for FLEX Index Options is 100); | Rules 24A.1(m) and 24A.4(a)(2)(i) | Rule 4.21(b)(1) | The proposed rule change simplifies the language of this provision and includes the fact that the index multiplier for all FLEX Index Options is 100 in this provision, rather than in a definition, as the term index multiplier is not otherwise used in the proposed rule. |
| • type of option (*i.e.*, put or call), except an Asian-settled or Cliquet-settled FLEX Option series may only be a call; | Rule 24A.4(a)(2)(ii), (b)(5) and (6) | Rule 4.21(b)(2) | The proposed rule change refers to type of option, which is defined in Rule 1.1 in the shell Rulebook as put or call. The proposed rule change also combines the provisions regarding the permissible type of option available for Asian-settled and Cliquet-settled FLEX Options, so that provisions regarding types of options available for FLEX Option series are included in the same place. |

| Rule Provision | Current Rule (current Rulebook) | Proposed Rule (shell Rulebook) | Proposed Changes |
|---|---|---|---|
| • exercise style, which may be American-style or European-style, except an Asian-settled or Cliquet-settled FLEX Option series may only be European-style; | Rules 1.1(aa) and (cc) and 24A.4(a)(2)(iii) | Rule 4.21(b)(3) | Only nonsubstantive changes. |
| • expiration date, which may be any business day (specified to the day, month, and year) no more than 15 years from the date on which a FLEX Trader submits a FLEX Order to the System, except an Asian-settled or Cliquet-settled FLEX Option series, which must have an expiration date that is a business day but may only expire 350 to 371 days (which is approximately 50 to 53 calendar weeks) from the date on which a FLEX Trader submits a FLEX Order to the System; | Rule 24A.4(a)(2)(iv), (a)(5), and (a)(6) | Rule 4.21(b)(4) | The proposed rule change incorporates the concept that a FLEX Option series is available for trading only when a FLEX Trader submits a FLEX Order to the System, and therefore the date on which the FLEX Order is submitted is the date from which the expiration date is measured (this is consistent with FLEX trading today, pursuant to which a FLEX series may only be opened for trading through the RFQ process). The proposed rule change also includes all provisions regarding permissible expiration dates in the same place. |
| • settlement type[20]:<br><br>o FLEX Equity Options are (i) settled with physical delivery of the underlying security; and (ii) subject to the exercise by exception provisions of OCC Rule 805.<br><br>o FLEX Index Options are settled in U.S. dollars and may be: (i) a.m.-settled[21]; | Rules 24A.1(aa) through (cc) and 24A.4(a)(2)(iv) and (b)(3) through (6), (c)(3) through (4), and Interpretation and Policy .01 | Rule 4.21(b)(5) | The proposed rule change uses the term "settlement type" to describe all potential ways in which the settlement value will be determined (current rules also use the term settlement style), and includes all provisions regarding the permissible settlement types in a single place. |

20 FLEX Index Options are cash-settled in U.S. dollars, and FLEX Equity Options are physical settled, subject to the exercise by exception provisions of Options Clearing Corporation ("OCC") Rule 805. See current Rule 24A.4(b)(4) and (c)(3) and (4) (proposed Rule 4.21(a)(5)).

21 The exercise settlement value for an a.m.-settled FLEX Index Option series is determined by reference to the reported level of the index derived from the reported opening prices of the component securities. See current Rule

| Rule Provision | Current Rule (current Rulebook) | Proposed Rule (shell Rulebook) | Proposed Changes |
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| (ii) p.m.-settled,[22] , or (iii) for a FLEX Index Option on a broad-based index, Asian-settled or Cliquet-settled (which have unique settlement procedures)[23]; | | | |

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24A.4(b)(3) (proposed Rule 4.21(b)(5)(A)). The proposed rule change eliminates the defined term Expiration Friday, as it is not used elsewhere in the Rules. The proposed rule change deletes the provision regarding the exercise settlement value of FLEX Index Options on the NYSE Composite Index, as the Exchange no longer lists options on that index for trading. The proposed rule change includes the provisions regarding how the exercise settlement value is determined for each settlement type, as how the exercise settlement value is determined is dependent on the settlement type.

22 The exercise settlement value for a p.m.-settled FLEX Index Option series is determined by reference to the reported level of the index derived from the reported closing prices of the component securities. See current Rule 24A.4(b)(3) (proposed Rule 4.21(b)(5)(B)). A FLEX Index Option that expires on any business day that falls on or within two business days of a third Friday-of-the-month for a non-FLEX Option (other than a QIX option) may only be a.m.-settled; however, FLEX Index Options with an expiration date on the third-Friday of the month may be p.m.-settled pursuant to a pilot program ending the earlier of November 4, 2019 or the date on which the pilot program is approved on a permanent basis. See current Rule 24A.4, Interpretation and Policy .01 (proposed Rule 4.21(a)(5)(B)).

23 Asian-settled FLEX Index Options have an exercise settlement value based on an arithmetic average of the specified closing prices of an underlying broad-based index taken on 12 predetermined monthly observation dates (including on the expiration date), which dates the FLEX Trader specifies. Cliquet-settled FLEX Index Options have an exercise settlement value equal to the greater of $0 or the sum of capped monthly returns (*i.e.*, percent changes in the closing value of the underlying broad-based index from one month to the next) applied over 12 predetermined monthly observation dates (including an expiration date), which dates and monthly cap value (which must be no smaller than $0.05 and no larger than $25.95, and in an increment of $0.05) the FLEX Trader specifies. For Asian- and Cliquet-settled FLEX Index Options, if a monthly observation date falls on a non-business day, the monthly observation occurs on the immediately preceding business days. See current Rule 24A.1(aa) through (cc) and 24A.4(b)(5) and (6) (proposed Rule 4.21(b)(5)(C) and (D)). The proposed rule change deletes the definition of “preceding business day convention” and incorporates its meaning into the descriptions of each of Asian-settled and Cliquet-settled, as that defined

| Rule Provision | Current Rule (current Rulebook) | Proposed Rule (shell Rulebook) | Proposed Changes |
|---|---|---|---|
| • exercise price (which the System rounds to the nearest minimum increment), which may be (1) for a FLEX Equity Option or FLEX Index Option that is not Cliquet-settled, (a) a fixed price expressed in terms of dollars and cents or a specific index value, as applicable, or (b) a percentage of the closing value of the underlying equity security or index, as applicable, on the trade date; or (2) for a FLEX Index Option that is Cliquet-settled, the capped monthly return (which must be expressed in dollars and cents). | Rule 24A.4(a)(2)(v), (b)(2)(i) and (iii), (b)(6), and (c)(2)(i) and (iii) | Rule 4.21(b)(6) | The proposed rule change includes all provisions regarding permissible exercise prices in a single place within the Rules. In addition to the exercise price options in proposed Rule 4.21(b)(6), current Rule 24A.4(b)(2) and (c)(2) permits exercise prices for FLEX Index Options to be specified as a method for fixing an index value or dollar amount at the time of a FLEX RFQ or a FLEX Order is traded, or as a percentage of the index value calculated at the time of the trade, and for FLEX Equity Options, to be specified as a method for fixing a dollar amount at the time of a FLEX RFQ or a FLEX Order is traded, or as a percentage of the price of the underlying security at the time of the trade. In the past year, no FLEX Trader has designated the exercise price for a FLEX series in any of these manners – FLEX Traders have only designated the exercise price for a series as a fixed price or as a percentage of the closing value of the underlying on the trade date. Therefore, the Exchange proposes to only offer the two options for exercise prices for FLEX Options that are used by FLEX Traders.[24] Because FLEX Traders do not use the other types |

term is not otherwise used in the Rules, and also incorporates the defined term "business day." See Rule 1.1 in the shell Rulebook.

24 The proposed rule change also deletes current Rule 24A.5, Interpretation and Policy .02, which relates only to FLEX Options with exercise prices specified using the terms that the proposed rule change deletes (*i.e.*, exercise prices for FLEX Index Options specified as a method for fixing an index value or dollar amount at the time of a FLEX RFQ or a FLEX Order is traded, or as a percentage of the index value calculated at the time of the trade, and for FLEX Equity Options, specified as a method for fixing a dollar amount at the time of a FLEX RFQ or a FLEX Order is traded, or as a percentage of the price of the underlying security at the time of the trade), and any other provisions in Rules 24A.1, 24A.4, and 24A.5 related to these exercise types.

| Rule Provision | Current Rule (current Rulebook) | Proposed Rule (shell Rulebook) | Proposed Changes |
|---|---|---|---|
| | | | of exercise prices for FLEX Options, the Exchange believes elimination of that functionality will have a de minimis, if any, impact on FLEX trading. |
| • All other terms of a FLEX Option series are the same as those that apply to non-FLEX Options. | Rule 24A.4(a)(1) | Rule 4.21(b) | Only nonsubstantive changes of types described above. |
| Bids and offers for FLEX Options must be expressed in (a) U.S. dollars and decimals, if the exercise price for the FLEX Option series is a fixed price, or (b) a percentage, if the exercise price for the FLEX Option series is a percentage of the closing value of the underlying equity security or index on the trade date, per unit of the underlying security or index, as applicable.[25] The System rounds bids and offers to the nearest minimum increment. | Rules 24A.4(b)(2) and (c)(2) and 24A.5(e) | Rule 5.3(e)(3)[26] | The proposed rule change adds the term "dollars and decimals" regarding how bids and offers (currently referred to as premiums in Rule 24A.4(b) and (c))[27] to be consistent with terminology in Rule 5.3 in the shell Rulebook (this is merely a change in terminology). The proposed rule change moves the provisions regarding the form of bids and offers of FLEX Options to Rule 5.3 in the shell Rulebook, so that all provisions regarding the form of bids and offers for all options eligible for trading on the Exchange are included in a single Rule. The proposed rule change adds detail that the bid and offer amount is per unit of the underlying security or index, as applicable. This is true today and |

25 While the current rule permits bids and offers to be in a different format than the exercise price, the current functionality does not permit this. Therefore, the proposed rule change makes it clear that bids and offers must be in the same format as the exercise price, as it would be difficult to apply a dollar price for a FLEX Option series with a percentage-based exercise price.

26 The proposed rule change also updates the subparagraph numbering in Rule 5.3(e) in the shell Rulebook.

27 The term "premium" refers to the prices at which a market participant is willing to trade an option, which is also referred to as a bid or offer. The proposed rule change just uses the terms bids and offers in proposed Rule 5.3(e)(3), which is consistent with the bid and offer provisions for other types of options in Rule 5.3 in the shell Rulebook.

| Rule Provision | Current Rule (current Rulebook) | Proposed Rule (shell Rulebook) | Proposed Changes |
|---|---|---|---|
| | | | is merely adding detail to the rules.[28] The proposed rule change makes no substantive changes to the form and manner in which FLEX Traders may make bids and offers on FLEX Options. |
| The Exchange determines the minimum increment for bids and offers on FLEX Options on a class-by-class basis, which may not be smaller than (a) $0.01, if the exercise price for the FLEX Option series is a fixed price, or (b) 0.01%, if the exercise price for the FLEX Option series is a percentage of the closing value of the underlying equity security or index on the trade date. The System rounds bids and offers to the nearest minimum increment. | Rules 24A.4(b)(2) and (c)(2) and 24A.5(e)[29] | Rule 5.4(c)(4)[30] | The proposed rule change moves the provisions regarding the minimum increment for FLEX Options to Rule 5.4 in the shell Rulebook, so that all provisions regarding permissible minimum increments for all options eligible to trade on the Exchange are included in a single Rule.[31] |
| FLEX Traders may apply trade conditions to FLEX | Rules 24A.1(y), 24A.4(a)(3)(ii) and | N/A | Currently, FLEX Traders may designate FLEX Orders as |

28 It is also consistent with language applicable to bids and offers in non-FLEX Options. See Rule 5.3(a) in the shell Rulebook.

29 The proposed rule change deletes the provision regarding the Exchange's pronouncement of minimum increments for FLEX by regulatory circular, as the Exchange will announce all determinations pursuant to Rule 1.5 in the shell Rulebook (see also Rule 1.2 in the current Rulebook).

30 The proposed rule change also updates the subparagraph numbering in Rule 5.4(c) in the shell Rulebook.

31 The Exchange notes the current rules reference the term "minimum tick" as well as "other decimal increment." The term "minimum tick" generally refers to the minimum increment applicable to an option, which in non-FLEX trading is a dollar amount. Because FLEX Options may also have a minimum increment in a percentage, that is included in the reference in the current rules to "other decimal increment." However, the Exchange believes the term "minimum increment" applies to both formats (dollars and percentage), and therefore eliminates the reference to tick.

| Rule Provision | Current Rule (current Rulebook) | Proposed Rule (shell Rulebook) | Proposed Changes |
|---|---|---|---|
| Orders. | (4)(ii), and 24A.5(d)(3)[32] | | immediate-or-cancel ("IOC"), which executes (in whole or in part) as soon as it is represented or is cancels (or the unexecuted portion cancels). As further discussed below, the will not make a FLEX Book available following the technology migration. Because there will be no book, all FLEX Orders will be functionally equivalent to an IOC, which can only trade (or partially trade) following an auction, and thus no designation will be necessary.[33] Additionally, FLEX Traders may currently designate a FLEX Order as a "hedge," which is an electronic condition that makes execution of a FLEX Option contingent on the trade of an execution in a non-FLEX Option or other non-FLEX components. In the past year, no FLEX Trader has applied this trade condition to a FLEX Order. Therefore, the Exchange no longer intends to offer this trade condition for FLEX Options. Because FLEX Traders do not use this trade condition for FLEX Options, the Exchange believes elimination of this functionality will have a de minimis, if any, impact on FLEX trading. |
| Fungibility of FLEX Options | Rule 24A.4, Interpretation and Policy .02 | Rule 4.22 | The proposed rule change makes no substantive changes to the fungibility of FLEX Options with non-FLEX options, and makes various nonsubstantive changes of the type described above. The proposed rule change updates terminology in the proposed |

32 The proposed rule change deletes all additional provisions in current Chapter XXIVA of the current Rulebook related to these trade conditions.

33 As set forth in proposed Rule 5.72(c)(3)(B), and as discussed below, a FLEX Order may trade in whole or in part following an electronic FLEX Auction, as any unexecuted FLEX Order (or unexecuted portion) cancels at the conclusion of the auction.

| Rule Provision | Current Rule (current Rulebook) | Proposed Rule (shell Rulebook) | Proposed Changes |
|---|---|---|---|
| | | | provision to reflect changes to the FLEX trading procedures, which are described below, and updates cross-references to applicable Rules in the shell Rulebook. The proposed rule change adds a cross-reference to the rule (Rule 5.1(d) in the shell Rulebook) that lists Exchange holidays rather than use the term "Exchange holiday" so that market participants will know where in the Rules to look to know what constitutes an Exchange holiday. The proposed rule change deletes the phrase that states Interpretation and Policy .02 (proposed Rule 4.22) applies to all FLEX Options. The proposed rule lists no exceptions for when this provision applies to FLEX Options, and therefore this phrase is unnecessary. |

Pursuant to Rule 5.6(a) in the shell Rulebook, the Exchange may make order types, Order Instructions, and Times-in-Force available on a class basis. Pursuant to that authority, which authority the Exchange currently has pursuant Rule 6.53 in the current Rulebook, the proposed rule change adopts Rule 5.70(a) in the shell Rulebook to state that it may make the following order types, Order Instructions, and Times-in-Force available for orders submitted in FLEX Options ("FLEX Orders")[34]:

[34] See Rule 5.6 in the shell Rulebook for definitions of these order types, Order Instructions, and Times-in-Force. The proposed rule change deletes the corresponding current definition of FLEX Order in current Rule 24A.1(j). The only proposed substantive change to the definition of FLEX Order is the deletion of the reference to the submission of FLEX Orders to the electronic book, as there will no longer be a FLEX Book available (consistent with the Exchange's current authority to not make a FLEX Book available), as discussed below. Because all FLEX Traders, including FLEX Market-Makers, will submit FLEX Orders, and responses to FLEX Auctions, in the same manner, the proposed rule change does

- Order Types – limit orders
- Order Instructions – All Sessions, Attributable, Direct to PAR, Electronic Only, Non-Attributable, Not Held, and RTH Only
- Times-in-Force – Day

Given that FLEX Orders will only be eligible to trade following an electronic or open outcry FLEX Auction and not rest in an electronic book or route away (for which most Order Instructions and Times-in-Force set forth in Rule 5.6 in the shell Rulebook are relevant), the Exchange believes these are appropriate designations for FLEX Orders. Because there is no existing market for FLEX Options, and thus no price protections available to ensure execution of FLEX Orders at reasonable prices, the Exchange believes it is appropriate to only permit FLEX Options be submitted as limit orders. The Direct to PAR and Electronic Only Order Instructions permit a FLEX Trader to determine whether it wants a FLEX Order to be eligible for electronic execution or subject to manual handling for execution in open outcry on the Exchange's trading floor. Additionally, as set forth in Rule 5.1(c) of the shell Rulebook, following the migration the Exchange may designate certain FLEX Option classes as eligible for trading during the Global Trading Hours sessions, and the All Sessions and RTH Only designations will permit a FLEX Trader to determine in which trading session(s) it wants a FLEX Order to be eligible for execution. While not specified in the Rules, FLEX Traders may designate a FLEX Order as Attributable (pursuant to the Exchange's authority pursuant to current Rule 6.53, which permits the Exchange to make

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not distinguish between bids and offers submitted by different types of FLEX Traders, and also deletes the defined term "FLEX Quote" from current Rule 24A.1(k).

certain order types available on a class basis). FLEX Orders not designated as Attributable will be Non-Attributable.[35]

Current Rules 24A.4(a)(2) and 24A.5, Interpretation and Policy .01 contemplate the availability of complex orders for FLEX trading. Proposed Rule 5.70(b) explicitly states the Exchange may make complex orders, including security future-option orders and stock-option orders,[36] available for FLEX trading. Complex FLEX Orders may have up to the maximum number of legs determines by the Exchange. Each leg of a complex FLEX Order:

- must be for a FLEX Option series authorized for trading[37] with the same underlying equity security or index[38];
- must have the same exercise style (American or European); and

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35 See definitions of "Attributable Order" and "Non-Attributable Order" in current Rule 6.53 (Rule 5.6(c) in the shell Rulebook). Attribution has no impact on trading, and merely relates to information that a FLEX Trader may want disseminated with respect to its orders.

36 See definition of complex order in Rule 1.1 of the current Rulebook and Rule 1.1 of the shell Rulebook, which provide that unless the context otherwise requires, the term "complex order" includes a stock-option order and a security future-option order. Additionally, proposed Rule 5.70(b) is consistent with current Exchange authority to determine in which classes complex orders (including FLEX classes) may be made available for trading, and to determine the maximum number of legs for a complex order. See definition of complex order in Rule 1.1 of the current Rulebook (which states the Exchange determines in which classes complex orders are eligible for processing). The proposed rule change merely states this authority explicitly for FLEX complex orders.

37 Current Rule 24A.4(a)(2) provides that each component of a multi-legged RFQ or FLEX Order must contain the information required for a FLEX series, as specified in that Rule and in proposed Rule 4.21(b).

38 This is consistent with current Rules (see Rule 1.1 of the current Rulebook and Rule 1.1 of the shell Rulebook), as a complex order may consist of legs in multiple series in the same class (*i.e.*, the same underlying security or index). Therefore, the proposed rule change merely explicitly states this in the rules for FLEX Option complex orders.

- for a FLEX Index Option, may have different settlement types (a.m.-settled or p.m.-settled),[39] except each leg must have the same settlement type if designated as Asian-settled or Cliquet-settled.

The Exchange believes requiring the legs of a FLEX Option complex order to have the same exercise style is appropriate given the conflict that would arise with legs with different exercise styles. Similarly, the Exchange believes requiring the legs of a FLEX Option complex order to have the same settlement type for Asian-settled and Cliquet-settled FLEX Index Options is appropriate given the complex nature of those settlement types. The Exchange believes this may alleviate any potential difficulties that may arise if the market needed to price such complex strategies. The Exchange notes it has not receive any complex orders at least within the last year that have legs with difference exercise styles, or that have legs that are Asian-settled and Cliquet-settled with other legs that have a different settlement types.

Proposed Rule 5.70(c) states a FLEX Trader may enter a FLEX Order into the System during the times set forth in Rule 5.7 of the shell Rulebook.[40] This proposed rule change merely applies the rule that sets forth the times at which the System is available to receive orders to FLEX Orders. The System only available for receipt of a FLEX Order at the times at which the System is available for all other orders.

A FLEX Trader must designate a FLEX Order entered prior to the opening of the applicable trading session or during a trading halt as Direct to PAR; the System rejects a

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39 The current Rules does not restrict legs of a complex order to all be either a.m.-settled or p.m.-settled.

40 Rule 5.7 in the shell Rulebook provides that Users can enter orders and quotes into the System, or cancel previously entered orders and quotes, from 2:00 am. Eastern Time until Regular Trading Hours market close, subject to certain terms and conditions.

FLEX Order designated as Electronic Only prior to the opening of the applicable trading session or during a trading halt. As discussed below, there will be no electronic book in which FLEX Orders may rest, and FLEX Orders may only be submitted for electronic execution into a FLEX auction. Therefore, a FLEX Order designated for electronic execution would have nowhere to rest if submitted when trading on the Exchange is not open. Because a FLEX Order designated as Direct to PAR (like any order designated as Direct to PAR) would rest on a PAR workstation and be available for manual handling by a Floor Broker after the opening of trading, there is not risk of execution of such an order submitted to the Exchange while trading is not available on the Exchange.

Proposed Rule 5.72 describes the procedures for FLEX trading on the Exchange following the migration. As noted above, trading of FLEX Options is subject to all other Rules applicable to the trading of options on the Exchange, unless otherwise provided in proposed Chapter 5, Section F of the shell Rulebook.[41] Because there will be no electronic book available in which FLEX Orders may rest,[42] a FLEX Option series is only eligible for trading if a FLEX Trader (the "Submitting FLEX Trader") (a) submits a FLEX Order for that series into an electronic FLEX Auction pursuant to proposed Rule 5.72(c) (as described below); (b) represents the FLEX Order in an open outcry FLEX Auction pursuant to proposed Rule 5.72(d) (as described below); or submits the FLEX Order to a FLEX AIM or SAM Auction pursuant to Rule 5.73 or 5.74, respectively, of the shell Rulebook.[43] This is consistent with current Rule 24A.5(a), which states the current RFQ process is required to

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41 See proposed Rule 5.72(a) (current Chapter XXIV, Introduction).

42 This is consistent with current Exchange authority pursuant to current Rule 24A.5(b) to not make an electronic book available for FLEX Auctions.

43 See proposed Rule 5.72(b).

open trading in a new series (unless the auction process in current Rules 24A.5A or 24A.5B (current Rules describing FLEX AIM and SAM Auctions, respectively) is used to open trading in a new series), which RFQ process may be conducted through the System or in open outcry. The proposed rule change only makes nonsubstantive changes, including to update rule cross-references and conform terminology to the proposed trading procedures.

The proposed rule change makes explicit the requirements for both simple and complex FLEX Orders:

- A FLEX Order for a FLEX Option series submitted to the System must include all terms for a FLEX Option series set forth in Rule 4.21 (including that a non-FLEX Option series with identical terms is not listed for trading), size, side of the market, and a bid or offer price, subject to the order entry requirements set forth in Rule 5.7 of the shell Rulebook.[44]
- A FLEX Order for a FLEX Option complex strategy submitted to the System must satisfy the criteria for a complex FLEX Order set forth in proposed Rule 5.70(b) (see discussion above) and include size, side of the market, a net debit or credit price, and a bid or offer price for each leg of the FLEX Order, which leg prices must add together to equal the net price.[45] Additionally, each leg of the FLEX Option complex strategy must include all terms for a FLEX Option series set forth in Rule 4.21 (including that a non-FLEX Option series with identical terms is

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44 See proposed Rule 5.72(b)(1).

45 As discussed below, current Rules requires a FLEX Trader to input leg prices for a complex FLEX Order following a transaction. The proposed rule change merely moves the requirement to input this information upon submission of the FLEX Order, rather than following a transaction.

not listed for trading), subject to the order entry requirements set forth in Rule 5.7 of the shell Rulebook.[46]

These proposed order requirements are consistent with current Rule 24A.4(a)(2), 24A.4(a)(3)(iv), and 24A.4(a)(4). Those current provisions state every RFQ Order must contain one element from each contract term category and the same transaction specifications as the related RFQ (and any additional trade conditions, which as discussed below, will no longer be available following migration), and that every RFQ Order must contain the quote type and form sought (*i.e.*, the RFQ order must specify whether it seeks bids or offers, the size of the order, whether it seeks responses as a dollar amount or percentage, and contingencies and trade conditions (which will no longer be available following migration)). Additionally, with respect to complex orders, the current rules add that each component series in a multilegged FLEX RFQ or FLEX Order must include all terms of a FLEX Option series. As discussed above, pursuant to the proposed rule change, bids and offers for a FLEX Option series must be expressed in dollars and decimals, if the exercise price of the series is a fixed price, or as a percentage, if the exercise price of the series is a percentage of the closing value of the underlying equity security or index. Therefore, the proposed rule change does not require the submission of a FLEX Order to identify whether it seeks bid and offer responses in the form of a dollar amount or percentage, as that is dictated by the format of the exercise price of the FLEX Option series in the FLEX Order. Rule 5.7 of the shell Rulebook includes provisions that apply to all order submitted to the Exchange, including FLEX Orders. Therefore, the proposed rule

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46 See proposed Rule 5.72(b)(2).

change makes no substantive changes to the required information for a simple FLEX Order, and makes only nonsubstantive changes to the language in the proposed provision.

Current Rule 24A.5 describes how electronic and open outcry trading in FLEX Options may occur on the Exchange today.[47] To initiate an electronic RFQ,[48] a TPH (the "Submitting TPH")[49] submits an RFQ with the terms of a FLEX Option series, as well as whether the Submitting TPH is requesting a bid, offer, or both.[50] The System then communicates the terms of the RFQ to FLEX Traders.[51] Only one electronic RFQ may be ongoing at a given time in a series, and electronic RFQs may not overlap or queue.[52] During the RFQ Response Period (which is the period of time during which FLEX Traders may provide bids and offers in response to RFQs),[53] FLEX Traders (including the Submitting TPH)[54] may then submit bids and offers in response to the RFQ, which they

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47 Current Rule 24A.5, Interpretation and Policy .01 describes how the electronic RFQ process applies to complex FLEX Orders, which the proposed rule change also deletes, as complex FLEX orders will trade electronically in the same manner as simple FLEX orders.

48 See current Rule 24A.5(a)(1) for a description of the electronic RFQ process.

49 This proposed definitions replaces the current definition of a Submitting TPH in current Rule 24A.1(x), which the proposed rule change deletes. The proposed rule change also deletes the provision in current Rule 24A.1(x) regarding the ability of a Submitting TPH to submit a FLEX Order into an electronic book, as there will be no electronic book available following the migration.

50 See current Rules 24A.4(a)(3)(i) and 24A.5(a)(1)(i)(A).

51 See current Rule 24A.5(a)(1)(i)(B).

52 Id.

53 See current Rule 24A.1(u).

54 Pursuant to Rule 1.1 in the shell Rulebook, a User must specify the Capacity (which is defined in Rule 1.1 of the shell Rulebook as the capacity in which a User submits an order, which the User specifies by applying the corresponding code to the order; the Exchange notes the various Capacity codes listed in Rule 1.1 will be available for FLEX Orders) of each order upon submission to the Exchange (Rule 5.7(f) in the shell Rulebook requires at least the information

may withdraw during that period.[55] Current Rule 24A.5(a)(1)(ii)(A) does not permit options market-makers from another options exchange to enter bids and offers (currently referred to in the Rules as FLEX Quotes (see current Rule 24A.1(k)) in response to an RFQ. The Exchange does not believe this restriction is necessary and proposes to delete it, and therefore permit all FLEX Traders to provide liquidity in electronic FLEX auctions. The Exchange believes permitting additional participants to submit responses to FLEX Auctions will provide the opportunity for additional liquidity in these auctions, which could lead to additional price improvement opportunities.

Currently, the Submitting TPH may designate the length of the RFQ Response Period when initiating the RFQ, which time must be within a time range established by the Exchange and not less than three seconds.[56] During the RFQ Response Period, the System calculates and disseminates the then-current market given current FLEX orders and

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specified in that rule to be input upon submission of an order prior to representation on the Exchange, and requires any additional information with respect to that order to be input contemporaneously). While responses to FLEX Auctions will no longer be restricted by Capacity, the Exchange uses Capacity information for a variety of reasons, including prioritization in certain transactions as well as several surveillances for compliance with various regulatory obligations.

55 See current Rule 24A.5(a)(1)(ii)(B). The proposed rule change permits responses to be modified or cancelled, as opposed to just cancelled/withdrawn. Modification of a response is equivalent to cancelling and reentering a response, which is permitted under the current rule, and is merely a different type of message to accomplish the same thing. The proposed rule change deletes the reference to the obligations of a FLEX Appointed Market-Maker from that provision in the current Rules, as the Exchange does not currently have any FLEX Appointed Market-Makers and does not intend to in the future, and thus is deleting provisions related to FLEX Appointed Market-Makers from the Rules.

56 See current Rule 24A.4(a)(3)(iii); see also Cboe Options Regulatory Circular RG12-056 (April 20, 2012) (which sets the current range for RFQ Response Periods as three seconds to ten minutes).

quotes.[57] At the conclusion of the RFQ Response Period, the Submitting TPH may accept or reject the bids and offers submitted during the RFQ Response Period within an RFQ Reaction Period, the length of which the Exchange determines on a class-by-class basis and may not be more than five minutes.[58] During the RFQ Reaction Period, FLEX Traders may continue to submit or cancel responses, and the Submitting TPH may accept bids and offers or cancel the RFQ (or let it expire).[59] During the RFQ Reaction Period, the System calculates and disseminates the then-current market given current FLEX orders and quotes.[60]

If the Submitting TPH chooses to trade, it may enter the RFQ Order to trade with one side of the market provided by the RFQ.[61] The FLEX Order will trade with contra-side interest first at the best prices. If there are multiple bids or offers available at the same price, then the FLEX Order is allocated as follows:

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57 See current Rule 24A.5(a)(1)(ii)(C).

58 See current Rule 24A.5(a)(1)(iii)(A). Currently, the Exchange has set the maximum time of the Reaction Period at three minutes. See Cboe Options Regulatory Circular RG12-056 (April 20, 2012).

59 See current Rule 24A.5(a)(1)(iii)(B)(I) and (III). The proposed rule change deletes the reference to the obligations of a FLEX Appointed Market-Maker from that provision in the current Rules, as the Exchange does not currently have any FLEX Appointed Market-Makers and does not intend to in the future, and thus is deleting provisions related to FLEX Appointed Market-Makers from the Rules. The proposed rule change also deletes the provision regarding the inability to submit FLEX Orders to the electronic book during the RFQ Reaction Period, as there will be no electronic book for FLEX Orders, as further discussed below.

60 See current Rule 24A.5(a)(1)(iii)(B)(II).

61 See current Rule 24A.5(a)(1)(iii)(B)(IV). If the Submitting TPH enters a response during the RFQ Reaction Period, it must bid or offer for at least the crossing exposure period prior to entering the FLEX Order (which period the Exchange establishes on a class-by-class basis and may not be less than three seconds, which the Exchange has currently established as three seconds).

- bids and offers for the account of public customers and non-TPH broker-dealers in time priority;
- bids and offers of a FLEX Appointed Market-Maker if the Exchange has applied a participation entitlement[62]; and
- all other bids and offers in time priority.

Any remaining balance of the FLEX Order would enter the FLEX Book (if the Exchange made a FLEX Book available) or be cancelled (if there was no FLEX Book). The Submitting TPH has no obligation to accept any FLEX bid or offer.[63]

The Exchange proposes to replace the current electronic RFQ process[64] with a new electronic FLEX Auction process. Pursuant to proposed Rule 5.72(c), a Submitting FLEX Trader may electronically submit a FLEX Order (simple or complex) into an electronic FLEX Auction for execution. Pursuant to proposed Rule 5.72(c)(1), the Submitting FLEX Trader may initiate a FLEX Auction if all of the following conditions are met:

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62 See current Rule 24A.5(d)(2)(ii). Current Rule 24A.1(h) defines a "FLEX Market-Maker" as a FLEX Trader (see proposed Rule 3.57 in the shell Rulebook) that is appointed as a FLEX Appointed Market-Maker or a FLEX Qualified Market-Maker, each as described in current Rule 24A.9. The proposed rule change intends to move the definition of a FLEX Market-Maker, as well as the rule provisions regarding the roles of a FLEX Market-Maker, to the shell Rulebook in a separate rule filing.

63 See current Rule 24A.5(a)(iii)(C). The current Rules include additional provisions regarding what happens if the RFQ Market is locked or crossed, and what happens to any unexecuted responses at the conclusion of the RFQ Reaction Period. As discussed below, there will be no market, as FLEX electronic auctions will be one-sided, so there cannot be a locked or crossed market, and responses may only execute against the FLEX Order submitted into the auction.

64 Therefore, the proposed rule change deletes all provisions that describe the current electronic RFQ process and related definitions, including Rules 24A.1(a), (b), (k), (r), (s), (t), (u), (v), and (z) (note certain of these definitions also apply to open outcry RFQs, which the Exchange proposes to eliminate and replace with a different manner of open outcry trading for FLEX options, as discussed below), 24A.4(a)(3), and 24A.5(a)(1).

- The FLEX Order is in a class of options the Exchange is authorized to list for trading on the Exchange.[65] As discussed above regarding proposed Rule 5.72(b), a FLEX Order must be in a FLEX Option series (or FLEX Option complex strategy, each of which consists of a FLEX Option series), which series must be in a FLEX eligible class.[66] The proposed rule change is therefore consistent with current requirements for submission of a FLEX Order into a FLEX Auction.

- There is no minimum size for FLEX Orders. Current Rule 24A.5 includes no restrictions on the size of FLEX Orders that may be submitted for electronic execution. Therefore, the proposed rule change is consistent with current functionality and merely specifies this in the Rules.

- A simple or complex FLEX Order must comply with proposed paragraph (b) above. As discussed above, current Rules require FLEX Orders (and RFQ Orders, which are orders submitted into an electronic FLEX RFQ, which is being replaced by the proposed electronic FLEX Auction) to include the information in proposed paragraph (b), so this proposed rule change imposes no new requirements on the submission of FLEX Orders into an auction. As discussed below, the only difference is that the Submitting TPH must submit the FLEX Order to initiate the electronic FLEX Auction, rather than initiate an RFQ and only submit an order if it chooses to trade following the conclusion of the RFQ Response Period.

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65 See current Rule 24A.4(a)(2), (b)(1) and (c)(1) (which provide that a FLEX Order must contain the underlying security or index, as applicable, which underlying must be eligible for non-FLEX trading pursuant to current Rules 5.3 or 24.2, respectively).

66 See proposed Rule 4.21 and accompanying discussion above, demonstrating the proposed rule change makes no substantive changes to the classes that are eligible for FLEX trading on the Exchange.

- A simple FLEX Order must include a bid or offer price (the "auction price"). A complex FLEX Order must include a net bid or offer price and a bid or offer price for each leg of the FLEX Order, which leg prices must add together to equal the net price (the "auction price"). Because the current process is an RFQ rather than an auction, the Submitting TPH does not include a price on RFQ when initiating an RFQ. Requiring the inclusion of a price on a FLEX Order when initiating an electronic FLEX Auction is consistent with an auction process. As discussed below, the auction price will not be included on the auction notification message disseminated to FLEX Traders,[67] and therefore FLEX Traders will be encouraged to submit their best priced responses in response to the auction as they are today when submitting their markets in response to the RFQ.

- The Submitting FLEX Trader may only submit a FLEX Order for electronic execution in a FLEX Auction after FLEX trading has opened pursuant to proposed Rule 5.71 (as discussed above). This is consistent with current Rule 24A.3, which states only after the open of FLEX trading may FLEX Orders be submitted into a FLEX Auctions pursuant to current Rules 24A.5, 24A.5A, or 24A.5B.

- The Submitting FLEX Trader must designate the length of the "exposure interval," which must be between three seconds and five minutes. The designated time may not go beyond the market close. Current Rule 24A.4(a)(3)(iii) also requires the Submitting FLEX Trader to designate the length of the RFQ Response

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67 Other Exchange auction mechanisms do not include the price on the auction notification message disseminated to market participants. See, e.g., Rules 5.33(d)(1) (regarding the auction message for a complex order auction ("COA") and 5.37(d)(2) (regarding the notification message for an AIM Auction for non-FLEX Options).

Period, the permissible range of which is established by the Exchange but may not be less than three seconds. Currently, the Exchange has set the range at three seconds to ten minutes.[68] The proposed rule change to set the exposure interval between three seconds and five minutes is consistent with the Exchange's current authority in the Rules, as it only requires a minimum of three seconds. The Exchange believes this interval is reasonable, because it is consistent with the lengths designated by FLEX Traders in the current electronic RFQ process. Specifically, the Exchange notes that from January through August of 2019, the average RFQ Response period is less than nine seconds, and the average RFQ Reaction period is approximately three minutes. Therefore, the average length of the electronic RFQ process is within the proposed exposure interval. Additionally, in 2019, only 25 of 3457 (or 0.7%) of electronic FLEX RFQs lasted for a total of more than five minutes in 2019, so the Exchange does not believe capping the length of the proposed electronic FLEX Auction at five minutes will have a significant impact on FLEX trading. In addition, the Exchange believes a shorter maximum time is appropriate based on feedback received from market participants, and because FLEX Traders will only need to submit responses on the opposite side of the auctioned FLEX Order, rather than responses on potentially both sides to create a market. As further discussed below, the Exchange believes a shortened auction process may increase liquidity in the electronic FLEX market on the Exchange.

The System rejects or cancels a FLEX Order that does not meet the conditions in proposed Rule 5.72(c)(1). This is consistent with the concept of eligibility requirements, as well as

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68 See Cboe Options Regulatory Circular RG12-056 (April 20, 2012).

current Rule 24A.5(a)(1)(i)(A), which states a Submitting TPH may submit a FLEX RFQ using the form, format, and procedures prescribed by the Exchange.

As described in the bulleted paragraphs above, the proposed requirements to initiate an electronic FLEX Auction are substantially similar to the current requirements to initiate an electronic RFQ. The proposed electronic FLEX Auction will be voluntary, just as the current electronic RFQ is voluntary, and all FLEX Traders will be able to initiate an electronic FLEX Auction, just as they are all able to currently initiate an electronic RFQ, if they so choose. However, rather than submit an order in response/following to an RFQ if and when the Submitting TPH determines to trade against RFQ responses, the proposed rule change requires the Submitting TPH to submit a FLEX Order to initiate the electronic FLEX Auction. This is consistent with the Exchange's other electronic auction processes,[69] as the auction will result in automatic execution against any responses (if they satisfy the auction price) at the conclusion of the auction. The unique feature of FLEX Options is the flexibility with respect to their terms, which is why current FLEX Rules, and the proposed FLEX Rules, provide a longer time frame for FLEX Traders to submit bids and offers. As noted above, the proposed exposure interval is consistent with the Exchange's authority under the current Rules, and appropriately shortened given the one-sided nature of the proposed auction.[70] Additionally, as further discussed below, the Exchange believes a generally shorter electronic auction process, combined with the certainty of execution at the

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69 See, e.g., current Rules 6.14A (describing the Exchange's step-up mechanism), 6.53C (describing the Exchange's single-sided complex order auction), and 6.74A (describing the Exchange's price improvement automated improvement mechanism), all of which require an order with a price to initiate.

70 As noted above, the length of auction intervals for non-FLEX Options is generally under one second.

conclusion if responses satisfy the price of the auctioned order, may encourage additional market participants to submit FLEX Orders to the Exchange for electronic execution.

Proposed Rule 5.72(c)(2) describes the FLEX Auction process. Upon receipt of a FLEX Order that meets the conditions in proposed subparagraph (c)(1), the FLEX Auction Process commences. As it does today,[71] the System will initiate a FLEX Auction by sending a FLEX Auction notification message to FLEX Traders detailing the FLEX Option series or complex strategy (as applicable).[72] The current RFQ identifies the terms of the FLEX Option (see current Rule 24A.4(a)(2)), which correspond to the series or complex strategy. Additionally, the current RFQ identifies whether a bid, offer, or both are sought (see current Rule 24A.4(a)(3)), and whether a price in dollars or percentage is sought (as discussed above, bids and offers must be in the same format as the exercise price of the FLEX Option series under proposed Rule 5.3(e)(3), and thus there is no need to separately identify whether a price in dollars or percentage is sought, as that will be dictated by the series' exercise price). Because the proposed process is a one-sided auction process, the proposed auction notification message will include the side and size of the auctioned order, which will permit FLEX Traders to focus their responses on the side on which a potential execution may occur. Auction ID,[73] Capacity,[74] the time at which the exposure interval will

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71 See current Rule 24A.5(a)(1)(i)(B) (pursuant to which the System causes the terms and specifications of the RFQ to be communicated to FLEX Traders upon receipt of an RFQ in proper form).

72 See proposed Rule 5.72(c)(2)(A).

73 This is new information on the auction message based on the proposed rule change discussed below, which permits responses to only execute at the conclusion of the auction into which the responses were submitted.

74 This is new information on the auction message. Because an order was not previously required to initiate an RFQ, there was no Capacity to include.

conclude,[75] and Attribution (if the FLEX Order is designated as Attributable).[76] FLEX Auction notification messages are not disseminated to OPRA.[77]

The FLEX Auction message will not include the price of the auctioned FLEX Order. The Exchange believes not including the auction price in the notification message will encourage FLEX Traders to respond with the best prices at which they are willing to trade against the auctioned FLEX Order. If the message included the price, FLEX Traders may only respond to trade at that price; without the price, FLEX Traders may respond at better prices, which may result in price improvement opportunities for the auctioned FLEX Order. This is consistent with other electronic auctions on the Exchange.[78] This is similar to the current RFQ process today, in which there is no disseminated price, and instead market participants submit bids and offers based on prices at which they are willing to transact in the series subject to the RFQ.

Pursuant to current Rule 24A.5(a)(1)(i)(B), only one electronic RFQ may be ongoing at any given time in a series, and electronic RFQs in the same series may not queue or overlap in any manner. Similarly, pursuant to Rule 24A.5, Interpretation and Policy .01, only one electronic RFQ may be ongoing at any given time for a given complex order

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Capacity will be provided on the auction message for informational purposes, and FLEX Traders may consider the Capacity in any manner they see fit when determining how to respond to an electronic FLEX Auction.

75 While not specified in the Rules, this is true today, so that FLEX Traders know how long they have to submit responses.

76 While not specified in the Rules, this is true today, as it is consistent with the concept of an attributable order. See definition of "Attributable Order" in current Rule 6.53 (Rule 5.6(c) in the shell Rulebook).

77 This is true today, as RFQs are only sent to FLEX Traders. See id.

78 See also current Rules 6.53C and 6.74A (Rules 5.33 and 5.37 in the shell Rulebook) pursuant to which COA auction messages and AIM auction messages do not include the auction price.

strategy, and electronic RFQs may not queue or overlap in any manner.[79] Due to current limitations, the Exchange's System is not currently able to process multiple electronic RFQs at the same time, nor is it able to process an electronic RFQ for a complex strategy if an order in any of the leg series that comprise that complex order is present in the System. However, different types of auctions for the same series or complex strategy may occur at the same time. For example, the Rules do not currently prevent a complex order auction ("COA") of a complex order from occurring at the same time as an AIM in one of the leg series of the complex order subject to a COA. The System to which the Exchange's trading platform will move upon completion of the technology migration is able to process concurrent auctions for orders in the same series (including auctions for complex strategies and for legs series that comprise those strategies).[80] Therefore, the Exchange believes it is similarly reasonable to permit multiple FLEX Auctions in the same series to occur at the same time. As proposed, one or more FLEX Auctions in the same FLEX Option series or complex strategy (as applicable) may occur at the same time.[81] To the extent there is more than one FLEX Auction in a FLEX Option series or complex strategy (as applicable) underway at the same time, the FLEX Auctions conclude sequentially based on the times at which each FLEX Auction's exposure interval concludes. At the time each FLEX Auction

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79 In the event there are bids (offers) in any of the individual component series legs represented in the electronic book when an electronic RFQ for a complex strategy is submitted to the System, the electronic RFQ will not commence, and an unrelated FLEX Order in any of the individual series legs may not be submitted to the electronic book or for electronic RFQ processing during the duration of an electronic RFQ. See current Rule 24A.5, Interpretation and Policy .01.

80 See Rules 5.33(d), 5.37(c)(1), 5.38(c)(1), 5.39(c)(1), and 5.40(c)(1) in the shell Rulebook; see also EDGX Options Rules 21.19(c)(1), 21.20(d), 21.21(c)(1), and 21.22(c)(1).

81 See current Rule 24A.5(a)(1)(i)(B) and Interpretation and Policy .01; and proposed Rule 5.72(c)(2)(B).

concludes, the System allocates the FLEX Order pursuant to proposed subparagraph (b)(3) (as described below), and takes into account all FLEX responses submitted during the exposure interval. Concurrent auctions will be permitted in various other electronic auctions on the Exchange following migration.[82] If a FLEX Trader attempts to initiate an electronic FLEX Auction in a FLEX Option series while another auction in that series is ongoing, the Exchange believes it will provide that second FLEX Order with an opportunity for execution in a timely manner by initiating another FLEX Auction, rather than requiring the FLEX Trader to wait for the first auction to conclude. The second FLEX Trader may not be able to submit a response to trade in the ongoing FLEX Auction, because the terms may not be consistent with that FLEX Trader's order (for example, there may not be sufficient size, and the FLEX Trader may only receive a share of the auctioned order depending on other responses). Therefore, the Exchange believes providing this functionality for electronic FLEX Auctions may similarly lead to an increase in electronic FLEX Auctions, which may provide additional opportunities for execution of FLEX Orders. Pursuant to proposed Rule 5.72(c)(2)(C), the Submitting FLEX Trader may cancel a FLEX Auction prior to its conclusion. This is consistent with a Submitting TPH's current ability to not accept any FLEX bid or offer, and thus not execute an order for which it requests a market pursuant to an RFQ.[83]

Proposed Rule 5.72(c)(2)(D) describes the requirements for responses that FLEX Traders may submit to an electronic FLEX Auction.[84] Any FLEX Trader (including the

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[82] See, e.g., Rules 5.33, 5.37, and 5.38 in the shell Rulebook; see also EDGX Options Rules 21.19, 21.20, and 21.22.

[83] See current Rule 24A.5(1)(iii).

[84] The proposed provisions regarding FLEX responses are consistent with rules regarding responses to other electronic auctions. See, e.g., Rules 5.33, 5.37, and

Submitting FLEX Trader if it is seeking to effect a cross)[85] may submit responses to a FLEX Auction that are properly marked specifying the FLEX Option series or complex strategy (as applicable), bid or offer price or net price (respectively), size, side of the market, and the Auction ID for the FLEX Auction to which the User is submitting the response. This information is currently required to be included on response to RFQs (other than an Auction ID), and the proposed rule change merely adds this detail to the Rules. A FLEX response may only participate in the FLEX Auction with the Auction ID specified in the response, which is why the auction notification will include an Auction ID and response must identify the applicable Auction ID.[86] The Exchange proposes to include this given the above proposal that permits concurrent electronic FLEX Auctions in the same series or complex strategy.

A FLEX Trader may submit multiple FLEX responses at the same or multiple prices to a FLEX Auction. This is consistent with current functionality. Current Rule 24A.5(a)(1)

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5.38 in the shell Rulebook; see also EDGX Options Rules 21.19, 21.20, and 21.22.

85 Current Rule 24A.5(a)(1)(iii)(B)(IV) states if a Submitting TPH enters a response (referred to in the current Rule as a FLEX Quote) during the RFQ Reaction Period (and thus a quote to trade against the RFQ Order, should the Submitting TPH decide to execute during the RFQ Reaction Period), it must be bidding (offering) for at least the crossing exposure period prior to entering the RFQ Order to trade. The Exchange may determine the duration of this period, which must be at least three seconds (and which the Exchange has currently set at three seconds). The purpose of this time period is to ensure all FLEX Traders have an opportunity to submit responses if the Submitting TPH decides to execute a cross. Because the exposure interval (which occurs after the submission of a FLEX Order) in the new process must be at least three seconds, which will be the earliest time at which execution of the FLEX Order may occur, all FLEX Traders will have the same opportunity and time to participate in an execution against the FLEX Order.

86 If there are concurrent FLEX Auctions occurring, a FLEX Trader may submit responses to all ongoing auctions, and thus concurrent auctions will not hinder a FLEX Trader's ability to participate in any FLEX Auction.

contains no restriction on how many responses a FLEX Trader may submit; the proposed rule change merely makes this explicit in the Rules. For purposes of a FLEX Auction, the System aggregates all of a FLEX Trader's FLEX responses for the same Executing Firm ID ("EFID") at the same price. The System will cap the size of a FLEX response, or the aggregate size of a FLEX Trader's FLEX responses for the same EFID at the same price, at the size of the FLEX Order (*i.e.*, the System ignores the size in excess of the size of the FLEX Order when processing the FLEX Auction). These provisions are new given the potential for an automatic execution at the conclusion of the FLEX Auction (unlike the current process which provides the Submitting TPH with the opportunity to trade or not trade). Additionally, the Exchange proposes to add these provisions given the proposed rule change to apply a pro-rata allocation to responses at the conclusion of an electronic FLEX Auction, as further discussed below. These provisions are consistent with other auction functionality that apply a pro-rata allocation to executions following those auctions.[87] The Exchange believes these proposed changes are reasonable to prevent a User from submitting a response with an extremely large size in order to obtain a larger pro-rata share of the FLEX Order.

FLEX responses must be on the opposite side of the market as the FLEX Order. The System rejects a FLEX response on the same side of the market as the FLEX Order. Unlike the current RFQ process, FLEX Traders will know the side of the market on which the Submitting FLEX Trader is looking to trade, and therefore the Exchange believes this is reasonable given that the purpose of a response is to trade against the FLEX Order in the auction into which the response was submitted. Pursuant to the current RFQ process, the

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87 See, e.g., Rules 5.33, 5.37, and 5.38 in the shell Rulebook; see also EDGX Options Rules 21.19, 21.20, and 21.22.

Submitting TPH may request bids and offers on both sides of the market. By only requesting responses on the opposite side of the market, the proposed rule change will allow FLEX Traders to focus on pricing responses that would be eligible to execute (*i.e.*, on the opposite side of the market on which the Submitting FLEX Trader is looking to trade).

FLEX responses are not visible to FLEX Traders or disseminated to OPRA. RFQ responses are also not currently disseminated to OPRA.[88] However, while the Exchange does not disseminate all individual responses to an electronic RFQ, the best market created by responses is intermittently calculated and disseminated during the RFQ Response Period and Reaction Period, during which time FLEX Traders may withdraw those responses.[89] The proposed rule change is consistent with many electronic auctions, in which responses are not visible to the market.[90] Responses to electronic auctions are not firm prior to the conclusion of the auction, and thus are not disseminated to OPRA, because they are not executable until the conclusion of the auction, at which time their price and size are firm.[91] For the same reason as the Exchange does not disseminate the auction price on the auction notification message as discussed above, the Exchange believes it will encourage FLEX Traders to submit their best possible priced-responses if they do not know the prices at which other FLEX Traders are willing to trade. For example, if during a FLEX Auction of a buy FLEX Order, a FLEX Trader submitted a response to sell at $1.05, if another FLEX Trader saw that response, it may merely respond to sell at $1.05, or maybe $1.04, even

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88 Responses to an RFQ are considered indications of interest, which are exempt from disseminated bids and offers. See, e.g., current Rule 6.80(2).

89 See current Rule 24A.5(a)(ii)(C) and (iii)(B)(II).

90 See, e.g., current Rules 6.53C and 6.74A (Rules 5.37 and 5.38 in the shell Rulebook); see also EDGX Options Rules 21.19, 21.20, and 21.22.

91 See, e.g., Rules 5.33(d)(4)(C) and (D), 5.37(c)(5)(H), 5.38(c)(5)(H), 5.39(c)(5)(F), 5.40(c)(5)(F)

though it may ultimately be willing to sell at $1.03. Without seeing the other responses, the second FLEX Trader may instead submit a response to sell at $1.03, which could result in price improvement for the auctioned order. The Exchange appreciates that there is no disseminated market in FLEX Options. However, the length of the exposure interval (which, as discussed above, is longer than the interval in typical electronic auctions and consistent with the minimum RFQ response period in the current RFQ process) will provide all FLEX Traders with the same opportunity to submit responses. A FLEX Trader may modify or cancel its FLEX responses during the exposure interval. As noted above, the current Rule permits FLEX Traders to withdraw (which is the equivalent of cancel) a response to a FLEX RFQ, but does not explicitly state that those responses may be modified. A modification of a response is equivalent to a cancellation of an existing response and submission of a new response, but may instead be done through a different message type. Therefore, the proposed rule change permits the same activity that can be done pursuant to the current rule, but merely in a different manner (*i.e.*, modification rather than cancellation and separate entry).

Pursuant to proposed Rule 5.72(c)(3), the FLEX Auction concludes at the end of the exposure interval, unless the Exchange halts trading in the affected series or the Submitting FLEX Trader cancels the FLEX Auction, in which case the FLEX Auction concludes without execution. There are no events that will cause the current RFQ Response Period to conclude early pursuant to current Rule 24A.5(a)(1). While the current Rule does not discuss how a trading halt may impact an ongoing electronic RFQ, the proposed rule change is consistent with current functionality, as the Exchange would not permit any executions to occur during a trading halt.[92]

At the conclusion of the FLEX Auction:

- The System executes the FLEX Order against the FLEX responses at the best price(s), to the price at which the balance of the FLEX Order or the FLEX responses can be fully executed (the "final auction price"). If there are multiple FLEX responses at the same price level, then the contracts in those FLEX responses are allocated proportionally, according to size (in a pro-rata fashion).[93]
- The System cancels an unexecuted FLEX Order (or unexecuted portion).
- The System cancels any unexecuted FLEX responses (or unexecuted portions).

The proposed allocation process is consistent with the electronic pro-rata allocation with no overlays that they Exchange may apply to trading in non-FLEX Options.[94] Unlike the proposed allocation process, the current allocation at the conclusion of an electronic FLEX RFQ provides priority to Priority Customers and non-TPH broker-dealers orders and quotes, the purpose of which was to accommodate TPHs that rely on the "G" exemption from Section 11(a)(1) of the Exchange Act when submitting orders for electronic execution.

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92 Concluding an electronic auction without an execution due to a trading halt is consistent with other electronic auctions on the Exchange. See, e.g., current Rules 6.53C and 6.74A (Rules 5.33, 5.37, and 5.38 in the shell Rulebook); see also EDGX Options Rules 21.19, 21.20, and 21.22.

93 The executable quantity is allocated to the nearest whole number, with fractions ½ or greater rounded up and fractions less than ½ rounded down. If the executable quantity cannot be evenly allocated, contracts will be distributed using this pro-rata priority methodology until there are no contracts remaining. This is consistent with the Exchange's standard pro-rata electronic allocation algorithm. See Rule 5.32(a)(1)(B) in the shell Rulebook.

94 See id.

While certain other electronic auctions available on the Exchange prioritize Priority Customer orders, none prioritize non-TPH broker-dealers, and thus electronic submission of an order into those auctions would not be eligible for the "G" exemption either. Currently, a minimal number of TPHs rely on the "G" exemption. As discussed below, the Exchange believes the proposed electronic FLEX Auction satisfies the "Effect vs. Execute" exemption, and will permit TPHs to rely on that exemption (subject to satisfaction of the requirements of that exemption) when submitting FLEX Orders for electronic execution. 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 FLEX Auction from the trading floor and satisfy the "Effect vs. Execute" exemption (assuming the other conditions are satisfied).[95] 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. If a FLEX Trader cannot satisfy the "Effect vs. Execute" exemption (for example, because the FLEX Trader submits a proprietary order from on the Exchange's trading floor), it may submit a FLEX Order into the proposed electronic FLEX Auction only if it satisfies another exemption from Section 11(a)(1) of the Exchange Act. Alternatively, a FLEX Trader may execute a FLEX Order in open outcry on the Exchange's trading floor (subject to satisfaction of an exemption – for example, a FLEX Trader may yield priority as necessary to satisfy the "G" exemption, as it may do today). Because there will not be an electronic FLEX Book (as discussed below),[96] there will be no

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95 Orders for covered accounts that rely on the "Effect vs. Execute" exemption in this scenario must be transmitted from a remote location directly to the Floor Broker on the trading floor by electronic means.

96 As discussed above, while one customer has recently begin to submit interest to the FLEX Book, that interest is generally executed within a few seconds (after the

resting Priority Customer orders resting that would receive priority at the conclusion of the Auction (or any resting orders to trade against the auctioned FLEX Order). And because there will be no FLEX Appointed Market-Makers, there will be no participation entitlement at the conclusion of the Auction. Therefore, there will only be responses available at the conclusion of the Auction to execute against the auctioned FLEX Order. The Exchange has determined to apply pro-rata allocation to those responses, rather than time priority (as it does today), because that is the allocation the Exchange applies to the majority of classes on the Exchange, and therefore this will provide additional consistency for market participants. Additionally, the Exchange believes application of pro-rata may encourage FLEX Traders to submit larger-sized responses, because if the responses are at the marketable prices, those responses will receive execution based on size rather than time (as is the case today).

Current Rule 24A.5(b) states the Exchange may make an electronic book available into which FLEX Orders may be entered or remaining balances of FLEX Orders submitted into an RFQ may rest. Currently, while the Exchange makes an electronic book available for FLEX Orders, prior to April 2019, no FLEX Traders were submitting FLEX Orders into the Book in any class. Beginning in April 2019, one FLEX Trader began submitting FLEX orders for a customer into the FLEX Book, and then after the required exposure period passed, that FLEX Trader would submit an order on the opposite side to trade with that resting customer order (in other words, to execute a cross with that resting order). The Exchange understands from this FLEX Trader that it does not submit these orders into an electronic RFQ, because it is difficult for that FLEX Trader to code to that process, given

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required exposure period) and, thus, there are generally no orders resting on the FLEX Book available for allocation following an open outcry RFQ.

how different it is from other electronic auctions.[97] For the five-month period from April through August 2019, this activity represented approximately 1.2% of total FLEX volume during that time. As noted above, only one FLEX Trader was using the FLEX Book, and only for a limited purpose. While all FLEX Traders have access to the current FLEX Book, they are choosing not to use it. There are no FLEX Traders submitting FLEX Orders into the FLEX Book to rest and wait for another FLEX Trader to submit interest to trade against that resting order, which is the general purpose of an electronic book. Therefore, the Exchange does not intend to make one available following migration, consistent with its current authority under current Rule 24A.5(b). Therefore, the Exchange proposes to delete current Rule 24A.5(b) and all other provisions in its Rules regarding an electronic FLEX Book. As a result, all FLEX executions currently occur following an electronic RFQ or FLEX Automated Improvement Mechanism[98] for electronic execution, and deletion of the Rules regarding an electronic FLEX Book will have no significant impact on FLEX trading given the current limited use of a FLEX Book by one FLEX Trader. The Exchange also notes the Rules currently provide that there is no electronic book for complex FLEX Orders, and therefore the proposed rule change will have no impact on the trading of complex FLEX Orders.[99]

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97 Additionally, this FLEX Trader is unable to cross these orders through a FLEX AIM or SAM, because the solicited contra-side order is for the account of a Market-Maker, which is not permissible in those auctions. See current Rules 24A.5A, Interpretation and Policy .04 and 24A.5B, Interpretation and Policy .04.

98 See Rule 24A.5A in the current Rulebook, which the Exchange intends to move to the shell Rulebook in a separate rule filing. The Exchange notes current Rule 24A.5B provides for a FLEX Solicitation Auction Mechanism, which the Exchange has not currently made available in any FLEX Option classes, but does intend to make available following migration.

99 See Rule 24A.5, Interpretation and Policy .01 in the current Rulebook.

Because the proposed auction will result in automatic execution following the exposure interval, there is no period equivalent to the RFQ reaction period in the proposed auction process. The Exchange believes automatic execution will provide FLEX Traders with more certainty regarding executions of their FLEX Orders and responses, as well as more timely executions. The Exchange notes the current maximum time for the Submitting TPH to decide whether to trade against the RFQ Market is five minutes, which is the proposed maximum time for the exposure interval. Additionally, as noted above, in January through August of 2019, the average length of the entire electronic RFQ process (as designated by the Submitting TPH) is just over three minutes (combining the RFQ Response and Reaction periods), during which time FLEX Traders may submit responses, and less than 1% of electronic RFQs lasted more than five minutes. Therefore, pursuant to the proposed electronic FLEX Auction process, the Submitting FLEX Trader may designate an exposure interval duration during which FLEX Traders may submit responses consistent with the average duration, and over 99%, of current electronic RFQs.

The Exchange believes the proposed electronic FLEX Auction simplifies the process pursuant to which FLEX Traders may execute FLEX Orders on the Exchange, as it is similar to other electronic auctions (as noted above) and eliminates the multiple periods in which FLEX Traders may submit responses. Pursuant to the proposed Auction process, an electronic FLEX Auction in which an order is entered and exposed to FLEX Traders, and then automatically executes against best-priced bids and offers at the conclusion of the auction. As discussed above, the proposed range for the auction exposure interval is consistent with the average length of the entire electronic RFQ process. Additionally, while the proposed range of the exposure interval is shorter than the current range designated by the Exchange, the proposed range is consistent with the Exchange's authority under the current Rules, as the Rules only require that the length of the RFQ Response Period be at least three seconds. Because the auction message will identify the side of the auctioned order, and thus responses will only be on the opposite side of that order, the Exchange believes a shorter maximum time is appropriate, as FLEX Traders will not need to determine responses on the side of the market on which there is no potential execution. Therefore, the Exchange believes the proposed rule change will continue to provide FLEX Traders with sufficient time to price FLEX Option series that are auctioned and submit bids or offers at which they would be willing to effect transactions in the series subject to the auction.

As is the case today, market participants will not know the price at which the Submitting TPH is seeking to trade an order (which the Submitting TPH must include a price on the FLEX Order submitted to the auction, it will not be included in the notification message). The Exchange believes not notifying FLEX Traders of the auction price, as well as not permitting FLEX Traders to see prices of other responses, will encourage FLEX Traders to submit responses at the best prices at which they would be willing to trade, as noted above.

The proposed electronic FLEX Auction is similar to other electronic auctions offered by the Exchange, such as the Automated Improvement Mechanism ("AIM") in Rule 6.74A in the current Rulebook (Rule 5.37 in the shell Rulebook) and the Complex Order Auction ("COA") in Rule 6.53C in the current Rulebook (which the Exchange intends to move to Rule 5.33 in the shell Rulebook). These electronic auctions do not provide for a request for market, which concept does not currently exist in electronic trading. The

Exchange believes implementing a simpler electronic FLEX Auction that is similar to other electronic auctions may encourage TPHs to submit FLEX Orders for electronic execution. Market participants are more familiar with this type of functionality and have their systems coded to conform to these types of auctions. The Exchange has received feedback from market participants indicating the difficulty and additional resources necessary to code to the nonstandard FLEX RFQ process given the multiple intervals. Additionally, the Exchange believes elimination of a reaction period at the conclusion of an electronic FLEX Auction will permit executions of FLEX Orders to be completed in a more timely fashion. As a result, the Exchange believes the proposed auction will permit FLEX Traders to continue to compete vigorously and potentially provide price improvement for FLEX Orders in a competitive auction process, as they do for non-FLEX Orders, and thus will fit more seamlessly into the Exchange's market.[100]

Current Rule 24A.5(a)(2) describes the current open outcry RFQ process for FLEX Orders. Currently, a Submitting TPH may submit to a FLEX Official an RFQ, and then announce the terms of the RFQ to the trading crowd.[101] At that point, FLEX Traders in the trading crowd may respond to the RFQ with bids and offers during an RFQ Response Period, during which time those responses (referred to in the current Rule as FLEX Quotes) may be modified or withdrawn.[102] At the conclusion of the RFQ Response Period, the

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[100] The Exchange notes it intends to continue to offer a FLEX AIM process to provide FLEX Orders with price improvement and electronic crossing opportunities, and will move that from Rule 6.74A in the current Rulebook to Rule 5.73 in the shell Rulebook in a different rule filing.

[101] See current Rule 24A.5(a)(2)(i).

[102] See current Rule 24A.5(a)(2)(ii). The proposed rule change deletes from that provision the reference to obligations of FLEX Appointed Market-Makers. As noted above, the Exchange currently has none and does not intend to have them following migration, so the Exchange is deleting all references to FLEX

Submitting TPH announces the best market to the trading crowd.[103] It may then promptly accept or reject the best priced bids and offers, or announce an intention to cross the FLEX order (in which it may receive an entitlement pursuant to Rule 24A.5(b)(3) and (d)(2)).[104] If the Submitting TPH determines to execute the FLEX Order against the responses from the trading crowd (and not cross), the bids and offers are allocated as described below.[105] If the Submitting TPH rejects the BBO or accepts it for less than the entire size requested, all FLEX Traders (other than the Submitting TPH) may match or improve the BBO during the BBO Improvement Interval,[106] after which the Submitting TPH must promptly accept or reject the BBO.[107] If the Submitting TPH indicates an intention to cross, then the Submitting TPH must announce the price to the crowd and permit the rest of the crowd to attempt to improve or match the BBO during the BBO Improvement Interval. At the expiration of the BBO Improvement Interval, the Submitting TPH must promptly accept or

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Appointed Market-Makers in the rules. As is the case for electronic RFQs, the open outcry RFQ Response Period may not be less than three seconds.

103 See current Rule 24A.5(a)(2)(ii)(B). The proposed rule change deletes the reference that the BBO will consider orders in the electronic book, as there will be no book following migration, as noted above.

104 See current Rule 24A.5(a)(2)(iii)(A).

105 See id.

106 The "BBO Improvement Interval" is the period of time in respect of the open outcry RFQ process during which FLEX Traders in the trading crowd may submit responses (referred to in the current rules as FLEX Quotes) to meet or improve the BBO established during the RFQ Response Period. See current Rule 24A.1(b). The rules do not specify a duration of the BBO Improvement Interval, so the Exchange permits responses to be made in a reasonably prompt manner (consistent with a similar provision that applies to current open outcry trading if there are remaining contracts, see current Rule 6.45(b)(i)(B)(5)).

107 See current Rule 24A.5(a)(2)(iii)(A).

reject the BBO, and may execute the order against responses as described below.[108] The Submitting TPH has no obligation to accept any FLEX bid or offer.[109]

Current Rule 24A.5(d)(2)(i) provides that the Exchange may establish a crossing participation entitlement, subject to certain conditions. The Exchange proposes to delete that provision, as the Exchange does not intend to establish any priority overlays, including a crossing participation entitlement, to the proposed FLEX Auctions.[110] The Exchange does not currently establish a crossing participation entitlement for electronic FLEX trading, so this will have no impact on electronic trading. The Exchange has currently established a crossing participation entitlement for open outcry FLEX trading. However, as further discussed below, the Exchange proposes to permit FLEX Trades to be crossed in accordance with general crossing rules for open outcry trading, which provide for a similar crossing procedure and participation entitlement as the current FLEX crossing procedure and entitlement.

Current Rule 24A.5(d)(2)(ii) provides that the Exchange may establish a participation entitlement for a FLEX Appointed Market-Maker. The Exchange currently

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108 See current Rule 24A.5(a)(2)(iii)(B).

109 See current Rule 24A.5(a)(2)(iii)(C). Rejection of the BBO or failure to promptly accept the BBO results in expiration of the BBO and the RFQ. See current Rule 24A.5(a)(2)(iv). If the Submitting TPH rejects the BBO or the BBO size exceeds the FLEX transaction size in the RFQ, FLEX Traders in the crowd may accept the unfilled balance by public outcry promptly following the rejection of the BBO (or expiration of the BBO Improvement Interval). See current Rule 24A.5(a)(2)(iii)(D).

110 This is consistent with the Exchange's authority under current Rule 24A.5(d)(2) to not establish any priority overlays.

does not have any FLEX Appointed Market-Makers, and thus does not have a participation entitlement established, and deletes that provision from the Rules.[111]

The highest bid (lowest offer) will have priority at the conclusion of a FLEX open outcry RFQ. If there are multiple bids or offers at the same price, any crossing participation entitlements have second priority, any FLEX Appointed Market-Maker participation entitlements have third priority, all other response have fourth priority (in time sequence), and finally orders resting in the book have last priority.[112]

Proposed Rule 5.72(d) provides that a Submitting FLEX Trader may represent and execute a FLEX Order that complies with paragraph (b) above on the Exchange's trading floor in the same manner as a TPH may represent and execute an order for a non-FLEX Option (which includes systemization of the FLEX Order pursuant to Rule 5.7(f) and routing the FLEX Order to PAR pursuant to Rule 5.82 of the shell Rulebook) on the Exchange's trading floor pursuant to Chapter 5, Section G of the shell Rulebook,[113] except (1) In-Crowd Market Participants ("ICMPs") will have a reasonable amount of time (which

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111 The Exchange intends to delete all provisions regarding FLEX Appointed Market-Makers from the Rules in a separate rule filing. To the extent the Exchange determines in the future to appoint FLEX Appointed Market-Makers (or similar market participant) or apply a participation entitlement to FLEX Auctions (electronic or open outcry), the Exchange will submit a separate rule filing. Because there will no longer be any priority overlays, the proposed rule change deletes current Rule 24A.5(d)(2)(iii) regarding announcements of participation entitlements.

112 See current Rule 24A.5(a)(2)(v)(A); see also current Rule 24A.5(d) (which describes current crossing participation entitlements). As is the case in all open outcry trading, any FLEX Traders relying on the "G" exemption must yield priority to any bid (offer) at the same price. See current Rule 24A.5(a)(2)(v)(B) (Rule 5.85(a)(2)(E) in the shell Rulebook).

113 Therefore, a FLEX Order may be represented and executed, in addition to Rule 5.85 as described above, pursuant to Rule 5.86 in the shell Rulebook regarding facilitated and solicited transactions and Rule 5.87 in the shell Rulebook regarding crossing orders.

amount of time must be between three seconds (the current minimum for an RFQ Response Period) and five minutes) from the time a FLEX Trader requests a quote in a FLEX Option Series or represents a FLEX Order (including announcing a crossing transaction pursuant to Rule 5.87 in the shell Rulebook) to respond with bids and offers; and (2) FLEX Orders are allocated only to responses from the trading crowd pursuant to Rule 5.85(a)(2)(C) of the shell Rulebook.[114] The proposed time period is consistent with the proposed time period for electronic FLEX Auctions described above, as well as current Rules (which require at last three seconds to pass),[115] and the Exchange believes this will ensure there is sufficient time for the crowd to price a FLEX Option series given its unique terms as well as ensure executions of FLEX Orders take place in a timely manner. Whether a reasonable amount of time has passed before a Submitting TPH determines to represent an order after a request for quotes, or to execute an order after it was represented will be based on facts and

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114 The proposed rule change notes that Rule 5.85(b) through (e) (complex order priority (this relates to the prices at which complex orders may trade depending on resting simple orders, which will not apply given there will be no book for FLEX Options), split-price priority, multi-class spread orders, and SPX Combo Orders) does not apply to FLEX Options, which is consistent with FLEX trading today. See current Rules 24.19 (which sets forth specific trading rules for multi-class spreads, which are not consistent with FLEX trading), 24.20 (which sets forth specific trading rules for SPX Combo Orders, which are not consistent with FLEX trading), and 24A.15 (which provides that split-price priority does not apply to FLEX trading, and the Exchange moves the provision that states the inapplicability of split-price priority to the portion of the Rule regarding open outcry trading, so that all provisions regarding open outcry priority are included in the same place). To the extent the Exchange intends to make any of these provisions applicable to FLEX Options in the future, it will submit a rule filing. As discussed above, there will be no electronic FLEX Book (and thus no Priority Customer orders resting that would otherwise have priority). Additionally, as discussed below, there will be no participation entitlements. The Exchange notes FLEX Orders may be crossed on the Exchange trading floor in the same manner as non-FLEX Orders pursuant to Rule 5.87 in the shell Rulebook, rather than pursuant to separate crossing rules as is the case today.

115 See current Rule 24A.4(a)(3)(iii).

circumstances, and will be determined by the Submitting FLEX Trader. This is consistent with general open outcry trading, in which the representing Floor Broker (which will be the Submitting FLEX Trader) determines at what time a market is established and which ICMPs responded at that time and in what order.[116] As set forth in Rule 5.85(a)(2), orders represented in open outcry may also be allocated to Priority Customers resting in the book (which will not apply to FLEX Options since there will be no book), or to certain market-makers if there is a participation entitlement (which there will not be for FLEX Options), or to other orders resting in the book (which, again, will not apply to FLEX Options since there will be no book). Therefore, the only interest against which a FLEX Order may execute in open outcry are bids and offers from the trading crowd.

The Exchange believes the current open outcry RFQ process for FLEX Orders is substantially similar to the current open outcry process for non-FLEX Orders, and therefore believes completely aligning the two processes is appropriate. Currently, in open outcry trading, a Floor Broker can request a market from the crowd.[117] ICMPs may then respond with their markets. There is no formal time frame in which ICMPs may respond with a market, but ICMPs generally respond promptly with their market. This is substantially similar to the current RFQ process described above, in which a FLEX Trader requests a market and provides FLEX Traders in the crowd with at least three seconds to respond with a market. The Exchange believes it is appropriate to ensure there is at least a minimum amount of time FLEX Traders to respond give the unique terms of FLEX Options. The

[116] If another FLEX Trader does not believe there was a reasonable amount of time to respond permitted, that FLEX Trader may request a review from a FLEX Official for compliance with the applicable rules (see proposed Rule 5.75).

[117] A Floor Broker may also initially represent an order to the trading crowd, and then receives bids or offers, as appropriate, and trade. However, this is an uncommon scenario but permissible under the Rules.

proposed timeframe in which ICMPs that are FLEX Traders must respond is consistent with the current Rule, which as noted above, requires the RFQ Response Period to be at least three seconds long. The proposed rule change also permits a FLEX Trader to initially represent a FLEX Order to the trading crowd, and then receive bids or offers (as appropriate) and trade.[118] Therefore, other than eliminating the formal name of the RFQ Response Period which is not contemplated in non-FLEX Option open outcry trading, the Exchange believes the proposed rule change will have minimal (if any) impact on how a FLEX Trader may request a market on the Exchange's trading floor.

Unlike the current process, which requires a FLEX Trader to submit an RFQ to a FLEX Official, the proposed rule change will require a FLEX Trader to systematize a FLEX Order in the same manner as Floor Brokers systematize non-FLEX Orders, which is to systematize them pursuant to current Rule 6.24 (Rule 5.7(f) in the shell Rulebook). TPHs have familiarity with the systemization process, and the Exchange believes the proposed rule change will result in a more efficient open outcry trading process for FLEX Options, as a FLEX Trader can request a market as soon as it gets that request from a customer rather than first go to a FLEX Official.[119] This may ultimately result in a more timely execution for customers.

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118 The Exchange notes this is an uncommon scenario in open outcry trading, but is permissible under the Rules.

119 Because the proposed rule change will require FLEX Orders to be systematized in the same manner as all other orders, the proposed rule change deletes Rule 5.7, Interpretation and Policy .04, which exempts FLEX Options from systematization requirements. The Exchange notes systemization will capture FLEX Options in the Exchange's audit trail, and thus the Exchange will no longer need to maintain separate records similar to COATS data. The current rule requires the Exchange to make the data it retained with respect to FLEX Options available to the SEC upon request. While the proposed ruled does not explicitly state this (the Rules generally impose obligations on TPHs rather than the Exchange), the Exchange is

Once a Floor Broker has received a market from the crowd, the Floor Broker may then represent its order on the floor (after systematizing it and routing it to PAR, which it must do prior to representing an order on the trading floor) and elect to trade against the best prices or not, or announce an intention to cross at a specific price.[120] As discussed above, this is substantially similar to the current RFQ process, in which a FLEX Trader can elect to trade or not trade with the best prices from the crowd, or announce an intention to cross. Currently, the Exchange has set a crossing entitlement for facilitations and solicitations of FLEX Orders in all classes to be 40%.[121] As set forth in current Rule 6.74(d) (Rule 5.87(f) of the shell Rulebook), the Exchange may similarly set a crossing entitlement on a class-by-class basis up to 40%. The Exchange intends to set this entitlement for FLEX Orders at 40% in all classes, as it does today.[122] Rule 5.87(f) of the shell Rulebook requires a Floor Broker representing an eligible-sized order to request bids and offers for a series. Once the trading crowd has provided a quote, once a reasonable amount of time has passed, there is a significant change in the price of the underlying, or the price of the responses has been improved, the Floor Broker may cross the applicable percentage of the order, after all Public

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required to maintain these records and provide them to the Commission upon request pursuant to its SRO obligations. See 17 CFR § 240.17a-1 (which requires an exchange to keep and preserve at least one copy of all documents made or received in the course of its business and in the conduct of its self-regulatory activity, to retain such documents for at least five years (in an easily accessible place for the first two years) subject to destruction and disposition provisions of Rule 17a-6 under the Act, and to promptly furnish copies of these documents to the Commission upon request).

120 See current Rule 6.74 (Rule 5.87(f) in the shell Rulebook), which describes procedures for crossing orders on the Exchange's trading floor.

121 Current Rule 24A.5(d)(2)(i) permits the Exchange to establish a crossing participation entitlement on a class-by-class basis up to 40%.

122 The Exchange would announce any changes to this percentage pursuant to Rule 1.5 in the shell Rulebook.

Customer orders in the book or crowd have been satisfied. This is similar to how a FLEX Trader may cross a FLEX Order in open outcry, as noted above. Specifically, a FLEX Trader would request a market, and after a reasonable amount of time has passed, announce an intention to cross, and receive a crossing entitlement after Public Customer interest has been satisfied. Therefore, the Exchange believes the proposed rule change will have a minimal (if any) impact on the crossing of FLEX Orders in open outcry.

The proposed rule change eliminates the formal BBO Improvement Interval. However, pursuant to general open outcry rules regarding crossing, as noted in the previous paragraph, if a FLEX Trader announces an intention to cross a FLEX Order, the FLEX Trader must provide time for the trading crowd to submit bids and offers (which is equivalent to what occurs during the BBO Improvement Interval). Similarly, if there is no intention to cross, but the FLEX Trader elects to not trade or there is insufficient size, the crowd may make subsequent bids and offers in a reasonably prompt manner.[123]

The proposed allocation is substantially similar to the allocation for non-FLEX trading in open outcry, excluding the provisions that are inapplicable to FLEX trading, and to the current allocation for FLEX trading in open outcry (if there were no FLEX Appointed Market-Makers, and if the Exchange determined to not offer an electronic book for FLEX Options pursuant to its authority under the current Rules). With respect to allocation, best-priced responses will continue to have first priority.[124] With respect to responses at the same price, because there will be no electronic Book for FLEX Options, there can be no Priority Customer FLEX Orders resting in the book that would receive first priority at the

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123 See Rule 5.85(a)(2)(C)(v) in the shell Rulebook.

124 See current Rule 24A.5(a)(2)(v)(A) and Rule 5.85(a)(1) in the shell Rulebook.

same price.[125] Additionally, there will be no FLEX Appointed Market-Makers, so there will be no participation entitlement applicable to FLEX trading.[126] The crossing participation will continue to next priority.[127] All other interest in the crowd will continue to then have priority in the sequence in which they were made; to the extent multiple bids or offers were submitted at the same time, or if the Submitting FLEX Trader cannot reasonable determine the sequence in which they were made, priority will be apportioned equally among those bids and offers.[128] As there will be no electronic book of orders for FLEX Options, there will be no non-customer orders in the book that would be eligible for execution after all other interest trades.[129] Therefore, the proposed rule change will have minimal (if any) impact on the allocation of responses in open outcry trades of FLEX Orders.[130]

As is the case regarding the proposed electronic FLEX Auction described above, the proposed rule change simplifies the process pursuant to which FLEX Traders may execute

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[125] Therefore, Rule 5.85(a)(2)(A) in the shell Rulebook will be inapplicable to FLEX trading.

[126] Therefore, Rule 5.85(a)(2)(B) in the shell Rulebook will be inapplicable to FLEX trading.

[127] See current Rule 24A.5(a)(2)(v)(A)(I) and Rule 5.87(a) and (f) in the shell Rulebook.

[128] See current Rule 24A.5(a)(2)(v)(A)(III) and Rule 5.85(a)(2)(C) in the shell Rulebook.

[129] As discussed above, while one customer has recently begin to submit interest to the FLEX Book, that interest is generally executed within a few seconds (after the required exposure period) and, thus, there are generally no orders resting on the FLEX Book available for allocation following an open outcry RFQ. Therefore, Rule 5.85(a)(2)(D) in the shell Rulebook will be inapplicable to FLEX Trading.

[130] As is the case today, and with open outcry non-FLEX trading, a TPH relying on the exemption in Section 11(a)(1)(G) of the Exchange Act and Rule 11a-1(T) thereunder may submit a proprietary order to the Exchange for execution in open outcry if it yields priority to any bid (offer) at the same price that is represented by all other bids (offers) that have priority over the TPH's order. See proposed Rule 5.72(e)(1); see also Rule 5.85(a)(2)(E) in the shell Rulebook and current Rule 24A.5(a)(5)(v)(B).

FLEX Orders on the Exchange in open outcry. As demonstrated above, the general open outcry trading rules are substantially similar to the current open outcry RFQ procedure for FLEX Options. However, the proposed rule change eliminates the terminology that applies only to FLEX trading. FLEX Traders are more familiar with the general open outcry trading procedures, and therefore, by aligning the open outcry trading process for FLEX Options with that of non-FLEX Options, and permitting FLEX trading in the same manner as non-FLEX trading on the Exchange's trading floor, the Exchange believes the proposed rule change may encourage TPHs to submit FLEX Orders for execution. The Exchange believes the proposed rule change may reduce confusion regarding how FLEX Orders may trade in open outcry, given that any minor differences between the two processes that exist today are being eliminated. However, as noted above, one difference that will remain is the minimum amount of time that the trading crowd will have to respond to a request for a market or to a represented FLEX Order, which will ensure the crowd has sufficient time to price the unique terms of FLEX Options. The proposed range of a reasonable time that must be three seconds (but no more than five minutes), is consistent with the current Rule, which requires the response period to be at least three seconds. The Exchange believes the maximum time accommodate this pricing while permitting executions of FLEX Orders to be completed in a more timely fashion. As a result, the Exchange believes the proposed auction will fit more seamlessly into the Exchange's market. The Exchange also believes this will encourage FLEX Traders to compete vigorously and potentially provide price improvement for FLEX Orders in a competitive auction process, as they do for non-FLEX Orders.

The proposed rule change deletes current Rule 24A.5(c), which states that acceptance of any bid or offer creates a binding contract under Rule 6.48 in the current Rulebook (which the Exchange intends to move to Rule 5.11 in the shell Rulebook). Current Rule 6.48 applies to all acceptances of bids and offers on the Exchange, including FLEX bids and offers, and thus the Exchange does not believe it is necessary to include a separate provision in the FLEX Rules. This has no impact on the binding nature of the acceptance of bids and offers on FLEX Options pursuant to proposed Rule 5.72.

The proposed rule change moves the provision that states all transactions must be in compliance with Section 11(a)(1) of the Exchange Act and the rules promulgated thereunder, including the description of the activity prohibited by Section 11(a)(1), from current Rule 24A.5(d)(4) (as well as current Rules 24A.5(a)(2)(v)(B) and (b)(2)(ii), which are cross-referenced in Rule 24A.5(d)(4)) to proposed Rule 5.72(e). The proposed rule change amends this provision to state that it applies to all executions of FLEX Orders, as this provision is only applicable to FLEX trading. The proposed rule change deletes current Rule 24A.5(d)(4)(i) and (iii) regarding the market-maker exemption and the effect versus execute exemption, respectively. Those exemptions will continue to be available to FLEX Traders with respect to FLEX trading. However, there is nothing unique about the applicability of those exemptions to FLEX trading, as they are available to all market participants with respect to all trading in the same manner. Additionally, the proposed rule change deletes current Rule 24A.5(d)(4)(iv), which states that a TPH may rely on any other exception to comply with the requirements of Section 11(a)(1) and the rules promulgated thereunder. That will continue to be true, and is captured by the introductory language in proposed Rule 5.72(e), which references that an exception to Section 11(a)(1) may apply.

Because, FLEX traders may currently rely on the "G" exemption for electronic FLEX trading given the current priority structure but will no longer be able to rely on that exemption with respect to electronic FLEX trading given the proposed priority changes (see discussion above regarding this change),[131] the proposed rule change makes clear that the "G" exemption will only be available for FLEX Orders represented in open outcry, as long as the TPH relying on that exemption yields priority to any bid (offer) at the same price that is represented by all other bids (offers) that have priority over the TPH's order pursuant to proposed Rule 5.72. The proposed rule change also states that a TPH may not submit an electronic FLEX Order pursuant to proposed Rule 5.72(b), Rule 5.73, or Rule 5.74 to effect any proprietary order transactions by relying on the "G" exemption. As discussed below, the Exchange believes the proposed rule change is consistent with Section 11(a) of the Exchange Act.

The proposed rule change deletes current Rule 24A.5, Interpretation and Policy .03 regarding post-trade verification procedures for electronic RFQs for complex orders. Due to the System updates in connection with the System migration, parties to FLEX transactions will no longer need to take additional steps with respect to executions of complex orders following an electronic FLEX Auction.[132] These procedures require FLEX Traders to input the leg price, exercise price, and/or premium information into the System following execution of a complex FLEX Order. As discussed above, FLEX Traders must submit all of

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131 As discussed below, electronic FLEX trading, like all other electronic trading on the Exchange, will not allow FLEX Traders to take advantage of the "G" exemption.

132 Note current Rule 24A.5, Interpretation and Policy .03 also applies to electronic transactions in FLEX Options with exercise prices and premiums based on a methodology for fixing that number or based on a percentage. As noted above, the Exchange will no longer offer exercise prices and premiums based on such a methodology.

this information upon entry of a FLEX Order.[133] Therefore, pursuant to the proposed rule change, a FLEX Trader will be required to input the same information for each leg of a complex FLEX Order prior to submission rather than following execution. A FLEX Trader may request nullification of a FLEX Option transaction if it did not conform to the terms in proposed Rule 4.21, or update any inaccurate information in a complex FLEX Order in the same manner as any TPH may update any inaccurate information in any order pursuant to current Rule 6.67.[134] Because all FLEX Orders will now be systematized, as discussed above, there is no longer a need for separate procedures regarding the correction of inaccurate information entered for FLEX transactions.

The proposed rule change moves the provisions in Rules 24A.1(i) and 24A.14 in the current Rulebook regarding FLEX Officials to Rule 5.75 in the shell Rulebook. The proposed rule change makes only nonsubstantive changes to this Rule, including to make the Rule plain English, delete redundant language (such as saying any TPH approved to act as a Market-Maker, as pursuant to Rule 8.1 in the current Rulebook, a Market-Maker must be a TPH), incorporate defined terms (including the term "ICMP," which is an in-crowd Market-Maker, on-floor designated primary market-maker or lead market-maker with an allocation in a class, or a floor broker or PAR official representing an order in the trading crowd on a trading floor[135]), and update cross-references and paragraph lettering and numbering. FLEX Officials will have the same responsibilities as they do today.

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133 See proposed Rule 5.72(b)(2).

134 Rule 6.67 in the current Rulebook describes the Exchange's Cboe Trade Match System, which permits TPHs to correct bona fide errors, subject to certain restrictions. The Exchange intends to move Rule 6.67 from the current Rulebook to Rule 6.6 in the shell Rulebook in a separate rule filing.

135 See Rule 1.1 in the shell Rulebook.

(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.[136] Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)[137] 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)[138] requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

In particular, the Exchange believes the proposed rule change will remove impediments to and perfect the mechanism of a free and open market, and protect investors and the public interest. As described above, the proposed electronic FLEX Auction is closely aligned to the Exchange's other electronic auctions for non-FLEX Options, and the proposed open outcry FLEX Auction is closely aligned with the current open outcry trading process for non-FLEX Options, but are still similar to the FLEX trading processes in place today. The proposes rule change merely eliminates many of the differences between FLEX

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136 15 U.S.C. 78f(b).

137 15 U.S.C. 78f(b)(5).

138 Id.

and non-FLEX trading to eliminate potential confusion for market participants given the current differences, while implementing trading processes with which market participants are more familiar. As a result, the Exchange believes the proposed rule change will have minimal impact on the trading of FLEX Auctions, and possibly increase participation in FLEX Auctions, which could add liquidity to the Exchange's FLEX Market, which ultimately benefits investors. Additionally, with respect to electronic trading, market participants are more familiar with this type of functionality and have their systems coded to conform to these types of auctions. The Exchange has received feedback from market participants indicating the difficulty and additional resources necessary to code to the nonstandard FLEX RFQ process given the multiple intervals.

Additionally, the Exchange believes the proposed rule change will permit executions of FLEX Orders to be completed in a more timely fashion, while providing the crowd with sufficient time to price the unique terms of FLEX Options (as the proposed ranges for the duration of the electronic and open outcry FLEX Auctions are consistent with current Rules).[139] The Exchange believes the proposed auction processes will ultimately benefit investors, as they will provide TPHs with greater harmonization of auction mechanisms on the Exchange. The Exchange believes the proposed auctions will provide mechanisms for more efficient and timely executions of FLEX Options, given participants' familiarity with the trading processes and reasonable durations of the auctions. Additionally, by providing for automatic executions following electronic auctions of FLEX Orders, the Exchange believes there will be more certainty of execution at the end of an auction, unlike today, when a FLEX Trader may reject the market after a period of potentially minutes. The

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139 See current Rule 24A.4(a)(3)(iii) and proposed Rule 5.72(c)(1)(E) and (d)(1) (which all provide for a minimum of three seconds of response time).

Exchange believes the proposed auctions will encourage FLEX Traders to continue to compete vigorously and potentially provide price improvement for FLEX Orders in a competitive auction process, as they do for non-FLEX Orders, as they will be encouraged to submit their best-priced bids and offers during the auctions to have the opportunity to execute against the FLEX Order.

By permitting FLEX Options to trade in a manner similar to non-FLEX Options, the Exchange believes this further improves a comparable alternative to the over-the-counter ("OTC") market in customized options. By enhancing our FLEX trading platform and making it similar to trading procedures in non-FLEX options, with which market participants are generally more familiar, the Exchange believes it may be a more attractive alternative to the OTC market. The Exchange believes market participants benefit from being able to trade customized options in an exchange environment in several ways, including but not limited to the following: (1) enhanced efficiency in initiating and closing out position; (2) increased market transparency; and (3) heightened contra-party creditworthiness due to the role of OCC as issuer and guarantor of FLEX Options.

The Exchange believes the proposed rule change to eliminate the ability for FLEX Traders to specify exercise prices for FLEX Index Options as a method for fixing an index value or dollar amount at the time of a FLEX RFQ or a FLEX Order is traded, or as a percentage of the index value calculated at the time of the trade, and for FLEX Equity Options, as a method for fixing a dollar amount at the time of a FLEX RFQ or a FLEX Order is traded, or as a percentage of the price of the underlying security at the time of the trade will have no impact on FLEX Trading.[140] As noted above, FLEX Traders only designate an exercise price for a FLEX series as a fixed amount or a percentage of the closing value of the underlying security or index, as applicable, on the trade date. Similarly, the Exchange believes the proposed rule change to eliminate the ability for FLEX traders to apply the hedge trade condition to orders will have no impact on FLEX Trading.[141] As noted above, FLEX Traders do not apply this trade condition to FLEX Orders. Because FLEX Traders do not use this functionality, the Exchange believes it will benefit investors if the Exchange does not expend resources to rebuild on a new System functionality that is not in demand, and to not include references to unused functionality in the Exchange's rules. In addition, the current Rules permit the Exchange to make a FLEX Book available on a class-by-class basis.[142] The Exchange currently makes a FLEX Book available; however, FLEX Traders were not submitting orders into that Book until recently (April 2019). Additionally, at that time (and since that time), only one FLEX Trader has been submitting FLEX Orders into the FLEX Book, and only for a limited purpose, as discussed above. The activity in the FLEX Book represented only approximately 1.2% of all FLEX trading from the period of April to August 2019. As a result, the proposed elimination of the Exchange's ability to make a FLEX Book available is consistent with the Exchange's current authority to not make a FLEX Book available, and will also have no significant impact on FLEX trading, given that the vast

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140 See current Rule 24A.4(b)(2) and (c)(2).

141 See current Rule 24A.1(y). As discussed above, elimination of the IOC trade condition will have no impact, as it is no longer necessary given that all FLEX Orders submitted for electronic execution may only execute following an auction or be cancelled.

142 See current Rule 24A.5(b).

majority of FLEX trading occurs outside of the book, and given that only one customer has recently been using the book for a limited purpose.

The Exchange believes the proposed rule change to allow multiple electronic FLEX auctions to overlap will benefit investors, as it may lead to an increase in Exchange volume and permit the Exchange to further compete with the OTC market, while providing for additional opportunities for price discovery and execution. Although electronic FLEX Auctions will be allowed to overlap, the Exchange does not believe that this raises any issues that are not addressed through the proposal as described above. For example, although overlapping, each Auction will be started in a sequence and with a time that will determine its processing. Thus, even if there are two Auctions that commence and conclude, at nearly the same time, each Auction will have a distinct conclusion at which time the Auction will be allocated. Additionally, FLEX Orders submitted into an electronic FLEX Auction will be able to execute only against FLEX responses submitted to that Auction. If market participants desire to have interest execute against both FLEX Orders subject to concurring FLEX Auctions, market participants may submit responses to both Auctions.

Additionally, the proposed rule change to permit concurrent auctions is not novel, and is consistent with functionality already in place on other exchanges with respect to other types of auctions.[143] The Exchange does not believe the unique terms of FLEX Options create any additional issues not previously considered by the Commission with respect to

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143 See, e.g., EDGX Rules 21.19(c)(1) and 21.22(c)(1); see also, e.g. Nasdaq ISE LLC ("ISE") Rules 716(d) and 723, Interpretation and Policy .04; and Boston Options Exchange LLC ("BOX") Rule 7270 and BOX IM-7150-3. Other Exchange rules to take effect following the migration also permit concurrent auctions. See, e.g., Rules 5.33, 5.37, and 5.38 in the shell Rulebook.

concurrent auctions. As described above, the Exchange believes concurrent auctions may increase execution opportunities, and permit more timely executions, of FLEX Orders in a more timely fashion, which would ultimately benefit investors. Additionally, the Rules do not currently prevent a COA of a complex order from occurring at the same time as an AIM in one of the components of a complex order subject to a COA. Therefore, the Exchange believes it is similarly reasonable to permit multiple FLEX Auctions in the same series to occur at the same time.

The proposed rule change to permit all FLEX Traders to respond to electronic FLEX Auctions will benefit investors. Permitting all FLEX traders to submit responses, as opposed to not permitting options market-makers at away exchanges to respond, may result in more FLEX Traders having the opportunity to participate in executions at the conclusion of electronic FLEX Auctions. Additionally, it may increase liquidity in these auctions, which may lead to more opportunities to price improvement and ultimately benefit investors.

The Exchange believes the proposed rule change regarding the time at which trading in FLEX Options will be available will benefit investors. Because market participants incorporate transaction prices of underlying securities or the values of underlying indexes when pricing options (including FLEX Options), the Exchange believes it will benefit investors for FLEX Options trading to not be available until that information has begun to be disseminated in the market. Because the Exchange will have no electronic book of resting orders for FLEX Options, and no opening rotation, at the time at which FLEX Trading opens, there are (and will be) no automatic executions. Therefore, being “open” for FLEX trading merely means that FLEX Traders may submit FLEX Orders into one of the various FLEX Auctions, at the conclusion of which executions in FLEX Auctions may occur (which are all discussed below). Additionally, the proposed trigger events occur for many underlying securities or indexes within one second of 9:30 a.m. Eastern Time (which is consistent with the current time at which the Exchange has determined to open FLEX Option classes), and the majority occur within ten seconds. Therefore, pursuant to the proposed rule change, the opening of FLEX Options for trading may occur over a longer timeframe, which would further reduce any potential market impact of the change to the opening time for FLEX Options. While the Exchange believes it is important to open series for trading as soon as possible, the Exchange also believes the proposed rule change will permit it to manage the number of FLEX Option series that may begin to trade during a short time period to ensure a fair and orderly opening in all options listed on the Exchange. The Exchange further believes aligning the trigger events for the opening of FLEX and non-FLEX Options may eliminate any confusion among market participants regarding when options with the same underlying are open for trading. The Exchange also notes that FLEX Options trading volume currently represents approximately 1.5% of total trading volume on the Exchange, and therefore the Exchange believes any potential market impact of this change would be de minimis.

The Exchange believes the proposed order types and instructions that will be available for FLEX Orders will promote just and equitable principles of trade, and benefit investors, because they will provide FLEX Traders with control over the executions of their FLEX Orders while being consistent with the proposed FLEX trading processes. Instructions that are available for non-FLEX Orders but will not be available for FLEX Orders are consistent with the fact that FLEX Orders will only be eligible to trade following an electronic or open outcry FLEX Auction and not rest in an electronic book or route away, and because there is no market for FLEX Options (for which most Order Instructions and Times-in-Force set forth in Rule 5.6 in the shell Rulebook are relevant). The Exchange believes making these order types, instructions, and times-in-force available for FLEX Orders is consistent with the Exchange's authority to designate availability of orders types on a class-by-class basis.[144] The Exchange believes the proposed rule change will benefit investors by specifying the order types that are available for FLEX trading, as it provides investors with additional transparency.

Similarly, the proposed rule change regarding FLEX Order requirements will benefit investors, because it provides investors with additional transparency regarding complex order entry requirements for FLEX Options. As noted above, certain of the proposed requirements are consistent with current rules, while the restrictions on permissible combinations of exercise styles and settlement types on the leg components will have no impact on trading, as FLEX Traders do not currently trade complex orders with legs in the combinations that the proposed rule change proposes to restrict. Additionally, as noted above, the proposed rule change to require FLEX Traders to input the leg prices of complex FLEX Orders upon entry merely moves this requirement to the time of order submission rather than post-trade (as is required today). Additionally, much of the proposed rule change is merely relocating rules from the current Rulebook to the shell Rulebook, including flexible terms (such as settlement type, exercise price, exercise style, and expiration date) and fungibility provisions, and making only nonsubstantive changes, which will therefore

144 See Rule 6.53 in the current Rulebook and Rule 5.6 in the shell Rulebook.

have no impact on FLEX trading. The Exchange believes providing a reorganized, holistic rulebook upon migration will also benefit investors.

The proposed rule change to adopt electronic and open outcry FLEX Auctions is also consistent with Section 11(a)(1) of the Act[145] 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 with respect to which the member or a person associated with the member exercises investment discretion, 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),[146] the "G" exemption for yielding priority to non-members under Section 11(a)(1)(G) of the Act and Rule 11a1-1(T) thereunder,[147] and "Effect vs. Execute" exemption under Rule 11a2-2(T) under the Act.[148]

As noted above, FLEX Traders that effect FLEX transactions in open outcry may qualify for the "G" exemption by yielding priority to any bid (offer) at the same price of any other bid (offer) that has priority over those broker-dealer orders under this Rule. However, FLEX Traders may not rely on the "G" exemption to execute proprietary orders in the electronic FLEX Auctions as set forth in proposed Rule 5.72(e). Therefore, a FLEX

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145 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.

146 15 U.S.C. 78k(a)(1)(A).

147 15 U.S.C. 78k(a)(1)(G) and 17 CFR 240.11a1-1(T).

148 17 CFR 240.11a2-2(T).

Trader must ensure it complies with another exemption, such as the "Effect vs. Execute" exemption, when submitting proprietary FLEX Orders for electronic execution.

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: (a) must transmit the order from off the exchange floor; (b) may not participate in the execution of the transaction once it has been transmitted to the member performing the execution;[149] (c) may not be affiliated with the executing member; and (d) 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 an electronic FLEX Auction would satisfy the requirements of Rule 11a2-2(T).

The Exchange believes the electronic platform component of the electronic FLEX Auction will place all users – both TPHs and non-TPHs on the "same footing" as intended by Rule11a2-2(T). Given the automated matching and execution at the conclusion of an electronic FLEX Auction, no TPH would enjoy any special control over the time of execution or special order handling advances for orders executed electronically following an electronic FLEX Auction, because such orders would be centrally processed for execution by computer, as compared to being handled by a member through bids and offers on the trading floor. Because the electronic trading platform components are designed to prevent any TPHs from gaining any time and place

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149 The member may, however, participate in clearing and settling the transaction.

advantages, the Exchange believes the proposed electronic FLEX Auction satisfies the four components of the "Effect vs. Execute" rule as well as the general policy objectives of Section 11(a) of the Act.

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 off the floor directly to the Exchange by electronic means.[150] Because the Exchange's electronic FLEX Auction receives, and will continue to receive, orders from FLEX Traders electronically through remote terminals or computer-to-computer interfaces, the Exchange believes that orders submitted to an electronic FLEX Auction from off the Exchange's trading floor will satisfy the off-floor transmission requirement.

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. The Exchange represents that, upon submission to an electronic FLEX Auction, an order or FLEX response will be executed automatically pursuant to the Rules set forth for electronic FLEX Auctions. In particular, execution of a FLEX Order or FLEX response sent to the electronic FLEX Auction depends not on the FLEX Trader entering the FLEX Order or FLEX response, but rather on what other orders and responses are present and the priority

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150 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").

of those orders and responses. Thus, at no time following the submission of a FLEX Order or FLEX response is a FLEX Trader or associated person of such FLEX Trader able to acquire control or influence over the result or timing of order or response execution.[151] Once the FLEX Order or FLEX response, as applicable, has been transmitted, the FLEX Trader that submitted the order or response, respectively, will not participate in its execution. No FLEX Trader, including the Submitting FLEX Trader, will see a FLEX response submitted into an electronic FLEX Auction, and therefore and will not be able to influence or guide the execution of their FLEX Orders or FLEX 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 electronic FLEX 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.[152] The Exchange

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151 Submitting FLEX Traders may modify or cancel their FLEX Orders, and all FLEX Traders may modify or cancel their responses, after being submitted to an electronic FLEX Auction. 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").

152 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

represents that the electronic FLEX Auction is designed so that no FLEX Trader has any special or unique trading advantage in the handling of its orders 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 FLEX Auction from the trading floor and satisfy the Effect vs. Execute" exemption (assuming the other conditions are satisfied).[153] 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 a FLEX Order to an electronic FLEX Auction,[154] 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.[155] The Exchange recognizes that FLEX Traders relying on

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that executions obtained through these systems satisfy the independent execution requirement of Rule 11a2-2(T). See 1979 Release.

153 Orders for covered accounts that rely on the "Effect vs. Execute" exemption in this scenario must be transmitted from a remote location directly to the Floor Broker on the trading floor by electronic means.

154 See proposed Rule 5.72(e).

155 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

Rule 11a2-2(T) for transactions effected through the electronic FLEX 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.

Therefore, 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.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange does not believe the proposed rule change will impose any burden on intramarket competition, as the proposed rule change will apply in the same manner to all FLEX Orders submitted for electronic or open outcry execution. The trading of FLEX Auctions, and the use of either of the proposed FLEX Auctions, are voluntary for TPHs to use and will be available to all TPHs that register with the Exchange as FLEX Traders. As discussed above, the Exchange believes the proposed

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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 (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").

rule change should encourage FLEX Traders to compete amongst each other by responding with their best price and size for a particular auction. Because bids and offers in response to an Auction (whether electronic or open outcry) will have the same opportunity to execute against the FLEX Order (which is allocated in a pro-rata manner against bids and offers at the same price), a FLEX Trader will be encouraged to respond to FLEX Auctions with bids and offers at the best and most aggressive prices. The Exchange believes the proposed rule change will encourage FLEX Traders to compete vigorously to provide the opportunity for price improvement for FLEX Orders in a competitive auction process.

The Exchange does not believe the proposed rule change will impose any burden on intermarket competition. The proposed rule change simplifies the FLEX trading principles, and harmonizes the FLEX auction trading procedures with the non-FLEX trading. The Exchange believes aligning FLEX trading processes with non-FLEX trading processes with which FLEX Traders are familiar may further encourage FLEX trading on the Exchange. The Exchange believes this is a further improved and comparable alternative to the OTC market in customized options. By enhancing our FLEX trading platform and making it similar to trading procedures in non-FLEX options, with which market participants are generally more familiar, the Exchange believes it may be a more attractive alternative to the OTC market. The Exchange believes market participants benefit from being able to trade customized options in an exchange environment in several ways, including but not limited to the following: (1) enhanced efficiency in initiating and closing out position; (2) increased market transparency; and (3) heightened contra-party creditworthiness due to the role of OCC as issuer and guarantor of FLEX Options.

**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[156] and Rule 19b-4(f)(6)[157] thereunder.

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

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156 15 U.S.C. 78s(b)(3)(A).

157 17 CFR 240.19b-4(f)(6).

In particular, the Exchange believes the proposed rule change does not significantly affect the protection of investors or the public interest. As described above in the purpose section above, the proposed electronic FLEX Auction is closely aligned to the Exchange's other electronic auctions for non-FLEX Options, and the proposed open outcry FLEX Auction is closely aligned with the current open outcry trading process for non-FLEX Options, but are still similar to the FLEX trading processes in place today. The proposed rule change merely eliminates many of the differences between FLEX and non-FLEX trading to eliminate potential confusion for market participants given the current differences, while implementing trading processes with which market participants are more familiar.

As set forth in the purpose section above, the proposed requirements to initiate an electronic FLEX Auction are substantially similar to the current requirements to initiate an electronic FLEX RFQ. However, rather than submit an order in response/following to an RFQ if and when the Submitting TPH determines to trade against RFQ responses, the proposed rule change requires the Submitting TPH to submit a FLEX Order to initiate the electronic FLEX Auction. This is consistent with the Exchange's other electronic auction processes,[158] as the auction will result in automatic execution against any responses (if they satisfy the auction price) at the conclusion of the auction. The unique feature of FLEX Options is the flexibility with respect to their terms, which is why current FLEX Rules, and the proposed FLEX Rules, provide a longer time frame for FLEX Traders to submit bids and offers. As noted above, the proposed exposure interval is consistent with the Exchange's authority under the current Rules, and appropriately shortened given the one-

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158 See, e.g., current Rules 6.14A (describing the Exchange's step-up mechanism), 6.53C (describing the Exchange's single-sided complex order auction), and 6.74A (describing the Exchange's price improvement automated improvement mechanism), all of which require an order with a price to initiate.

sided nature of the proposed auction. Additionally as set forth above, the proposed exposure interval is consistent with the length of the vast majority of electronic FLEX RFQs.

With respect to open outcry trading, as described above in the purpose section, the current open outcry RFQ process is substantially similar to the current open outcry auction for non-FLEX auctions, and the proposed rule change eliminates the few minor differences between the two. The proposed open outcry FLEX Auction will maintain a longer time frame for FLEX Traders to respond to a request for quotes on the Exchange's trading floor, or respond with bids and offers to a represented FLEX Order, and therefore addresses the unique feature of FLEX Options.

Additionally, much of the proposed rule change is merely relocating rules from the current Rulebook to the shell Rulebook and making only nonsubstantive changes, which will therefore have no impact on FLEX trading. The Exchange believes providing a reorganized, holistic rulebook upon migration will also benefit investors.

As a result, the Exchange believes the proposed rule change will have minimal impact on the trading of FLEX Auctions, and possibly increase participation in FLEX Auctions, which could add liquidity to the Exchange's FLEX Market, which ultimately benefits investors. Additionally, with respect to electronic trading, market participants are more familiar with this type of functionality and have their systems coded to conform to these types of auctions. The Exchange has received feedback from market participants indicating the difficulty and additional resources necessary to code to the nonstandard FLEX RFQ process given the multiple intervals. Aligning electronic auction mechanism functionality across the Exchange reduces the resources necessary for market participants to expends (and reduces systematic complexity) to code their systems to trade in all of these auctions. Additionally, with respect to open outcry trading, eliminating the minor differences between current open outcry FLEX and non-FLEX trading will reduce the compliance burden on FLEX Traders, as they will have a single set of Rules pursuant to which they may conduct all open outcry trading, which will eliminate any potential confusion regarding which procedure applies to which type of trading. Because of the similarities between current FLEX trading and the proposed FLEX trading, and the similarities between the proposed FLEX trading and current non-FLEX trading, the Exchange believes the proposed rule change does not significantly affect the protection of investors or the public interest.

Additionally, the Exchange believes the proposed rule change will permit executions of FLEX Orders to be completed in a more timely fashion, while providing the crowd with sufficient time to price the unique terms of FLEX Options (as the proposed ranges for the duration of the electronic and open outcry FLEX Auctions are consistent with current Rules).[159] The Exchange believes the proposed auction processes will ultimately benefit investors, as provide TPHs with greater harmonization of auction mechanisms on the Exchange. The Exchange believes the proposed auctions will provide mechanisms for more efficient and timely executions of FLEX Options, given participants' familiarity with the trading processes and reasonable durations of the auctions. Additionally, by providing for automatic executions following electronic auctions of FLEX Orders, there is more certainty of execution at the end of an auction, unlike today, when a FLEX Trader may reject the market after a period of potentially minutes. The Exchange believes the proposed auctions will encourage FLEX Traders to continue to compete vigorously and potentially provide

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159 See current Rule 24A.4(a)(3)(iii) and proposed Rule 5.72(c)(1)(E) and (d)(1) (which all provide for a minimum of three seconds of response time).

price improvement for FLEX Orders in a competitive auction process, as they do for non-FLEX Orders, as they will be encouraged to submit their best-priced bids and offers during the auctions to have the opportunity to execute against the FLEX Order. As noted above, the proposed duration of FLEX Auctions are consistent with the Exchange's authority under current Rules and the current duration of the vast majority of auctions as determined by Submitting TPHs, and therefore the Exchange believes the proposed rule change does not significantly affect the protection of investors or the public interest.

By permitting FLEX Options to trade in a manner similar to non-FLEX Options, the Exchange believes this further improves a comparable alternative to the OTC market in customized options. By enhancing our FLEX trading platform and making it similar to trading procedures in non-FLEX options, with which market participants are generally more familiar, the Exchange believes it may be a more attractive alternative to the OTC market. The Exchange believes market participants benefit from being able to trade customized options in an exchange environment in several ways, including but not limited to the following: (1) enhanced efficiency in initiating and closing out position; (2) increased market transparency; and (3) heightened contra-party creditworthiness due to the role of OCC as issuer and guarantor of FLEX Options.

The Exchange believes the proposed rule change does not impose any significant burden on competition, because it will apply in the same manner to all FLEX Orders submitted for electronic or open outcry execution. The proposed FLEX Auctions are voluntary for TPHs to use and will be available to all TPHs that register with the Exchange as FLEX Traders. As discussed above, the Exchange believes the proposed rule change should encourage FLEX Traders to compete amongst each other by responding with their best price and size for a particular auction. Because bids and offers in response to an Auction (whether electronic or open outcry) will have the same opportunity to execute against the FLEX Order (which is allocated in a pro-rata manner against bids and offers at the same price), a FLEX Trader will be encouraged to respond to FLEX Auctions with bids and offers at the best and most aggressive prices. The Exchange believes the proposed rule change will encourage FLEX Traders to compete vigorously to provide the opportunity for price improvement for FLEX Orders in a competitive auction process, and therefore may promote competition.

The proposed rule changes to eliminate the potential availability of an electronic book will not significantly affect the protection of investors or the public interest or impose any significant burden on competition, because it is consistent with the Exchange's current authority under the Rules, and because the book has only been used in recent months by one FLEX Trader for a limit purpose and for a small percentage of total FLEX volume. The current rules permit the Exchange to make a FLEX Book available on a class-by-class basis, and therefore the current rules (which were previously filed with the Commission) contemplate the possibility of not having an electronic book available for FLEX Options.[160] As discussed above, the Exchange currently makes a FLEX Book available; however, FLEX Traders were not submitting orders into that Book until recently (April 2019). Additionally, at that time (and since that time), only one FLEX Trader has been submitting FLEX Orders into the FLEX Book, and only for a limited purpose, as discussed above. The activity in the FLEX Book represented only approximately 1.2% of all FLEX trading from the period of April to August 2019. As a

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[160] See current Rule 24A.5(b).

result, the proposed elimination of the Exchange's ability to make a FLEX Book available is consistent with the Exchange's current authority to not make a FLEX Book available, and will also have no significant impact on FLEX trading or investors, given that the vast majority of FLEX trading occurs outside of the book, and given that only one customer has recently been using the book for a limited purpose. Because of a FLEX Book has been minimally used for a short amount of time, and only by one customer, the Exchange believes no longer making a FLEX Book available will not significantly affect the protection of investors or the public interest or impose any significant burden on competition.

Similarly, the proposed rule change to eliminate the ability for FLEX Traders to specify exercise prices as a method for fixing an index value or dollar amount at the time of a FLEX RFQ or a FLEX Order is traded, or as a percentage of the index value or underlying security calculated at the time of the trade, and to eliminate the ability for FLEX traders to apply the hedge trade condition, will not significantly affect the protection of investors or the public interest or impose any significant burden on competition. As discussed above, in the past year, no FLEX Trader has designated a FLEX Option series with this type of exercise price or applied the hedge trade condition to an order. Because FLEX Traders do not use this functionality, the Exchange believes it will benefit investors if the Exchange does not expend resources to rebuild on a new System functionality that is not in demand, and to not include references to unused functionality in the Rules. Because this functionality is not used by any FLEX Traders, the Exchange believes eliminating this functionality will not significantly affect the protection of investors or the public interest or impose any significant burden on competition.

The Exchange believes the proposed rule change to allow multiple electronic FLEX auctions to overlap will not significantly affect the protection of investors or the public interest, because, while electronic FLEX Auctions will be allowed to overlap, the Exchange does not believe that this raises any issues that are not addressed through the proposal as described above. For example, although overlapping, each Auction will be started in a sequence and with a time that will determine its processing. Thus, even if there are two Auctions that commence and conclude, at nearly the same time, each Auction will have a distinct conclusion at which time the Auction will be allocated. Additionally, FLEX Orders submitted into an electronic FLEX Auction will be able to execute only against FLEX responses submitted to that Auction. If market participants desire to have interest execute against both FLEX Orders subject to concurring FLEX Auctions, market participants may submit responses to both Auctions.

The Exchange believes the proposed rule change will not impose any significant burden on competition, as it may lead to an increase in Exchange volume and permit the Exchange to further compete with the OTC market, while providing for additional opportunities for price discovery and execution, and thus may promote competition. Additionally, the proposed rule change to permit concurrent auctions is not novel, and is consistent with functionality already in place on other exchanges with respect to other types of auctions, as described above.[161] Additionally, the Rules do not currently prevent a COA

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161 See, e.g., EDGX Rules 21.19(c)(1) and 21.22(c)(1); see also, e.g. ISE Rules 716(d) and 723, Interpretation and Policy .04; and BOX Rule 7270 and BOX IM-7150-3. Other Exchange rules to take effect following the migration

of a complex order from occurring at the same time as an AIM in one of the components of a complex order subject to a COA. Therefore, the Exchange believes it is similarly reasonable to permit multiple FLEX Auctions in the same series to occur at the same time. The Exchange does not believe the unique terms of FLEX Options create any additional issues not previously considered by the Commission with respect to concurrent auctions.

The proposed rule change to permit all FLEX Traders to respond to electronic FLEX Auctions will not significantly affect the protection of investors or the public interest. Currently, all FLEX Traders except options market-makers at other options exchange may respond to electronic FLEX RFQs, and therefore the proposed rule change has no impact on the majority of FLEX Traders. The Exchange believes allowing this additional group of FLEX Traders to respond to electronic FLEX Auctions will not have a significant impact on investors, because most FLEX Traders are already able to respond to the electronic RFQs. Additionally, the Exchange believes the proposed rule change may increase liquidity in electronic FLEX Auctions, which may lead to more opportunities for execution and price improvement. The Exchange believes the proposed rule change will not impose any significant burden on competition, because it will permit all FLEX Traders to respond to electronic FLEX Auctions (rather than exclude options market-makers at other options exchanges). This may result in more FLEX Traders having the opportunity to participate in executions at the conclusion of electronic FLEX Auctions. Additionally, it may increase liquidity in these auctions, which may lead to more opportunities to price improvement and ultimately benefit investors, and therefore promote competition.

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also permit concurrent auctions. See, e.g., Rules 5.33, 5.37, and 5.38 in the shell Rulebook.

The Exchange does not believe the proposed rule change regarding the time at which trading in FLEX Options will begin will significantly affect the protection of investors or the public interest. As is the case today, there will be no opening rotation for FLEX Options. Therefore, at the time at which FLEX Trading opens, there will be no automatic executions. Therefore, being "open" for FLEX trading merely means that FLEX Traders may submit FLEX Orders into one of the various FLEX Auctions, at the conclusion of which executions in FLEX Auctions may occur. Because market participants incorporate transaction prices of underlying securities or the values of underlying indexes when pricing options (including FLEX Options), the Exchange believes it will benefit investors for FLEX Options trading to not be available until that information has begun to be disseminated in the market. The Exchange further believes aligning the trigger events for the opening of FLEX and non-FLEX Options may eliminate any confusion among market participants regarding when options with the same underlying are open for trading. Additionally, the proposed trigger events occur for many underlying securities or indexes within one second of 9:30 a.m. Eastern Time (which is consistent with the current time at which the Exchange has determined to open FLEX Option classes), and the majority occur within ten seconds. Therefore, pursuant to the proposed rule change, the opening of FLEX Options for trading may occur over a longer timeframe, which would further reduce any potential market impact of the change to the opening time for FLEX Options. While the Exchange believes it is important to open series for trading as soon as possible, the Exchange also believes the proposed rule change will permit it to manage the number of FLEX Option series that may begin to trade during a short time period to ensure a fair and orderly opening in all options listed on the Exchange. The Exchange also notes that FLEX Options trading volume currently represents approximately 1.5% of total trading volume on the Exchange, and therefore the Exchange believes any potential market impact of this change would be de minimis. Because the manner in which trading in FLEX Options will "open" is not being changed, but rather just the time at which that may occur (which change is excepted to be de minimis, as noted above), the Exchange believes the proposed rule change will not significantly impact the protection of investors.

The Exchange does not believe the proposed rule change will impose any significant burden on competition. Because the Exchange will have no electronic book of resting orders for FLEX Options, and no opening rotation, at the time at which FLEX Trading opens, there are (and will be) no automatic executions. Therefore, being "open" for FLEX trading merely means that FLEX Traders may submit FLEX Orders into one of the various FLEX Auctions, at the conclusion of which executions in FLEX Auctions may occur (which are all discussed below). FLEX trading will be available to all FLEX Traders at the same time, and therefore the Exchange believes the proposed rule change will impose any significant burden on competition.

The Exchange does not believe the proposed order types and instructions that will be available for FLEX Orders will significantly affect the protection of investors or the public interest, because they will provide FLEX Traders with control over the executions of their FLEX Orders while being consistent with the proposed FLEX trading processes. These order types and instructions will be available to TPHs with respect to non-FLEX Trading, and will work in the same manner for FLEX and non-FLEX Orders. Instructions that are available for non-FLEX Orders but will not be available for FLEX Orders are consistent with the fact that FLEX Orders will only be eligible to trade following an electronic or open outcry FLEX Auction and not rest in an electronic book or route away, and because there is no market for FLEX Options (for which most Order Instructions and Times-in-Force set forth in Rule 5.6 in the shell Rulebook are relevant). The Exchange believes making these order types, instructions, and times-in-force available for FLEX Orders is consistent with the Exchange's authority to designate availability of orders types on a class-by-class basis, and therefore will not significantly affect the protection of investors or the public interest.[162] The Exchange believes the proposed rule change will benefit investors by specifying the rules the order types that are available for FLEX trading, as it provides investors with additional transparency. Similarly, the proposed rule change regarding FLEX Order requirements will benefit investors, because it provides investors with additional transparency regarding complex order entry requirements for FLEX Options. As noted above, certain of the proposed requirements are consistent with current rules, while the restrictions on permissible combinations of exercise styles and settlement types on the leg components will have no impact on trading, as FLEX Traders do not currently trade complex orders with legs in the combinations that the proposed rule change proposes to restrict. Additionally, as noted above, the proposed rule change to require FLEX Traders to input the leg prices of complex FLEX Orders upon entry merely moves this requirement to the time of order submission rather than post-trade (as is required today). The proposed rule change will not impose any significant burden on competition, because all order types will be available for all FLEX Traders, and the Exchange will handle all FLEX Orders for all FLEX Traders in the same manner.

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162 See Rule 6.53 in the current Rulebook and Rule 5.6 in the shell Rulebook.

The proposed rule change simplifies the FLEX trading principles, and will permit FLEX Traders to execute FLEX transactions, both electronically and in open outcry, in a manner similar to non-FLEX transactions pursuant to a standard auction process. As a result, the manner in which FLEX trading will occur pursuant to the proposed rule change does not present any novel or unique issues. The Exchange believes aligning FLEX trading processes with non-FLEX trading processes with which FLEX Traders are familiar may further encourage FLEX trading on the Exchange. The Exchange believes this is a further improved and comparable alternative to the OTC market in customized options. By enhancing our FLEX trading platform and making it similar to trading procedures in non-FLEX options, with which market participants are generally more familiar, the Exchange believes it may be a more attractive alternative to the OTC market. Therefore, the Exchange believes this will not significantly affect the protection of investors, and market participants may ultimately benefit from being able to trade customized options in an exchange environment in several ways, including but not limited to the following: (1) enhanced efficiency in initiating and closing out position; (2) increased market transparency; and (3) heightened contra-party creditworthiness due to the role of OCC as issuer and guarantor of FLEX Options.

For the foregoing reasons, this rule filing qualifies as a "non-controversial" rule change under Rule 19b-4(f)(6), which renders the proposed rule change effective upon filing with the Commission. At any time within 60 days of the filing of this proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the

Act. If the Commission takes such action, the Commission will institute proceedings to determine whether the proposed rule change should be approved or disapproved.

For the same reasons why the Exchange believes the proposed rule change is "non-controversial," as set forth above, the Exchange respectfully requests that the Commission waive the 30-day operative delay period after which a proposed rule change under Rule 19b-4(f)(6) becomes effective. The Exchange believes the proposed rule change is consistent with the protection of investors and the public interest. As described above, the proposed rule change will permit FLEX Traders to execute FLEX transactions, both electronically and in open outcry, in a manner similar to non-FLEX transactions pursuant to a standard auction process.[163] As a result, the manner in which FLEX trading will occur pursuant to the proposed rule change does not present any novel or unique issues. The Exchange believes aligning FLEX trading processes with non-FLEX trading processes with which FLEX Traders are familiar may further encourage FLEX trading on the Exchange. The Exchange has provided market participants with notice of this change in advance of the system migration.[164] Additionally, the Exchange's system migration is scheduled for October 7, 2019, and a waiver of the operative delay will permit the Exchange to provide FLEX trading to market participants on a continuous, uninterrupted basis.

(c) Not applicable.

(d) Not applicable.

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163 Similar auction processes are in the Exchange's current Rules, and thus have been previously filed with the Commission. See, e.g., Rule 5.33(d) in the shell Rulebook (which describes a single-sided auction for complex orders, which auction process is similar to the proposed electronic FLEX Auction); and Rule 5.85(a) (which describes open outcry trading).

164 See supra note 3.

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

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

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

Not applicable.

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

Not applicable.

**Item 11. Exhibits**

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

Exhibit 5A. Proposed rule text – current Rulebook.

Exhibit 5B. Proposed rule text – shell Rulebook.

EXHIBIT 1

**SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34- ; File No. SR-CBOE-2019-084]

[Insert date]

Self-Regulatory Organizations; Cboe Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to Amend the Exchange's Rules Regarding the Trading of Flexible Exchange Options "FLEX Options" and Moves those Rules from the Currently Effective Rulebook ("Current Rulebook") to the Shell Structure for the Exchange's Rulebook that will Become Effective Upon the Migration of the Exchange's Trading Platform to the Same System Used by the Cboe Affiliated Exchanges (as Defined Below) ("Shell Rulebook")

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 the Exchange's Rules regarding the trading of flexible exchange options "FLEX Options"[5]

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

2 17 CFR 240.19b-4.

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

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

5 See current Rule 24A.1(d), (f), and (g) (which define a FLEX Option, FLEX

and moves those Rules from the currently effective Rulebook ("current Rulebook") to the shell structure for the Exchange's Rulebook that will become effective upon the migration of the Exchange's trading platform to the same system used by the Cboe Affiliated Exchanges (as defined below) ("shell Rulebook"). The text of the proposed rule change is provided in Exhibit 5.

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.

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Index Option, and FLEX Equity Option) and proposed definition of FLEX Option in Rule 1.1 of the shell Rulebook (with nonsubstantive changes to simplify the definition of FLEX Options). A FLEX Option on an equity security may be referred to as a "FLEX Equity Option," and a FLEX Option on an index may be referred to as a "FLEX Index Option." The proposed rule change also adds a period following the rule number of Rule 1.1 to conform to the formatting of other Rules in the shell Rulebook. The proposed rule change also deletes the corresponding definitions of Non-FLEX Option, Non-FLEX Equity Option, and Non-FLEX Index Option, as the Exchange believes the meanings of those terms are self-evident, making the definitions unnecessary. See current Rule 24A.1(o), (p), and (q).

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

1. Purpose

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

As part of this effort, the Exchange is reorganizing its Rules within the shell Rulebook to, among other things, include all rules regarding the Exchange's trading hours in a single rule, include all rules related to listing of options products within one chapter, and include all rules related to trading of all products within one chapter. The Exchange has provided market participants with notice of this change in advance of the system migration.[6]

6 See, e.g, Exchange Notice C2019092500, Trading of FLEX Options on Cboe Options Exchange (September 25, 2019); Exchange Notice 2019092501, Cboe Town Hall on FLEX Trading on the New Cboe Options Exchange Platform (September 25, 2019); BOE and FIX Specifications, available at

Subject to regulatory review, these proposed rule changes will be in effect October 7, 2019, in conjunction with the system migration. For example, rules related to the classes and series of FLEX Options the Exchange may list for trading will be in the same chapter as the rules related to the classes and series of equity options and index options the Exchange may list for trading. Additionally, the rules related to the manner in which FLEX Options may trade will be in the same chapter as the rules related to the manner in which all other types of options may trade.[7] The shell Rulebook will clearly identify the Rules that apply to the trading of FLEX Options.

Chapter XXIVA of the current Rulebook sets forth the Rules applicable to the trading of FLEX Options on the Exchange's hybrid trading system (*i.e.*, trading in both open outcry and electronically). Trading of FLEX Options is subject to all other Rules applicable to the trading of options on the Exchange, unless otherwise specified in Chapter XXIVA of the current Rulebook (proposed Chapter 5, Section F in the shell Rulebook).[8] A Trading Permit Holder (a "TPH") may trade FLEX Options if the Exchange has approved the TPH to trade FLEX Options on the Exchange; such a TPH is referred to as a "FLEX Trader."[9]

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http://markets.cboe.com/us/options/support/technical/.

7 In separate rule filings, the Exchange will move to the shell Rulebook certain FLEX Rules not being moved in this rule filing. These rules include Rule 24A.6 regarding discretionary transactions, Rule 24A.7 regarding position limits and reporting requirements, Rule 24A.8 regarding exercise limits, and Rule 24A.13 regarding Letters of guarantee or authorizations. The Exchange notes it will not be making any substantive changes to those Rules, but will rather merely be moving them into the shell Rulebook (and thus will update the rule number, as well as the paragraph lettering and numbering), and therefore these Rules will continue to apply to FLEX trading in the same manner they apply today.

8 See current Introduction to Chapter XXIVA and proposed Rule 5.72(a).

9 See current Rule 24A.1(l) in the current Rulebook and proposed Rule 3.57 in the shell Rulebook. The proposed rule change makes nonsubstantive changes to the definition of a FLEX Trader, including to make the definition plain English by

Currently, FLEX Options trade on the Exchange's FLEX Hybrid Trading System, which is the Exchange's trading platform that allows FLEX Traders to submit electronic and open outcry request for quotes ("RFQs"), FLEX quotes in response to those RFQs, and FLEX Orders into the electronic book.[10] Upon the Exchange's trading platform migration, FLEX trading will occur on the same Exchange System[11] as all other options trading occurs on the Exchange.

Pursuant to current Rule 24A.3, there are no trading rotations in FLEX Options, either at the opening or at the close of trading. The proposed rule change moves the provision that states there is no opening rotation in FLEX Options to Rule 5.71(a) of the shell Rulebook. The proposed rule change deletes the provisions from current Rule 24A.3 regarding the absence of closing rotations for FLEX Options, as closing rotations do not occur in any class of options on the Exchange.

Currently, FLEX Options open for trading at a randomly selected time within a number of seconds after 9:30 a.m. Eastern Time.[12] Currently, the Exchange has set that number of seconds at one. Proposed Rule 5.71(b) states the times when FLEX Traders may

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eliminating passive voice and deleting the unnecessary language "FLEX-participating," as that is redundant of the provision that provides the TPH is approved to trade FLEX Options on the Exchange.

10 See current Rule 24A.1(e).

11 The term "System" means the Exchange's hybrid trading platform that integrates electronic and open outcry trading of option contracts on the Exchange, and includes any connectivity to the foregoing trading platform that is administered by or on behalf of the Exchange, such as a communications hub. See Rule 1.1 in the shell Rulebook. Because there will no longer be a separate FLEX system, the proposed rule change deletes the definition of FLEX Hybrid Trading System in current Rule 24A.1(e).

12 See current Rule 24A.3 (the current rule includes times in Central Time, while the proposed rule includes times in Eastern Time, consistent with Rule 1.6 in the shell Rulebook).

begin submitting FLEX Orders into an electronic FLEX Auction pursuant to proposed Rule 5.72(c), a FLEX AIM pursuant to proposed Rule 5.73, or a FLEX SAM pursuant to proposed Rule 5.74,[13] or initiate an open outcry FLEX Auction the Exchange's trading floor pursuant to proposed Rule 5.72(c).[14] Specifically, FLEX Traders may begin submitting FLEX Orders (a) with respect to the Regular Trading Hours ("RTH") trading session, after the System's observation after 9:30 a.m. Eastern Time of the first disseminated (1) transaction on the primary market in the security underlying an equity option or (2) index value for the index underlying an index option, and (b) with respect to the Global Trading Hours ("GTH") trading session, after 3:00 a.m. Eastern Time.[15]

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13 The Exchange intends to amend and move current Rules 24A.5A and 24A.5B regarding FLEX AIM and SAM Auctions, respectively, from the currently Rulebook to Rules 5.73 and 5.74, respectively, of the shell Rulebook in a separate rule filing.

14 This is consistent with current Rule 24A.3, which states after the time at which a FLEX Option series opens for trading, a FLEX auction may be initiated. The proposed rule change deletes the provision that states FLEX Orders may be entered directly into the electronic book (if available), because, as discussed below, the Exchange will not have an electronic book available for FLEX Options.

15 See Securities Exchange Act Release No. 86879 (September 5, 2019), 84 FR 47984 (September 11, 2019) (SR-CBOE-2019-034) (approval of proposed rule change to provide that the opening rotation for non-FLEX Options will be triggered by the same events, which are substantially the same as those in current Rule 6.2(b)). Pursuant to Rule 5.1(b)(3) in the shell Rulebook, Regular Trading Hours for FLEX Options are the same as the corresponding non-FLEX Options, except the Exchange may determine to narrow or otherwise restrict the trading hours for FLEX Options. The rule change clarifies in Rule 5.1(b)(3)(A) that Regular Trading Hours for FLEX Options are the same as the Regular Trading Hours for the corresponding non-FLEX Options, as the Exchange inadvertently omitted the phrase "the Regular Trading Hours for" from that Rule (therefore, the proposed rule change makes no substantive changes to the trading hours for FLEX Options). Additionally, pursuant to Rule 5.1(c)(1) in the shell Rulebook, if the Exchange designates a class of index options as eligible for trading during Global Trading Hours, FLEX Options with the same underlying index are also deemed eligible for trading during Global Trading Hours.

As discussed further below, while the Exchange currently has an electronic book for orders for FLEX Options, it has only been used in recent months by one customer for limited purpose, and for a minimal amount of FLEX volume. Because of the limited usage of an electronic book for FLEX Orders, the Exchange has determined there will be no electronic book of resting orders for FLEX Options available following the technology migration, which lack of availability of a FLEX Book is consistent with current Exchange authority. Additionally, because there will also be no opening rotation, at the time at which FLEX Trading opens, there will be no automatic executions. Therefore, being "open" for FLEX trading merely means that FLEX Traders may submit FLEX Orders into one of the various FLEX Auctions, at the conclusion of which executions in FLEX Auctions may occur (which are all discussed below). Because market participants incorporate transaction prices of underlying securities or the values of underlying indexes when pricing options (including FLEX Options), the Exchange believes it will benefit investors for FLEX Options trading to not be available until that information has begun to be disseminated in the market. Additionally, the proposed trigger events occur for many underlying securities or indexes within one second of 9:30 a.m. Eastern Time (which is consistent with the current time at which the Exchange has determined to open FLEX Option classes), and the majority occur within ten seconds. Therefore, pursuant to the proposed rule change, the opening of FLEX Options for trading may occur over a longer timeframe, which would further reduce any potential market impact of the change to the opening time for FLEX Options. While the Exchange believes it is important to open series for trading as soon as possible, the Exchange also believes the proposed rule change will permit it to manage the number of FLEX Option series that may begin to trade during a short time period to ensure a fair and orderly opening in all options listed on the Exchange. The Exchange also notes that FLEX Options trading volume currently represents approximately 1.5% of total trading volume on the Exchange, and therefore the Exchange believes any potential market impact of this change would be de minimis.

The proposed rule change moves the provision in current Rule 24A.3 that states a new FLEX Option series may be established on any business day prior to the expiration date and opened for trading pursuant to the procedures and principles for trading as provided in other rules within current Chapter XXIV, to proposed Rule 4.21(a)(2). As described below, other current rules have the same provision, and the Exchange does not believe they also need to be in the rule regarding the opening of trading, but rather in the rules regarding permissible series.[16] The Exchange moves these provisions to the shell Rulebook as set forth below. The Exchange also makes nonsubstantive changes to provisions moved from current Rule 24A.3 to proposed Rule 5.71, including changes to make the language more plain English, update cross-references, update times to Eastern Time, and incorporate defined terms.

Current Rule 24A.4 (and other Rules in current Chapter XXIVA) sets forth the terms of FLEX Options. The Exchange moves these provisions to Chapter 4, Section C of the shell Rulebook.[17] The Exchange moves the provisions that state the Exchange may authorize for trading a FLEX Option class on any equity security or index if it may authorize for trading a non-FLEX Option class on that equity security or index pursuant to Rules 4.3

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16 See, e.g., current Rule 24A.4(a)(1) (which the proposed rule change moves to proposed Rule 4.21(a)(2)). The table below describes the proposed changes to the language of this provision.

17 Chapter 4 of the shell Rulebook will contain all Rules related to the listing of options on the Exchange.

and 4.10,[18] respectively, of the shell Rulebook, even if the Exchange does not list that non-FLEX Option class for trading, from current Rule 24.4A(b)(1) and (c)(1) to proposed Rule 4.20.[19] Because the provisions related to FLEX Index Options and FLEX Equity Options provide the Exchange with the same authority with respect to each type of FLEX Options, the proposed rule change combines them into a single one.

The proposed rule change moves the following provisions regarding the terms of FLEX Option series from the current Rulebook to the shell Rulebook. In addition to the substantive changes described below, the proposed rule change makes additional nonsubstantive changes to these Rules, including to make the rule text plain English, simplify the rule provisions, use consistent language throughout the Rules, use active voice, incorporate defined terms, update cross-references and paragraph numbering and lettering, and eliminate redundant provisions.

| Rule Provision | Current Rule (current Rulebook) | Proposed Rule (shell Rulebook) | Proposed Changes |
|---|---|---|---|
| FLEX Option series are not pre-established. | Rule 24A.4(a)(1) | Rule 4.21(a) | The proposed rule change incorporates the term FLEX Option series (rather than options series) into this rule provision. |
| The Exchange may approve a FLEX Option series for trading in any FLEX Option class it may authorize for trading pursuant to proposed Rule 4.20. | Rule 24A.4(b)(1) and (c)(1) | 4.21(a) (introductory paragraph) | The proposed rule change combines the provisions for trading FLEX Index Options and FLEX Equity Options into a single provision, as they provide the Exchange with the same authority. As further discussed below, a FLEX Option series is not created (and thus not eligible to trade) until a FLEX Order for |

18 The Exchange intends to move current Rules 5.3 and 24.2 to Rules 4.3 and 4.10, respectively, in the shell Rulebook in a separate rule filing.

19 See also proposed Rule 4.21(a) (which states the Exchange may approve a FLEX Option series for trading on any FLEX Option class it may authorize for trading pursuant to proposed Rule 4.20).

| Rule Provision | Current Rule (current Rulebook) | Proposed Rule (shell Rulebook) | Proposed Changes |
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| | | | the series is submitted into one of the FLEX Auctions. Therefore, the proposed rule change deletes the reference to the Exchange being able to "open for trading" any FLEX Option series. |
| A FLEX Option series is eligible for trading on the Exchange upon submission to the System of a FLEX Order for that series pursuant to proposed Rule 5.72 (as well as Rules 5.73 and 5.74).[20] | Rules 24A.4(a)(1) and 24A.5(a). | Rule 4.21(a) (introductory paragraph) | The current rule states FLEX Option series are established through the bidding and offering mechanics detailed in current Rule 24A.5. As discussed below, the proposed rule change amends the provisions governing how FLEX Options may trade on the Exchange. A FLEX Option series may only be eligible for trading after submission into one of the various auctions available for FLEX trading. A FLEX Option series may be established under current rules upon submission of a FLEX Order to a FLEX auction, as is the case pursuant to the proposed rule change, but will no longer be able to be established upon submission of a FLEX Order into the book (as there will be no book).[21] See additional discussion below regarding the elimination of an electronic book for FLEX Options. |
| The Exchange only permits trading in a put or call FLEX Option series that does not have the same exercise style, | Rule 24A.4, Interpretation and Policy .02(b) | Rule 4.21(a)(1) | The proposed rule change deletes the introductory clause in current Rule 24A.4, Interpretation and Policy .02(b) that references the |

20 As noted above, the Exchange intends to move current Rules 24A.5A and 24A.5B regarding FLEX AIM and SAM Auctions, respectively, to Rules 5.73 and 5.74, respectively, in the shell Rulebook in a separate filing.

21 The Exchange notes there is an electronic book available for FLEX Options today, but only being used by one FLEX Trader for a limited purpose, as further discussed below, and only for approximately 1.2% of FLEX trading. Therefore, the vast majority of FLEX Option series are established for trading today in the same manner as they will be able to be established pursuant to the proposed rule change. See current Rule 24A.5(a) (which states the Request for Quotes ("RFQ") process is required to open trading in a new series (unless the auction process under Rule 24A.5A or 24A.5B is used to open trading in a new series); and (b).

| Rule Provision | Current Rule (current Rulebook) | Proposed Rule (shell Rulebook) | Proposed Changes |
|---|---|---|---|
| same expiration date, and same exercise price as a non-FLEX Option series on the same underlying security or index that is already available for trading. This includes permitting trading in a FLEX Option series before a series with identical terms is listed for trading as a non-FLEX Option series. If the Exchange lists for trading a non-FLEX Option series with identical terms as a FLEX Option series, the FLEX Option series will become fungible with the non-FLEX Options series pursuant to proposed Rule 4.22. The System does not accept a FLEX Order for a put or call FLEX Option series if a non-FLEX Option series on the same underlying security or index with the same expiration date, exercise price, and exercise style is already listed for trading. | | | requirement that options on an underlying security or index to be otherwise eligible for FLEX Trading, as that language is redundant of the language in proposed Rule 4.21(a). The proposed rule change also eliminates the use of passive voice and makes other nonsubstantive changes to this provision. |
| A FLEX Order for a FLEX Option series may be established on any trading day prior to the expiration date. | Rule 24A.3 and Rule 24A.4(a)(1) | Rule 4.21(a)(2) | Updated to reflect the proposed changes to the FLEX trading procedures, which provide that a FLEX Option series is only available for trading upon submission of a FLEX Order (as noted above). |
| The Exchange may halt trading in a FLEX Option class pursuant to Rule 5.20, and always halts trading in a FLEX Option class when trading in a non-FLEX Option class with the same underlying equity security or index is halted on the Exchange. The System does not accept a FLEX Order for a FLEX Option series while trading in a FLEX Option class is halted. | N/A | Rule 4.21(a)(3) | This provision is not explicitly stated in current Chapter XXIV. However, it is consistent with Exchange authority to halt trading in options classes listed for trading on the Exchange (see current Rules 6.3 and 24.7, which were moved to Rule 5.20 in the shell Rulebook), and current Exchange practice. The reasons why the Exchange would halt trading in a non-FLEX Option class (e.g., trading in the underlying security is halted) would generally be reasons why the Exchange would |

| Rule Provision | Current Rule (current Rulebook) | Proposed Rule (shell Rulebook) | Proposed Changes |
|---|---|---|---|
| | | | halt a FLEX Option class, and therefore the Exchange will always halt trading in a FLEX Option class when trading in a non-FLEX Option class with the same underlying equity security or index is halted on the Exchange.[22] |
| When submitting a FLEX Order for a FLEX Option series to the System, the submitting FLEX Trader must include one of each of the following terms in the FLEX Order, which terms constitute the FLEX Option series: | Rules 24A.1(w) and 24A.4(a)(2) | Rule 4.21(b) | The current definition of a series of FLEX Options (the proposed rule change uses the term FLEX Option series) is all option contracts of the same class having the same exercise price, exercise style, and expiration date (and with respect to FLEX Index Options, the same settlement value and index multiplier). The current Rules also require a FLEX Request for Quotes ("RFQ"), FLEX Order, or FLEX Option contract contain one element from the categories of underlying security, type, exercise style, expiration date, and exercise price. As noted above, a FLEX Option series may only be established through the submission of a FLEX Order, and therefore, the proposed rule change combines the provisions to provide that a FLEX Order must contain one element of each of the listed terms, which terms constitute the actual FLEX Option series being established by that order. |
| • underlying equity security or index, as applicable (the index multiplier for FLEX Index Options is 100); | Rules 24A.1(m) and 24A.4(a)(2)(i) | Rule 4.21(b)(1) | The proposed rule change simplifies the language of this provision and includes the fact that the index multiplier for all FLEX Index Options is 100 in this provision, rather than in a definition, as the term index |

22 Rule 5.20 in the shell Rulebook also provides the Exchange with authority to halt trading in a FLEX Option, even if trading in a non-FLEX Option with the same underlying is not halted. While such situation would be rare, there may be unusual circumstances that would cause the Exchange to halt trading in the FLEX Option (see Rule 5.20(a)(5) in the shell Rulebook).

| Rule Provision | Current Rule (current Rulebook) | Proposed Rule (shell Rulebook) | Proposed Changes |
|---|---|---|---|
| | | | multiplier is not otherwise used in the proposed rule. |
| • type of option (*i.e.*, put or call), except an Asian-settled or Cliquet-settled FLEX Option series may only be a call; | Rule 24A.4(a)(2)(ii), (b)(5) and (6) | Rule 4.21(b)(2) | The proposed rule change refers to type of option, which is defined in Rule 1.1 in the shell Rulebook as put or call. The proposed rule change also combines the provisions regarding the permissible type of option available for Asian-settled and Cliquet-settled FLEX Options, so that provisions regarding types of options available for FLEX Option series are included in the same place. |
| • exercise style, which may be American-style or European-style, except an Asian-settled or Cliquet-settled FLEX Option series may only be European-style; | Rules 1.1(aa) and (cc) and 24A.4(a)(2)(iii) | Rule 4.21(b)(3) | Only nonsubstantive changes. |
| • expiration date, which may be any business day (specified to the day, month, and year) no more than 15 years from the date on which a FLEX Trader submits a FLEX Order to the System, except an Asian-settled or Cliquet-settled FLEX Option series, which must have an expiration date that is a business day but may only expire 350 to 371 days (which is approximately 50 to 53 calendar weeks) from the date on which a FLEX Trader submits a FLEX Order to the System; | Rule 24A.4(a)(2)(iv), (a)(5), and (a)(6) | Rule 4.21(b)(4) | The proposed rule change incorporates the concept that a FLEX Option series is available for trading only when a FLEX Trader submits a FLEX Order to the System, and therefore the date on which the FLEX Order is submitted is the date from which the expiration date is measured (this is consistent with FLEX trading today, pursuant to which a FLEX series may only be opened for trading through the RFQ process). The proposed rule change also includes all provisions regarding permissible expiration dates in the same place. |
| • settlement type[23]: | Rules 24A.1(aa) through (cc) and | Rule 4.21(b)(5) | The proposed rule change uses the term "settlement type" to describe |

23 FLEX Index Options are cash-settled in U.S. dollars, and FLEX Equity Options are physical settled, subject to the exercise by exception provisions of Options Clearing Corporation ("OCC") Rule 805. See current Rule 24A.4(b)(4) and (c)(3) and (4) (proposed Rule 4.21(a)(5)).

| Rule Provision | Current Rule (current Rulebook) | Proposed Rule (shell Rulebook) | Proposed Changes |
|---|---|---|---|
| ○ FLEX Equity Options are (i) settled with physical delivery of the underlying security; and (ii) subject to the exercise by exception provisions of OCC Rule 805.<br><br>○ FLEX Index Options are settled in U.S. dollars and may be: (i) a.m.-settled[24]; (ii) p.m.-settled,[25] , or (iii) for a FLEX Index Option on a broad-based index, Asian-settled or Cliquet-settled (which have unique settlement procedures)[26]; | 24A.4(a)(2)(iv) and (b)(3) through (6), (c)(3) through (4), and Interpretation and Policy .01 | | all potential ways in which the settlement value will be determined (current rules also use the term settlement style), and includes all provisions regarding the permissible settlement types in a single place. |

24 The exercise settlement value for an a.m.-settled FLEX Index Option series is determined by reference to the reported level of the index derived from the reported opening prices of the component securities. See current Rule 24A.4(b)(3) (proposed Rule 4.21(b)(5)(A)). The proposed rule change eliminates the defined term Expiration Friday, as it is not used elsewhere in the Rules. The proposed rule change deletes the provision regarding the exercise settlement value of FLEX Index Options on the NYSE Composite Index, as the Exchange no longer lists options on that index for trading. The proposed rule change includes the provisions regarding how the exercise settlement value is determined for each settlement type, as how the exercise settlement value is determined is dependent on the settlement type.

25 The exercise settlement value for a p.m.-settled FLEX Index Option series is determined by reference to the reported level of the index derived from the reported closing prices of the component securities. See current Rule 24A.4(b)(3) (proposed Rule 4.21(b)(5)(B)). A FLEX Index Option that expires on any business day that falls on or within two business days of a third Friday-of-the-month for a non-FLEX Option (other than a QIX option) may only be a.m.-settled; however, FLEX Index Options with an expiration date on the third-Friday of the month may be p.m.-settled pursuant to a pilot program ending the earlier of November 4, 2019 or the date on which the pilot program is approved on a permanent basis. See current Rule 24A.4, Interpretation and Policy .01 (proposed Rule 4.21(a)(5)(B)).

26 Asian-settled FLEX Index Options have an exercise settlement value based on an arithmetic average of the specified closing prices of an underlying broad-based

| Rule Provision | Current Rule (current Rulebook) | Proposed Rule (shell Rulebook) | Proposed Changes |
|---|---|---|---|
| • exercise price (which the System rounds to the nearest minimum increment), which may be (1) for a FLEX Equity Option or FLEX Index Option that is not Cliquet-settled, (a) a fixed price expressed in terms of dollars and cents or a specific index value, as applicable, or (b) a percentage of the closing value of the underlying equity security or index, as applicable, on the trade date; or (2) for a FLEX Index Option that is Cliquet-settled, the capped monthly return (which must be expressed in dollars and cents). | Rule 24A.4(a)(2)(v), (b)(2)(i) and (iii), (b)(6), and (c)(2)(i) and (iii) | Rule 4.21(b)(6) | The proposed rule change includes all provisions regarding permissible exercise prices in a single place within the Rules. In addition to the exercise price options in proposed Rule 4.21(b)(6), current Rule 24A.4(b)(2) and (c)(2) permits exercise prices for FLEX Index Options to be specified as a method for fixing an index value or dollar amount at the time of a FLEX RFQ or a FLEX Order is traded, or as a percentage of the index value calculated at the time of the trade, and for FLEX Equity Options, to be specified as a method for fixing a dollar amount at the time of a FLEX RFQ or a FLEX Order is traded, or as a percentage of the price of the underlying security at the time of the trade. In the past year, no FLEX Trader has designated the exercise price for a FLEX series in any of these manners – FLEX Traders have only designated the exercise price for a series as a fixed price or as a percentage of the closing value of the underlying on the trade date. Therefore, the |

index taken on 12 predetermined monthly observation dates (including on the expiration date), which dates the FLEX Trader specifies. Cliquet-settled FLEX Index Options have an exercise settlement value equal to the greater of $0 or the sum of capped monthly returns (*i.e.*, percent changes in the closing value of the underlying broad-based index from one month to the next) applied over 12 predetermined monthly observation dates (including an expiration date), which dates and monthly cap value (which must be no smaller than $0.05 and no larger than $25.95, and in an increment of $0.05) the FLEX Trader specifies. For Asian- and Cliquet-settled FLEX Index Options, if a monthly observation date falls on a non-business day, the monthly observation occurs on the immediately preceding business days. See current Rule 24A.1(aa) through (cc) and 24A.4(b)(5) and (6) (proposed Rule 4.21(b)(5)(C) and (D)). The proposed rule change deletes the definition of "preceding business day convention" and incorporates its meaning into the descriptions of each of Asian-settled and Cliquet-settled, as that defined term is not otherwise used in the Rules, and also incorporates the defined term "business day." See Rule 1.1 in the shell Rulebook.

| Rule Provision | Current Rule (current Rulebook) | Proposed Rule (shell Rulebook) | Proposed Changes |
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| | | | Exchange proposes to only offer the two options for exercise prices for FLEX Options that are used by FLEX Traders.[27] Because FLEX Traders do not use the other types of exercise prices for FLEX Options, the Exchange believes elimination of that functionality will have a de minimis, if any, impact on FLEX trading. |
| • All other terms of a FLEX Option series are the same as those that apply to non-FLEX Options. | Rule 24A.4(a)(1) | Rule 4.21(b) | Only nonsubstantive changes of types described above. |
| Bids and offers for FLEX Options must be expressed in (a) U.S. dollars and decimals, if the exercise price for the FLEX Option series is a fixed price, or (b) a percentage, if the exercise price for the FLEX Option series is a percentage of the closing value of the underlying equity security or index on the trade date, per unit of the underlying security or index, as applicable.[28] The System | Rules 24A.4(b)(2) and (c)(2) and 24A.5(e) | Rule 5.3(e)(3)[29] | The proposed rule change adds the term "dollars and decimals" regarding how bids and offers (currently referred to as premiums in Rule 24A.4(b) and (c))[30] to be consistent with terminology in Rule 5.3 in the shell Rulebook (this is merely a change in terminology). The proposed rule change moves the provisions regarding the form of bids and offers of FLEX Options to Rule 5.3 in the shell Rulebook, so that all provisions regarding the form |

27 The proposed rule change also deletes current Rule 24A.5, Interpretation and Policy .02, which relates only to FLEX Options with exercise prices specified using the terms that the proposed rule change deletes (*i.e.*, exercise prices for FLEX Index Options specified as a method for fixing an index value or dollar amount at the time of a FLEX RFQ or a FLEX Order is traded, or as a percentage of the index value calculated at the time of the trade, and for FLEX Equity Options, specified as a method for fixing a dollar amount at the time of a FLEX RFQ or a FLEX Order is traded, or as a percentage of the price of the underlying security at the time of the trade), and any other provisions in Rules 24A.1, 24A.4, and 24A.5 related to these exercise types.

28 While the current rule permits bids and offers to be in a different format than the exercise price, the current functionality does not permit this. Therefore, the proposed rule change makes it clear that bids and offers must be in the same format as the exercise price, as it would be difficult to apply a dollar price for a FLEX Option series with a percentage-based exercise price.

29 The proposed rule change also updates the subparagraph numbering in Rule 5.3(e)

| Rule Provision | Current Rule (current Rulebook) | Proposed Rule (shell Rulebook) | Proposed Changes |
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| rounds bids and offers to the nearest minimum increment. | | | of bids and offers for all options eligible for trading on the Exchange are included in a single Rule. The proposed rule change adds detail that the bid and offer amount is per unit of the underlying security or index, as applicable. This is true today and is merely adding detail to the rules.[31] The proposed rule change makes no substantive changes to the form and manner in which FLEX Traders may make bids and offers on FLEX Options. |
| The Exchange determines the minimum increment for bids and offers on FLEX Options on a class-by-class basis, which may not be smaller than (a) $0.01, if the exercise price for the FLEX Option series is a fixed price, or (b) 0.01%, if the exercise price | Rules 24A.4(b)(2) and (c)(2) and 24A.5(e)[32] | Rule 5.4(c)(4)[33] | The proposed rule change moves the provisions regarding the minimum increment for FLEX Options to Rule 5.4 in the shell Rulebook, so that all provisions regarding permissible minimum increments for all options eligible to trade on the Exchange are included in a single Rule.[34] |

in the shell Rulebook.

30 The term "premium" refers to the prices at which a market participant is willing to trade an option, which is also referred to as a bid or offer. The proposed rule change just uses the terms bids and offers in proposed Rule 5.3(e)(3), which is consistent with the bid and offer provisions for other types of options in Rule 5.3 in the shell Rulebook.

31 It is also consistent with language applicable to bids and offers in non-FLEX Options. See Rule 5.3(a) in the shell Rulebook.

32 The proposed rule change deletes the provision regarding the Exchange's pronouncement of minimum increments for FLEX by regulatory circular, as the Exchange will announce all determinations pursuant to Rule 1.5 in the shell Rulebook (see also Rule 1.2 in the current Rulebook).

33 The proposed rule change also updates the subparagraph numbering in Rule 5.4(c) in the shell Rulebook.

34 The Exchange notes the current rules reference the term "minimum tick" as well as "other decimal increment." The term "minimum tick" generally refers to the minimum increment applicable to an option, which in non-FLEX trading is a dollar amount. Because FLEX Options may also have a minimum increment in a percentage, that is included in the reference in the current rules to "other decimal increment." However, the Exchange believes the term "minimum increment"

| Rule Provision | Current Rule (current Rulebook) | Proposed Rule (shell Rulebook) | Proposed Changes |
|---|---|---|---|
| for the FLEX Option series is a percentage of the closing value of the underlying equity security or index on the trade date. The System rounds bids and offers to the nearest minimum increment. | | | |
| FLEX Traders may apply trade conditions to FLEX Orders. | Rules 24A.1(y), 24A.4(a)(3)(ii) and (4)(ii), and 24A.5(d)(3)[35] | N/A | Currently, FLEX Traders may designate FLEX Orders as immediate-or-cancel ("IOC"), which executes (in whole or in part) as soon as it is represented or is cancels (or the unexecuted portion cancels). As further discussed below, the will not make a FLEX Book available following the technology migration. Because there will be no book, all FLEX Orders will be functionally equivalent to an IOC, which can only trade (or partially trade) following an auction, and thus no designation will be necessary.[36] Additionally, FLEX Traders may currently designate a FLEX Order as a "hedge," which is an electronic condition that makes execution of a FLEX Option contingent on the trade of an execution in a non-FLEX Option or other non-FLEX components. In the past year, no FLEX Trader has applied this trade condition to a FLEX Order. Therefore, the Exchange no longer intends to offer this trade condition for FLEX Options. Because FLEX Traders do not use this trade condition for FLEX |

applies to both formats (dollars and percentage), and therefore eliminates the reference to tick.

35 The proposed rule change deletes all additional provisions in current Chapter XXIVA of the current Rulebook related to these trade conditions.

36 As set forth in proposed Rule 5.72(c)(3)(B), and as discussed below, a FLEX Order may trade in whole or in part following an electronic FLEX Auction, as any unexecuted FLEX Order (or unexecuted portion) cancels at the conclusion of the auction.

| Rule Provision | Current Rule (current Rulebook) | Proposed Rule (shell Rulebook) | Proposed Changes |
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| | | | Options, the Exchange believes elimination of this functionality will have a de minimis, if any, impact on FLEX trading. |
| Fungibility of FLEX Options | Rule 24A.4, Interpretation and Policy .02 | Rule 4.22 | The proposed rule change makes no substantive changes to the fungibility of FLEX Options with non-FLEX options, and makes various nonsubstantive changes of the type described above. The proposed rule change updates terminology in the proposed provision to reflect changes to the FLEX trading procedures, which are described below, and updates cross-references to applicable Rules in the shell Rulebook. The proposed rule change adds a cross-reference to the rule (Rule 5.1(d) in the shell Rulebook) that lists Exchange holidays rather than use the term "Exchange holiday" so that market participants will know where in the Rules to look to know what constitutes an Exchange holiday. The proposed rule change deletes the phrase that states Interpretation and Policy .02 (proposed Rule 4.22) applies to all FLEX Options. The proposed rule lists no exceptions for when this provision applies to FLEX Options, and therefore this phrase is unnecessary. |

Pursuant to Rule 5.6(a) in the shell Rulebook, the Exchange may make order types, Order Instructions, and Times-in-Force available on a class basis. Pursuant to that authority, which authority the Exchange currently has pursuant Rule 6.53 in the current Rulebook, the proposed rule change adopts Rule 5.70(a) in the shell Rulebook to state that it may make the following order types, Order Instructions, and Times-in-Force available for orders submitted in FLEX Options ("FLEX Orders")[37]:

- Order Types – limit orders
- Order Instructions – All Sessions, Attributable, Direct to PAR, Electronic Only, Non-Attributable, Not Held, and RTH Only
- Times-in-Force – Day

Given that FLEX Orders will only be eligible to trade following an electronic or open outcry FLEX Auction and not rest in an electronic book or route away (for which most Order Instructions and Times-in-Force set forth in Rule 5.6 in the shell Rulebook are relevant), the Exchange believes these are appropriate designations for FLEX Orders. Because there is no existing market for FLEX Options, and thus no price protections available to ensure execution of FLEX Orders at reasonable prices, the Exchange believes it is appropriate to only permit FLEX Options be submitted as limit orders. The Direct to PAR and Electronic Only Order Instructions permit a FLEX Trader to determine whether it wants a FLEX Order to be eligible for electronic execution or subject to manual handling for execution in open outcry on the Exchange's trading floor. Additionally, as set forth in Rule 5.1(c) of the shell

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[37] See Rule 5.6 in the shell Rulebook for definitions of these order types, Order Instructions, and Times-in-Force. The proposed rule change deletes the corresponding current definition of FLEX Order in current Rule 24A.1(j). The only proposed substantive change to the definition of FLEX Order is the deletion of the reference to the submission of FLEX Orders to the electronic book, as there will no longer be a FLEX Book available (consistent with the Exchange's current authority to not make a FLEX Book available), as discussed below. Because all FLEX Traders, including FLEX Market-Makers, will submit FLEX Orders, and responses to FLEX Auctions, in the same manner, the proposed rule change does not distinguish between bids and offers submitted by different types of FLEX Traders, and also deletes the defined term "FLEX Quote" from current Rule 24A.1(k).

Rulebook, following the migration the Exchange may designate certain FLEX Option classes as eligible for trading during the Global Trading Hours sessions, and the All Sessions and RTH Only designations will permit a FLEX Trader to determine in which trading session(s) it wants a FLEX Order to be eligible for execution. While not specified in the Rules, FLEX Traders may designate a FLEX Order as Attributable (pursuant to the Exchange's authority pursuant to current Rule 6.53, which permits the Exchange to make certain order types available on a class basis). FLEX Orders not designated as Attributable will be Non-Attributable.[38]

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[38] See definitions of "Attributable Order" and "Non-Attributable Order" in current Rule 6.53 (Rule 5.6(c) in the shell Rulebook). Attribution has no impact on trading, and merely relates to information that a FLEX Trader may want disseminated with respect to its orders.

Current Rules 24A.4(a)(2) and 24A.5, Interpretation and Policy .01 contemplate the availability of complex orders for FLEX trading. Proposed Rule 5.70(b) explicitly states the Exchange may make complex orders, including security future-option orders and stock-option orders,[39] available for FLEX trading. Complex FLEX Orders may have up to the maximum number of legs determines by the Exchange. Each leg of a complex FLEX Order:

- must be for a FLEX Option series authorized for trading[40] with the same underlying equity security or index[41];
- must have the same exercise style (American or European); and
- for a FLEX Index Option, may have different settlement types (a.m.-settled or p.m.-settled),[42] except each leg must have the same settlement type if designated as Asian-settled or Cliquet-settled.

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39 See definition of complex order in Rule 1.1 of the current Rulebook and Rule 1.1 of the shell Rulebook, which provide that unless the context otherwise requires, the term "complex order" includes a stock-option order and a security future-option order. Additionally, proposed Rule 5.70(b) is consistent with current Exchange authority to determine in which classes complex orders (including FLEX classes) may be made available for trading, and to determine the maximum number of legs for a complex order. See definition of complex order in Rule 1.1 of the current Rulebook (which states the Exchange determines in which classes complex orders are eligible for processing). The proposed rule change merely states this authority explicitly for FLEX complex orders.

40 Current Rule 24A.4(a)(2) provides that each component of a multi-legged RFQ or FLEX Order must contain the information required for a FLEX series, as specified in that Rule and in proposed Rule 4.21(b).

41 This is consistent with current Rules (see Rule 1.1 of the current Rulebook and Rule 1.1 of the shell Rulebook), as a complex order may consist of legs in multiple series in the same class (*i.e.*, the same underlying security or index). Therefore, the proposed rule change merely explicitly states this in the rules for FLEX Option complex orders.

42 The current Rules does not restrict legs of a complex order to all be either a.m.-settled or p.m.-settled.

The Exchange believes requiring the legs of a FLEX Option complex order to have the same exercise style is appropriate given the conflict that would arise with legs with different exercise styles. Similarly, the Exchange believes requiring the legs of a FLEX Option complex order to have the same settlement type for Asian-settled and Cliquet-settled FLEX Index Options is appropriate given the complex nature of those settlement types. The Exchange believes this may alleviate any potential difficulties that may arise if the market needed to price such complex strategies. The Exchange notes it has not receive any complex orders at least within the last year that have legs with difference exercise styles, or that have legs that are Asian-settled and Cliquet-settled with other legs that have a different settlement types.

Proposed Rule 5.70(c) states a FLEX Trader may enter a FLEX Order into the System during the times set forth in Rule 5.7 of the shell Rulebook.[43] This proposed rule change merely applies the rule that sets forth the times at which the System is available to receive orders to FLEX Orders. The System only available for receipt of a FLEX Order at the times at which the System is available for all other orders.

A FLEX Trader must designate a FLEX Order entered prior to the opening of the applicable trading session or during a trading halt as Direct to PAR; the System rejects a FLEX Order designated as Electronic Only prior to the opening of the applicable trading session or during a trading halt. As discussed below, there will be no electronic book in which FLEX Orders may rest, and FLEX Orders may only be submitted for electronic execution into a FLEX auction. Therefore, a FLEX Order designated for electronic

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43 Rule 5.7 in the shell Rulebook provides that Users can enter orders and quotes into the System, or cancel previously entered orders and quotes, from 2:00 am. Eastern Time until Regular Trading Hours market close, subject to certain terms and conditions.

execution would have nowhere to rest if submitted when trading on the Exchange is not open. Because a FLEX Order designated as Direct to PAR (like any order designated as Direct to PAR) would rest on a PAR workstation and be available for manual handling by a Floor Broker after the opening of trading, there is not risk of execution of such an order submitted to the Exchange while trading is not available on the Exchange.

Proposed Rule 5.72 describes the procedures for FLEX trading on the Exchange following the migration. As noted above, trading of FLEX Options is subject to all other Rules applicable to the trading of options on the Exchange, unless otherwise provided in proposed Chapter 5, Section F of the shell Rulebook.[44] Because there will be no electronic book available in which FLEX Orders may rest,[45] a FLEX Option series is only eligible for trading if a FLEX Trader (the "Submitting FLEX Trader") (a) submits a FLEX Order for that series into an electronic FLEX Auction pursuant to proposed Rule 5.72(c) (as described below); (b) represents the FLEX Order in an open outcry FLEX Auction pursuant to proposed Rule 5.72(d) (as described below); or submits the FLEX Order to a FLEX AIM or SAM Auction pursuant to Rule 5.73 or 5.74, respectively, of the shell Rulebook.[46] This is consistent with current Rule 24A.5(a), which states the current RFQ process is required to open trading in a new series (unless the auction process in current Rules 24A.5A or 24A.5B (current Rules describing FLEX AIM and SAM Auctions, respectively) is used to open trading in a new series), which RFQ process may be conducted through the System or in

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44 See proposed Rule 5.72(a) (current Chapter XXIV, Introduction).

45 This is consistent with current Exchange authority pursuant to current Rule 24A.5(b) to not make an electronic book available for FLEX Auctions.

46 See proposed Rule 5.72(b).

open outcry. The proposed rule change only makes nonsubstantive changes, including to update rule cross-references and conform terminology to the proposed trading procedures.

The proposed rule change makes explicit the requirements for both simple and complex FLEX Orders:

- A FLEX Order for a FLEX Option series submitted to the System must include all terms for a FLEX Option series set forth in Rule 4.21 (including that a non-FLEX Option series with identical terms is not listed for trading), size, side of the market, and a bid or offer price, subject to the order entry requirements set forth in Rule 5.7 of the shell Rulebook.[47]
- A FLEX Order for a FLEX Option complex strategy submitted to the System must satisfy the criteria for a complex FLEX Order set forth in proposed Rule 5.70(b) (see discussion above) and include size, side of the market, a net debit or credit price, and a bid or offer price for each leg of the FLEX Order, which leg prices must add together to equal the net price.[48] Additionally, each leg of the FLEX Option complex strategy must include all terms for a FLEX Option series set forth in Rule 4.21 (including that a non-FLEX Option series with identical terms is not listed for trading), subject to the order entry requirements set forth in Rule 5.7 of the shell Rulebook.[49]

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47 See proposed Rule 5.72(b)(1).

48 As discussed below, current Rules requires a FLEX Trader to input leg prices for a complex FLEX Order following a transaction. The proposed rule change merely moves the requirement to input this information upon submission of the FLEX Order, rather than following a transaction.

49 See proposed Rule 5.72(b)(2).

These proposed order requirements are consistent with current Rule 24A.4(a)(2), 24A.4(a)(3)(iv), and 24A.4(a)(4). Those current provisions state every RFQ Order must contain one element from each contract term category and the same transaction specifications as the related RFQ (and any additional trade conditions, which as discussed below, will no longer be available following migration), and that every RFQ Order must contain the quote type and form sought (*i.e.*, the RFQ order must specify whether it seeks bids or offers, the size of the order, whether it seeks responses as a dollar amount or percentage, and contingencies and trade conditions (which will no longer be available following migration)). Additionally, with respect to complex orders, the current rules add that each component series in a multilegged FLEX RFQ or FLEX Order must include all terms of a FLEX Option series. As discussed above, pursuant to the proposed rule change, bids and offers for a FLEX Option series must be expressed in dollars and decimals, if the exercise price of the series is a fixed price, or as a percentage, if the exercise price of the series is a percentage of the closing value of the underlying equity security or index. Therefore, the proposed rule change does not require the submission of a FLEX Order to identify whether it seeks bid and offer responses in the form of a dollar amount or percentage, as that is dictated by the format of the exercise price of the FLEX Option series in the FLEX Order. Rule 5.7 of the shell Rulebook includes provisions that apply to all order submitted to the Exchange, including FLEX Orders. Therefore, the proposed rule change makes no substantive changes to the required information for a simple FLEX Order, and makes only nonsubstantive changes to the language in the proposed provision.

Current Rule 24A.5 describes how electronic and open outcry trading in FLEX Options may occur on the Exchange today.[50] To initiate an electronic RFQ,[51] a TPH (the "Submitting TPH")[52] submits an RFQ with the terms of a FLEX Option series, as well as whether the Submitting TPH is requesting a bid, offer, or both.[53] The System then communicates the terms of the RFQ to FLEX Traders.[54] Only one electronic RFQ may be ongoing at a given time in a series, and electronic RFQs may not overlap or queue.[55] During the RFQ Response Period (which is the period of time during which FLEX Traders may provide bids and offers in response to RFQs),[56] FLEX Traders (including the Submitting TPH)[57] may then submit bids and offers in response to the RFQ, which they

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50 Current Rule 24A.5, Interpretation and Policy .01 describes how the electronic RFQ process applies to complex FLEX Orders, which the proposed rule change also deletes, as complex FLEX orders will trade electronically in the same manner as simple FLEX orders.

51 See current Rule 24A.5(a)(1) for a description of the electronic RFQ process.

52 This proposed definitions replaces the current definition of a Submitting TPH in current Rule 24A.1(x), which the proposed rule change deletes. The proposed rule change also deletes the provision in current Rule 24A.1(x) regarding the ability of a Submitting TPH to submit a FLEX Order into an electronic book, as there will be no electronic book available following the migration.

53 See current Rules 24A.4(a)(3)(i) and 24A.5(a)(1)(i)(A).

54 See current Rule 24A.5(a)(1)(i)(B).

55 Id.

56 See current Rule 24A.1(u).

57 Pursuant to Rule 1.1 in the shell Rulebook, a User must specify the Capacity (which is defined in Rule 1.1 of the shell Rulebook as the capacity in which a User submits an order, which the User specifies by applying the corresponding code to the order; the Exchange notes the various Capacity codes listed in Rule 1.1 will be available for FLEX Orders) of each order upon submission to the Exchange (Rule 5.7(f) in the shell Rulebook requires at least the information specified in that rule to be input upon submission of an order prior to representation on the Exchange, and requires any additional information with respect to that order to be input contemporaneously). While responses to FLEX Auctions will no longer be restricted by Capacity, the Exchange uses Capacity

may withdraw during that period.[58] Current Rule 24A.5(a)(1)(ii)(A) does not permit options market-makers from another options exchange to enter bids and offers (currently referred to in the Rules as FLEX Quotes (see current Rule 24A.1(k)) in response to an RFQ. The Exchange does not believe this restriction is necessary and proposes to delete it, and therefore permit all FLEX Traders to provide liquidity in electronic FLEX auctions. The Exchange believes permitting additional participants to submit responses to FLEX Auctions will provide the opportunity for additional liquidity in these auctions, which could lead to additional price improvement opportunities.

Currently, the Submitting TPH may designate the length of the RFQ Response Period when initiating the RFQ, which time must be within a time range established by the Exchange and not less than three seconds.[59] During the RFQ Response Period, the System calculates and disseminates the then-current market given current FLEX orders and quotes.[60] At the conclusion of the RFQ Response Period, the Submitting TPH may accept or reject the bids and offers submitted during the RFQ Response Period within an RFQ

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information for a variety of reasons, including prioritization in certain transactions as well as several surveillances for compliance with various regulatory obligations.

58 See current Rule 24A.5(a)(1)(ii)(B). The proposed rule change permits responses to be modified or cancelled, as opposed to just cancelled/withdrawn. Modification of a response is equivalent to cancelling and reentering a response, which is permitted under the current rule, and is merely a different type of message to accomplish the same thing. The proposed rule change deletes the reference to the obligations of a FLEX Appointed Market-Maker from that provision in the current Rules, as the Exchange does not currently have any FLEX Appointed Market-Makers and does not intend to in the future, and thus is deleting provisions related to FLEX Appointed Market-Makers from the Rules.

59 See current Rule 24A.4(a)(3)(iii); see also Cboe Options Regulatory Circular RG12-056 (April 20, 2012) (which sets the current range for RFQ Response Periods as three seconds to ten minutes).

60 See current Rule 24A.5(a)(1)(ii)(C).

Reaction Period, the length of which the Exchange determines on a class-by-class basis and may not be more than five minutes.[61] During the RFQ Reaction Period, FLEX Traders may continue to submit or cancel responses, and the Submitting TPH may accept bids and offers or cancel the RFQ (or let it expire).[62] During the RFQ Reaction Period, the System calculates and disseminates the then-current market given current FLEX orders and quotes.[63]

If the Submitting TPH chooses to trade, it may enter the RFQ Order to trade with one side of the market provided by the RFQ.[64] The FLEX Order will trade with contra-side interest first at the best prices. If there are multiple bids or offers available at the same price, then the FLEX Order is allocated as follows:

- bids and offers for the account of public customers and non-TPH broker-dealers in time priority;

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61 See current Rule 24A.5(a)(1)(iii)(A). Currently, the Exchange has set the maximum time of the Reaction Period at three minutes. See Cboe Options Regulatory Circular RG12-056 (April 20, 2012).

62 See current Rule 24A.5(a)(1)(iii)(B)(I) and (III). The proposed rule change deletes the reference to the obligations of a FLEX Appointed Market-Maker from that provision in the current Rules, as the Exchange does not currently have any FLEX Appointed Market-Makers and does not intend to in the future, and thus is deleting provisions related to FLEX Appointed Market-Makers from the Rules. The proposed rule change also deletes the provision regarding the inability to submit FLEX Orders to the electronic book during the RFQ Reaction Period, as there will be no electronic book for FLEX Orders, as further discussed below.

63 See current Rule 24A.5(a)(1)(iii)(B)(II).

64 See current Rule 24A.5(a)(1)(iii)(B)(IV). If the Submitting TPH enters a response during the RFQ Reaction Period, it must bid or offer for at least the crossing exposure period prior to entering the FLEX Order (which period the Exchange establishes on a class-by-class basis and may not be less than three seconds, which the Exchange has currently established as three seconds).

- bids and offers of a FLEX Appointed Market-Maker if the Exchange has applied a participation entitlement[65]; and
- all other bids and offers in time priority.

Any remaining balance of the FLEX Order would enter the FLEX Book (if the Exchange made a FLEX Book available) or be cancelled (if there was no FLEX Book). The Submitting TPH has no obligation to accept any FLEX bid or offer.[66]

The Exchange proposes to replace the current electronic RFQ process[67] with a new electronic FLEX Auction process. Pursuant to proposed Rule 5.72(c), a Submitting FLEX Trader may electronically submit a FLEX Order (simple or complex) into an electronic FLEX Auction for execution. Pursuant to proposed Rule 5.72(c)(1), the Submitting FLEX Trader may initiate a FLEX Auction if all of the following conditions are met:

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65 See current Rule 24A.5(d)(2)(ii). Current Rule 24A.1(h) defines a "FLEX Market-Maker" as a FLEX Trader (see proposed Rule 3.57 in the shell Rulebook) that is appointed as a FLEX Appointed Market-Maker or a FLEX Qualified Market-Maker, each as described in current Rule 24A.9. The proposed rule change intends to move the definition of a FLEX Market-Maker, as well as the rule provisions regarding the roles of a FLEX Market-Maker, to the shell Rulebook in a separate rule filing.

66 See current Rule 24A.5(a)(iii)(C). The current Rules include additional provisions regarding what happens if the RFQ Market is locked or crossed, and what happens to any unexecuted responses at the conclusion of the RFQ Reaction Period. As discussed below, there will be no market, as FLEX electronic auctions will be one-sided, so there cannot be a locked or crossed market, and responses may only execute against the FLEX Order submitted into the auction.

67 Therefore, the proposed rule change deletes all provisions that describe the current electronic RFQ process and related definitions, including Rules 24A.1(a), (b), (k), (r), (s), (t), (u), (v), and (z) (note certain of these definitions also apply to open outcry RFQs, which the Exchange proposes to eliminate and replace with a different manner of open outcry trading for FLEX options, as discussed below), 24A.4(a)(3), and 24A.5(a)(1).

- The FLEX Order is in a class of options the Exchange is authorized to list for trading on the Exchange.[68] As discussed above regarding proposed Rule 5.72(b), a FLEX Order must be in a FLEX Option series (or FLEX Option complex strategy, each of which consists of a FLEX Option series), which series must be in a FLEX eligible class.[69] The proposed rule change is therefore consistent with current requirements for submission of a FLEX Order into a FLEX Auction.
- There is no minimum size for FLEX Orders. Current Rule 24A.5 includes no restrictions on the size of FLEX Orders that may be submitted for electronic execution. Therefore, the proposed rule change is consistent with current functionality and merely specifies this in the Rules.
- A simple or complex FLEX Order must comply with proposed paragraph (b) above. As discussed above, current Rules require FLEX Orders (and RFQ Orders, which are orders submitted into an electronic FLEX RFQ, which is being replaced by the proposed electronic FLEX Auction) to include the information in proposed paragraph (b), so this proposed rule change imposes no new requirements on the submission of FLEX Orders into an auction. As discussed below, the only difference is that the Submitting TPH must submit the FLEX Order to initiate the electronic FLEX Auction, rather than initiate an RFQ and only submit an order if it chooses to trade following the conclusion of the RFQ Response Period.

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68 See current Rule 24A.4(a)(2), (b)(1) and (c)(1) (which provide that a FLEX Order must contain the underlying security or index, as applicable, which underlying must be eligible for non-FLEX trading pursuant to current Rules 5.3 or 24.2, respectively).

69 See proposed Rule 4.21 and accompanying discussion above, demonstrating the proposed rule change makes no substantive changes to the classes that are eligible for FLEX trading on the Exchange.

- A simple FLEX Order must include a bid or offer price (the "auction price"). A complex FLEX Order must include a net bid or offer price and a bid or offer price for each leg of the FLEX Order, which leg prices must add together to equal the net price (the "auction price"). Because the current process is an RFQ rather than an auction, the Submitting TPH does not include a price on RFQ when initiating an RFQ. Requiring the inclusion of a price on a FLEX Order when initiating an electronic FLEX Auction is consistent with an auction process. As discussed below, the auction price will not be included on the auction notification message disseminated to FLEX Traders,[70] and therefore FLEX Traders will be encouraged to submit their best priced responses in response to the auction as they are today when submitting their markets in response to the RFQ.
- The Submitting FLEX Trader may only submit a FLEX Order for electronic execution in a FLEX Auction after FLEX trading has opened pursuant to proposed Rule 5.71 (as discussed above). This is consistent with current Rule 24A.3, which states only after the open of FLEX trading may FLEX Orders be submitted into a FLEX Auctions pursuant to current Rules 24A.5, 24A.5A, or 24A.5B.
- The Submitting FLEX Trader must designate the length of the "exposure interval," which must be between three seconds and five minutes. The designated time may not go beyond the market close. Current Rule 24A.4(a)(3)(iii) also requires the Submitting FLEX Trader to designate the length of the RFQ Response Period, the

70 Other Exchange auction mechanisms do not include the price on the auction notification message disseminated to market participants. See, e.g., Rules 5.33(d)(1) (regarding the auction message for a complex order auction ("COA") and 5.37(d)(2) (regarding the notification message for an AIM Auction for non-FLEX Options).

permissible range of which is established by the Exchange but may not be less than three seconds. Currently, the Exchange has set the range at three seconds to ten minutes.[71] The proposed rule change to set the exposure interval between three seconds and five minutes is consistent with the Exchange's current authority in the Rules, as it only requires a minimum of three seconds. The Exchange believes this interval is reasonable, because it is consistent with the lengths designated by FLEX Traders in the current electronic RFQ process. Specifically, the Exchange notes that from January through August of 2019, the average RFQ Response period is less than nine seconds, and the average RFQ Reaction period is approximately three minutes. Therefore, the average length of the electronic RFQ process is within the proposed exposure interval. Additionally, in 2019, only 25 of 3457 (or 0.7%) of electronic FLEX RFQs lasted for a total of more than five minutes in 2019, so the Exchange does not believe capping the length of the proposed electronic FLEX Auction at five minutes will have a significant impact on FLEX trading. In addition, the Exchange believes a shorter maximum time is appropriate based on feedback received from market participants, and because FLEX Traders will only need to submit responses on the opposite side of the auctioned FLEX Order, rather than responses on potentially both sides to create a market. As further discussed below, the Exchange believes a shortened auction process may increase liquidity in the electronic FLEX market on the Exchange.

The System rejects or cancels a FLEX Order that does not meet the conditions in proposed Rule 5.72(c)(1). This is consistent with the concept of eligibility requirements, as well as

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71 See Cboe Options Regulatory Circular RG12-056 (April 20, 2012).

current Rule 24A.5(a)(1)(i)(A), which states a Submitting TPH may submit a FLEX RFQ using the form, format, and procedures prescribed by the Exchange.

As described in the bulleted paragraphs above, the proposed requirements to initiate an electronic FLEX Auction are substantially similar to the current requirements to initiate an electronic RFQ. The proposed electronic FLEX Auction will be voluntary, just as the current electronic RFQ is voluntary, and all FLEX Traders will be able to initiate an electronic FLEX Auction, just as they are all able to currently initiate an electronic RFQ, if they so choose. However, rather than submit an order in response/following to an RFQ if and when the Submitting TPH determines to trade against RFQ responses, the proposed rule change requires the Submitting TPH to submit a FLEX Order to initiate the electronic FLEX Auction. This is consistent with the Exchange's other electronic auction processes,[72] as the auction will result in automatic execution against any responses (if they satisfy the auction price) at the conclusion of the auction. The unique feature of FLEX Options is the flexibility with respect to their terms, which is why current FLEX Rules, and the proposed FLEX Rules, provide a longer time frame for FLEX Traders to submit bids and offers. As noted above, the proposed exposure interval is consistent with the Exchange's authority under the current Rules, and appropriately shortened given the one-sided nature of the proposed auction.[73] Additionally, as further discussed below, the Exchange believes a generally shorter electronic auction process, combined with the certainty of execution at the

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72 See, e.g., current Rules 6.14A (describing the Exchange's step-up mechanism), 6.53C (describing the Exchange's single-sided complex order auction), and 6.74A (describing the Exchange's price improvement automated improvement mechanism), all of which require an order with a price to initiate.

73 As noted above, the length of auction intervals for non-FLEX Options is generally under one second.

conclusion if responses satisfy the price of the auctioned order, may encourage additional market participants to submit FLEX Orders to the Exchange for electronic execution.

Proposed Rule 5.72(c)(2) describes the FLEX Auction process. Upon receipt of a FLEX Order that meets the conditions in proposed subparagraph (c)(1), the FLEX Auction Process commences. As it does today,[74] the System will initiate a FLEX Auction by sending a FLEX Auction notification message to FLEX Traders detailing the FLEX Option series or complex strategy (as applicable).[75] The current RFQ identifies the terms of the FLEX Option (see current Rule 24A.4(a)(2)), which correspond to the series or complex strategy. Additionally, the current RFQ identifies whether a bid, offer, or both are sought (see current Rule 24A.4(a)(3)), and whether a price in dollars or percentage is sought (as discussed above, bids and offers must be in the same format as the exercise price of the FLEX Option series under proposed Rule 5.3(e)(3), and thus there is no need to separately identify whether a price in dollars or percentage is sought, as that will be dictated by the series' exercise price). Because the proposed process is a one-sided auction process, the proposed auction notification message will include the side and size of the auctioned order, which will permit FLEX Traders to focus their responses on the side on which a potential execution may occur. Auction ID,[76] Capacity,[77] the time at which the exposure interval will

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74 See current Rule 24A.5(a)(1)(i)(B) (pursuant to which the System causes the terms and specifications of the RFQ to be communicated to FLEX Traders upon receipt of an RFQ in proper form).

75 See proposed Rule 5.72(c)(2)(A).

76 This is new information on the auction message based on the proposed rule change discussed below, which permits responses to only execute at the conclusion of the auction into which the responses were submitted.

77 This is new information on the auction message. Because an order was not previously required to initiate an RFQ, there was no Capacity to include. Capacity will be provided on the auction message for informational purposes, and

conclude,[78] and Attribution (if the FLEX Order is designated as Attributable).[79] FLEX Auction notification messages are not disseminated to OPRA.[80]

The FLEX Auction message will not include the price of the auctioned FLEX Order. The Exchange believes not including the auction price in the notification message will encourage FLEX Traders to respond with the best prices at which they are willing to trade against the auctioned FLEX Order. If the message included the price, FLEX Traders may only respond to trade at that price; without the price, FLEX Traders may respond at better prices, which may result in price improvement opportunities for the auctioned FLEX Order. This is consistent with other electronic auctions on the Exchange.[81] This is similar to the current RFQ process today, in which there is no disseminated price, and instead market participants submit bids and offers based on prices at which they are willing to transact in the series subject to the RFQ.

Pursuant to current Rule 24A.5(a)(1)(i)(B), only one electronic RFQ may be ongoing at any given time in a series, and electronic RFQs in the same series may not queue or overlap in any manner. Similarly, pursuant to Rule 24A.5, Interpretation and Policy .01, only one electronic RFQ may be ongoing at any given time for a given complex order

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FLEX Traders may consider the Capacity in any manner they see fit when determining how to respond to an electronic FLEX Auction.

78 While not specified in the Rules, this is true today, so that FLEX Traders know how long they have to submit responses.

79 While not specified in the Rules, this is true today, as it is consistent with the concept of an attributable order. See definition of “Attributable Order” in current Rule 6.53 (Rule 5.6(c) in the shell Rulebook).

80 This is true today, as RFQs are only sent to FLEX Traders. See id.

81 See also current Rules 6.53C and 6.74A (Rules 5.33 and 5.37 in the shell Rulebook) pursuant to which COA auction messages and AIM auction messages do not include the auction price.

strategy, and electronic RFQs may not queue or overlap in any manner.[82] Due to current limitations, the Exchange's System is not currently able to process multiple electronic RFQs at the same time, nor is it able to process an electronic RFQ for a complex strategy if an order in any of the leg series that comprise that complex order is present in the System. However, different types of auctions for the same series or complex strategy may occur at the same time. For example, the Rules do not currently prevent a complex order auction ("COA") of a complex order from occurring at the same time as an AIM in one of the leg series of the complex order subject to a COA. The System to which the Exchange's trading platform will move upon completion of the technology migration is able to process concurrent auctions for orders in the same series (including auctions for complex strategies and for legs series that comprise those strategies).[83] Therefore, the Exchange believes it is similarly reasonable to permit multiple FLEX Auctions in the same series to occur at the same time. As proposed, one or more FLEX Auctions in the same FLEX Option series or complex strategy (as applicable) may occur at the same time.[84] To the extent there is more than one FLEX Auction in a FLEX Option series or complex strategy (as applicable) underway at the same time, the FLEX Auctions conclude sequentially based on the times at which each FLEX Auction's exposure interval concludes. At the time each FLEX Auction

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82 In the event there are bids (offers) in any of the individual component series legs represented in the electronic book when an electronic RFQ for a complex strategy is submitted to the System, the electronic RFQ will not commence, and an unrelated FLEX Order in any of the individual series legs may not be submitted to the electronic book or for electronic RFQ processing during the duration of an electronic RFQ. See current Rule 24A.5, Interpretation and Policy .01.

83 See Rules 5.33(d), 5.37(c)(1), 5.38(c)(1), 5.39(c)(1), and 5.40(c)(1) in the shell Rulebook; see also EDGX Options Rules 21.19(c)(1), 21.20(d), 21.21(c)(1), and 21.22(c)(1).

84 See current Rule 24A.5(a)(1)(i)(B) and Interpretation and Policy .01; and proposed Rule 5.72(c)(2)(B).

concludes, the System allocates the FLEX Order pursuant to proposed subparagraph (b)(3) (as described below), and takes into account all FLEX responses submitted during the exposure interval. Concurrent auctions will be permitted in various other electronic auctions on the Exchange following migration.[85] If a FLEX Trader attempts to initiate an electronic FLEX Auction in a FLEX Option series while another auction in that series is ongoing, the Exchange believes it will provide that second FLEX Order with an opportunity for execution in a timely manner by initiating another FLEX Auction, rather than requiring the FLEX Trader to wait for the first auction to conclude. The second FLEX Trader may not be able to submit a response to trade in the ongoing FLEX Auction, because the terms may not be consistent with that FLEX Trader's order (for example, there may not be sufficient size, and the FLEX Trader may only receive a share of the auctioned order depending on other responses). Therefore, the Exchange believes providing this functionality for electronic FLEX Auctions may similarly lead to an increase in electronic FLEX Auctions, which may provide additional opportunities for execution of FLEX Orders. Pursuant to proposed Rule 5.72(c)(2)(C), the Submitting FLEX Trader may cancel a FLEX Auction prior to its conclusion. This is consistent with a Submitting TPH's current ability to not accept any FLEX bid or offer, and thus not execute an order for which it requests a market pursuant to an RFQ.[86]

Proposed Rule 5.72(c)(2)(D) describes the requirements for responses that FLEX Traders may submit to an electronic FLEX Auction.[87] Any FLEX Trader (including the

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85 See, e.g., Rules 5.33, 5.37, and 5.38 in the shell Rulebook; see also EDGX Options Rules 21.19, 21.20, and 21.22.

86 See current Rule 24A.5(1)(iii).

87 The proposed provisions regarding FLEX responses are consistent with rules

Submitting FLEX Trader if it is seeking to effect a cross)[88] may submit responses to a FLEX Auction that are properly marked specifying the FLEX Option series or complex strategy (as applicable), bid or offer price or net price (respectively), size, side of the market, and the Auction ID for the FLEX Auction to which the User is submitting the response. This information is currently required to be included on response to RFQs (other than an Auction ID), and the proposed rule change merely adds this detail to the Rules. A FLEX response may only participate in the FLEX Auction with the Auction ID specified in the response, which is why the auction notification will include an Auction ID and response must identify the applicable Auction ID.[89] The Exchange proposes to include this given the above proposal that permits concurrent electronic FLEX Auctions in the same series or complex strategy.

A FLEX Trader may submit multiple FLEX responses at the same or multiple prices to a FLEX Auction. This is consistent with current functionality. Current Rule 24A.5(a)(1)

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regarding responses to other electronic auctions. See, e.g., Rules 5.33, 5.37, and 5.38 in the shell Rulebook; see also EDGX Options Rules 21.19, 21.20, and 21.22.

88 Current Rule 24A.5(a)(1)(iii)(B)(IV) states if a Submitting TPH enters a response (referred to in the current Rule as a FLEX Quote) during the RFQ Reaction Period (and thus a quote to trade against the RFQ Order, should the Submitting TPH decide to execute during the RFQ Reaction Period), it must be bidding (offering) for at least the crossing exposure period prior to entering the RFQ Order to trade. The Exchange may determine the duration of this period, which must be at least three seconds (and which the Exchange has currently set at three seconds). The purpose of this time period is to ensure all FLEX Traders have an opportunity to submit responses if the Submitting TPH decides to execute a cross. Because the exposure interval (which occurs after the submission of a FLEX Order) in the new process must be at least three seconds, which will be the earliest time at which execution of the FLEX Order may occur, all FLEX Traders will have the same opportunity and time to participate in an execution against the FLEX Order.

89 If there are concurrent FLEX Auctions occurring, a FLEX Trader may submit responses to all ongoing auctions, and thus concurrent auctions will not hinder a FLEX Trader's ability to participate in any FLEX Auction.

contains no restriction on how many responses a FLEX Trader may submit; the proposed rule change merely makes this explicit in the Rules. For purposes of a FLEX Auction, the System aggregates all of a FLEX Trader's FLEX responses for the same Executing Firm ID ("EFID") at the same price. The System will cap the size of a FLEX response, or the aggregate size of a FLEX Trader's FLEX responses for the same EFID at the same price, at the size of the FLEX Order (*i.e.*, the System ignores the size in excess of the size of the FLEX Order when processing the FLEX Auction). These provisions are new given the potential for an automatic execution at the conclusion of the FLEX Auction (unlike the current process which provides the Submitting TPH with the opportunity to trade or not trade). Additionally, the Exchange proposes to add these provisions given the proposed rule change to apply a pro-rata allocation to responses at the conclusion of an electronic FLEX Auction, as further discussed below. These provisions are consistent with other auction functionality that apply a pro-rata allocation to executions following those auctions.[90] The Exchange believes these proposed changes are reasonable to prevent a User from submitting a response with an extremely large size in order to obtain a larger pro-rata share of the FLEX Order.

FLEX responses must be on the opposite side of the market as the FLEX Order. The System rejects a FLEX response on the same side of the market as the FLEX Order. Unlike the current RFQ process, FLEX Traders will know the side of the market on which the Submitting FLEX Trader is looking to trade, and therefore the Exchange believes this is reasonable given that the purpose of a response is to trade against the FLEX Order in the auction into which the response was submitted. Pursuant to the current RFQ process, the

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90 See, e.g., Rules 5.33, 5.37, and 5.38 in the shell Rulebook; see also EDGX Options Rules 21.19, 21.20, and 21.22.

Submitting TPH may request bids and offers on both sides of the market. By only requesting responses on the opposite side of the market, the proposed rule change will allow FLEX Traders to focus on pricing responses that would be eligible to execute (*i.e.*, on the opposite side of the market on which the Submitting FLEX Trader is looking to trade).

FLEX responses are not visible to FLEX Traders or disseminated to OPRA. RFQ responses are also not currently disseminated to OPRA.[91] However, while the Exchange does not disseminate all individual responses to an electronic RFQ, the best market created by responses is intermittently calculated and disseminated during the RFQ Response Period and Reaction Period, during which time FLEX Traders may withdraw those responses.[92] The proposed rule change is consistent with many electronic auctions, in which responses are not visible to the market.[93] Responses to electronic auctions are not firm prior to the conclusion of the auction, and thus are not disseminated to OPRA, because they are not executable until the conclusion of the auction, at which time their price and size are firm.[94] For the same reason as the Exchange does not disseminate the auction price on the auction notification message as discussed above, the Exchange believes it will encourage FLEX Traders to submit their best possible priced-responses if they do not know the prices at which other FLEX Traders are willing to trade. For example, if during a FLEX Auction of a buy FLEX Order, a FLEX Trader submitted a response to sell at $1.05, if another FLEX

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91 Responses to an RFQ are considered indications of interest, which are exempt from disseminated bids and offers. See, e.g., current Rule 6.80(2).

92 See current Rule 24A.5(a)(ii)(C) and (iii)(B)(II).

93 See, e.g., current Rules 6.53C and 6.74A (Rules 5.37 and 5.38 in the shell Rulebook); see also EDGX Options Rules 21.19, 21.20, and 21.22.

94 See, e.g., Rules 5.33(d)(4)(C) and (D), 5.37(c)(5)(H), 5.38(c)(5)(H), 5.39(c)(5)(F), 5.40(c)(5)(F)

Trader saw that response, it may merely respond to sell at $1.05, or maybe $1.04, even though it may ultimately be willing to sell at $1.03. Without seeing the other responses, the second FLEX Trader may instead submit a response to sell at $1.03, which could result in price improvement for the auctioned order. The Exchange appreciates that there is no disseminated market in FLEX Options. However, the length of the exposure interval (which, as discussed above, is longer than the interval in typical electronic auctions and consistent with the minimum RFQ response period in the current RFQ process) will provide all FLEX Traders with the same opportunity to submit responses. A FLEX Trader may modify or cancel its FLEX responses during the exposure interval. As noted above, the current Rule permits FLEX Traders to withdraw (which is the equivalent of cancel) a response to a FLEX RFQ, but does not explicitly state that those responses may be modified. A modification of a response is equivalent to a cancellation of an existing response and submission of a new response, but may instead be done through a different message type. Therefore, the proposed rule change permits the same activity that can be done pursuant to the current rule, but merely in a different manner (*i.e.*, modification rather than cancellation and separate entry).

Pursuant to proposed Rule 5.72(c)(3), the FLEX Auction concludes at the end of the exposure interval, unless the Exchange halts trading in the affected series or the Submitting FLEX Trader cancels the FLEX Auction, in which case the FLEX Auction concludes without execution. There are no events that will cause the current RFQ Response Period to conclude early pursuant to current Rule 24A.5(a)(1). While the current Rule does not discuss how a trading halt may impact an ongoing electronic RFQ, the proposed rule change is consistent with current functionality, as the Exchange would not permit any executions to occur during a trading halt.[95]

At the conclusion of the FLEX Auction:

- The System executes the FLEX Order against the FLEX responses at the best price(s), to the price at which the balance of the FLEX Order or the FLEX responses can be fully executed (the "final auction price"). If there are multiple FLEX responses at the same price level, then the contracts in those FLEX responses are allocated proportionally, according to size (in a pro-rata fashion).[96]
- The System cancels an unexecuted FLEX Order (or unexecuted portion).
- The System cancels any unexecuted FLEX responses (or unexecuted portions).

The proposed allocation process is consistent with the electronic pro-rata allocation with no overlays that they Exchange may apply to trading in non-FLEX Options.[97] Unlike the proposed allocation process, the current allocation at the conclusion of an electronic FLEX RFQ provides priority to Priority Customers and non-TPH broker-dealers orders and quotes, the purpose of which was to accommodate TPHs that rely on the "G" exemption from Section 11(a)(1) of the Exchange Act when submitting orders for electronic execution. While certain other electronic auctions available on the Exchange prioritize Priority

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95 Concluding an electronic auction without an execution due to a trading halt is consistent with other electronic auctions on the Exchange. See, e.g., current Rules 6.53C and 6.74A (Rules 5.33, 5.37, and 5.38 in the shell Rulebook); see also EDGX Options Rules 21.19, 21.20, and 21.22.

96 The executable quantity is allocated to the nearest whole number, with fractions ½ or greater rounded up and fractions less than ½ rounded down. If the executable quantity cannot be evenly allocated, contracts will be distributed using this pro-rata priority methodology until there are no contracts remaining. This is consistent with the Exchange's standard pro-rata electronic allocation algorithm. See Rule 5.32(a)(1)(B) in the shell Rulebook.

97 See id.

Customer orders, none prioritize non-TPH broker-dealers, and thus electronic submission of an order into those auctions would not be eligible for the "G" exemption either. Currently, a minimal number of TPHs rely on the "G" exemption. As discussed below, the Exchange believes the proposed electronic FLEX Auction satisfies the "Effect vs. Execute" exemption, and will permit TPHs to rely on that exemption (subject to satisfaction of the requirements of that exemption) when submitting FLEX Orders for electronic execution. 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 FLEX Auction from the trading floor and satisfy the "Effect vs. Execute" exemption (assuming the other conditions are satisfied).[98] 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. If a FLEX Trader cannot satisfy the "Effect vs. Execute" exemption (for example, because the FLEX Trader submits a proprietary order from on the Exchange's trading floor), it may submit a FLEX Order into the proposed electronic FLEX Auction only if it satisfies another exemption from Section 11(a)(1) of the Exchange Act. Alternatively, a FLEX Trader may execute a FLEX Order in open outcry on the Exchange's trading floor (subject to satisfaction of an exemption – for example, a FLEX Trader may yield priority as necessary to satisfy the "G" exemption, as it may do today). Because there will not be an electronic FLEX Book (as discussed below),[99] there will be no

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98 Orders for covered accounts that rely on the "Effect vs. Execute" exemption in this scenario must be transmitted from a remote location directly to the Floor Broker on the trading floor by electronic means.

99 As discussed above, while one customer has recently begin to submit interest to the FLEX Book, that interest is generally executed within a few seconds (after the required exposure period) and, thus, there are generally no orders resting on the FLEX Book available for allocation following an open outcry RFQ.

resting Priority Customer orders resting that would receive priority at the conclusion of the Auction (or any resting orders to trade against the auctioned FLEX Order). And because there will be no FLEX Appointed Market-Makers, there will be no participation entitlement at the conclusion of the Auction. Therefore, there will only be responses available at the conclusion of the Auction to execute against the auctioned FLEX Order. The Exchange has determined to apply pro-rata allocation to those responses, rather than time priority (as it does today), because that is the allocation the Exchange applies to the majority of classes on the Exchange, and therefore this will provide additional consistency for market participants. Additionally, the Exchange believes application of pro-rata may encourage FLEX Traders to submit larger-sized responses, because if the responses are at the marketable prices, those responses will receive execution based on size rather than time (as is the case today).

Current Rule 24A.5(b) states the Exchange may make an electronic book available into which FLEX Orders may be entered or remaining balances of FLEX Orders submitted into an RFQ may rest. Currently, while the Exchange makes an electronic book available for FLEX Orders, prior to April 2019, no FLEX Traders were submitting FLEX Orders into the Book in any class. Beginning in April 2019, one FLEX Trader began submitting FLEX orders for a customer into the FLEX Book, and then after the required exposure period passed, that FLEX Trader would submit an order on the opposite side to trade with that resting customer order (in other words, to execute a cross with that resting order). The Exchange understands from this FLEX Trader that it does not submit these orders into an electronic RFQ, because it is difficult for that FLEX Trader to code to that process, given how different it is from other electronic auctions.[100] For the five-month period from April

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100 Additionally, this FLEX Trader is unable to cross these orders through a FLEX

through August 2019, this activity represented approximately 1.2% of total FLEX volume during that time. As noted above, only one FLEX Trader was using the FLEX Book, and only for a limited purpose. While all FLEX Traders have access to the current FLEX Book, they are choosing not to use it. There are no FLEX Traders submitting FLEX Orders into the FLEX Book to rest and wait for another FLEX Trader to submit interest to trade against that resting order, which is the general purpose of an electronic book. Therefore, the Exchange does not intend to make one available following migration, consistent with its current authority under current Rule 24A.5(b). Therefore, the Exchange proposes to delete current Rule 24A.5(b) and all other provisions in its Rules regarding an electronic FLEX Book. As a result, all FLEX executions currently occur following an electronic RFQ or FLEX Automated Improvement Mechanism[101] for electronic execution, and deletion of the Rules regarding an electronic FLEX Book will have no significant impact on FLEX trading given the current limited use of a FLEX Book by one FLEX Trader. The Exchange also notes the Rules currently provide that there is no electronic book for complex FLEX Orders, and therefore the proposed rule change will have no impact on the trading of complex FLEX Orders.[102]

Because the proposed auction will result in automatic execution following the exposure interval, there is no period equivalent to the RFQ reaction period in the proposed

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AIM or SAM, because the solicited contra-side order is for the account of a Market-Maker, which is not permissible in those auctions. See current Rules 24A.5A, Interpretation and Policy .04 and 24A.5B, Interpretation and Policy .04.

101 See Rule 24A.5A in the current Rulebook, which the Exchange intends to move to the shell Rulebook in a separate rule filing. The Exchange notes current Rule 24A.5B provides for a FLEX Solicitation Auction Mechanism, which the Exchange has not currently made available in any FLEX Option classes, but does intend to make available following migration.

102 See Rule 24A.5, Interpretation and Policy .01 in the current Rulebook.

auction process. The Exchange believes automatic execution will provide FLEX Traders with more certainty regarding executions of their FLEX Orders and responses, as well as more timely executions. The Exchange notes the current maximum time for the Submitting TPH to decide whether to trade against the RFQ Market is five minutes, which is the proposed maximum time for the exposure interval. Additionally, as noted above, in January through August of 2019, the average length of the entire electronic RFQ process (as designated by the Submitting TPH) is just over three minutes (combining the RFQ Response and Reaction periods), during which time FLEX Traders may submit responses, and less than 1% of electronic RFQs lasted more than five minutes. Therefore, pursuant to the proposed electronic FLEX Auction process, the Submitting FLEX Trader may designate an exposure interval duration during which FLEX Traders may submit responses consistent with the average duration, and over 99%, of current electronic RFQs.

The Exchange believes the proposed electronic FLEX Auction simplifies the process pursuant to which FLEX Traders may execute FLEX Orders on the Exchange, as it is similar to other electronic auctions (as noted above) and eliminates the multiple periods in which FLEX Traders may submit responses. Pursuant to the proposed Auction process, an electronic FLEX Auction in which an order is entered and exposed to FLEX Traders, and then automatically executes against best-priced bids and offers at the conclusion of the auction. As discussed above, the proposed range for the auction exposure interval is consistent with the average length of the entire electronic RFQ process. Additionally, while the proposed range of the exposure interval is shorter than the current range designated by the Exchange, the proposed range is consistent with the Exchange's authority under the current Rules, as the Rules only require that the length of the RFQ Response Period be at least three seconds. Because the auction message will identify the side of the auctioned order, and thus responses will only be on the opposite side of that order, the Exchange believes a shorter maximum time is appropriate, as FLEX Traders will not need to determine responses on the side of the market on which there is no potential execution. Therefore, the Exchange believes the proposed rule change will continue to provide FLEX Traders with sufficient time to price FLEX Option series that are auctioned and submit bids or offers at which they would be willing to effect transactions in the series subject to the auction.

As is the case today, market participants will not know the price at which the Submitting TPH is seeking to trade an order (which the Submitting TPH must include a price on the FLEX Order submitted to the auction, it will not be included in the notification message). The Exchange believes not notifying FLEX Traders of the auction price, as well as not permitting FLEX Traders to see prices of other responses, will encourage FLEX Traders to submit responses at the best prices at which they would be willing to trade, as noted above.

The proposed electronic FLEX Auction is similar to other electronic auctions offered by the Exchange, such as the Automated Improvement Mechanism ("AIM") in Rule 6.74A in the current Rulebook (Rule 5.37 in the shell Rulebook) and the Complex Order Auction ("COA") in Rule 6.53C in the current Rulebook (which the Exchange intends to move to Rule 5.33 in the shell Rulebook). These electronic auctions do not provide for a request for market, which concept does not currently exist in electronic trading. The Exchange believes implementing a simpler electronic FLEX Auction that is similar to other electronic auctions may encourage TPHs to submit FLEX Orders for electronic execution.

Market participants are more familiar with this type of functionality and have their systems coded to conform to these types of auctions. The Exchange has received feedback from market participants indicating the difficulty and additional resources necessary to code to the nonstandard FLEX RFQ process given the multiple intervals. Additionally, the Exchange believes elimination of a reaction period at the conclusion of an electronic FLEX Auction will permit executions of FLEX Orders to be completed in a more timely fashion. As a result, the Exchange believes the proposed auction will permit FLEX Traders to continue to compete vigorously and potentially provide price improvement for FLEX Orders in a competitive auction process, as they do for non-FLEX Orders, and thus will fit more seamlessly into the Exchange's market.[103]

Current Rule 24A.5(a)(2) describes the current open outcry RFQ process for FLEX Orders. Currently, a Submitting TPH may submit to a FLEX Official an RFQ, and then announce the terms of the RFQ to the trading crowd.[104] At that point, FLEX Traders in the trading crowd may respond to the RFQ with bids and offers during an RFQ Response Period, during which time those responses (referred to in the current Rule as FLEX Quotes) may be modified or withdrawn.[105] At the conclusion of the RFQ Response Period, the

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103 The Exchange notes it intends to continue to offer a FLEX AIM process to provide FLEX Orders with price improvement and electronic crossing opportunities, and will move that from Rule 6.74A in the current Rulebook to Rule 5.73 in the shell Rulebook in a different rule filing.

104 See current Rule 24A.5(a)(2)(i).

105 See current Rule 24A.5(a)(2)(ii). The proposed rule change deletes from that provision the reference to obligations of FLEX Appointed Market-Makers. As noted above, the Exchange currently has none and does not intend to have them following migration, so the Exchange is deleting all references to FLEX Appointed Market-Makers in the rules. As is the case for electronic RFQs, the open outcry RFQ Response Period may not be less than three seconds.

Submitting TPH announces the best market to the trading crowd.[106] It may then promptly accept or reject the best priced bids and offers, or announce an intention to cross the FLEX order (in which it may receive an entitlement pursuant to Rule 24A.5(b)(3) and (d)(2)).[107] If the Submitting TPH determines to execute the FLEX Order against the responses from the trading crowd (and not cross), the bids and offers are allocated as described below.[108] If the Submitting TPH rejects the BBO or accepts it for less than the entire size requested, all FLEX Traders (other than the Submitting TPH) may match or improve the BBO during the BBO Improvement Interval,[109] after which the Submitting TPH must promptly accept or reject the BBO.[110] If the Submitting TPH indicates an intention to cross, then the Submitting TPH must announce the price to the crowd and permit the rest of the crowd to attempt to improve or match the BBO during the BBO Improvement Interval. At the expiration of the BBO Improvement Interval, the Submitting TPH must promptly accept or

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106 See current Rule 24A.5(a)(2)(ii)(B). The proposed rule change deletes the reference that the BBO will consider orders in the electronic book, as there will be no book following migration, as noted above.

107 See current Rule 24A.5(a)(2)(iii)(A).

108 See id.

109 The "BBO Improvement Interval" is the period of time in respect of the open outcry RFQ process during which FLEX Traders in the trading crowd may submit responses (referred to in the current rules as FLEX Quotes) to meet or improve the BBO established during the RFQ Response Period. See current Rule 24A.1(b). The rules do not specify a duration of the BBO Improvement Interval, so the Exchange permits responses to be made in a reasonably prompt manner (consistent with a similar provision that applies to current open outcry trading if there are remaining contracts, see current Rule 6.45(b)(i)(B)(5)).

110 See current Rule 24A.5(a)(2)(iii)(A).

reject the BBO, and may execute the order against responses as described below.[111] The Submitting TPH has no obligation to accept any FLEX bid or offer.[112]

Current Rule 24A.5(d)(2)(i) provides that the Exchange may establish a crossing participation entitlement, subject to certain conditions. The Exchange proposes to delete that provision, as the Exchange does not intend to establish any priority overlays, including a crossing participation entitlement, to the proposed FLEX Auctions.[113] The Exchange does not currently establish a crossing participation entitlement for electronic FLEX trading, so this will have no impact on electronic trading. The Exchange has currently established a crossing participation entitlement for open outcry FLEX trading. However, as further discussed below, the Exchange proposes to permit FLEX Trades to be crossed in accordance with general crossing rules for open outcry trading, which provide for a similar crossing procedure and participation entitlement as the current FLEX crossing procedure and entitlement.

Current Rule 24A.5(d)(2)(ii) provides that the Exchange may establish a participation entitlement for a FLEX Appointed Market-Maker. The Exchange currently

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111 See current Rule 24A.5(a)(2)(iii)(B).

112 See current Rule 24A.5(a)(2)(iii)(C). Rejection of the BBO or failure to promptly accept the BBO results in expiration of the BBO and the RFQ. See current Rule 24A.5(a)(2)(iv). If the Submitting TPH rejects the BBO or the BBO size exceeds the FLEX transaction size in the RFQ, FLEX Traders in the crowd may accept the unfilled balance by public outcry promptly following the rejection of the BBO (or expiration of the BBO Improvement Interval). See current Rule 24A.5(a)(2)(iii)(D).

113 This is consistent with the Exchange's authority under current Rule 24A.5(d)(2) to not establish any priority overlays.

does not have any FLEX Appointed Market-Makers, and thus does not have a participation entitlement established, and deletes that provision from the Rules.[114]

The highest bid (lowest offer) will have priority at the conclusion of a FLEX open outcry RFQ. If there are multiple bids or offers at the same price, any crossing participation entitlements have second priority, any FLEX Appointed Market-Maker participation entitlements have third priority, all other response have fourth priority (in time sequence), and finally orders resting in the book have last priority.[115]

Proposed Rule 5.72(d) provides that a Submitting FLEX Trader may represent and execute a FLEX Order that complies with paragraph (b) above on the Exchange's trading floor in the same manner as a TPH may represent and execute an order for a non-FLEX Option (which includes systemization of the FLEX Order pursuant to Rule 5.7(f) and routing the FLEX Order to PAR pursuant to Rule 5.82 of the shell Rulebook) on the Exchange's trading floor pursuant to Chapter 5, Section G of the shell Rulebook,[116] except (1) In-Crowd Market Participants ("ICMPs") will have a reasonable amount of time (which

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114 The Exchange intends to delete all provisions regarding FLEX Appointed Market-Makers from the Rules in a separate rule filing. To the extent the Exchange determines in the future to appoint FLEX Appointed Market-Makers (or similar market participant) or apply a participation entitlement to FLEX Auctions (electronic or open outcry), the Exchange will submit a separate rule filing. Because there will no longer be any priority overlays, the proposed rule change deletes current Rule 24A.5(d)(2)(iii) regarding announcements of participation entitlements.

115 See current Rule 24A.5(a)(2)(v)(A); see also current Rule 24A.5(d) (which describes current crossing participation entitlements). As is the case in all open outcry trading, any FLEX Traders relying on the "G" exemption must yield priority to any bid (offer) at the same price. See current Rule 24A.5(a)(2)(v)(B) (Rule 5.85(a)(2)(E) in the shell Rulebook).

116 Therefore, a FLEX Order may be represented and executed, in addition to Rule 5.85 as described above, pursuant to Rule 5.86 in the shell Rulebook regarding facilitated and solicited transactions and Rule 5.87 in the shell Rulebook regarding crossing orders.

amount of time must be between three seconds (the current minimum for an RFQ Response Period) and five minutes) from the time a FLEX Trader requests a quote in a FLEX Option Series or represents a FLEX Order (including announcing a crossing transaction pursuant to Rule 5.87 in the shell Rulebook) to respond with bids and offers; and (2) FLEX Orders are allocated only to responses from the trading crowd pursuant to Rule 5.85(a)(2)(C) of the shell Rulebook.[117] The proposed time period is consistent with the proposed time period for electronic FLEX Auctions described above, as well as current Rules (which require at last three seconds to pass),[118] and the Exchange believes this will ensure there is sufficient time for the crowd to price a FLEX Option series given its unique terms as well as ensure executions of FLEX Orders take place in a timely manner. Whether a reasonable amount of time has passed before a Submitting TPH determines to represent an order after a request for quotes, or to execute an order after it was represented will be based on facts and

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117 The proposed rule change notes that Rule 5.85(b) through (e) (complex order priority (this relates to the prices at which complex orders may trade depending on resting simple orders, which will not apply given there will be no book for FLEX Options), split-price priority, multi-class spread orders, and SPX Combo Orders) does not apply to FLEX Options, which is consistent with FLEX trading today. See current Rules 24.19 (which sets forth specific trading rules for multi-class spreads, which are not consistent with FLEX trading), 24.20 (which sets forth specific trading rules for SPX Combo Orders, which are not consistent with FLEX trading), and 24A.15 (which provides that split-price priority does not apply to FLEX trading, and the Exchange moves the provision that states the inapplicability of split-price priority to the portion of the Rule regarding open outcry trading, so that all provisions regarding open outcry priority are included in the same place). To the extent the Exchange intends to make any of these provisions applicable to FLEX Options in the future, it will submit a rule filing. As discussed above, there will be no electronic FLEX Book (and thus no Priority Customer orders resting that would otherwise have priority). Additionally, as discussed below, there will be no participation entitlements. The Exchange notes FLEX Orders may be crossed on the Exchange trading floor in the same manner as non-FLEX Orders pursuant to Rule 5.87 in the shell Rulebook, rather than pursuant to separate crossing rules as is the case today.

118 See current Rule 24A.4(a)(3)(iii).

circumstances, and will be determined by the Submitting FLEX Trader. This is consistent with general open outcry trading, in which the representing Floor Broker (which will be the Submitting FLEX Trader) determines at what time a market is established and which ICMPs responded at that time and in what order.[119] As set forth in Rule 5.85(a)(2), orders represented in open outcry may also be allocated to Priority Customers resting in the book (which will not apply to FLEX Options since there will be no book), or to certain market-makers if there is a participation entitlement (which there will not be for FLEX Options), or to other orders resting in the book (which, again, will not apply to FLEX Options since there will be no book). Therefore, the only interest against which a FLEX Order may execute in open outcry are bids and offers from the trading crowd.

The Exchange believes the current open outcry RFQ process for FLEX Orders is substantially similar to the current open outcry process for non-FLEX Orders, and therefore believes completely aligning the two processes is appropriate. Currently, in open outcry trading, a Floor Broker can request a market from the crowd.[120] ICMPs may then respond with their markets. There is no formal time frame in which ICMPs may respond with a market, but ICMPs generally respond promptly with their market. This is substantially similar to the current RFQ process described above, in which a FLEX Trader requests a market and provides FLEX Traders in the crowd with at least three seconds to respond with a market. The Exchange believes it is appropriate to ensure there is at least a minimum

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119 If another FLEX Trader does not believe there was a reasonable amount of time to respond permitted, that FLEX Trader may request a review from a FLEX Official for compliance with the applicable rules (see proposed Rule 5.75).

120 A Floor Broker may also initially represent an order to the trading crowd, and then receives bids or offers, as appropriate, and trade. However, this is an uncommon scenario but permissible under the Rules.

amount of time FLEX Traders to respond give the unique terms of FLEX Options. The proposed timeframe in which ICMPs that are FLEX Traders must respond is consistent with the current Rule, which as noted above, requires the RFQ Response Period to be at least three seconds long. The proposed rule change also permits a FLEX Trader to initially represent a FLEX Order to the trading crowd, and then receive bids or offers (as appropriate) and trade.[121] Therefore, other than eliminating the formal name of the RFQ Response Period which is not contemplated in non-FLEX Option open outcry trading, the Exchange believes the proposed rule change will have minimal (if any) impact on how a FLEX Trader may request a market on the Exchange's trading floor.

Unlike the current process, which requires a FLEX Trader to submit an RFQ to a FLEX Official, the proposed rule change will require a FLEX Trader to systematize a FLEX Order in the same manner as Floor Brokers systematize non-FLEX Orders, which is to systematize them pursuant to current Rule 6.24 (Rule 5.7(f) in the shell Rulebook). TPHs have familiarity with the systemization process, and the Exchange believes the proposed rule change will result in a more efficient open outcry trading process for FLEX Options, as a FLEX Trader can request a market as soon as it gets that request from a customer rather than first go to a FLEX Official.[122] This may ultimately result in a more timely execution for customers.

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121 The Exchange notes this is an uncommon scenario in open outcry trading, but is permissible under the Rules.

122 Because the proposed rule change will require FLEX Orders to be systematized in the same manner as all other orders, the proposed rule change deletes Rule 5.7, Interpretation and Policy .04, which exempts FLEX Options from systematization requirements. The Exchange notes systemization will capture FLEX Options in the Exchange's audit trail, and thus the Exchange will no longer need to maintain separate records similar to COATS data. The current rule requires the Exchange to make the data it retained with respect to FLEX Options available to the SEC

Once a Floor Broker has received a market from the crowd, the Floor Broker may then represent its order on the floor (after systematizing it and routing it to PAR, which it must do prior to representing an order on the trading floor) and elect to trade against the best prices or not, or announce an intention to cross at a specific price.[123] As discussed above, this is substantially similar to the current RFQ process, in which a FLEX Trader can elect to trade or not trade with the best prices from the crowd, or announce an intention to cross. Currently, the Exchange has set a crossing entitlement for facilitations and solicitations of FLEX Orders in all classes to be 40%.[124] As set forth in current Rule 6.74(d) (Rule 5.87(f) of the shell Rulebook), the Exchange may similarly set a crossing entitlement on a class-by-class basis up to 40%. The Exchange intends to set this entitlement for FLEX Orders at 40% in all classes, as it does today.[125] Rule 5.87(f) of the shell Rulebook requires a Floor Broker representing an eligible-sized order to request bids and offers for a series. Once the trading crowd has provided a quote, once a reasonable amount of time has passed, there is a significant change in the price of the underlying, or the price of the responses has been

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upon request. While the proposed ruled does not explicitly state this (the Rules generally impose obligations on TPHs rather than the Exchange), the Exchange is required to maintain these records and provide them to the Commission upon request pursuant to its SRO obligations. See 17 CFR § 240.17a-1 (which requires an exchange to keep and preserve at least one copy of all documents made or received in the course of its business and in the conduct of its self-regulatory activity, to retain such documents for at least five years (in an easily accessible place for the first two years) subject to destruction and disposition provisions of Rule 17a-6 under the Act, and to promptly furnish copies of these documents to the Commission upon request).

123 See current Rule 6.74 (Rule 5.87(f) in the shell Rulebook), which describes procedures for crossing orders on the Exchange's trading floor.

124 Current Rule 24A.5(d)(2)(i) permits the Exchange to establish a crossing participation entitlement on a class-by-class basis up to 40%.

125 The Exchange would announce any changes to this percentage pursuant to Rule 1.5 in the shell Rulebook.

improved, the Floor Broker may cross the applicable percentage of the order, after all Public Customer orders in the book or crowd have been satisfied. This is similar to how a FLEX Trader may cross a FLEX Order in open outcry, as noted above. Specifically, a FLEX Trader would request a market, and after a reasonable amount of time has passed, announce an intention to cross, and receive a crossing entitlement after Public Customer interest has been satisfied. Therefore, the Exchange believes the proposed rule change will have a minimal (if any) impact on the crossing of FLEX Orders in open outcry.

The proposed rule change eliminates the formal BBO Improvement Interval. However, pursuant to general open outcry rules regarding crossing, as noted in the previous paragraph, if a FLEX Trader announces an intention to cross a FLEX Order, the FLEX Trader must provide time for the trading crowd to submit bids and offers (which is equivalent to what occurs during the BBO Improvement Interval). Similarly, if there is no intention to cross, but the FLEX Trader elects to not trade or there is insufficient size, the crowd may make subsequent bids and offers in a reasonably prompt manner.[126]

The proposed allocation is substantially similar to the allocation for non-FLEX trading in open outcry, excluding the provisions that are inapplicable to FLEX trading, and to the current allocation for FLEX trading in open outcry (if there were no FLEX Appointed Market-Makers, and if the Exchange determined to not offer an electronic book for FLEX Options pursuant to its authority under the current Rules). With respect to allocation, best-priced responses will continue to have first priority.[127] With respect to responses at the same price, because there will be no electronic Book for FLEX Options, there can be no

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126 See Rule 5.85(a)(2)(C)(v) in the shell Rulebook.

127 See current Rule 24A.5(a)(2)(v)(A) and Rule 5.85(a)(1) in the shell Rulebook.

Priority Customer FLEX Orders resting in the book that would receive first priority at the same price.[128] Additionally, there will be no FLEX Appointed Market-Makers, so there will be no participation entitlement applicable to FLEX trading.[129] The crossing participation will continue to next priority.[130] All other interest in the crowd will continue to then have priority in the sequence in which they were made; to the extent multiple bids or offers were submitted at the same time, or if the Submitting FLEX Trader cannot reasonable determine the sequence in which they were made, priority will be apportioned equally among those bids and offers.[131] As there will be no electronic book of orders for FLEX Options, there will be no non-customer orders in the book that would be eligible for execution after all other interest trades.[132] Therefore, the proposed rule change will have minimal (if any) impact on the allocation of responses in open outcry trades of FLEX Orders.[133]

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[128] Therefore, Rule 5.85(a)(2)(A) in the shell Rulebook will be inapplicable to FLEX trading.

[129] Therefore, Rule 5.85(a)(2)(B) in the shell Rulebook will be inapplicable to FLEX trading.

[130] See current Rule 24A.5(a)(2)(v)(A)(I) and Rule 5.87(a) and (f) in the shell Rulebook.

[131] See current Rule 24A.5(a)(2)(v)(A)(III) and Rule 5.85(a)(2)(C) in the shell Rulebook.

[132] As discussed above, while one customer has recently begin to submit interest to the FLEX Book, that interest is generally executed within a few seconds (after the required exposure period) and, thus, there are generally no orders resting on the FLEX Book available for allocation following an open outcry RFQ. Therefore, Rule 5.85(a)(2)(D) in the shell Rulebook will be inapplicable to FLEX Trading.

[133] As is the case today, and with open outcry non-FLEX trading, a TPH relying on the exemption in Section 11(a)(1)(G) of the Exchange Act and Rule 11a-1(T) thereunder may submit a proprietary order to the Exchange for execution in open outcry if it yields priority to any bid (offer) at the same price that is represented by all other bids (offers) that have priority over the TPH's order. See proposed Rule 5.72(e)(1); see also Rule 5.85(a)(2)(E) in the shell Rulebook and current Rule 24A.5(a)(5)(v)(B).

As is the case regarding the proposed electronic FLEX Auction described above, the proposed rule change simplifies the process pursuant to which FLEX Traders may execute FLEX Orders on the Exchange in open outcry. As demonstrated above, the general open outcry trading rules are substantially similar to the current open outcry RFQ procedure for FLEX Options. However, the proposed rule change eliminates the terminology that applies only to FLEX trading. FLEX Traders are more familiar with the general open outcry trading procedures, and therefore, by aligning the open outcry trading process for FLEX Options with that of non-FLEX Options, and permitting FLEX trading in the same manner as non-FLEX trading on the Exchange's trading floor, the Exchange believes the proposed rule change may encourage TPHs to submit FLEX Orders for execution. The Exchange believes the proposed rule change may reduce confusion regarding how FLEX Orders may trade in open outcry, given that any minor differences between the two processes that exist today are being eliminated. However, as noted above, one difference that will remain is the minimum amount of time that the trading crowd will have to respond to a request for a market or to a represented FLEX Order, which will ensure the crowd has sufficient time to price the unique terms of FLEX Options. The proposed range of a reasonable time that must be three seconds (but no more than five minutes), is consistent with the current Rule, which requires the response period to be at least three seconds. The Exchange believes the maximum time accommodate this pricing while permitting executions of FLEX Orders to be completed in a more timely fashion. As a result, the Exchange believes the proposed auction will fit more seamlessly into the Exchange's market. The Exchange also believes this will encourage FLEX Traders to compete vigorously and potentially provide price improvement for FLEX Orders in a competitive auction process, as they do for non-FLEX Orders.

The proposed rule change deletes current Rule 24A.5(c), which states that acceptance of any bid or offer creates a binding contract under Rule 6.48 in the current Rulebook (which the Exchange intends to move to Rule 5.11 in the shell Rulebook). Current Rule 6.48 applies to all acceptances of bids and offers on the Exchange, including FLEX bids and offers, and thus the Exchange does not believe it is necessary to include a separate provision in the FLEX Rules. This has no impact on the binding nature of the acceptance of bids and offers on FLEX Options pursuant to proposed Rule 5.72.

The proposed rule change moves the provision that states all transactions must be in compliance with Section 11(a)(1) of the Exchange Act and the rules promulgated thereunder, including the description of the activity prohibited by Section 11(a)(1), from current Rule 24A.5(d)(4) (as well as current Rules 24A.5(a)(2)(v)(B) and (b)(2)(ii), which are cross-referenced in Rule 24A.5(d)(4)) to proposed Rule 5.72(e). The proposed rule change amends this provision to state that it applies to all executions of FLEX Orders, as this provision is only applicable to FLEX trading. The proposed rule change deletes current Rule 24A.5(d)(4)(i) and (iii) regarding the market-maker exemption and the effect versus execute exemption, respectively. Those exemptions will continue to be available to FLEX Traders with respect to FLEX trading. However, there is nothing unique about the applicability of those exemptions to FLEX trading, as they are available to all market participants with respect to all trading in the same manner. Additionally, the proposed rule change deletes current Rule 24A.5(d)(4)(iv), which states that a TPH may rely on any other exception to comply with the requirements of Section 11(a)(1) and the rules promulgated thereunder. That will continue to be true, and is captured by the introductory language in proposed Rule 5.72(e), which references that an exception to Section 11(a)(1) may apply. Because, FLEX traders may currently rely on the "G" exemption for electronic FLEX trading given the current priority structure but will no longer be able to rely on that exemption with respect to electronic FLEX trading given the proposed priority changes (see discussion above regarding this change),[134] the proposed rule change makes clear that the "G" exemption will only be available for FLEX Orders represented in open outcry, as long as the TPH relying on that exemption yields priority to any bid (offer) at the same price that is represented by all other bids (offers) that have priority over the TPH's order pursuant to proposed Rule 5.72. The proposed rule change also states that a TPH may not submit an electronic FLEX Order pursuant to proposed Rule 5.72(b), Rule 5.73, or Rule 5.74 to effect any proprietary order transactions by relying on the "G" exemption. As discussed below, the Exchange believes the proposed rule change is consistent with Section 11(a) of the Exchange Act.

The proposed rule change deletes current Rule 24A.5, Interpretation and Policy .03 regarding post-trade verification procedures for electronic RFQs for complex orders. Due to the System updates in connection with the System migration, parties to FLEX transactions will no longer need to take additional steps with respect to executions of complex orders following an electronic FLEX Auction.[135] These procedures require FLEX Traders to input

134 As discussed below, electronic FLEX trading, like all other electronic trading on the Exchange, will not allow FLEX Traders to take advantage of the "G" exemption.

135 Note current Rule 24A.5, Interpretation and Policy .03 also applies to electronic transactions in FLEX Options with exercise prices and premiums based on a methodology for fixing that number or based on a percentage. As noted above, the Exchange will no longer offer exercise prices and premiums based on such a

the leg price, exercise price, and/or premium information into the System following execution of a complex FLEX Order. As discussed above, FLEX Traders must submit all of this information upon entry of a FLEX Order.[136] Therefore, pursuant to the proposed rule change, a FLEX Trader will be required to input the same information for each leg of a complex FLEX Order prior to submission rather than following execution. A FLEX Trader may request nullification of a FLEX Option transaction if it did not conform to the terms in proposed Rule 4.21, or update any inaccurate information in a complex FLEX Order in the same manner as any TPH may update any inaccurate information in any order pursuant to current Rule 6.67.[137] Because all FLEX Orders will now be systematized, as discussed above, there is no longer a need for separate procedures regarding the correction of inaccurate information entered for FLEX transactions.

The proposed rule change moves the provisions in Rules 24A.1(i) and 24A.14 in the current Rulebook regarding FLEX Officials to Rule 5.75 in the shell Rulebook. The proposed rule change makes only nonsubstantive changes to this Rule, including to make the Rule plain English, delete redundant language (such as saying any TPH approved to act as a Market-Maker, as pursuant to Rule 8.1 in the current Rulebook, a Market-Maker must be a TPH), incorporate defined terms (including the term "ICMP," which is an in-crowd Market-Maker, on-floor designated primary market-maker or lead market-maker with an allocation in a class, or a floor broker or PAR official representing an order in the

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methodology.

136 See proposed Rule 5.72(b)(2).

137 Rule 6.67 in the current Rulebook describes the Exchange's Cboe Trade Match System, which permits TPHs to correct bona fide errors, subject to certain restrictions. The Exchange intends to move Rule 6.67 from the current Rulebook to Rule 6.6 in the shell Rulebook in a separate rule filing.

trading crowd on a trading floor[138]), and update cross-references and paragraph lettering and numbering. FLEX Officials will have the same responsibilities as they do today.

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.[139] Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)[140] 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)[141] requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

In particular, the Exchange believes the proposed rule change will remove impediments to and perfect the mechanism of a free and open market, and protect investors and the public interest. As described above, the proposed electronic FLEX Auction is closely aligned to the Exchange's other electronic auctions for non-FLEX Options, and the

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138 See Rule 1.1 in the shell Rulebook.

139 15 U.S.C. 78f(b).

140 15 U.S.C. 78f(b)(5).

141 Id.

proposed open outcry FLEX Auction is closely aligned with the current open outcry trading process for non-FLEX Options, but are still similar to the FLEX trading processes in place today. The proposes rule change merely eliminates many of the differences between FLEX and non-FLEX trading to eliminate potential confusion for market participants given the current differences, while implementing trading processes with which market participants are more familiar. As a result, the Exchange believes the proposed rule change will have minimal impact on the trading of FLEX Auctions, and possibly increase participation in FLEX Auctions, which could add liquidity to the Exchange's FLEX Market, which ultimately benefits investors. Additionally, with respect to electronic trading, market participants are more familiar with this type of functionality and have their systems coded to conform to these types of auctions. The Exchange has received feedback from market participants indicating the difficulty and additional resources necessary to code to the nonstandard FLEX RFQ process given the multiple intervals.

Additionally, the Exchange believes the proposed rule change will permit executions of FLEX Orders to be completed in a more timely fashion, while providing the crowd with sufficient time to price the unique terms of FLEX Options (as the proposed ranges for the duration of the electronic and open outcry FLEX Auctions are consistent with current Rules).[142] The Exchange believes the proposed auction processes will ultimately benefit investors, as they will provide TPHs with greater harmonization of auction mechanisms on the Exchange. The Exchange believes the proposed auctions will provide mechanisms for more efficient and timely executions of FLEX Options, given participants' familiarity with the trading processes and reasonable durations of the auctions. Additionally, by providing

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142 See current Rule 24A.4(a)(3)(iii) and proposed Rule 5.72(c)(1)(E) and (d)(1) (which all provide for a minimum of three seconds of response time).

for automatic executions following electronic auctions of FLEX Orders, the Exchange believes there will be more certainty of execution at the end of an auction, unlike today, when a FLEX Trader may reject the market after a period of potentially minutes. The Exchange believes the proposed auctions will encourage FLEX Traders to continue to compete vigorously and potentially provide price improvement for FLEX Orders in a competitive auction process, as they do for non-FLEX Orders, as they will be encouraged to submit their best-priced bids and offers during the auctions to have the opportunity to execute against the FLEX Order.

By permitting FLEX Options to trade in a manner similar to non-FLEX Options, the Exchange believes this further improves a comparable alternative to the over-the-counter ("OTC") market in customized options. By enhancing our FLEX trading platform and making it similar to trading procedures in non-FLEX options, with which market participants are generally more familiar, the Exchange believes it may be a more attractive alternative to the OTC market. The Exchange believes market participants benefit from being able to trade customized options in an exchange environment in several ways, including but not limited to the following: (1) enhanced efficiency in initiating and closing out position; (2) increased market transparency; and (3) heightened contra-party creditworthiness due to the role of OCC as issuer and guarantor of FLEX Options.

The Exchange believes the proposed rule change to eliminate the ability for FLEX Traders to specify exercise prices for FLEX Index Options as a method for fixing an index value or dollar amount at the time of a FLEX RFQ or a FLEX Order is traded, or as a percentage of the index value calculated at the time of the trade, and for FLEX Equity

Options, as a method for fixing a dollar amount at the time of a FLEX RFQ or a FLEX Order is traded, or as a percentage of the price of the underlying security at the time of the trade will have no impact on FLEX Trading.[143] As noted above, FLEX Traders only designate an exercise price for a FLEX series as a fixed amount or a percentage of the closing value of the underlying security or index, as applicable, on the trade date. Similarly, the Exchange believes the proposed rule change to eliminate the ability for FLEX traders to apply the hedge trade condition to orders will have no impact on FLEX Trading.[144] As noted above, FLEX Traders do not apply this trade condition to FLEX Orders. Because FLEX Traders do not use this functionality, the Exchange believes it will benefit investors if the Exchange does not expend resources to rebuild on a new System functionality that is not in demand, and to not include references to unused functionality in the Exchange's rules. In addition, the current Rules permit the Exchange to make a FLEX Book available on a class-by-class basis.[145] The Exchange currently makes a FLEX Book available; however, FLEX Traders were not submitting orders into that Book until recently (April 2019). Additionally, at that time (and since that time), only one FLEX Trader has been submitting FLEX Orders into the FLEX Book, and only for a limited purpose, as discussed above. The activity in the FLEX Book represented only approximately 1.2% of all FLEX trading from the period of April to August 2019. As a result, the proposed elimination of the Exchange's ability to make a FLEX Book

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143 See current Rule 24A.4(b)(2) and (c)(2).

144 See current Rule 24A.1(y). As discussed above, elimination of the IOC trade condition will have no impact, as it is no longer necessary given that all FLEX Orders submitted for electronic execution may only execute following an auction or be cancelled.

145 See current Rule 24A.5(b).

available is consistent with the Exchange's current authority to not make a FLEX Book available, and will also have no significant impact on FLEX trading, given that the vast majority of FLEX trading occurs outside of the book, and given that only one customer has recently been using the book for a limited purpose.

The Exchange believes the proposed rule change to allow multiple electronic FLEX auctions to overlap will benefit investors, as it may lead to an increase in Exchange volume and permit the Exchange to further compete with the OTC market, while providing for additional opportunities for price discovery and execution. Although electronic FLEX Auctions will be allowed to overlap, the Exchange does not believe that this raises any issues that are not addressed through the proposal as described above. For example, although overlapping, each Auction will be started in a sequence and with a time that will determine its processing. Thus, even if there are two Auctions that commence and conclude, at nearly the same time, each Auction will have a distinct conclusion at which time the Auction will be allocated. Additionally, FLEX Orders submitted into an electronic FLEX Auction will be able to execute only against FLEX responses submitted to that Auction. If market participants desire to have interest execute against both FLEX Orders subject to concurring FLEX Auctions, market participants may submit responses to both Auctions.

Additionally, the proposed rule change to permit concurrent auctions is not novel, and is consistent with functionality already in place on other exchanges with respect to other types of auctions.[146] The Exchange does not believe the unique terms of FLEX Options

[146] See, e.g., EDGX Rules 21.19(c)(1) and 21.22(c)(1); see also, e.g. Nasdaq ISE LLC ("ISE") Rules 716(d) and 723, Interpretation and Policy .04; and Boston Options Exchange LLC ("BOX") Rule 7270 and BOX IM-7150-3. Other

create any additional issues not previously considered by the Commission with respect to concurrent auctions. As described above, the Exchange believes concurrent auctions may increase execution opportunities, and permit more timely executions, of FLEX Orders in a more timely fashion, which would ultimately benefit investors. Additionally, the Rules do not currently prevent a COA of a complex order from occurring at the same time as an AIM in one of the components of a complex order subject to a COA. Therefore, the Exchange believes it is similarly reasonable to permit multiple FLEX Auctions in the same series to occur at the same time.

The proposed rule change to permit all FLEX Traders to respond to electronic FLEX Auctions will benefit investors. Permitting all FLEX traders to submit responses, as opposed to not permitting options market-makers at away exchanges to respond, may result in more FLEX Traders having the opportunity to participate in executions at the conclusion of electronic FLEX Auctions. Additionally, it may increase liquidity in these auctions, which may lead to more opportunities to price improvement and ultimately benefit investors.

The Exchange believes the proposed rule change regarding the time at which trading in FLEX Options will be available will benefit investors. Because market participants incorporate transaction prices of underlying securities or the values of underlying indexes when pricing options (including FLEX Options), the Exchange believes it will benefit investors for FLEX Options trading to not be available until that information has begun to be disseminated in the market. Because the Exchange will have no electronic book of resting orders for FLEX Options, and no opening rotation, at the time at which FLEX

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Exchange rules to take effect following the migration also permit concurrent auctions. See, e.g., Rules 5.33, 5.37, and 5.38 in the shell Rulebook.

Trading opens, there are (and will be) no automatic executions. Therefore, being "open" for FLEX trading merely means that FLEX Traders may submit FLEX Orders into one of the various FLEX Auctions, at the conclusion of which executions in FLEX Auctions may occur (which are all discussed below). Additionally, the proposed trigger events occur for many underlying securities or indexes within one second of 9:30 a.m. Eastern Time (which is consistent with the current time at which the Exchange has determined to open FLEX Option classes), and the majority occur within ten seconds. Therefore, pursuant to the proposed rule change, the opening of FLEX Options for trading may occur over a longer timeframe, which would further reduce any potential market impact of the change to the opening time for FLEX Options. While the Exchange believes it is important to open series for trading as soon as possible, the Exchange also believes the proposed rule change will permit it to manage the number of FLEX Option series that may begin to trade during a short time period to ensure a fair and orderly opening in all options listed on the Exchange. The Exchange further believes aligning the trigger events for the opening of FLEX and non-FLEX Options may eliminate any confusion among market participants regarding when options with the same underlying are open for trading. The Exchange also notes that FLEX Options trading volume currently represents approximately 1.5% of total trading volume on the Exchange, and therefore the Exchange believes any potential market impact of this change would be de minimis.

The Exchange believes the proposed order types and instructions that will be available for FLEX Orders will promote just and equitable principles of trade, and benefit investors, because they will provide FLEX Traders with control over the executions of their FLEX Orders while being consistent with the proposed FLEX trading processes.

Instructions that are available for non-FLEX Orders but will not be available for FLEX Orders are consistent with the fact that FLEX Orders will only be eligible to trade following an electronic or open outcry FLEX Auction and not rest in an electronic book or route away, and because there is no market for FLEX Options (for which most Order Instructions and Times-in-Force set forth in Rule 5.6 in the shell Rulebook are relevant). The Exchange believes making these order types, instructions, and times-in-force available for FLEX Orders is consistent with the Exchange's authority to designate availability of orders types on a class-by-class basis.[147] The Exchange believes the proposed rule change will benefit investors by specifying the order types that are available for FLEX trading, as it provides investors with additional transparency.

Similarly, the proposed rule change regarding FLEX Order requirements will benefit investors, because it provides investors with additional transparency regarding complex order entry requirements for FLEX Options. As noted above, certain of the proposed requirements are consistent with current rules, while the restrictions on permissible combinations of exercise styles and settlement types on the leg components will have no impact on trading, as FLEX Traders do not currently trade complex orders with legs in the combinations that the proposed rule change proposes to restrict. Additionally, as noted above, the proposed rule change to require FLEX Traders to input the leg prices of complex FLEX Orders upon entry merely moves this requirement to the time of order submission rather than post-trade (as is required today). Additionally, much of the proposed rule change is merely relocating rules from the current Rulebook to the shell Rulebook, including flexible terms (such as settlement type, exercise price, exercise style, and expiration date)

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[147] See Rule 6.53 in the current Rulebook and Rule 5.6 in the shell Rulebook.

and fungibility provisions, and making only nonsubstantive changes, which will therefore have no impact on FLEX trading. The Exchange believes providing a reorganized, holistic rulebook upon migration will also benefit investors.

The proposed rule change to adopt electronic and open outcry FLEX Auctions is also consistent with Section 11(a)(1) of the Act[148] 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 with respect to which the member or a person associated with the member exercises investment discretion, 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),[149] the "G" exemption for yielding priority to non-members under Section 11(a)(1)(G) of the Act and Rule 11a1-1(T) thereunder,[150] and "Effect vs. Execute" exemption under Rule 11a2-2(T) under the Act.[151]

As noted above, FLEX Traders that effect FLEX transactions in open outcry may qualify for the "G" exemption by yielding priority to any bid (offer) at the same price of any other bid (offer) that has priority over those broker-dealer orders under this Rule.

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148 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.

149 15 U.S.C. 78k(a)(1)(A).

150 15 U.S.C. 78k(a)(1)(G) and 17 CFR 240.11a1-1(T).

151 17 CFR 240.11a2-2(T).

However, FLEX Traders may not rely on the "G" exemption to execute proprietary orders in the electronic FLEX Auctions as set forth in proposed Rule 5.72(e). Therefore, a FLEX Trader must ensure it complies with another exemption, such as the "Effect vs. Execute" exemption, when submitting proprietary FLEX Orders for electronic execution.

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: (a) must transmit the order from off the exchange floor; (b) may not participate in the execution of the transaction once it has been transmitted to the member performing the execution;[152] (c) may not be affiliated with the executing member; and (d) 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 an electronic FLEX Auction would satisfy the requirements of Rule 11a2-2(T).

The Exchange believes the electronic platform component of the electronic FLEX Auction will place all users – both TPHs and non-TPHs on the "same footing" as intended by Rule11a2-2(T). Given the automated matching and execution at the conclusion of an electronic FLEX Auction, no TPH would enjoy any special control over the time of execution or special order handling advances for orders executed electronically following an electronic FLEX Auction, because such orders would be centrally processed for execution by computer, as compared to being handled by a

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

member through bids and offers on the trading floor. Because the electronic trading platform components are designed to prevent any TPHs from gaining any time and place advantages, the Exchange believes the proposed electronic FLEX Auction satisfies the four components of the "Effect vs. Execute" rule as well as the general policy objectives of Section 11(a) of the Act.

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 off the floor directly to the Exchange by electronic means.[153] Because the Exchange's electronic FLEX Auction receives, and will continue to receive, orders from FLEX Traders electronically through remote terminals or computer-to-computer interfaces, the Exchange believes that orders submitted to an electronic FLEX Auction from off the Exchange's trading floor will satisfy the off-floor transmission requirement.

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. The Exchange represents that, upon submission to an electronic FLEX Auction, an order or FLEX response will be executed automatically pursuant to the Rules set forth for electronic FLEX Auctions. In particular, execution of a FLEX Order or FLEX response sent to the

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[153] 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").

electronic FLEX Auction depends not on the FLEX Trader entering the FLEX Order or FLEX 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 a FLEX Order or FLEX response is a FLEX Trader or associated person of such FLEX Trader able to acquire control or influence over the result or timing of order or response execution.[154] Once the FLEX Order or FLEX response, as applicable, has been transmitted, the FLEX Trader that submitted the order or response, respectively, will not participate in its execution. No FLEX Trader, including the Submitting FLEX Trader, will see a FLEX response submitted into an electronic FLEX Auction, and therefore and will not be able to influence or guide the execution of their FLEX Orders or FLEX 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 electronic FLEX 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.[155] The Exchange

154 Submitting FLEX Traders may modify or cancel their FLEX Orders, and all FLEX Traders may modify or cancel their responses, after being submitted to an electronic FLEX Auction. 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").

155 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

represents that the electronic FLEX Auction is designed so that no FLEX Trader has any special or unique trading advantage in the handling of its orders 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 FLEX Auction from the trading floor and satisfy the Effect vs. Execute" exemption (assuming the other conditions are satisfied).[156] 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 a FLEX Order to an electronic FLEX Auction,[157] 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

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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.

156 Orders for covered accounts that rely on the "Effect vs. Execute" exemption in this scenario must be transmitted from a remote location directly to the Floor Broker on the trading floor by electronic means.

157 See proposed Rule 5.72(e).

Rule 11a2-2(T) thereunder.[158] The Exchange recognizes that FLEX Traders relying on Rule 11a2-2(T) for transactions effected through the electronic FLEX 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.

Therefore, 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.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange does not believe the proposed rule change will impose any burden on intramarket competition, as the proposed rule change will apply in the same manner to all FLEX Orders submitted for electronic or open outcry execution. The trading of FLEX Auctions, and the use of either of the proposed FLEX Auctions, are

158 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 (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").

voluntary for TPHs to use and will be available to all TPHs that register with the Exchange as FLEX Traders. As discussed above, the Exchange believes the proposed rule change should encourage FLEX Traders to compete amongst each other by responding with their best price and size for a particular auction. Because bids and offers in response to an Auction (whether electronic or open outcry) will have the same opportunity to execute against the FLEX Order (which is allocated in a pro-rata manner against bids and offers at the same price), a FLEX Trader will be encouraged to respond to FLEX Auctions with bids and offers at the best and most aggressive prices. The Exchange believes the proposed rule change will encourage FLEX Traders to compete vigorously to provide the opportunity for price improvement for FLEX Orders in a competitive auction process.

The Exchange does not believe the proposed rule change will impose any burden on intermarket competition. The proposed rule change simplifies the FLEX trading principles, and harmonizes the FLEX auction trading procedures with the non-FLEX trading. The Exchange believes aligning FLEX trading processes with non-FLEX trading processes with which FLEX Traders are familiar may further encourage FLEX trading on the Exchange. The Exchange believes this is a further improved and comparable alternative to the OTC market in customized options. By enhancing our FLEX trading platform and making it similar to trading procedures in non-FLEX options, with which market participants are generally more familiar, the Exchange believes it may be a more attractive alternative to the OTC market. The Exchange believes market participants benefit from being able to trade customized options in an exchange environment in several ways, including but not limited to the following: (1) enhanced efficiency in initiating and closing out position; (2) increased market transparency; and (3) heightened contra-party creditworthiness due to the role of OCC as issuer and guarantor of FLEX Options.

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[159] and Rule 19b-4(f)(6)[160] thereunder. At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission will institute proceedings to determine whether the proposed rule change should be approved or disapproved.

## IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments

159 15 U.S.C. 78s(b)(3)(A).

160 17 CFR 240.19b-4(f)(6).

concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission's Internet comment form (http://www.sec.gov/rules/sro.shtml); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-CBOE-2019-084 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-2019-084. 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-2019-084 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.[161]

Secretary

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[161] 17 CFR 200.30-3(a)(12).

EXHIBIT 5A

(additions are underlined; deletions are [bracketed])

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Rules of Cboe Exchange, Inc.

(currently effective)

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**CHAPTER XXIVA. FLEX HYBRID TRADING SYSTEM INTRODUCTION (RULES 24A.1 – 24A.16)**

[Introduction

The rules in this Chapter apply only to the trading of Flexible Exchange Options on the Exchange's FLEX Hybrid Trading System as defined below. Except as indicated at the end of each rule herein, the rules in Chapters I through XIX and XXIV are also applicable to the trading of Flexible Exchange Options on the FLEX Hybrid Trading System. To the extent the rules in this Chapter are inconsistent with other Exchange rules, the rules in this Chapter take precedence in relation to the trading of Flexible Exchange Options on the FLEX Hybrid Trading System.

Rule 24A.1. Definitions

BBO

(a) The term "BBO" means the best bid or offer, or both, as applicable, entered in response to a Request for Quotes or resting in the electronic book.

BBO Improvement Interval

(b) The term "BBO Improvement Interval" refers to the period of time in respect of the open outcry RFQ process during which FLEX Traders in the trading crowd may submit FLEX Quotes to meet or improve the BBO established during the RFQ Response Period.

(c) Reserved.

Flexible Exchange Option

(d) The term "Flexible Exchange Option" (referred to herein as "FLEX Option") means an option contract that is subject to the rules in this Chapter.

FLEX Hybrid Trading System

(e) The term "FLEX Hybrid Trading System" (referred to herein as the "System") means the Exchange's trading platform that allows FLEX Traders to submit electronic and open outcry RFQs, FLEX Quotes in response to such RFQs, and FLEX Orders into the electronic book.

FLEX Equity Option

(f) The term "FLEX Equity Option" means an option on a specified underlying equity security that is subject to the rules in this Chapter.

FLEX Index Option

(g) The term "FLEX Index Option" means an index option that is subject to the rules in this Chapter.

FLEX Market-Maker

(h) The term "FLEX Market-Maker" means a FLEX Trader that is appointed as a FLEX Appointed Market-Maker or a FLEX Qualified Market-Maker, each as described in Rule 24A.9.

FLEX Official

(i) The term "FLEX Official" means the Exchange employee or independent contractor designated pursuant to Rule 24A.14 to perform the FLEX functions set forth in that rule.

FLEX Order

(j) The term "FLEX Order" refers to (i) FLEX bids and offers entered by FLEX Market-Makers and (ii) orders to purchase and orders to sell FLEX Options entered by FLEX Traders, in each case into the electronic book.

FLEX Quote

(k) The term "FLEX Quote" refers to (i) FLEX bids and offers entered by FLEX Market-Makers and (ii) orders to purchase and orders to sell FLEX Options entered by FLEX Traders, in each case in response to a Request for Quotes.

FLEX Trader

(l) The term "FLEX Trader" means a FLEX-participating Trading Permit Holder who has been approved by the Exchange to trade on the System.

Index Multiplier

(m) The term "Index Multiplier" means the monetary amount by which the current index value is to be multiplied to arrive at the value required to be delivered to the holder of a call or by the holder of a put upon valid exercise of the option. The Index Multiplier for FLEX Index Options is $100.

(n) Reserved.

Non-FLEX Equity Option

(o) The term “Non-FLEX Equity Option” means a Non-FLEX Option that is an option on a specified underlying equity security.

Non-FLEX Index Option

(p) The term “Non-FLEX Index Option” means a Non-FLEX Option that is an index option.

Non-FLEX Option

(q) The term “Non-FLEX Option” means an option contract that is not a FLEX Option.

Request for Quotes

(r) The term “Request for Quotes” (“RFQ”) means the initial request supplied by a Submitting Trading Permit Holder to initiate FLEX bidding and offering.

RFQ Market

(s) The term “RFQ Market” means the bids and offers entered in response to an electronic Request for Quotes and FLEX Orders resting in the electronic book.

RFQ Order

(t) The term “RFQ Order” is an order to purchase or order to sell FLEX Options entered by the Submitting Trading Permit Holder during the RFQ Reaction Period.

RFQ Response Period

(u) The term “RFQ Response Period” means the period of time during which FLEX Traders may provide FLEX Quotes in response to a Request for Quotes.

RFQ Reaction Period

(v) The term “RFQ Reaction Period” means the period of time during which a Submitting Trading Permit Holder determines whether to accept or reject the RFQ Market.

Series of FLEX Options

(w) The term “Series of FLEX Options” means, in the case of FLEX Index Options, all such option contracts of the same class having the same exercise price, exercise style, exercise settlement value, expiration date, and index multiplier, and, in the case of FLEX Equity Options, all such option contracts of the same class having the same exercise price, exercise style and expiration date.

Submitting Trading Permit Holder

(x) The term "Submitting Trading Permit Holder" means the FLEX Trader that (i) initiates FLEX bidding and offering by submitting a Request for Quotes or (ii) enters a FLEX Order into the electronic book.

Trade Condition

(y) The term "Trade Condition" means a certain contingency that has been placed on an electronic RFQ, RFQ Order or FLEX Order. The following Trade Conditions will be available in the System for a FLEX Trader to choose from:

(1) Immediate-or-Cancel, which is a condition to execute an RFQ Order or FLEX Order in its entirety or in part as soon as it is represented or cancel it.

(2) Hedge, which is a electronic RFQ or FLEX Order condition contingent on trade execution in Non-FLEX Options or other Non-FLEX components (e.g., stock, futures, or other related instruments or interests).

The Immediate-or-Cancel Trade Condition will be inputted but not disclosed on the System. The Hedge Trade Conditions will be inputted and disclosed on the System. FLEX Orders, other than those designated as Immediate-or-Cancel, will be designated as day orders and, if unexecuted, will be automatically cancelled at the close of each trade day.

Underlying Equivalent Value

(z) The term "Underlying Equivalent Value" in respect of a given number of FLEX Index Options means the aggregate underlying monetary value covered by that number of contracts, derived by multiplying the index multiplier by the current index value times the given number of FLEX Index Options.

(aa) The term "Asian style settlement" is a settlement style that may be designated for FLEX Broad-Based Index Options and results in the contract settling to an exercise settlement value that is based on an arithmetic average of the specified closing prices of an underlying broad- based index taken on 12 predetermined monthly observation dates (including on the expiration date). FLEX Broad-Based Index Options with Asian style settlement have "preceding business day convention," meaning that if a monthly observation date falls on a non Cboe Options business day (e.g., holiday or weekend), the monthly observation would be on the immediately preceding business day. FLEX Broad-Based Index Options with Asian style settlement have European- style exercise.

(bb) The term "Cliquet style settlement" is a settlement style that may be designated for FLEX Broad-Based Index Options and results in the contract settling to an exercise settlement value that is equal to the greater of $0 or the sum of capped monthly returns (i.e., percent changes in the closing value of the underlying broad-based index from one month to the next month) applied over 12 predetermined monthly observation dates (including on the expiration date).

(cc) FLEX Broad-Based Index Options with Cliquet style settlement have “preceding business day convention,” meaning that if a monthly observation date falls on a non Cboe Options business day (e.g., holiday or weekend), the monthly observation would be on the immediately preceding business day. FLEX Broad-Based Index Options with Cliquet style settlement have European- style exercise.]

* * * * *

[Rule 24A.3. Trading Rotations

There shall be no trading rotations in FLEX Options, either at the opening or at the close of trading. An existing FLEX Option series will automatically open for trading at a randomly selected time within a number of seconds after 8:30 a.m. (all times are CT), at which point FLEX Orders may be entered directly into the electronic book (if available) and/or a FLEX auction may be initiated pursuant to Rule 24A.5, 24A.5A, or 24A.5B. A new FLEX Option series may be established on any business day prior to the expiration date as provided for in Rule 24A.4 and opened for trading pursuant to the procedures and principles as provided for in Rule 24A.5, 24A.5A, or 24A.5B.

This rule supersedes Exchange Rule 6.2.

Rule 24A.4. Terms of FLEX Options

(a) General

(1) Options series will not be pre-established for FLEX trading. A new series of FLEX Options may be established on any business day prior to the expiration date as provided for in this Rule 24A.4. The variable terms of FLEX Options as provided for in this Rule 24A.4 shall be established through the bidding and offering mechanics detailed in Rule 24A.5. Other terms of FLEX Option contracts shall be the same as those that apply to Non-FLEX Options.

(2) Every FLEX Request for Quotes, every FLEX Order and every FLEX Option contract shall contain one element, as designated by the parties to the contract, from each of the following contract term categories:

(i) underlying security in the case of FLEX Equity Options and underlying index in the case of FLEX Index Options;

(ii) type (put or call);

(iii) exercise style (American or European);

(iv) expiration date (any business day specified as to day, month and year, not to exceed a maximum term of fifteen years, except that a FLEX Index Option that expires on any business day that falls on, or within two business days of, a third Friday-of-the-month expiration day for any Non-FLEX Option other than a QIX option) (“Expiration Friday”), may only have an exercise settlement value on the expiration date determined by reference to the reported level of the index as derived from the opening prices of the component securities ("a.m. settlement")); and

(v) exercise price (specified as described in subparagraph (b)(2) below for FLEX Index Options and in subparagraph (c)(2) below for FLEX Equity Options).

The information in subparagraphs (i) through (v) shall be provided for each component series in a multi-legged FLEX Request for Quotes or FLEX Order.

(3) In addition to the terms listed in subparagraph (a)(2) of this Rule 24A.4, every FLEX Request for Quotes shall contain the following additional transaction specifications:

(i) quote type and form sought (i.e., specify whether bid, offer, or both is sought (provided that electronic RFQs may only specify both bid and offer), and whether the FLEX Quote is to be submitted as a specific dollar amount, or in the case of a FLEX Equity Option, as a percentage of the underlying security price, or in the case of a FLEX Index Option, as a percentage of the Underlying Equivalent Value, and whether such price is contingent on specified factors in other related markets);

(ii) Trade Condition(s), if applicable; and

(iii) RFQ Response Period interval (provided that the length of the interval must fall within the time ranges established by the Exchange on a class-by-class basis with respect to electronic RFQs or open outcry RFQs and such time shall not be less than three (3) seconds).

(iv) Every RFQ Order shall contain the same transaction specifications as the related Request for Quotes plus any additional Trade Condition(s), if applicable.

(4) In addition to the terms listed in subparagraph (a)(2) of this Rule 24A.4, every FLEX Order shall contain the following additional transaction specifications:

(i) order type and form (i.e., specify bid or offer; size; and a specific dollar amount, or in the case of a FLEX Equity Option, as a percentage of the underlying security price, or in the case of a FLEX Index Option, as a percentage of the Underlying Equivalent Value, and whether such price is contingent on specified factors in other related markets); and

(ii) Trade Condition(s), if applicable.

(b) Special Terms for FLEX Index Options

(1) The Exchange may approve and open for trading any FLEX Options series on any index that is eligible for Non-FLEX Options trading under Rule 24.2, even if the Exchange does not list and trade Non-FLEX options on such index.

(2) Exercise prices shall be specified in terms of (i) a specific index value number, (ii) a method for fixing such a number at the time a FLEX Request for Quote or FLEX Order is traded, or (iii) a percentage of index value calculated at the time of the trade or as of the

close of trading on the Exchange on the trade date. Premiums may be stated in (i) a dollar amount, (ii) a method for fixing such a number at the time a FLEX Request for Quote or FLEX Order is traded, or (iii) a percentage of the index value calculated at the time of the trade or as of the close of trading on the Exchange on the trade date.

Exercise prices may be rounded to the nearest minimum tick or other decimal increment determined by the Exchange on a class-by-class basis that may not be smaller than $0.01. Premiums will be rounded to the nearest minimum tick. For exercise prices and premiums stated using a percentage-based methodology, such values may be stated in a percentage increment determined by the Exchange on a class-by-class basis that may not be smaller than 0.01% and will be rounded as provided above.

(3) Exercise Settlement Value on the expiration date shall be specified, for use in setting the exercise settlement amount, as the index value determined by reference to the reported level of the index as derived from opening or closing prices of the component securities or as a specified average, provided that any average index value must conform to the averaging parameters established by the Exchange, and provided further that in the case of FLEX Index Options on the NYSE Composite Index, the Exercise Settlement Value on the expiration date must be determined by reference to the reported level of the index value as derived from opening prices of the component securities in accordance with Rule 24.9(a)(4) governing A.M.-Settled Index Options.

(4) FLEX Index Options shall be designated for settlement in U.S. Dollars.

(5) Asian style settlement. The parties to FLEX Broad-Based Index Options may designate Asian style settlement. FLEX Broad-Based Index Options with Asian style settlement shall be call options (no puts) and designated by: (i) the duration of the contract which may range from 350 to 371 days (which is approximately 50 to 53 calendar weeks) from the date of listing; (ii) the strike price; (iii) the expiration date which must be a Cboe Options business day; and (iv) a set of monthly observation dates.

(6) Cliquet style settlement. The parties to FLEX Broad-Based Index Options may designate Cliquet style settlement. FLEX Broad-Based Index Options with Cliquet style settlement shall be call options (no puts) and be designated by: (i) the duration of the contract which may range from 350 to 371 days (which is approximately 50 to 53 calendar weeks) from the date of listing; (ii) the capped monthly return that must be expressed in dollars and cents and in increments not less than $0.05 and must be a value between $0.05 and $25.95; (iii) the expiration date which must be a Cboe Options business day; and (iv) a set of monthly observation dates. The capped monthly return will serve as the "exercise (strike) price" for a FLEX Broad-Based Index Option with Cliquet style settlement.

(c) Special Terms for FLEX Equity Options

(1) The Exchange may approve and open for trading any FLEX Equity options series on any security that is eligible for Non-FLEX options trading under Rule 5.3, even if the Exchange does not list and trade Non-FLEX options on such security.

(2) Exercise prices and premiums may be stated in (i) a dollar amount, (ii) a method for fixing such a number at the time a FLEX Request for Quote or FLEX Order is traded, or (iii) a percentage of the price of the underlying security at the time of the trade or as of the close of trading on the Exchange on the trade date. Exercise prices may be rounded to the nearest minimum tick or other decimal increment determined by the Exchange on a class- by-class basis that may not be smaller than $0.01. Premiums will be rounded to the nearest minimum tick. For exercise prices and premiums stated using a percentage-based methodology, such values may be stated in a percentage increment determined by the Exchange on a class-by-class basis that may not be smaller than 0.01% and will be rounded as provided above.

(3) Exercise settlement shall be by physical delivery of the underlying security.

(4) FLEX Equity Options shall be subject to the exercise by exception provisions of Clearing Corporation Rule 805.

This rule supersedes Exchange Rules 5.5, 5.6, 6.5, 6.41, 24.8 and 24.9.

. . . *Interpretations and Policies:*

.01 FLEX Index Option PM Settlements Pilot Program: Notwithstanding subparagraph (a)(2)(iv) above, for a pilot period ending the earlier of November 4, 2019 or the date on which the pilot program is approved on a permanent basis, a FLEX Index Option that expires on an Expiration Friday may have any exercise settlement value that is permissible pursuant to subparagraph (b)(3) above.

.02 Fungibility of FLEX Options:

(a) Applicability: This Interpretation and Policy shall apply to all FLEX Options. In the event the relevant expiration is an Exchange holiday, this Interpretation and Policy shall be applicable to options with an expiration date that is the business day immediately preceding the Exchange holiday. Except, in the case of Monday expiring Weekly Expirations (Rule 24.9(e)(1)), this Interpretation and Policy shall be applicable to options with an expiration date that is the business day immediately following the Exchange Holiday.

(b) Requirements: Provided the options on an underlying security or index are otherwise eligible for FLEX trading, FLEX Options shall be permitted in puts and calls that do not have the same exercise style, same expiration date and same exercise price as Non-FLEX Options that are already available for trading on the same underlying security or index. FLEX Options shall also be permitted in series before series with identical terms are listed for trading as Non-FLEX Options. Once and if an option series with identical terms is listed for trading as Non-FLEX Options, (i) all existing open positions established under the FLEX trading procedures shall be fully fungible with transactions in the identical Non-FLEX Option series and (ii) any further trading in the series would be as Non-FLEX Options subject to the Non-FLEX trading procedures and rules. However, in the event a Non-FLEX American-style series is added intra-day, a position established under the FLEX trading procedures would be permitted to be closed using the FLEX trading procedures for the balance of the trading day on which the Non-FLEX series is added against another closing only FLEX position. For such FLEX series, the FLEX Official will make an announcement that the FLEX series is now restricted to closing transactions; a FLEX Request for Quotes may not be disseminated for any order representing a FLEX series having the same terms as a Non-FLEX series, unless such FLEX Order is a closing order (and it is the day the Non-FLEX series has been added); and only responses that close out an existing FLEX position are permitted. Any transactions in a restricted series that occur that do not conform to these requirements will be nullified by the FLEX Official pursuant to Rule 24A.14.

Rule 24A.5. FLEX Trading Procedures and Principles

(a) Request for Quotes Process. The Request for Quotes process may be used at any time, but is required to open trading in a new series (unless the auction process under Rule 24A.5A or 24A.5B is used to open trading in a new series). The Request for Quotes process may be conducted through the System or in open outcry pursuant to the following processes:

(1) Electronic RFQ Process.

(i) Initiating a FLEX Request for Quotes.

(A) To initiate a FLEX transaction using the electronic RFQ process, a Submitting Trading Permit Holder shall submit to the FLEX System a Request for Quotes, utilizing for that purpose the forms, formats and procedures prescribed by the Exchange.

(B) On receipt of a Request for Quotes in proper form, the System shall cause the terms and specifications of the Request for Quotes to be communicated via the System to FLEX Traders. Only one electronic RFQ may be ongoing at any given time in a series and electronic RFQs in the same series may not queue or overlap in any manner.

(ii) FLEX Bidding and Offering in Response to Requests for Quotes.

(A) FLEX Traders, including the Submitting Trading Permit Holder, may enter on the System FLEX Quotes responsive to an electronic Request for Quotes (provided, however, FLEX Quotes may not be entered for the account of an options Market- Maker from another options exchange).

(B) FLEX Quotes may be entered or withdrawn at any point during the RFQ Response Period (provided, however, FLEX Appointed Market-Makers must meet the FLEX Quote maintenance obligations set forth in Rule 24A.9). FLEX Orders may not be submitted to the electronic book during the RFQ Reaction Period, but may be withdrawn.

(C) During the RFQ Response Period, the System will dynamically calculate and disseminate to all FLEX Traders the RFQ Market given the current FLEX Quotes and resting FLEX Orders.

(iii) Formation of Contracts Following the RFQ Response Period.

(A) After the expiration of the RFQ Response Period, the Submitting Trading Permit Holder shall accept or reject the bids or offers, provided that such acceptance or rejection must occur within the RFQ Reaction Period (the duration of the RFQ Reaction Period will be established by the Exchange on a class-by-class basis and such time shall not be more than five minutes). Failure to accept the bids or offers before completion of the RFQ Reaction Period equates to a rejection.

(B) During the RFQ Reaction Period:

(I) FLEX Quotes may be entered or withdrawn (provided, however, FLEX Appointed Market-Makers must meet the FLEX Quote maintenance obligations set forth in Rule 24A.9). FLEX Orders may not be submitted to the electronic book during the RFQ Reaction Period, but may be withdrawn.

(II) The System will dynamically calculate and disseminate to all FLEX Traders the RFQ Market given the current FLEX Quotes and resting FLEX Orders.

(III) If the Submitting Trading Permit Holder chooses to reject the bids and offers, the Submitting Trading Permit Holder may either cancel the RFQ or let it expire.

(IV) If the Submitting Trading Permit Holder chooses to trade, the Submitting Trading Permit Holder may enter an RFQ Order to trade with one side of the RFQ Market (either bids or offers, not both); provided, however, if the Submitting Trading Permit Holder enters a FLEX Quote during the RFQ Reaction Period, the Submitting Trading Permit Holder must be bidding (offering) for at least the Crossing Exposure Period prior to entering the RFQ Order. The duration of the Crossing Exposure Period will be established by the Exchange on a class-by-class basis and shall not be less than three (3) seconds.

(C) Allocation:

(I) The incoming RFQ Order will be eligible to trade with FLEX Quotes and FLEX Orders at the best price(s).

(II) Allocation among multiple FLEX Quotes and FLEX Orders at the same price shall be as follows:

(aa) FLEX Quotes and FLEX Orders for the account of public customers and non- Trading Permit Holder broker-dealers will participate in the execution based on time priority;

(bb) any FLEX Quotes and FLEX Orders that are subject to a FLEX Appointed Market-Maker participation entitlement will participate in the execution pursuant to paragraph (d) below; then

(cc) all other FLEX Quotes and FLEX Orders will participate in the execution based on time priority.

In the event the RFQ Market is locked or crossed (e.g., $1.25-$1.20), FLEX Quotes and FLEX Orders will be eligible to trade at a single clearing price that will leave bids and offers which cannot trade with each other ("BBO clearing price"). In determining the priority of FLEX Quotes and FLEX Orders to be traded, the System gives priority to FLEX Quotes and FLEX Orders whose price is better than the BBO clearing price, then to FLEX Quotes and FLEX Orders at the BBO clearing price based on the allocation in paragraphs (aa) through (cc) above. Allocation among multiple FLEX Quotes and FLEX Orders that are priced at the BBO clearing price and are on the same side of the transaction as the RFQ Order shall be as follows:

(aa) FLEX Quotes and FLEX Orders for the account of public customers and non- Trading Permit Holder broker-dealers will participate in the execution based on time priority;

(bb) an RFQ Order will participate in the execution, then any FLEX Quotes and FLEX Orders that are subject to a FLEX Appointed Market-Maker participation entitlement will participate in the execution pursuant to paragraph (d) below;

(cc) all other FLEX Quotes and FLEX Orders will participate in the execution based on time priority.

(III) The System will then enter any remaining balance of the incoming RFQ Order in the electronic book (if available), unless the Submitting Trading Permit Holder has indicated that the balance is to be automatically cancelled if it is not traded. Once entered in the electronic book, an RFQ Order will be treated the same as other FLEX Orders.

(D) The Submitting Trading Permit Holder has no obligation to accept any FLEX bid or offer.

(E) Whenever the Submitting Trading Permit Holder rejects the RFQ Market or the RFQ Market size exceeds the Submitting Trading Permit Holder's FLEX transaction size, the System will automatically execute the remaining balance of any FLEX Quotes and FLEX Orders that are marketable against each other at the BBO clearing price. Allocation shall be in accordance with subparagraph (C) above. Thereafter any remaining balance of the FLEX Quotes will be automatically cancelled at the conclusion of the RFQ Reaction Period.

(2) Open Outcry RFQ Process.

(i) Initiating a FLEX Request for Quotes.

(A) To initiate a FLEX transaction using the open outcry RFQ process, a Submitting Trading Permit Holder shall submit to the FLEX Official a Request for Quotes, utilizing for that purpose the forms, formats and procedures established by the Exchange.

(B) After providing a Request for Quotes in proper form to the FLEX Official, the Submitting Trading Permit Holder shall immediately announce the terms and specifications of the Request for Quotes to the trading crowd for the FLEX Option by public outcry.

(ii) FLEX Bidding and Offering in Response to Requests for Quotes.

(A) FLEX Traders present in the trading crowd may provide the Submitting Trading Permit Holder with FLEX Quotes responsive to each Request for Quotes. FLEX Quotes must be entered during the RFQ Response Period by public outcry.

(B) All FLEX Quotes may be entered, modified or withdrawn at any point during the RFQ Response Period (provided, however, that FLEX Appointed Market-Makers must meet the FLEX Quote maintenance obligations set forth in Rule 24A.9). At the expiration of the RFQ Response Period, the BBO shall be identified by the Submitting Trading Permit Holder considering FLEX Quotes and, if applicable, FLEX Orders resting in the electronic book. At the expiration of the RFQ Response Period, the Submitting Trading Permit Holder shall announce the BBO to the FLEX Traders in the trading crowd.

(iii) Formation of Contracts Following the RFQ Response Period.

(A) If the Submitting Trading Permit Holder does not intend to cross or act as principal with respect to any part of the FLEX trade, the Submitting Trading Permit Holder shall promptly accept or reject the BBO; provided, however, that if the Submitting Trading Permit Holder either rejects the BBO or is given a BBO for less than the entire size requested, all FLEX Traders present in the trading crowd other than the Submitting Trading Permit Holder will have an opportunity during the BBO Improvement Interval in which to match or improve, as applicable, the BBO. At the expiration of any such BBO Improvement Interval, the Submitting Trading Permit Holder must promptly accept or reject the BBO. The Submitting Trading Permit Holder will trade with eligible FLEX Quotes and FLEX Orders in accordance with the priority algorithm described in subparagraph (v) below.

(B) If the Submitting Trading Permit Holder indicates an intention to cross or act as principal with respect to any part of the FLEX trade, acceptance of the displayed BBO shall be automatically delayed until the expiration of the BBO Improvement Interval. Prior to the BBO Improvement Interval, the Submitting Trading Permit Holder must announce to the trading crowd the price at which the Trading Permit Holder expects to trade. In these circumstances, the Submitting Trading Permit Holder may participate with all other FLEX Traders present in the trading crowd in attempting to improve or match the BBO during the BBO Improvement Interval. At the expiration of the BBO Improvement Interval, the Submitting Trading Permit Holder must promptly accept or reject the BBO. The Submitting Trading Permit Holder will trade with eligible FLEX Quotes and FLEX Orders in accordance with the priority algorithm described in subparagraph (v) below.

(C) The Submitting Trading Permit Holder has no obligation to accept any FLEX bid or offer.

(D) Whenever, following the completion of the RFQ Response Period or BBO Improvement Interval, as applicable, the Submitting Trading Permit Holder rejects the BBO or the BBO size exceeds the FLEX transaction size indicated in the Request for Quotes, FLEX Traders present in the trading crowd may accept the unfilled balance of the BBO. Such acceptance must occur by public outcry promptly following the Submitting Trading Permit Holder's determination whether to accept or reject the BBO or at the expiration of any applicable BBO Improvement Interval.

(iv) Quote Rejection. Rejection of the BBO or failure promptly to accept the BBO pursuant to subparagraph (a)(2)(iii) above results in expiration of the BBO and the Request for Quotes.

(v) Open Outcry RFQ Priority.

(A) The highest bid (lowest offer) shall have priority. Allocation among multiple best bids (offers) at the same price shall be as follows:

(I) any crossing participation entitlement will participate in the execution pursuant to paragraph (d) below;

(II) any FLEX Quotes that are subject to a FLEX Appointed Market-Maker participation entitlement will participate in the execution pursuant to paragraph (d) below;

(III) all other FLEX Quotes submitted in response to an open outcry RFQ will have priority in the sequence in which they are made; to the extent two or more best bid (offer) FLEX Quotes are submitted in open outcry at the same time and same price, or the Submitting Trading Permit Holder cannot reasonably determine the sequence in which the open outcry bid (offer) FLEX Quotes were made, priority will be apportioned equally among those open outcry bids (offers); then

(IV) FLEX Orders resting in the electronic book will participate in the execution pursuant to paragraph (b) below.

(B) Notwithstanding subparagraph (A) above, bids (offers) submitted on behalf of the proprietary account of a Trading Permit Holder relying on the “G” exemption described in paragraph (d) below must yield priority to any bid (offer) at the same price that is represented in the electronic book and all other bids (offers) that have priority over the electronic book. In the event a Submitting Trading Permit Holder is asserting a crossing participation entitlement on behalf of a proprietary account of a Trading Permit Holder relying on the “G” exemption and a FLEX Appointed Market-Maker(s) is also asserting a participation entitlement, the Submitting Trading Permit Holder’s crossing percentage entitlement to the remaining balance of the original order, when combined with the FLEX Appointed Market-Maker(s) guaranteed participation, shall not exceed 40% of the original order. However, provided the “G” exemption requirements are satisfied, nothing prohibits a Submitting Trading Permit Holder or FLEX Appointed Market-Maker from trading more than their applicable entitlement if other FLEX Traders in the crowd do not chose to trade the remaining portion of the order.

(b) FLEX Electronic Book

(1) Availability of the Electronic Book: The Exchange may determine on a class-by-class basis to make an electronic book available in the System. If made available, FLEX Orders may be entered into the electronic book, as well as any remaining balance of RFQ Orders as provided in subparagraph (a)(1)(iii)(C) above.

(2) Entering a FLEX Order:

(i) To enter a FLEX Order, a Submitting Trading Permit Holder may submit to the System an order, utilizing for that purpose the forms, formats and procedures prescribed by the Exchange.

(ii) All FLEX Orders must be in compliance with Section 11(a)(1) of the Exchange Act and the rules promulgated thereunder, including the requirements described in paragraph (d) below. A FLEX Order submitted on behalf of the proprietary account of a Trading Permit Holder relying on the “G” exemption described in paragraph (d) may only be entered to “hit” the electronic book. To the extent such a FLEX Order is not executed in whole or in part as soon as it hits the electronic book, it must be immediately cancelled by the FLEX Trader.

(iii) All FLEX Orders are ranked and matched based on price. Allocation among multiple bids (offers) at the same price shall be as follows:

(A) all FLEX Orders for the account of a public customer and non-Trading Permit Holder broker-dealers will participate in the execution based on time priority;

(B) any FLEX Orders that are subject to a FLEX Appointed Market-Maker participation entitlement will participate in the execution pursuant to paragraph (d) below; then

(C) all other FLEX Orders will participate in the execution based on time priority.

(3) Crossing FLEX Orders:

(i) Principal Transactions: Submitting Trading Permit Holders may not execute as principal against FLEX Orders they represent as agent unless: (A) the agency FLEX Order is first subject to an RFQ and the agency FLEX Order (or any remaining balance not executed during the RFQ Reaction Period) is exposed on the System for at least the Crossing Exposure Period, or (B) the Submitting Trading Permit Holder has been bidding or offering for at least the Crossing Exposure Period prior to receiving an agency FLEX Order that is executable against such bid or offer.

(ii) Solicitation Orders: Submitting Trading Permit Holders may not execute solicited orders against FLEX Orders they represent as agent unless the agency FLEX Order is first subject to an RFQ and the agency FLEX Order (or any remaining balance not executed during the RFQ Reaction Period) is exposed on the System for at least the Crossing Exposure Period.

(iii) The duration of the Crossing Exposure Period referenced in subparagraphs (b)(3)(i) and (ii) above will be established by the Exchange on a class-by-class basis and shall not be less than three (3) seconds.

(c) Quote Acceptance:

Acceptance of any bid or offer creates a binding contract under Rule 6.48.

(d) Priority of Bids and Offers:

(1) Basic Priority Methodology: Priority will be as provided in subparagraphs (a)(1)(iii) above for electronic RFQs, (a)(2)(v) above for open outcry RFQs and (b)(2)(iii) for the electronic book.

(2) Additional Priority Overlays:

(i) The Exchange may establish from time to time a crossing participation entitlement subject to the following:

(A) In the case of FLEX Equity Options, where the Submitting Trading Permit Holder has matched or improved the BBO, the Submitting Trading Permit Holder will have priority to execute the contra-side of the trade, but only to the extent of the applicable crossing participation entitlement percentage. The Exchange may determine on a class-by-class basis whether to establish a crossing participation entitlement for facilitations and/or solicitations with respect to open outcry RFQs and the applicable entitlement percentage, which shall not exceed 40% of the trade.

(B) In the case of FLEX Index Options, where the Submitting Trading Permit Holder has matched or improved the BBO, the Submitting Trading Permit Holder will have priority to execute the contra-side of the trade, but only to the extent of the largest of (i) the applicable crossing participation entitlement percentage, (ii) a proportional share of the trade, (iii) $1 million Underlying Equivalent Value, or (iv) the remaining Underlying Equivalent Value on a closing transaction valued at less than $1 million. The Exchange may determine on a class-by-class basis whether to establish a crossing participation entitlement for facilitations and/or solicitations with respect to open outcry RFQs and the applicable crossing participation entitlement percentage in subparagraph (i), which shall not exceed 40% of the trade.

(C) A Submitting Trading Permit Holder that is utilizing the open outcry RFQ mechanics may not cross an order pursuant to subparagraphs (d)(2)(i)(A) or (B) above that he is holding with a solicited order from a FLEX Market-Maker that is then in the trading crowd, except in accordance with Rule 6.55.

(ii) The Exchange may establish from time to time a participation entitlement formula that is applicable to FLEX Appointed Market Makers on a class-by-class basis with respect to open outcry RFQs, electronic RFQs and/or electronic book transactions. Any such FLEX Appointed Market-Maker participation entitlement shall: (A) be divided equally by the number of FLEX Appointed Market-Makers quoting at the BBO or BBO clearing price, as applicable; (B) collectively be no more than: 50% of the amount remaining in the order when there is one other FLEX Market-Maker also quoting at the same price, 40% when there are two other FLEX Market-Makers also quoting at the same price; and 30% when there are three or more FLEX Market-Makers also quoting at the same price; and (C) when combined with any crossing participation entitlement, shall not exceed 40% of the original order.

(iii) Pronouncements regarding the applicable participation entitlements and applicable rates pursuant to subparagraphs (d)(2)(i) and (ii), if any, shall be announced to the Trading Permit Holders via Regulatory Circular.

(3) Notwithstanding subparagraphs (d)(1) through (2), Trade Conditions detailed in Rule 24A.1(x)may prevent a match from occurring.

(4) All transactions must be in compliance with Section 11(a)(1) of the Exchange Act and the rules promulgated thereunder. Section 11(a)(1) prohibits a Trading Permit Holder from effecting transactions on the Exchange for the Trading Permit Holder's own account, the account of an associated person, or an account over which the Trading Permit Holder or its associated person exercises investment discretion (collectively referred to as "proprietary" orders), unless an exception applies.

(i) Market-Makers: Any such proprietary transaction entered by a dealer acting in the capacity of a market maker is exempt from Section 11(a)(1) pursuant to Section 11(a)(1)(A).

(ii) "G" Exemption: A transaction shall be permitted on behalf of the proprietary account of a Trading Permit Holder relying on Section 11(a)(1)(G) of the Exchange Act and Rule 11a1-1(T) thereunder (referred in this Rule as the "G" exemption), subject to the provisions set forth in subparagraphs (a)(2)(v)(B) and (b)(2)(ii) above. Such a Trading Permit Holder would also have to be in compliance with the requirements of paragraph (b) of the "G" exemption rule.

(iii) "Effect versus Execute" Exemption: A Trading Permit Holder relying on 11a2-2(T) under the Exchange Act (referred to in this Rule as the "effect versus execute" exemption) may use the System to submit a proprietary order originating from off the Exchange's trading floor only when such proprietary order is submitted as a FLEX Order into the electronic book as described in paragraph (b), provided the Trading Permit Holder is in compliance with the requirements of Section (a)(2)(iv) of the "effect-versus- execute" exemption rule. Nothing in this subparagraph precludes a Trading Permit Holder from having a proprietary order executed by another Trading Permit Holder that is unaffiliated with the Trading Permit Holder initiating the proprietary order, provided the Trading Permit Holder also satisfies the other requirements of the "effect-versus- execute" exemption rule.

(iv) Nothing in this Rule precludes a Trading Permit Holder from relying on another exception to comply with the requirements of Section 11(a)(1)and the rules promulgated thereunder.

(e) Incremental Changes for Bids and Offers

Changes in decimal bids and offers for FLEX Options shall be determined by the Exchange on a class-by-class basis, but may not be smaller than $0.01. For premiums stated using a percentage-based methodology, changes in such bids and offers shall be determined by the Exchange on a class-by-class basis, but may not be smaller than 0.01%, and shall be rounded to the nearest minimum tick. Pronouncements regarding the applicable minimum increment shall be announced to the Trading Permit Holders via Regulatory Circular.

This rule supersedes Rules 6.5, 6.9(d) (in those situations where a Submitting Trading Permit Holder representing an eligible order determines to take advantage of the crossing participation entitlement provisions of this Rule), 6.41, 6.42 (paragraphs (1) through (3) and those provisions of paragraph (4) pertaining to complex orders in options on the S&P 500 Index or on the S&P100 Index that are not box/roll spreads), 6.44, 6.45, 6.53 (definitions of Opening Rotation order and Facilitation order), 6.74, (except that the Exchange may designate a class to be eligible for the tied hedge procedures set forth in Interpretation and Policy .10), 24.8 and 24.9.

. . . *Interpretations and Policies:*

.01 Complex Orders: There is no electronic complex order book for multi-legged, complex orders. To trade electronically, complex orders will only be eligible to trade with other complex orders through the electronic RFQ process described in paragraph (a)(1) of this Rule. For purposes of the electronic RFQ process, order allocation shall be the same as provided in paragraph (a)(1)(C). Only one electronic RFQ may be ongoing at any given time for a given complex order strategy and electronic RFQs may not queue or overlap in any manner. In the event there are bids (offers) in any of the individual component series legs represented in the electronic book when an electronic RFQ for a complex order strategy is submitted to the System, the electronic RFQ will not commence. An unrelated FLEX Order in any of the individual series legs may not be submitted to the electronic book or for electronic RFQ processing during the duration of an electronic RFQ. To the extent that a complex RFQ Order or responsive FLEX Quote is not executed, any remaining balance of the complex order or FLEX Quote will be automatically cancelled if not traded.

.02 Special Terms for FLEX Option Exercise Prices and Premiums: There is no electronic book for FLEX Options with exercise prices and premiums that are based on a methodology for fixing such a number or based on a percentage as provided in Rule 24A.4(b)(2) and (c)(2). To trade electronically under Rule 24A.5, such FLEX Option orders will only be eligible to trade through the electronic RFQ process described in paragraph (a)(1) of the Rule.

.03 Post-Trade Verification Procedures: The following post-trade verification procedures apply to electronic RFQ transactions in multi-legged, complex order strategies and to electronic RFQ transactions in FLEX Options with exercise prices and premiums that are based on a methodology for fixing such a number or based on a percentage. The party that initiated the transaction (i.e., the Submitting Trading Permit Holder) shall input complex order leg price, exercise price, and/or premium information into the System. Once the information is inputted by the Submitting Trading Permit Holder, the contra-party(ies) to the transaction shall then have a designated period of time to notify FLEX Officials of any inaccuracies in the content of a transaction and of the corrections to any inaccurate information, which designated period of time will be determined by the Exchange and will not be less than five minutes or more than thirty minutes from the time the Submitting Trading Permit Holder inputs the information into the System.]

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[Rule 24A.14. FLEX Official

(a) The Exchange may at any time designate an Exchange employee or independent contractor to act as a FLEX Official in one or more classes of FLEX Options. The FLEX Official shall perform the functions set forth in paragraph (b) of this Rule 24A.14. The Exchange may also designate other qualified employees or independent contractors to assist the FLEX Official as the need arises.

(i) The FLEX Official and any designated assistants may not be affiliated with any Trading Permit Holder that is approved to act as a Market-Maker, including a FLEX Market-Maker.

(ii) The FLEX Official and any designated assistants shall be compensated exclusively by the Exchange, which shall determine the amount and form of compensation. No Market-Maker, including a FLEX Market-Maker, shall directly or indirectly compensate or provide any other form of consideration to a FLEX Official or any designated assistants.

(b) A FLEX Official is responsible for (i) calling upon FLEX Market-Makers to make FLEX Quotes in specific classes of FLEX Options as provided in paragraph (d) of Rule 24A.9; and (ii) reviewing the conformity of open outcry FLEX Requests for Quotes, to the terms and specifications contained in Rule 24A.4. A FLEX Official may nullify a FLEX transaction if the transaction is determined by the FLEX Official to not conform to the terms and specifications contained in Rule 24A.4 or the priority principles set forth in Rule 24A.5. Trades subject to adjustment or nullification pursuant to Rule 6.25 shall be subject to the procedures set forth in Rule 6.25.]

Rule 24A.15. Inapplicability of [Split Price and] Accommodation Liquidation Rules

Rule[s 6.47 and] 6.54 do<u>es</u> not apply to FLEX transactions.

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EXHIBIT 5B

(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 1.1. Definitions**

When used in these Rules, unless the context otherwise requires:

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**FLEX Option**

The term "FLEX Option" means a flexible exchange option. A FLEX Option on an equity security may be referred to as a "FLEX Equity Option," and a FLEX Option on an index may be referred to as a "FLEX Index Option."

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**CHAPTER 3. TPH MEMBERSHIP, REGISTRATION, AND PARTICIPANTS**

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**SECTION C. TPH TRADING FUNCTIONS**

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**Rule 3.57. FLEX Trader**

A "FLEX Trader" is a Trading Permit Holder the Exchange has approved to trade FLEX Options on the Exchange.

**Rule 3.58. FLEX[lex] Market-Makers**

(a) – (c) No change.

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**CHAPTER 4. OPTIONS LISTING**

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**SECTION C. FLEX OPTIONS**

**Rule 4.20. FLEX Option Classes**

The Exchange may authorize for trading a FLEX Option class on any equity security or index if it may authorize for trading a non-FLEX Option class on that equity security or index pursuant to Rules 4.3 and 4.10, respectively, even if the Exchange does not list that non-FLEX Option class for trading.

**Rule 4.21. Series of FLEX Options**

(a) *Permissible Series.* The Exchange may approve a FLEX Option series for trading in any FLEX Option class it may authorize for trading pursuant to Rule 4.20. FLEX Option series are not pre-established. A FLEX Option series is eligible for trading on the Exchange upon submission to the System of a FLEX Order for that series pursuant to Rules 5.72 through 5.74, subject to the following:

(1) The Exchange only permits trading in a put or call FLEX Option series that does not have the same exercise style, same expiration date, and same exercise price as a non-FLEX Option series on the same underlying security or index that is already available for trading. This includes permitting trading in a FLEX Option series before a series with identical terms is listed for trading as a non-FLEX Option series. If the Exchange lists for trading a non-FLEX Option series with identical terms as a FLEX Option series, the FLEX Option series will become fungible with the non-FLEX Option series pursuant to Rule 4.22. The System does not accept a FLEX Order for a put or call FLEX Option series if a non-FLEX Option series on the same underlying security or index with the same expiration date, exercise price, and exercise style is already listed for trading.

(2) A FLEX Order for a FLEX Option series may submitted on any trading day prior to the expiration date.

(3) The Exchange may halt trading in a FLEX Option class pursuant to Rule 5.20, and always halts trading in a FLEX Option class when trading in a non-FLEX Option class with the same underlying equity security or index is halted on the Exchange. The System does not accept a FLEX Order for a FLEX Option series while trading in a FLEX Option class is halted.

(b) *Terms.* When submitting a FLEX Order for a FLEX Option series to the System, the submitting FLEX Trader must include one of each of the following terms in the FLEX Order (all other terms of a FLEX Option series are the same as those that apply to non-FLEX Options), which terms constitute the FLEX Option series:

(1) underlying equity security or index, as applicable (the index multiplier for FLEX Index Options is 100);

(2) type of option (i.e., put or call), except an Asian-settled or Cliquet-settled FLEX Option series may only be a call;

(3) exercise style, which may be American-style or European-style, except an Asian-settled or Cliquet-settled FLEX Option series may only be European-style;

(4) expiration date, which may be any business day (specified to the day, month, and year) no more than 15 years from the date on which a FLEX Trader submits a FLEX Order to the System, except an Asian-settled or Cliquet-settled FLEX Option series, which must have an expiration date that is a business day but may only expire 350 to 371 days (which is approximately 50 to 53 calendar weeks) from the date on which a FLEX Trader submits a FLEX Order to the System;

(5) settlement type:

(A) *FLEX Equity Options*.

(i) FLEX Equity Options are settled with physical delivery of the underlying security.

(ii) FLEX Equity Options are subject to the exercise by exception provisions of OCC Rule 805.

(B) *FLEX Index Options*. FLEX Index Options are settled in U.S. dollars, and may be:

(i) a.m.-settled (with exercise settlement value determined by reference to the reported level of the index derived from the reported opening prices of the component securities);

(ii) p.m.-settled (with exercise settlement value determined by reference to the reported level of the index derived from the reported closing prices of the component securities), except for a FLEX Index Option that expires on any business day that falls on or within two business days of a third Friday-of-the-month expiration day for a non-FLEX Option (other than a QIX option) may only be a.m.-settled; however, for a pilot period ending the earlier of November 4, 2019 or the date on which the pilot program is approved on a permanent basis, a FLEX Index Option with an expiration date on the third-Friday of the month may be p.m.-settled;

(iii) for a FLEX Index Option on a broad-based index, Asian-settled, which has an exercise settlement value that is based on an arithmetic average of the specified closing prices of an underlying broad-based index taken on 12 predetermined monthly observation dates (including on the expiration date), which dates the FLEX Trader specifies. If a monthly observation date falls on a non-business day, the monthly observation occurs on the immediately preceding business day; or

(iv) for a FLEX Index Option on a broad-based index, Cliquet-settled, which has an exercise settlement value equal to the greater of $0 or the sum of capped monthly returns (*i.e.*, percent changes in the closing value of the underlying broad-based index from one month to the next month) applied over 12 predetermined monthly observation dates (including on the expiration date), which dates and monthly cap value (which must be in an increment no less than $0.05 and be no less than $0.05 and no greater than $25.95) the FLEX Trader specifies. If a monthly observation date falls on a non-business day, the monthly observation occurs on the immediately preceding business day; and

(6) exercise price (which the System rounds to the nearest minimum increment as set forth in Rule 5.4), which may be:

(A) for a FLEX Equity Option or FLEX Index Option that is not Cliquet-settled, (i) a fixed price expressed in terms of dollars and decimals or a specific index value, as applicable, or (ii) a percentage of the closing value of the underlying equity security or index, as applicable, on the trade date; or

(B) for a FLEX Index Option that is Cliquet-settled, the capped monthly return as set forth in subparagraph (5)(B)(iv) (which must be expressed in dollars and cents).

**Rule 4.22. FLEX Fungibility**

(a) If the Exchange lists for trading a non-FLEX Option series with identical terms as a FLEX Option series:

(1) all existing open positions established under the FLEX trading procedures are fully fungible with transactions in the identical non-FLEX Option series; and

(2) any further trading in the series would be as non-FLEX Options subject to non-FLEX trading procedures and Rules.

(b) Notwithstanding paragraph (a), if a non-FLEX Option American-style series is added intraday, for the balance of that trading day, a position established under the FLEX trading procedures may be closed using the FLEX trading procedures in Chapter 5, Section F against another closing only FLEX position. A FLEX Official announces to FLEX Traders when such a FLEX Option series is restricted to closing only transactions. No FLEX Orders may be submitted into an electronic auction or represented for open outcry trading pursuant to Rule 5.72 for a FLEX Option series with the same terms as the non-FLEX Option series, unless the FLEX Order is a closing order, and it is the day on which the non-FLEX Option series was added intraday; FLEX Traders may only submit responses that close out existing FLEX positions. A FLEX Official may nullify a transaction in such a restricted series that does not conform to these requirements pursuant to Rule 5.77.

(c) In the event the relevant expiration is a holiday pursuant to Rule 5.1(d), this Rule 4.22 applies to options with an expiration date that is the business day immediately preceding the holiday, except for Monday-expiring Weekly Expirations (Rule 4.10), in which case this Rule 4.22 applies to options with an expiration date that is the business day immediately following the holiday.

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**CHAPTER 5. OPTIONS TRADING**

**SECTION A. GENERAL PROVISIONS**

**Rule 5.1. Trading Days and Hours**

(a) No change.

(b) *Regular Trading Hours.*

(1) – (2) No change.

(3) *Other Options.* Except as otherwise set forth in the Rules or under unusual conditions as may be determined by the Exchange, Regular Trading Hours during which transactions in the following types of options may be made on the Exchange are as follows:

(A) *FLEX Options.* Regular Trading Hours for FLEX Options are the same as the Regular Trading Hours for the corresponding non-FLEX Options, except the Exchange may determine to narrow or otherwise restrict the trading hours for FLEX Options.

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**Rule 5.3. Bids and Offers**

(a) – (d) No change.

(e) *Other Options.* Notwithstanding paragraphs (a) through (c) above:

(1) – (2) No change.

(3) *FLEX Options*. Bids and offers for FLEX Options must be expressed in (A) U.S. dollars and decimals, if the exercise price for the FLEX Option series is a fixed price, or (B) a percentage, if the exercise price for the FLEX Option series is a

percentage of the closing value of the underlying equity security or index on the trade date, per unit of the underlying security or index, as applicable. The System rounds bids and offers to the nearest minimum increment.

(4) *Credit Options.* Bids and offers for Credit options must be expressed in terms of dollars per the contract multiplier unit. For example, a bid of "7" represents a bid of $7,000 for a Credit option with a specified contract multiplier of 1,000.

([4]5) *Government Security Options.* Bids and offers for Government Security options must be expressed in thirty-seconds of a point (one point being equal to one percent of the principal amount of the underlying security), unless the Exchange determines a different fraction of a point for all Government Securities options or a Government Security option of a particular series.

([5]6) *Interest Rate Options.* Bids and offers for Interest Rate options must be expressed in terms of dollars and decimals per unit of the measure. For example, a bid of 4.50 represents a bid of $4.50 per unit.

**Rule 5.4. Minimum Increments for Bids and Offers**

(a) – (b) No change.

(c) *Other Options.* Notwithstanding paragraph (a) and (b) above, the minimum increment for the following types of options is as follows:

(1) – (3) No change.

(4) *FLEX Options.* The Exchange determines the minimum increment for bids and offers on FLEX Options on a class-by-class basis, which may not be smaller than (A) $0.01, if the exercise price for the FLEX Option series is a fixed price, or (B) 0.01%, if the exercise price for the FLEX Option series is a percentage of the closing value of the underlying equity security or index on the trade date. The System rounds bids and offers to the nearest minimum increment.

(5) *Government Security Options.* The minimum increment for bids and offers on Government Security options is one thirty-second of a point (one point being equal to one percent of the principal amount of the underlying security), unless the Exchange determines another minimum increment for all Government Securities options or a Government Security option of a particular series.

([5]6) *Interest Rate Options.* There is no minimum increment for bids and offers on Interest Rate options.

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**Rule 5.7. Entry of Orders and Quotes**

No change.

***Interpretations and Policies***

.01 – .02 No change.

.03 [FLEX Options, as described in Chapter 4, Section D of the Rules, are exempt from the requirements of this Rule. However, the Exchange will maintain as part of its audit trail quotation, order, and transaction information for FLEX Options in a form and manner that is substantially similar to the form and manner as the COATS data is maintained, and will make such information available to the SEC upon request.

.04] Any proprietary system approved by the Exchange on the Exchange's trading floor that receives orders will be considered an Exchange system for purposes of paragraph (f)(1) of this Rule. Any proprietary system approved by the Exchange shall have the functionality to comply with the requirements of COATS.

[.05].04 Each order transmitted by a Market-Maker while on the Exchange's trading floor, including any cancellation of or change to such order, must be systematized in accordance with the procedures described in paragraph (f) of this Rule, as applicable.

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**SECTION F. FLEX TRADING**

**Rule 5.70. Availability of Orders**

(a) Pursuant to Rule 5.6(a), the Exchange may make order types, Order Instructions, and Times-in-Force available on a class basis. The Exchange may make the following order types, Order Instructions, and Times-in-Force available for orders submitted in FLEX Options ("FLEX Orders"):

(1) *Order Types*: limit order.

(2) *Order Instructions*: All Sessions, Attributable, Direct to PAR, Electronic Only, Non-Attributable, Not Held, and RTH Only.

(3) *Times-in-Force*: Day.

(b) The Exchange may make complex orders, including security future-option orders and stock-option orders, available for FLEX trading. Complex FLEX Orders may have up to the maximum number of legs determined by the Exchange. Each leg of a complex FLEX Order:

(1) must be for a FLEX Option series authorized for FLEX trading with the same underlying equity security or index;

(2) must have the same exercise style (American or European); and

(3) for a FLEX Index Option, may have a different settlement type (a.m.-settled or p.m.-settled), except each leg must have the same settlement type if designated as Asian-settled or Cliquet-settled.

(c) A FLEX Trader may enter a FLEX Order into the System during the times set forth in Rule 5.7. A FLEX Trader must designate a FLEX Order entered prior to the opening of the applicable trading session or during a trading halt as Direct to PAR; the System rejects a FLEX Order designated as Electronic Only prior to the opening of the applicable trading session or during a trading halt.

**Rule 5.71. Opening of FLEX Trading**

(a) There is no opening trading rotation in FLEX Options.

(b) FLEX Traders may begin submitting FLEX Orders into an electronic FLEX Auction pursuant to Rule 5.72(c), a FLEX AIM pursuant to Rule 5.73, or a FLEX SAM pursuant to Rule 5.74, or initiate an open outcry FLEX Auction on the Exchange's trading floor pursuant to Rule 5.72(d):

(1) with respect to the RTH trading session, after the System's observation after 9:30 a.m. of the first disseminated (A) transaction on the primary market in the security underlying an equity option or (B) index value for the index underlying an index option; and

(2) with respect to the GTH trading session, after 3:00 a.m.

**Rule 5.72. FLEX Trading**

(a) *General.* Trading of FLEX Options is subject to all other Rules applicable to the trading of options on the Exchange, unless otherwise provided in this Chapter 5, Section F.

(b) *FLEX Orders.* A FLEX Option series is only eligible for trading if a FLEX Trader (the "Submitting FLEX Trader") (i) submits a FLEX Order for that series into an electronic FLEX Auction pursuant to paragraph (c) of this Rule, (ii) represents the FLEX Order in an open outcry FLEX Auction pursuant to paragraph (d) of this Rule, or (iii) submits the FLEX Order to a FLEX AIM or SAM Auction pursuant to Rule 5.73 or 5.74, respectively.

(1) *Simple FLEX Order.* A FLEX Order for a FLEX Option series submitted to the System must include all terms for a FLEX Option series set forth in Rule 4.21 (including that a non-FLEX Option series with identical terms is not listed for trading), size, side of the market, and a bid or offer price, subject to the order entry requirements set forth in Rule 5.7.

(2) *Complex FLEX Order.* A FLEX Order for a FLEX Option complex strategy submitted to the System must satisfy the criteria for a complex FLEX Order set forth in Rule 5.70(b) and include size, side of the market, a net debit or credit price, and a bid or offer price for each leg of the FLEX Order, which leg prices must add together to equal the net price. Additionally, each leg of the FLEX Option complex

strategy must include all terms for a FLEX Option series set forth in Rule 4.21 (including that a non-FLEX Option series with identical terms is not listed for trading), subject to the order entry requirements set forth in Rule 5.7.

(c) *Electronic FLEX Auctions.* A Submitting FLEX Trader may electronically submit a FLEX Order (simple or complex) into an electronic FLEX Auction for execution pursuant to this paragraph (c).

(1) *Eligibility Requirements.* The Submitting FLEX Trader may initiate a FLEX Auction if all of the following conditions are met:

(A) *Class.* The FLEX Order is in a class of options the Exchange is authorized to list for trading on the Exchange.

(B) *Size.* There is no minimum size for FLEX Orders.

(C) *Terms.* A simple or complex FLEX Order must comply with paragraph (b) above.

(D) *Price.* The bid or offer price, or the net debit or credit price, as applicable, of the FLEX Order is the "auction price."

(E) *Time.* The Submitting FLEX Trader may only submit a FLEX Order for electronic execution in a FLEX Auction after FLEX trading has opened pursuant to Rule 5.71.

(F) *Exposure Interval.* The Submitting FLEX Trader designates the length of the "exposure interval," which must be between three seconds and five minutes. The designated time may not go beyond the market close.

The System rejects or cancels a FLEX Order that does not meet the conditions in this subparagraph (c)(1).

(2) *FLEX Auction Process.* Upon receipt of a FLEX Order that meets the conditions in subparagraph (c)(1), the FLEX Auction process commences.

(A) *FLEX Auction Notification Message.* The System initiates a FLEX Auction by sending a FLEX Auction notification message to FLEX Traders detailing the FLEX Option series or complex strategy (as applicable), side, size, Auction ID, Capacity, time at which the exposure interval will conclude, and Attribution (if the FLEX Order is designated as Attributable). FLEX Auction notification messages are not disseminated to OPRA.

(B) *Concurrent FLEX Auctions.* One or more FLEX Auctions in the same FLEX Option series or complex strategy (as applicable) may occur at the same time. To the extent there is more than one FLEX Auction in a FLEX Option series or complex strategy (as applicable) underway at the same time, the FLEX Auctions conclude sequentially based on the times at which each

FLEX Auction's exposure interval concludes. At the time each FLEX Auction concludes, the System allocates the FLEX Order pursuant to subparagraph (c)(3) below and takes into account all FLEX responses submitted during the exposure interval.

(C) *Cancellation.* The Submitting FLEX Trader may cancel a FLEX Auction prior to the end of the exposure interval.

(D) *FLEX Responses.* Any FLEX Trader (including the Submitting FLEX Trader) may submit responses to a FLEX Auction that are properly marked specifying the FLEX Option series or complex strategy (as applicable), bid or offer price or net price (respectively), size, side of the market, and the Auction ID for the FLEX Auction to which the User is submitting the response. A FLEX response may only participate in the FLEX Auction with the Auction ID specified in the response.

(i) A FLEX Trader may submit multiple FLEX responses at the same or multiple prices to a FLEX Auction. For purposes of a FLEX Auction, the System aggregates all of a FLEX Trader's FLEX responses for the same EFID at the same price.

(ii) The System caps the size of a FLEX response, or the aggregate size of a FLEX Trader's FLEX responses for the same EFID at the same price, at the size of the FLEX Order (*i.e.*, the System ignores the size in excess of the size of the FLEX Order when processing the FLEX Auction).

(iii) FLEX responses must be on the opposite side of the market as the FLEX Order. The System rejects a FLEX response on the same side of the market as the FLEX Order.

(iv) FLEX responses are not visible to FLEX Traders or disseminated to OPRA.

(v) A FLEX Trader may modify or cancel its FLEX responses during the exposure interval.

(3) *Conclusion of the FLEX Auction.* The FLEX Auction concludes at the end of the exposure interval, unless the Exchange halts trading in the affected series or the Submitting FLEX Trader cancels the FLEX Auction, in which case the FLEX Auction concludes without execution. At the conclusion of the FLEX Auction:

(A) *Allocation.* The System executes the FLEX Order against the FLEX responses at the best price(s), to the price at which the balance of the FLEX Order or the FLEX responses can be fully executed (the "final auction price").

(i) If there are multiple FLEX responses at the same price level, then the contracts in those FLEX responses are allocated proportionally according to size (in a pro-rata fashion).

(ii) The executable quantity is allocated to the nearest whole number, with fractions 1/2 or greater rounded up and fractions less than 1/2 rounded down.

(iii) If the executable quantity cannot be evenly allocated, contracts will be distributed using this pro-rata priority methodology until there are no contracts remaining.

(B) *Unexecuted FLEX Order.* The System cancels an unexecuted FLEX Order (or unexecuted portion).

(C) *Unexecuted FLEX Responses.* The System cancels any unexecuted FLEX responses (or unexecuted portions).

(d) *Open Outcry FLEX Auction.* A Submitting FLEX Trader may represent and execute a FLEX Order that complies with paragraph (b) above on the Exchange's trading floor in the same manner as a Trading Permit Holder may represent and execute an order for a non-FLEX Option (which includes systemization of the FLEX Order pursuant to Rule 5.7(f) and routing the FLEX Order to PAR pursuant to Rule 5.82) on the Exchange's trading floor pursuant to Chapter 5, Section G, except:

(1) ICMPs that are FLEX Traders have a reasonable amount of time (which amount of time must be between three seconds and five minutes) from the time a FLEX Trader requests a quote in a FLEX Option series or represents a FLEX Order (including announcing a crossing transaction pursuant to Rule 5.87) to respond with bids and offers.

(2) FLEX Orders are allocated only to responses from the trading crowd pursuant to Rule 5.85(a)(2)(C).

(3) Rule 5.85(b) through (e) are inapplicable to FLEX Options.

(e) *Section 11(a)(1) of the Exchange Act.* All executions of FLEX Orders must comply with Section 11(a)(1) of the Exchange Act, which prohibits a TPH from effecting transactions on the Exchange for the TPH's own account, the account of an associated person, or an account with respect to which the TPH or its associated person exercises investment discretion (collectively referred to as "proprietary" orders), unless an exception applies.

(1) A TPH relying on the exemption in Section 11(a)(1)(G) of the Exchange Act and Rule 11a-1(T) ("the 'G' exemption") thereunder may submit a proprietary order to the Exchange for execution in open outcry if it yields priority to any bid (offer) at the same price that is represented by all other bids (offers) that have priority over the TPH's order pursuant to this Rule 5.72.

(2) A TPH may not submit an electronic FLEX Order pursuant to paragraph (b) above, Rule 5.73, or Rule 5.74 to effect any proprietary order transactions by relying on the "G" exemption.

**Rule 5.75. FLEX Official**

(a) *Designation.* A "FLEX Official" is an Exchange employee or independent contractor designated to act in that capacity in one more or FLEX Option classes and perform the functions set forth in paragraph (b). The Exchange may at any time designate an Exchange employee or independent contractor to act as a FLEX Official in one or more FLEX Options.

(1) The Exchange may also designate other Exchange employees or independent contractors to assist a FLEX Official if the need arises.

(2) A FLEX Official and any designated assistant may not be affiliated with any Market-Maker (including a FLEX Market-Maker).

(3) A FLEX Official and any designated assistant may only be compensated by the Exchange (which determines the form and amount of compensation). No Market-Maker (including a FLEX Market-Maker) may directly or indirectly compensate or provide any other form of consideration to a FLEX Official or any designated assistant.

(b) *Responsibilities.* A FLEX Official has the following responsibilities:

(1) call upon a FLEX Market-Maker with an appointment in a FLEX Option class to respond to open outcry FLEX Auctions in that FLEX Option class when no other ICMPs respond, if in the opinion of the FLEX Official a response from the Market-Market is in the interests of a fair, orderly, and competitive market;

(2) review the conformity of open outcry FLEX Auctions with the terms of Rules 4.21, 4.22, 5.3(e)(3), 5.4(c)(4), and 5.72(b) and (d); and

(3) nullify a FLEX Option transaction if the FLEX Official determines the transaction did not conform to the terms of Rules 4.21, 4.22, 5.3, or 5.4 or the priority principles set forth in Rule 5.72(b) and (d). Trades may be adjusted or nullified pursuant to Rule 6.5.

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