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OMB Number: 3235-0045
 Estimated average burden
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SECURITIES AND EXCHANGE COMMISSION
 WASHINGTON, D.C. 20549
 Form 19b-4

File No.* SR - 2020 - * 026

Amendment No. (req. for Amendments *)

Filing by Cboe Exchange, Inc.

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

Initial *



Amendment *



Withdrawal



Section 19(b)(2) *



Section 19(b)(3)(A) *



Section 19(b)(3)(B) *



Rule

Pilot



Extension of Time Period
for Commission Action *



Date Expires *

☐ 19b-4(f)(1)

☐ 19b-4(f)(4)

☐ 19b-4(f)(2)

☐ 19b-4(f)(5)

☐ 19b-4(f)(3)

☒ 19b-4(f)(6)

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

Section 806(e)(1) *



Section 806(e)(2) *



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

Section 3C(b)(2) *



Exhibit 2 Sent As Paper Document



Exhibit 3 Sent As Paper Document



Description

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

The Exchange proposes to amend Rule 5.24.

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 * ldickman@cboe.com

Telephone * (312) 786-7572

Fax

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

(Title *)

Date 03/26/2020

By Laura G. Dickman

(Name *)

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.

ldickman@cboe.com

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information *

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

Exhibit 1 - Notice of Proposed Rule Change *

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

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

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

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

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Exhibit Sent As Paper Document

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

Exhibit 3 - Form, Report, or Questionnaire

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Exhibit Sent As Paper Document

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

Exhibit 4 - Marked Copies

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

Exhibit 5 - Proposed Rule Text

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

Partial Amendment

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

Item 1. Text of the Proposed Rule Change

(a) Cboe Exchange, Inc. (the “Exchange” or “Cboe Options”) proposes to amend Rule 5.24. 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 March 24, 2020.

(b) Please refer questions and comments on the proposed rule change to Pat Sexton, Executive Vice President, General Counsel, and Corporate Secretary, (312) 786-7467, or 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

The Exchange proposes to amend Rule 5.24 regarding the Exchange’s business continuity and disaster recovery plans. Rule 5.24 describes which Trading Permit Holders (“TPHs”) are required to connect to the Exchange’s backup systems as well as certain actions the Exchange may take as part of its business continuity plans so that it may maintain fair and orderly markets if unusual circumstances occurred that could impact the Exchange’s ability to conduct business. This includes what actions the Exchange would take if its trading floor became inoperable. Specifically, Rule 5.24(e) states if the Exchange trading floor becomes inoperable, the Exchange will continue to operate in a screen-based only environment using a floorless configuration of the System

that is operational while the trading floor facility is inoperable. The Exchange would operate using that configuration only until the Exchange's trading floor facility became operational. Open outcry trading would not be available in the event the trading floor becomes inoperable.¹ Rule 5.24(e)(1) also currently states in the event that the trading floor becomes inoperable, trading will be conducted pursuant to all applicable System Rules, except that open outcry Rules would not be in force, including but not limited to the Rules (or applicable portions) in Chapter 5, Section G,² and that all non-trading rules of the Exchange would continue to apply. The Exchange recently proposed additional exceptions to Rules that would not apply during a time in which the trading floor is inoperable.³

As of March 16, 2020, the Exchange suspended open outcry trading to help prevent the spread of the novel coronavirus and is currently operating in an all-electronic configuration. While the trading floor was open, the Exchange facilitated compression forums on the trading floor at the end of each calendar week, month, and quarter in which Trading Permit Holders reduce open positions in series of SPX options in order to mitigate the effects of capital constraints on market participants and help ensure continued depth of liquidity in the SPX options market. Given the recent suspension of

¹ Pursuant to Rule 5.26, the Exchange may enter into a back-up trading arrangement with another exchange, which could allow the Exchange to use the facilities of a back-up exchange to conduct trading of certain of its products. The Exchange currently has no back-up trading arrangement in place with another exchange.

² Chapter 5, Section G of the Exchange's rulebook sets forth the rules and procedures for manual order handling and open outcry trading on the Exchange.

³ See Securities Exchange Act Release Nos. 88386 (March 13, 2020), 85 FR 15823 (March 19, 2020) (SR-CBOE-2020-019); and 88447 (March 20, 2020) (SR-CBOE-2020-023). The rule changes adopted in that filing are effective until May 15, 2020, unless extended. See Rule 5.24(e)(1).

open outcry trading, the Exchange proposes to facilitate an electronic process that would permit TPHs to continue to efficiently reduce their open SPX positions and free up capital while the Exchange operates in an all-electronic environment, which is particularly important given current volatile market conditions.

SEC Rule 15c3-1 (Net Capital Requirements for Brokers or Dealers) (“Net Capital Rules”) requires that every registered broker-dealer maintain certain specified minimum levels of capital.⁴ The Net Capital Rules are designed to protect securities customers, counterparties, and creditors by requiring that broker-dealers have sufficient liquid resources on hand, at all times, to meet their financial obligations. Notably, hedged positions, including offsetting futures and options contract positions, result in certain net capital requirement reductions under the Net Capital Rules.⁵

All Options Clearing Corporation (“OCC”) clearing members are subject to the Net Capital Rules. However, a subset of clearing members are subsidiaries of U.S. bank holding companies, which, due to their affiliations with their parent U.S. bank holding companies, must comply with additional bank regulatory capital requirements pursuant to rulemaking required under the Dodd–Frank Wall Street Reform and Consumer Protection Act.⁶ Pursuant to this mandate, the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation approved a comprehensive regulatory capital framework for subsidiaries of

⁴ 17 CFR §240.15c3-1.

⁵ In addition, the Net Capital Rules permit various offsets under which a percentage of an option position’s gain at any one valuation point is allowed to offset another position’s loss at the same valuation point (e.g. vertical spreads).

⁶ H.R. 4173 (amending section 3(a) of the Securities Exchange Act of 1934 (the “Act”) (15 U.S.C. § 78c(a))).

U.S. bank holding company clearing firms.⁷ Generally, these rules imposed higher minimum capital requirements, more restrictive capital eligibility standards, and higher asset risk weights than were previously mandated for clearing members that are subsidiaries of U.S. bank holding companies under the Net Capital Rules. Furthermore, these rules do not permit deductions for hedged securities or offsetting options positions.⁸ Rather, capital charges under these standards are based on the aggregate notional value of short positions regardless of offsets. As a result, Clearing Trading Permit Holders (“CTPHs”) generally must hold substantially more bank regulatory capital than would otherwise be required under the Net Capital Rules.⁹ The impact of these regulatory capital rules are compounded in the SPX options market due to the large notional value of SPX contracts.

The Exchange believes these regulatory capital requirements could impede efficient use of capital and undermine the critical liquidity role that Market-Makers play

⁷ 12 CFR §50; 79 FR 61440 (Liquidity Coverage Ratio: Liquidity Risk Measurement Standards).

⁸ Many options strategies, including relatively simple strategies often used by retail customers and more sophisticated strategies used by market-makers and institutions, are risk-limited strategies or options spread strategies that employ offsets or hedges to achieve certain investment outcomes. Such strategies typically involve the purchase and sale of multiple options (and may be coupled with purchases or sales of the underlying assets), executed simultaneously as part of the same strategy. In many cases, the potential market exposure of these strategies is limited and defined. Whereas regulatory capital requirements have historically reflected the risk-limited nature of carrying offsetting positions, these positions may now be subject to large regulatory capital requirements. Various factors, including administration costs; transaction fees; and limited market demand or counterparty interest, however, discourage market participants from closing these positions even though many market participants likely would prefer to close the positions rather than carry them to expiration.

⁹ See Letter from Cboe, New York Stock Exchange, and Nasdaq, Inc., to the Honorable Randal Quarles, Vice Chair for Supervision of the Board of Governors of the Federal Reserve System, March 18, 2020.

in the SPX options market by limiting the amount of capital CTPHs can allocate to clearing member transactions. Specifically, these rules may cause CTPHs to impose stricter position limits on their clearing members. These stricter position limits may impact the liquidity Market-Makers might supply in the SPX market,¹⁰ which impact may be heightened when markets are volatile, and this impact may be compounded when a CTPH has multiple Market-Maker client accounts, each having largely risk-neutral portfolio holdings.¹¹

The Exchange believes that permitting TPHs to reduce open interest in offsetting SPX options positions in open outcry compression forums has had a beneficial effect on the bank regulatory capital requirements of CTPHs' parent companies without adversely affecting the quality of the SPX options market. Accordingly, while the Exchange operates in an all-electronic environment, the Exchange proposes to adopt a similar process to occur electronically to encourage the compression of open interest in SPX. The Exchange believes lack of a method to reduce open interest in SPX options in an all-electronic environment may reduce liquidity in the market, which recently has experienced historic levels of volatility and is when the market needs this liquidity the most.

Without an electronic compression forum, TPHs seeking to reduce open interest in SPX options for regulatory capital purposes could trade out of positions as they would trade any open positions. However, the Exchange understands that wide-scale reduction

¹⁰ The Exchange notes Market-Makers participate on approximately 98% of SPX option trades on the Exchange.

¹¹ Several TPHs have indicated to the Exchange that these rules could hamper their ability to provide consistent liquidity in the current SPX market, and have inquired about the ability engage in compression trading prior to the end of the current quarter.

of open interest in SPX options in such a manner is burdensome. First, the range of positions held by different TPHs in SPX varies greatly. In some cases, a TPH may hold positions in thousands of series of SPX. The Exchange believes providing a forum for TPHs to periodically reduce open interest in SPX options would likely contribute additional liquidity and continued competitiveness to the SPX market. In addition, the Exchange believes that the proposed rule change will promote more efficient capital deployment in light of the regulatory capital requirements rules and help ensure continued depth of liquidity in the SPX options market during continued market volatility.

The proposed rule change adopts Rule 5.24(e)(1)(E) to permit electronic compression trades during times when the trading floor is inoperable.¹² The proposed electronic compression forum will function in a substantially similar manner as the open outcry compression forum functions pursuant to Rule 5.88. In general, the process would permit TPHs to submit lists of open positions to the Exchange that they wish to close against opposing (long/short) positions of other TPHs, which the Exchange would then aggregate into a single list that would allow TPHs to more easily identify those positions with counterparty interest on the Exchange. Unlike open outcry compression forums, for which Rule 5.88 specifies the times at which TPHs may submit these lists, the Exchange will determine when electronic compression forums may occur.¹³ The Exchange will

¹² Like the other exceptions recently added to Rule 5.24(e)(1), the proposed rule change would apply until May 15, 2020. The Exchange will monitor these transactions while the trading floor is inoperable. If the trading floor is inoperable beyond May 15, 2020, based on that review, the Exchange may submit a separate rule filing to extend the effectiveness of this rule.

¹³ See proposed Rule 5.24(e)(1)(E)(i). Pursuant to Rule 1.5, the Exchange will announce the times when TPHs may submit these position lists.

provide TPHs with reasonable, sufficient notice of the timing of electronic compression forums, and the associated times at which lists must be submitted. While the Exchange intends to offer electronic compression forums in connection with the upcoming end-of-quarter, the Exchange believes flexibility regarding when to offer electronic compression forums will permit it to react to market conditions and facilitate TPHs' reduction of SPX open interest in response to volatility as necessary.

As is the case with open outcry compression forums, all TPHs (or their CTPHs on their behalf) may submit position lists for participation in electronic compression forums, and receive lists of positions submitted to the Exchange. Additionally, a TPH may request to have its name withheld from the list the Exchange makes available to the TPHs that submit a position list, and the list will not indicate which TPHs hold which positions. TPHs that do not want to be listed as having contributed compression-list positions may inform the Exchange and will not be included in the listed TPHs. The Exchange believes this process to identify TPHs that seek to close compression-list positions in advance of a compression forum will increase opportunities for TPHs to ultimately close compression-list positions during a compression forum while, at the same time, providing the opportunity for anonymity.

Proposed Rule 5.24(e)(1)(E)(ii) provides that in addition to the information set forth in Rule 5.88(a)(4) with respect to multi-leg positions, the Exchange will, for informational purposes, electronically distribute series positions within a strike range determined by the Exchange to each Trading Permit Holder that submitted compression-

list positions to the Exchange.¹⁴ The Exchange believes this additional information will provide the Exchange with sufficient information to create larger packages of positions that may be compressed while operating in an all-electronic environment.

Proposed Rule 5.24(e)(1)(E)(iii) describes how trades may be executed in electronic compression forums. Specifically, the proposed rule change provides that in lieu of Rule 5.88(a)(6) (which provides that trades executed in an open outcry compression forum occur in accordance with regular open outcry trading rules, subject to certain exceptions), a Trading Permit Holder may submit an order in SPX option contracts coupled with a contra-side order or orders totaling an equal number of option contracts, which will execute automatically on entry without exposure. For purposes of proposed subparagraph (iii):

- A Trading Permit Holder must identify these orders as being part of an electronic compression forum. This is currently required in open outcry compression forums.¹⁵
- A Trading Permit Holder may execute a simple order as part of an electronic compression forum only if the execution price: (1) is not at the same price as a Priority Customer order resting in the Book; and (2) is at or between the national best bid or offer (“NBBO”). Rule 5.9 (related to exposure of orders on the Exchange) does not apply to executions of SPX orders submitted into electronic compression forums. This provision

¹⁴ For purposes of proposed Rule 5.24(e)(1)(E), the term “multi-leg position file” as used in Rule 5.88 will be replaced with “position file.” The position file will include the information set forth in Rule 5.88(a)(4) for both multi-leg positions and series positions within that Exchange-determined strike range.

¹⁵ See Rule 5.88

provides that orders submitted into electronic compression forums must execute in accordance with the same priority principles that apply to all other simple orders on the Exchange, which protects Priority Customer orders in the simple book and prohibits trades through prices available in the book.

- A Trading Permit Holder may execute a complex order as part of an electronic compression forum only if: (1) each option leg executes at a price that complies with Rule 5.33(f)(2),¹⁶ provided that no option leg executes at the same price as a Priority Customer Order in the Simple Book; (2) each option leg executes at a price at or between the NBBO for the applicable series; and (3) the execution price is better than the price of any complex order resting in the COB, unless the submitted complex order is a Priority Customer Order and the resting complex order is a non-Priority Customer Order, in which case the execution price may be the same as or better than the price of the resting complex order. Rule 5.9 (related to exposure of orders on the Exchange) does not apply to executions of SPX orders submitted into electronic compression forums.

¹⁶ Rule 5.33(f)(2) requires complex orders to execute only if the execution price: at a net price: (1) that would cause any component of the complex strategy to be executed at a price of zero; (2) worse than the synthetic best bid or offer (“SBBO”) or equal to the SBBO when there is a Priority Customer Order at the SBBO, except all-or-none complex orders may only execute at prices better than the SBBO; (3) that would cause any component of the complex strategy to be executed at a price worse than the individual component prices on the Simple Book; (4) worse than the price that would be available if the complex order Legged into the Simple Book; or (5) that would cause any component of the complex strategy to be executed at a price ahead of a Priority Customer Order on the Simple Book without improving the BBO of at least one component of the complex strategy.

This provision provides that orders submitted into an electronic compression forum must execute in accordance with the same priority principles that apply to all other complex orders on the Exchange, which protects Priority Customer orders in the simple book and COB and prohibits trades through prices available in the book.

- The System cancels an order submitted for execution in an electronic compression forum if it cannot execute. Therefore, if an order cannot execute in accordance with the execution price and priority requirements in the prior two bulleted paragraphs, it will be cancelled.
- Orders may only be submitted for execution in an electronic compression forum only if entered in the standard increment applicable to SPX options pursuant to Rule 5.4. Unlike in open outcry compression forums, in which closing transactions may be executed in pennies, the proposed rule change will require standard increments in order to take advantage of the proposed unexposed execution.
- Only closing orders may be executed in electronic compression forums. While open outcry compression forums contemplate that opening orders are permissible in certain circumstances, those orders are generally permitted by responded in the trading crowd. As orders submitted into an electronic compression forum will be done so without exposure, there will be no responses. The primary purpose of compression forum is to permit the closing of open SPX interest, the Exchange believes restricting electronic compression forums is appropriate.

The Exchange understands from customers, and SPX Market-Makers in particular, that there is significant need to reduce open interest based on current market conditions. These market participants regularly avail themselves of open outcry compression forums, in which they use the information provided in the Exchange-provided position lists to identify potential counterparties that similarly need to close SPX open interest. In accordance with standard open outcry trading rules, a floor broker would represent a cross of orders representing this interest to the trading crowd. While other in-crowd market participants have the opportunity to respond and participate in the transaction, generally the orders represented in the cross execute cleanly against each other. The proposed rule will require that the executing TPH identify these crosses as being submitted as part of an electronic compression forum. As a result, the Exchange's Regulatory Division intends to put in place a regulatory review plan that will permit it to ensure any SPX orders that are executed pursuant to the proposed rule change are done in accordance with the proposed rule.

Providing TPHs, and Market-Makers in particular, with an electronic compression forum would replicate functionality that was previously available while Cboe was operating with an open outcry environment and would provide them with needed relief from the effect of the current exposure method ("CEM") on the options market. As noted above, because some CTPHs carrying these are bank-owned broker/dealers, those CTPHs are subject to further bank regulatory capital requirements pursuant to CEM, which result in these additional punitive capital requirements being passed on to their market-maker clients.¹⁷ Additionally, as noted above, the Exchange's necessary response to the novel coronavirus

¹⁷ See Letter from Cboe, New York Stock Exchange, and Nasdaq, Inc., to the Honorable Randal Quarles, Vice Chair for Supervision of the Board of Governors of the Federal Reserve System, March 18, 2020.

global pandemic caused the Exchange to suspend open outcry trading, which has temporarily eliminated the primary method used by market participants to execute necessary position-reducing trades in SPX options on the trading floor. Finally, the historic levels of market volatility has made providing liquidity in SPX options immensely more challenging. The execution of options trades through electronic trading to close this open SPX interest, as noted above, may be inefficient and ineffective.

The Exchange believes the proposed rule change to make available functionality that will allow liquidity providers to execute trades to reduce SPX open interest in a substantially similar manner as they were able to do on the trading floor. These closing transactions will help reduce any potential negative impact on the market-making community that may result from Net Capital Rules, which could reduce liquidity available in an extremely volatile market when the market needs this liquidity the most. The Exchange believes the proposed rule change will temporarily reduce existing inefficiencies that have resulted from closure of the trading floor, which the Exchange expects will free up liquidity providers' much needed capital, which will benefit the entire market and all investors.

Generally, in SPX options (and other classes), the Exchange lists series with narrower strike intervals that are closer to the at-the-money value, and with wider strike intervals that are further from the at-the-money value. The Exchange's internal listing procedures are intended to balance the need to list sufficient strikes to provide market participants with flexibility to manage their risk with Market-Makers' quoting obligations. The Exchange understands from Market-Makers that the need to quote in a significant number of series may contribute in part to their challenges in providing liquidity to the market. The Exchange represents it will review its internal listing procedures for SPX

options and develop a plan to modify these procedures in an effort to reduce the number of listed strikes in a manner that may permit Market-Makers to further reduce SPX open interest (and thus free up capital to continue to provide liquidity).¹⁸

(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.¹⁹ Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)²⁰ requirements that the rules of an exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest. Additionally, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)²¹ requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

In particular, the Exchange believes the proposed rule change will remove impediments to and perfect the mechanism of a free and open market and a national

¹⁸ While SPX options are listed for trading exclusively on Cboe Options, it competes with other listed options, such as options on the SPDR S&P 500 exchange-traded fund.

¹⁹ 15 U.S.C. 78f(b).

²⁰ 15 U.S.C. 78f(b)(5).

²¹ Id.

market system, and, in general, protect investors and the public interest. The proposed rule change will temporarily provide liquidity providers and other market participants with the ability to reduce open interest in SPX options electronically in a substantially similar manner as they were able to do when the trading floor was open. The proposed flexibility with respect to when the Exchange will facilitate electronic compression forums will permit the Exchange to react to market conditions and facilitate TPHs' reduction of SPX open interest in response to volatility as necessary. Electronic compression forums will allow market participants to reduce options positions in order to reduce the necessary capital associated with those positions and permit them to provide more liquidity in the market. This additional liquidity may result in tighter spreads and more execution opportunities, which benefits all investors, particularly in the current volatile markets.

The Exchange believes that its proposal is also consistent with the Act in that it seeks to mitigate the potentially negative effects of the bank capital requirements on liquidity in the SPX markets. As described above, current regulatory capital requirements could potentially impede efficient use of capital and undermine the critical liquidity role that Market-Makers and other liquidity providers play in the SPX options market by limiting the amount of capital CTPHs allocate to clearing member transactions. Specifically, the rules may cause CTPHs to impose stricter position limits on their clearing members. In turn, this could force Market-Makers to reduce the size of their quotes and result in reduced liquidity in the market. The Exchange believes that permitting TPHs to reduce options positions in SPX options will permit to contribute to the availability of liquidity in the SPX options market and help ensure that these markets

retain their competitive balance. The Exchange believes that the proposed rule would serve to protect investors by helping to ensure consistent continued depth of liquidity, particularly given current market conditions when liquidity is needed the most by investors.

The Exchange also believes the proposed rule change is consistent with the Act, because the proposed procedure is consistent with transactions that were otherwise permitted on the trading floor. The proposed rule would provide an electronic mechanism to replicate a process that was used on the trading floor. The proposed rule change imposes similar priority requirements to those in open outcry, which will protect Priority Customer orders and orders on top of the book that comprise the BBO. Additionally, the proposed rule change requires orders submitted into electronic compression forums to execute in the same increments as all other orders in an electronic environment. While these orders were exposed on the trading floor, the Exchange observed that market participants generally deferred their allocations to permit a clean cross, as that is necessary for these transactions to achieve their intended effect. Because these orders were generally not broken up on the trading floor, and because the purpose of these trades is unrelated to profits and losses (making the price at which the transaction is executed relatively unimportant like competitive trades), but rather to reduce open interest, the Exchange believes it is appropriate to not expose these orders in an electronic setting. The Exchange believes the proposed rule change, which is limited to one class the Exchange believes is being significantly impacted by the inability to execute these crosses (and the one class in which open outcry compression forums occurred), is narrowly tailored for the specific purpose of facilitating the ability of liquidity providers

to reduce positions requiring significant capital as a result of current bank regulatory capital requirements and the current historic levels of market volatility. The Exchange believes the proposed rule change will protect investors by helping to ensure continued depth of liquidity in the SPX options market.

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 electronic compression forums will be available to all market participants with SPX open interest. As discussed above, while the proposed rule change is directed at market-makers, all market participants may participate in these forums in the same manner as long as all criteria of the proposed rule are satisfied. The Exchange does not believe the proposed rule change will impose any burden on intermarket competition, as it will apply only to SPX options, which are currently listed for trading only on the Exchange. Additionally, open outcry compression forums were limited to SPX options. In addition, the proposed rule change is intended to reduce open interest are not seeking price improvement, but rather looking to reduce open interest to free up capital that will permit those parties to continue to provide liquidity to the market, and thus is not intended to have a competitive impact.

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 Act²² and Rule 19b-4(f)(6)²³ thereunder.

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

The Exchange does not believe the proposed rule change will affect the protection investors or the public interest. As discussed above, the proposed rule change will temporarily provide liquidity providers and other market participants with the ability to reduce open SPX interest in electronic compression forums in a substantially similar manner as they were able to do in open outcry compression forums when the trading floor was open. Electronic compression forums will allow market participants to reduce options positions, which would reduce the necessary capital associated with those

²² 15 U.S.C. 78s(b)(3)(A).

²³ 17 CFR 240.19b-4(f)(6).

positions and permit them to provide more liquidity in the market. This additional liquidity may result in tighter spreads and more execution opportunities, which benefits all investors, particularly in the current volatile markets.

The proposed rule change may mitigate the potentially negative effects of the bank capital requirements on liquidity in the SPX market. As described above, current regulatory capital requirements could potentially impede efficient use of capital and undermine the critical liquidity role that Market-Makers and other liquidity providers play in the SPX options market by limiting the amount of capital CPTHs allocate to clearing member transactions. In turn, this could force Market-Makers to reduce the size of their quotes and result in reduced liquidity in the market. The Exchange believes that permitting TPHs to reduce options positions in SPX in electronic compression forums would likely contribute to the availability of liquidity in the SPX options market and help ensure that the market retains its competitive balance, which benefits all investors by helping to ensure consistent continued depth of liquidity, particularly given current market conditions when liquidity is needed the most by investors.

The Exchange does not believe the proposed rule change will impose any significant burden on competition, because electronic compression forums will be available to all market participants with SPX open interest. As discussed above, while the proposed rule change is directed at market-makers, all market participants may participate in these forums in the same manner as long as all criteria of the proposed rule are satisfied. The proposed rule change will apply only to SPX options, which are currently listed for trading only on the Exchange, as open outcry compression forums were limited to SPX options. In addition, the proposed rule change is intended to reduce

open interest are not seeking price improvement, but rather looking to reduce open interest to free up capital that will permit those parties to continue to provide liquidity to the market, and thus is not intended to have a competitive impact.

The proposed functionality merely replicates a procedure that was previously available to market participants on the trading floor. While orders intended to reduce SPX open interest were exposed on the trading floor, the Exchange observed that market participants generally deferred their allocations to permit a clean cross, as that is necessary for these transactions to achieve their intended effect. Because these orders were generally not broken up on the trading floor, and because the purpose of these trades is unrelated to profits and losses (making the price at which the transaction is executed relatively unimportant like competitive trades), the Exchange believes it is appropriate to not expose these orders in an electronic setting. The Exchange believes the proposed rule change, which is limited to one class (which is the same class in which open outcry compression forums may occur) the Exchange believes is being significantly impacted by the inability to execute these crosses, and to closing only orders, is narrowly tailored for the specific purpose of facilitating the ability of liquidity providers to reduce SPX positions requiring significant capital as a result of current bank regulatory capital requirements and the current historic levels of market volatility.²⁴

The proposed functionality is also similar to that used in connection with qualified contingent cross orders (“QCCs”), which similarly execute upon entry without

²⁴ The Exchange recently adopted Related Future Cross orders that may be executed in SPX and VIX options in a similar manner when the trading floor is inoperable for similar purposes. See Rule 5.24(e)(1)(D).

exposure.²⁵ The proposed rule change has similar price protections and increment restrictions as QCC orders. While QCC imposes a minimum size of 1,000 contracts, the proposed rule change imposes no minimum size for orders executed in electronic compression forums. The purpose of an electronic compression forum is significantly different than the purpose of QCCs, as QCCs are attempting to cross any option order tied to a stock trade, which would otherwise be subject to price improvement and competition. Therefore, a minimum size was appropriate to minimize the number of orders that received the benefit of execution without exposure. While orders executed in electronic compression forums will obtain the same benefit of nonexposure, the purpose of these executions in electronic compression forums is to reduce open interest for which the market participants are relatively indifferent to the execution price, which eliminates the need for price discovery through exposure. Additionally, the proposed rule change restricts the options that can be submitted to electronic compression forums to SPX options, as open outcry compression forums are restricted. The Exchange believes these restrictions narrowly tailor the proposed rule change, making a minimum size unnecessary. The Exchange also wants to ensure market participants have sufficient flexibility to reduce SPX open interest. The Exchange notes open outcry compression forums impose no minimum size.²⁶

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

²⁵ See Rule 5.6(c) (definition of QCC).

²⁶ See Rule 5.88.

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

The Exchange respectfully requests that the Commission waive the 30-day operative delay period after which a proposed rule change under Rule 19b-4(f)(6) becomes effective. Given current market conditions that have created historic levels of volatility, the Exchange believes the proposed rule change will help it maintain fair and orderly markets by providing an electronic avenue for market participants, particularly liquidity providers, to continue to provide liquidity to the SPX market. Additionally, the Exchange understands market participants generally engage in these attempts to reduce their options positions at the end of calendar quarters, when the Exchange understands CTPHs recalculate their leverage ratios in connection with bank capital regulatory requirements, which could result in their need to add capital based on their clients' positions and further reduce availability liquidity. Waiver of the operative delay would permit TPHs to engage in these transactions in connection with the expected first quarter CTPH capital recalculation, which could permit continued liquidity and a fair and orderly market. As discussed above, the proposed rule change would apply temporarily, and only to SPX options (as open outcry compression forums did), during the time the trading floor is unavailable for open outcry trading.

(c) Not applicable.

(d) Not applicable.

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

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

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

Not applicable.

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

Not applicable.

Item 11. Exhibits

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

Exhibit 5. Proposed rule text.

EXHIBIT 1**SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34- ; File No. SR-CBOE-2020-026]

[Insert date]

Self-Regulatory Organizations; Cboe Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to Amend Rule 5.24

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 Act³ 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 Rule 5.24. 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.

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).

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

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

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

1. Purpose

The Exchange proposes to amend Rule 5.24 regarding the Exchange's business continuity and disaster recovery plans. Rule 5.24 describes which Trading Permit Holders ("TPHs") are required to connect to the Exchange's backup systems as well as certain actions the Exchange may take as part of its business continuity plans so that it may maintain fair and orderly markets if unusual circumstances occurred that could impact the Exchange's ability to conduct business. This includes what actions the Exchange would take if its trading floor became inoperable. Specifically, Rule 5.24(e) states if the Exchange trading floor becomes inoperable, the Exchange will continue to operate in a screen-based only environment using a floorless configuration of the System that is operational while the trading floor facility is inoperable. The Exchange would operate using that configuration only until the Exchange's trading floor facility became operational. Open outcry trading would not be available in the event the trading floor becomes inoperable.⁵ Rule 5.24(e)(1) also currently states in the event that the trading

⁵ Pursuant to Rule 5.26, the Exchange may enter into a back-up trading arrangement with another exchange, which could allow the Exchange to use the

floor becomes inoperable, trading will be conducted pursuant to all applicable System Rules, except that open outcry Rules would not be in force, including but not limited to the Rules (or applicable portions) in Chapter 5, Section G,⁶ and that all non-trading rules of the Exchange would continue to apply. The Exchange recently proposed additional exceptions to Rules that would not apply during a time in which the trading floor is inoperable.⁷

As of March 16, 2020, the Exchange suspended open outcry trading to help prevent the spread of the novel coronavirus and is currently operating in an all-electronic configuration. While the trading floor was open, the Exchange facilitated compression forums on the trading floor at the end of each calendar week, month, and quarter in which Trading Permit Holders reduce open positions in series of SPX options in order to mitigate the effects of capital constraints on market participants and help ensure continued depth of liquidity in the SPX options market. Given the recent suspension of open outcry trading, the Exchange proposes to facilitate an electronic process that would permit TPHs to continue to efficiently reduce their open SPX positions and free up capital while the Exchange operates in an all-electronic environment, which is particularly important given current volatile market conditions.

facilities of a back-up exchange to conduct trading of certain of its products. The Exchange currently has no back-up trading arrangement in place with another exchange.

⁶ Chapter 5, Section G of the Exchange's rulebook sets forth the rules and procedures for manual order handling and open outcry trading on the Exchange.

⁷ See Securities Exchange Act Release Nos. 88386 (March 13, 2020), 85 FR 15823 (March 19, 2020) (SR-CBOE-2020-019); and 88447 (March 20, 2020) (SR-CBOE-2020-023). The rule changes adopted in that filing are effective until May 15, 2020, unless extended. See Rule 5.24(e)(1).

SEC Rule 15c3-1 (Net Capital Requirements for Brokers or Dealers) (“Net Capital Rules”) requires that every registered broker-dealer maintain certain specified minimum levels of capital.⁸ The Net Capital Rules are designed to protect securities customers, counterparties, and creditors by requiring that broker-dealers have sufficient liquid resources on hand, at all times, to meet their financial obligations. Notably, hedged positions, including offsetting futures and options contract positions, result in certain net capital requirement reductions under the Net Capital Rules.⁹

All Options Clearing Corporation (“OCC”) clearing members are subject to the Net Capital Rules. However, a subset of clearing members are subsidiaries of U.S. bank holding companies, which, due to their affiliations with their parent U.S. bank holding companies, must comply with additional bank regulatory capital requirements pursuant to rulemaking required under the Dodd–Frank Wall Street Reform and Consumer Protection Act.¹⁰ Pursuant to this mandate, the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation approved a comprehensive regulatory capital framework for subsidiaries of U.S. bank holding company clearing firms.¹¹ Generally, these rules imposed higher minimum capital requirements, more restrictive capital eligibility standards, and higher asset risk weights than were previously mandated for clearing members that are

⁸ 17 CFR §240.15c3-1.

⁹ In addition, the Net Capital Rules permit various offsets under which a percentage of an option position’s gain at any one valuation point is allowed to offset another position’s loss at the same valuation point (e.g. vertical spreads).

¹⁰ H.R. 4173 (amending section 3(a) of the Securities Exchange Act of 1934 (the “Act”) (15 U.S.C. § 78c(a))).

¹¹ 12 CFR §50; 79 FR 61440 (Liquidity Coverage Ratio: Liquidity Risk Measurement Standards).

subsidiaries of U.S. bank holding companies under the Net Capital Rules. Furthermore, these rules do not permit deductions for hedged securities or offsetting options positions.¹² Rather, capital charges under these standards are based on the aggregate notional value of short positions regardless of offsets. As a result, Clearing Trading Permit Holders (“CTPHs”) generally must hold substantially more bank regulatory capital than would otherwise be required under the Net Capital Rules.¹³ The impact of these regulatory capital rules are compounded in the SPX options market due to the large notional value of SPX contracts.

The Exchange believes these regulatory capital requirements could impede efficient use of capital and undermine the critical liquidity role that Market-Makers play in the SPX options market by limiting the amount of capital CTPHs can allocate to clearing member transactions. Specifically, these rules may cause CTPHs to impose stricter position limits on their clearing members. These stricter position limits may

¹² Many options strategies, including relatively simple strategies often used by retail customers and more sophisticated strategies used by market-makers and institutions, are risk-limited strategies or options spread strategies that employ offsets or hedges to achieve certain investment outcomes. Such strategies typically involve the purchase and sale of multiple options (and may be coupled with purchases or sales of the underlying assets), executed simultaneously as part of the same strategy. In many cases, the potential market exposure of these strategies is limited and defined. Whereas regulatory capital requirements have historically reflected the risk-limited nature of carrying offsetting positions, these positions may now be subject to large regulatory capital requirements. Various factors, including administration costs; transaction fees; and limited market demand or counterparty interest, however, discourage market participants from closing these positions even though many market participants likely would prefer to close the positions rather than carry them to expiration.

¹³ See Letter from Cboe, New York Stock Exchange, and Nasdaq, Inc., to the Honorable Randal Quarles, Vice Chair for Supervision of the Board of Governors of the Federal Reserve System, March 18, 2020.

impact the liquidity Market-Makers might supply in the SPX market,¹⁴ which impact may be heightened when markets are volatile, and this impact may be compounded when a CTPH has multiple Market-Maker client accounts, each having largely risk-neutral portfolio holdings.¹⁵

The Exchange believes that permitting TPHs to reduce open interest in offsetting SPX options positions in open outcry compression forums has had a beneficial effect on the bank regulatory capital requirements of CTPHs' parent companies without adversely affecting the quality of the SPX options market. Accordingly, while the Exchange operates in an all-electronic environment, the Exchange proposes to adopt a similar process to occur electronically to encourage the compression of open interest in SPX. The Exchange believes lack of a method to reduce open interest in SPX options in an all-electronic environment may reduce liquidity in the market, which recently has experienced historic levels of volatility and is when the market needs this liquidity the most.

Without an electronic compression forum, TPHs seeking to reduce open interest in SPX options for regulatory capital purposes could trade out of positions as they would trade any open positions. However, the Exchange understands that wide-scale reduction of open interest in SPX options in such a manner is burdensome. First, the range of positions held by different TPHs in SPX varies greatly. In some cases, a TPH may hold positions in thousands of series of SPX. The Exchange believes providing a forum for

¹⁴ The Exchange notes Market-Makers participate on approximately 98% of SPX option trades on the Exchange.

¹⁵ Several TPHs have indicated to the Exchange that these rules could hamper their ability to provide consistent liquidity in the current SPX market, and have inquired about the ability engage in compression trading prior to the end of the current quarter.

TPHs to periodically reduce open interest in SPX options would likely contribute additional liquidity and continued competitiveness to the SPX market. In addition, the Exchange believes that the proposed rule change will promote more efficient capital deployment in light of the regulatory capital requirements rules and help ensure continued depth of liquidity in the SPX options market during continued market volatility.

The proposed rule change adopts Rule 5.24(e)(1)(E) to permit electronic compression trades during times when the trading floor is inoperable.¹⁶ The proposed electronic compression forum will function in a substantially similar manner as the open outcry compression forum functions pursuant to Rule 5.88. In general, the process would permit TPHs to submit lists of open positions to the Exchange that they wish to close against opposing (long/short) positions of other TPHs, which the Exchange would then aggregate into a single list that would allow TPHs to more easily identify those positions with counterparty interest on the Exchange. Unlike open outcry compression forums, for which Rule 5.88 specifies the times at which TPHs may submit these lists, the Exchange will determine when electronic compression forums may occur.¹⁷ The Exchange will provide TPHs with reasonable, sufficient notice of the timing of electronic compression forums, and the associated times at which lists must be submitted. While the Exchange intends to offer electronic compression forums in connection with the upcoming end-of-

¹⁶ Like the other exceptions recently added to Rule 5.24(e)(1), the proposed rule change would apply until May 15, 2020. The Exchange will monitor these transactions while the trading floor is inoperable. If the trading floor is inoperable beyond May 15, 2020, based on that review, the Exchange may submit a separate rule filing to extend the effectiveness of this rule.

¹⁷ See proposed Rule 5.24(e)(1)(E)(i). Pursuant to Rule 1.5, the Exchange will announce the times when TPHs may submit these position lists.

quarter, the Exchange believes flexibility regarding when to offer electronic compression forums will permit it to react to market conditions and facilitate TPHs' reduction of SPX open interest in response to volatility as necessary.

As is the case with open outcry compression forums, all TPHs (or their CTPHs on their behalf) may submit position lists for participation in electronic compression forums, and receive lists of positions submitted to the Exchange. Additionally, a TPH may request to have its name withheld from the list the Exchange makes available to the TPHs that submit a position list, and the list will not indicate which TPHs hold which positions. TPHs that do not want to be listed as having contributed compression-list positions may inform the Exchange and will not be included in the listed TPHs. The Exchange believes this process to identify TPHs that seek to close compression-list positions in advance of a compression forum will increase opportunities for TPHs to ultimately close compression-list positions during a compression forum while, at the same time, providing the opportunity for anonymity.

Proposed Rule 5.24(e)(1)(E)(ii) provides that in addition to the information set forth in Rule 5.88(a)(4) with respect to multi-leg positions, the Exchange will, for informational purposes, electronically distribute series positions within a strike range determined by the Exchange to each Trading Permit Holder that submitted compression-list positions to the Exchange.¹⁸ The Exchange believes this additional information will provide the Exchange with sufficient information to create larger packages of positions that may be compressed while operating in an all-electronic environment.

¹⁸ For purposes of proposed Rule 5.24(e)(1)(E), the term "multi-leg position file" as used in Rule 5.88 will be replaced with "position file." The position file will include the information set forth in Rule 5.88(a)(4) for both multi-leg positions and series positions within that Exchange-determined strike range.

Proposed Rule 5.24(e)(1)(E)(iii) describes how trades may be executed in electronic compression forums. Specifically, the proposed rule change provides that in lieu of Rule 5.88(a)(6) (which provides that trades executed in an open outcry compression forum occur in accordance with regular open outcry trading rules, subject to certain exceptions), a Trading Permit Holder may submit an order in SPX option contracts coupled with a contra-side order or orders totaling an equal number of option contracts, which will execute automatically on entry without exposure. For purposes of proposed subparagraph (iii):

- A Trading Permit Holder must identify these orders as being part of an electronic compression forum. This is currently required in open outcry compression forums.¹⁹
- A Trading Permit Holder may execute a simple order as part of an electronic compression forum only if the execution price: (1) is not at the same price as a Priority Customer order resting in the Book; and (2) is at or between the national best bid or offer (“NBBO”). Rule 5.9 (related to exposure of orders on the Exchange) does not apply to executions of SPX orders submitted into electronic compression forums. This provision provides that orders submitted into electronic compression forums must execute in accordance with the same priority principles that apply to all other simple orders on the Exchange, which protects Priority Customer orders in the simple book and prohibits trades through prices available in the book.

¹⁹ See Rule 5.88

- A Trading Permit Holder may execute a complex order as part of an electronic compression forum only if: (1) each option leg executes at a price that complies with Rule 5.33(f)(2),²⁰ provided that no option leg executes at the same price as a Priority Customer Order in the Simple Book; (2) each option leg executes at a price at or between the NBBO for the applicable series; and (3) the execution price is better than the price of any complex order resting in the COB, unless the submitted complex order is a Priority Customer Order and the resting complex order is a non-Priority Customer Order, in which case the execution price may be the same as or better than the price of the resting complex order. Rule 5.9 (related to exposure of orders on the Exchange) does not apply to executions of SPX orders submitted into electronic compression forums. This provision provides that orders submitted into an electronic compression forum must execute in accordance with the same priority principles that apply to all other complex orders on the Exchange, which protects Priority Customer orders in the simple book and COB and prohibits trades through prices available in the book.

²⁰ Rule 5.33(f)(2) requires complex orders to execute only if the execution price: at a net price: (1) that would cause any component of the complex strategy to be executed at a price of zero; (2) worse than the synthetic best bid or offer (“SBBO”) or equal to the SBBO when there is a Priority Customer Order at the SBBO, except all-or-none complex orders may only execute at prices better than the SBBO; (3) that would cause any component of the complex strategy to be executed at a price worse than the individual component prices on the Simple Book; (4) worse than the price that would be available if the complex order Legged into the Simple Book; or (5) that would cause any component of the complex strategy to be executed at a price ahead of a Priority Customer Order on the Simple Book without improving the BBO of at least one component of the complex strategy.

- The System cancels an order submitted for execution in an electronic compression forum if it cannot execute. Therefore, if an order cannot execute in accordance with the execution price and priority requirements in the prior two bulleted paragraphs, it will be cancelled.
- Orders may only be submitted for execution in an electronic compression forum only if entered in the standard increment applicable to SPX options pursuant to Rule 5.4. Unlike in open outcry compression forums, in which closing transactions may be executed in pennies, the proposed rule change will require standard increments in order to take advantage of the proposed unexposed execution.
- Only closing orders may be executed in electronic compression forums. While open outcry compression forums contemplate that opening orders are permissible in certain circumstances, those orders are generally permitted by responded in the trading crowd. As orders submitted into an electronic compression forum will be done so without exposure, there will be no responses. The primary purpose of compression forum is to permit the closing of open SPX interest, the Exchange believes restricting electronic compression forums is appropriate.

The Exchange understands from customers, and SPX Market-Makers in particular, that there is significant need to reduce open interest based on current market conditions. These market participants regularly avail themselves of open outcry compression forums, in which they use the information provided in the Exchange-provided position lists to identify potential counterparties that similarly need to close SPX open interest. In accordance with

standard open outcry trading rules, a floor broker would represent a cross of orders representing this interest to the trading crowd. While other in-crowd market participants have the opportunity to respond and participate in the transaction, generally the orders represented in the cross execute cleanly against each other. The proposed rule will require that the executing TPH identify these crosses as being submitted as part of an electronic compression forum. As a result, the Exchange's Regulatory Division intends to put in place a regulatory review plan that will permit it to ensure any SPX orders that are executed pursuant to the proposed rule change are done in accordance with the proposed rule.

Providing TPHs, and Market-Makers in particular, with an electronic compression forum would replicate functionality that was previously available while Cboe was operating with an open outcry environment and would provide them with needed relief from the effect of the current exposure method ("CEM") on the options market. As noted above, because some CTPHs carrying these are bank-owned broker/dealers, those CTPHs are subject to further bank regulatory capital requirements pursuant to CEM, which result in these additional punitive capital requirements being passed on to their market-maker clients.²¹ Additionally, as noted above, the Exchange's necessary response to the novel coronavirus global pandemic caused the Exchange to suspend open outcry trading, which has temporarily eliminated the primary method used by market participants to execute necessary position-reducing trades in SPX options on the trading floor. Finally, the historic levels of market volatility has made providing liquidity in SPX options immensely more challenging.

²¹ See Letter from Cboe, New York Stock Exchange, and Nasdaq, Inc., to the Honorable Randal Quarles, Vice Chair for Supervision of the Board of Governors of the Federal Reserve System, March 18, 2020.

The execution of options trades through electronic trading to close this open SPX interest, as noted above, may be inefficient and ineffective.

The Exchange believes the proposed rule change to make available functionality that will allow liquidity providers to execute trades to reduce SPX open interest in a substantially similar manner as they were able to do on the trading floor. These closing transactions will help reduce any potential negative impact on the market-making community that may result from Net Capital Rules, which could reduce liquidity available in an extremely volatile market when the market needs this liquidity the most. The Exchange believes the proposed rule change will temporarily reduce existing inefficiencies that have resulted from closure of the trading floor, which the Exchange expects will free up liquidity providers' much needed capital, which will benefit the entire market and all investors.

Generally, in SPX options (and other classes), the Exchange lists series with narrower strike intervals that are closer to the at-the-money value, and with wider strike intervals that are further from the at-the-money value. The Exchange's internal listing procedures are intended to balance the need to list sufficient strikes to provide market participants with flexibility to manage their risk with Market-Makers' quoting obligations. The Exchange understands from Market-Makers that the need to quote in a significant number of series may contribute in part to their challenges in providing liquidity to the market. The Exchange represents it will review its internal listing procedures for SPX options and develop a plan to modify these procedures in an effort to reduce the number of listed strikes in a manner that may permit Market-Makers to further reduce SPX open interest (and thus free up capital to continue to provide liquidity).²²

²² While SPX options are listed for trading exclusively on Cboe Options, it

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.²³ Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)²⁴ requirements that the rules of an exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest. Additionally, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)²⁵ requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

In particular, the Exchange believes the proposed rule change will remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, protect investors and the public interest. The proposed rule change will temporarily provide liquidity providers and other market participants with the ability to reduce open interest in SPX options electronically in a substantially similar manner as they were able to do when the trading floor was open. The proposed

competes with other listed options, such as options on the SPDR S&P 500 exchange-traded fund.

²³ 15 U.S.C. 78f(b).

²⁴ 15 U.S.C. 78f(b)(5).

²⁵ Id.

flexibility with respect to when the Exchange will facilitate electronic compression forums will permit the Exchange to react to market conditions and facilitate TPHs' reduction of SPX open interest in response to volatility as necessary. Electronic compression forums will allow market participants to reduce options positions in order to reduce the necessary capital associated with those positions and permit them to provide more liquidity in the market. This additional liquidity may result in tighter spreads and more execution opportunities, which benefits all investors, particularly in the current volatile markets.

The Exchange believes that its proposal is also consistent with the Act in that it seeks to mitigate the potentially negative effects of the bank capital requirements on liquidity in the SPX markets. As described above, current regulatory capital requirements could potentially impede efficient use of capital and undermine the critical liquidity role that Market-Makers and other liquidity providers play in the SPX options market by limiting the amount of capital CTPHs allocate to clearing member transactions. Specifically, the rules may cause CTPHs to impose stricter position limits on their clearing members. In turn, this could force Market-Makers to reduce the size of their quotes and result in reduced liquidity in the market. The Exchange believes that permitting TPHs to reduce options positions in SPX options will permit to contribute to the availability of liquidity in the SPX options market and help ensure that these markets retain their competitive balance. The Exchange believes that the proposed rule would serve to protect investors by helping to ensure consistent continued depth of liquidity, particularly given current market conditions when liquidity is needed the most by investors.

The Exchange also believes the proposed rule change is consistent with the Act, because the proposed procedure is consistent with transactions that were otherwise permitted on the trading floor. The proposed rule would provide an electronic mechanism to replicate a process that was used on the trading floor. The proposed rule change imposes similar priority requirements to those in open outcry, which will protect Priority Customer orders and orders on top of the book that comprise the BBO. Additionally, the proposed rule change requires orders submitted into electronic compression forums to execute in the same increments as all other orders in an electronic environment. While these orders were exposed on the trading floor, the Exchange observed that market participants generally deferred their allocations to permit a clean cross, as that is necessary for these transactions to achieve their intended effect. Because these orders were generally not broken up on the trading floor, and because the purpose of these trades is unrelated to profits and losses (making the price at which the transaction is executed relatively unimportant like competitive trades), but rather to reduce open interest, the Exchange believes it is appropriate to not expose these orders in an electronic setting. The Exchange believes the proposed rule change, which is limited to one class the Exchange believes is being significantly impacted by the inability to execute these crosses (and the one class in which open outcry compression forums occurred), is narrowly tailored for the specific purpose of facilitating the ability of liquidity providers to reduce positions requiring significant capital as a result of current bank regulatory capital requirements and the current historic levels of market volatility. The Exchange believes the proposed rule change will protect investors by helping to ensure continued depth of liquidity in the SPX options market.

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 electronic compression forums will be available to all market participants with SPX open interest. As discussed above, while the proposed rule change is directed at market-makers, all market participants may participate in these forums in the same manner as long as all criteria of the proposed rule are satisfied. The Exchange does not believe the proposed rule change will impose any burden on intermarket competition, as it will apply only to SPX options, which are currently listed for trading only on the Exchange. Additionally, open outcry compression forums were limited to SPX options. In addition, the proposed rule change is intended to reduce open interest are not seeking price improvement, but rather looking to reduce open interest to free up capital that will permit those parties to continue to provide liquidity to the market, and thus is not intended to have a competitive impact.

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 Act²⁶ and Rule 19b-4(f)(6)²⁷ thereunder. At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission will institute proceedings to determine whether the proposed rule change should be approved or disapproved.

IV. Solicitation of Comments

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

Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-CBOE-2020-026 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.

²⁶ 15 U.S.C. 78s(b)(3)(A).

²⁷ 17 CFR 240.19b-4(f)(6).

All submissions should refer to File Number SR-CBOE-2020-026. 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-2020-026 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.²⁸

Secretary

²⁸ 17 CFR 200.30-3(a)(12).

EXHIBIT 5

(additions are underlined; deletions are [bracketed])

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Rules of Cboe Exchange, Inc.

* * * * *

Rule 5.24. Disaster Recovery

(a) – (d) No change.

(e) *Loss of Trading Floor*. If the Exchange trading floor becomes inoperable, the Exchange will continue to operate in a screen-based only environment using a floorless configuration of the System that is operational while the trading floor facility is inoperable. The Exchange will operate using this configuration only until the Exchange’s trading floor facility is operational. Open outcry trading will not be available in the event the trading floor becomes inoperable, except in accordance with paragraph (2) below and pursuant to Rule 5.26, as applicable.

(1) *Applicable Rules*. In the event that the trading floor becomes inoperable, trading will be conducted pursuant to all applicable System Rules, except that open outcry Rules will not be in force, including but not limited to the Rules (or applicable portions of the Rules) in Chapter 5, Section G, and as follows (subparagraphs (A) through ([D]E) will until May 15, 2020):

(A) – (C) No change.

(D) a TPH may execute a “Related Futures Cross” or “RFC” order, which is comprised of an SPX or VIX option combo order coupled with a contra-side order or orders totaling an equal number of option combo orders, which is identified to the Exchange as being part of an exchange of option contracts for related futures positions. For purposes of RFC orders:

(1) – (6) No change.

(7) The transaction involving the related futures position of the exchange must comply with all applicable rules of the designated contract market on which the futures are listed for trading[.]; and

(E) The Exchange will make available an electronic “compression forum” in the same manner as an open outcry “compression forum” as set forth in Rule 5.88, except as follows:

(i) The Exchange will announce the times when a Trading Permit Holder may provide the Exchange with compression-list positions (as defined in Rule 5.88(a)(1)), and when the Exchange will make available to all Trading

Permit Holders a compression-list positions file (as defined in Rule 5.88(a)(2)).

(ii) In addition to the information set forth in Rule 5.88(a)(4), the Exchange will, for informational purposes, electronically distribute series positions within a strike range determined by the Exchange to each Trading Permit Holder that submitted compression-list positions to the Exchange. For purposes of this subparagraph (E), the term “multi-leg position file” as used in Rule 5.88 will be replaced with “position file.” The position file will include the information set forth in Rule 5.88(a)(4) for both multi-leg positions and series positions within that Exchange-determined strike range.

(iii) In lieu of Rule 5.88(a)(6), a Trading Permit Holder may submit an order in SPX option contracts coupled with a contra-side order or orders totaling an equal number of option contracts, which will execute automatically on entry without exposure. For purposes of this subparagraph (iii):

(a) A Trading Permit Holder must identify these orders as being part of an electronic compression forum.

(b) A Trading Permit Holder may execute a simple order as part of an electronic compression forum only if the execution price: (1) is not at the same price as a Priority Customer order resting in the Book; and (2) is at or between the NBBO. Rule 5.9 (related to exposure of orders on the Exchange) does not apply to executions of SPX orders submitted into electronic compression forums.

(c) A Trading Permit Holder may execute a complex order as part of an electronic compression forum only if: (1) each option leg executes at a price that complies with Rule 5.33(f)(2), provided that no option leg executes at the same price as a Priority Customer Order in the Simple Book; (2) each option leg executes at a price at or between the NBBO for the applicable series; and (3) the execution price is better than the price of any complex order resting in the COB, unless the submitted complex order is a Priority Customer Order and the resting complex order is a non-Priority Customer Order, in which case the execution price may be the same as or better than the price of the resting complex order. Rule 5.9 (related to exposure of orders on the Exchange) does not apply to executions of SPX orders submitted into electronic compression forums.

(d) The System cancels an order submitted for execution in an electronic compression forum if it cannot execute.

(e) Orders may only be submitted for execution in an electronic compression forum only if entered in the standard increment applicable to SPX options pursuant to Rule 5.4.

(f) Only closing orders may be executed in electronic compression forums.

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