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

File No.* SR - 2020 - * 010
Amendment No. (req. for Amendments *) 1

Filing by Cboe EDGX 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)(2)
- ◎ 19b-4(f)(3)
- ◎ 19b-4(f)(4)
- ◎ 19b-4(f)(5)
- ◎ 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 *).

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 * Adrian Last Name * Griffiths

Title * Assistant General Counsel

E-mail * agriffiths@cboe.com

Telephone * (646) 856-8723 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 05/19/2020

By Kyle Murray

(Name *)

(Title *)

VP, Associate General Counsel

kmurray@cboe.com

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

Required fields are shown with yellow backgrounds and asterisks.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information *

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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.

1. Text of the Proposed Rule Change

(a) Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")[1] and Rule 19b-4 thereunder,[2] Cboe EDGX Exchange, Inc. ("EDGX" or the "Exchange") is filing with the Securities and Exchange Commission (the "Commission") a proposed rule change to amend EDGX Rule 11.8(g), which describes the handling of Midpoint Discretionary Orders entered on the Exchange.

The text of the proposed rule change is enclosed as Exhibit 5. The text of the proposed rule change is available on the Exchange's website at http://markets.cboe.com/, at the Exchange's principal office and at the Public Reference Room of the Commission.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

(a) The Exchange's President (or designee) pursuant to delegated authority approved the proposed rule change on February 14, 2020.

(b) Please refer questions and comments on the proposed rule change to Patrick Sexton, Executive Vice President, General Counsel, and Corporate Secretary, (312) 786-7462, or Adrian Griffiths, Assistant General Counsel, (646) 856-8723.

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

(a) Purpose

A Midpoint Discretionary Order ("MDO") is a Limit Order that is executable at the national best bid ("NBB") for an order to buy or the national best offer ("NBO") for an order to

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

2 17 CFR 240.19b-4.

sell while resting on the EDGX Book, with discretion to execute at prices to and including the midpoint of the national best bid or offer ("NBBO").[3] The purpose of the proposed rule change is to amend EDGX Rule 11.8(g) to introduce two optional instructions that Users would be able to include on MDOs entered on the Exchange. First, the Exchange would allow Users to enter MDOs with an offset to the NBBO, similar to orders entered with a Primary Peg Instruction today.[4] Second, the Exchange would allow Users to enter MDOs that include a Quote Depletion Protection ("QDP") instruction that would disable discretion for a limited period in certain circumstances where the best bid or offer displayed on the EDGX Book is executed below one round lot. The Exchange believes that both of these features would enhance the usefulness of MDOs to members and investors, and would allow the exchange to better compete with other national securities exchanges that currently offer order types that include similar features.

Offset Instruction

As explained, MDOs are pegged to the same side of the NBBO, with discretion to execute at prices to and including the midpoint of the NBBO. An MDO is therefore similar to an order entered with both a Primary Peg instruction and an instruction to exercise discretion to the NBBO midpoint. It is also similar to certain order types offered by other national securities exchanges, including Discretionary Peg Orders offered by the Investors Exchange LLC ("IEX").[5] Today, Users can include an offset on orders entered on the Exchange that include a Primary Peg instruction, which allows them to specify that the order be pegged to a price above or below the NBB or NBO to which the order is pegged. Specifically, pursuant to Rule

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3 See EDGX Rule 11.8(g).

4 See EDGX Rule 11.6(j)(2).

5 See IEX Rule 11.190(b)(10). Discretionary Peg Orders on IEX are posted at the less aggressive of one MPV less aggressive than the primary quote or the order's limit price.

11.6(j)(2), which defines the Primary Peg instruction, a User may, but is not required to, select an offset equal to or greater than one Minimum Price Variation ("MPV") above or below the applicable NBB or NBO. Although an offset is generally available to Users that enter an order with the Primary Peg instruction, it is not available for an MDO that is similarly pegged to the same side of the NBBO – *i.e.*, pegged to NBB for buy orders, or NBO for sell orders. The Exchange now proposes to extend the flexibility to include an offset instruction to MDOs, thus increasing the usefulness of this order type.

As proposed, MDOs entered with an offset would function in the same manner as currently implemented for Primary Peg orders entered with an offset pursuant to Rule 11.6(j)(2), thereby ensuring a familiar and consistent experience for Users. First, a User entering an MDO would be able to select an offset equal to or greater than one MPV above or below the NBB or NBO that the order is pegged to ("Offset Amount"). Second, the Offset Amount for an MDO that is to be displayed on the EDGX Book would need to result in the price of such order being inferior to or equal to the inside quote on the same side of the market.[6] Although the Exchange expects that some Users may continue to want MDOs that are ranked at the same side of the NBBO without any offset, certain other Users may find the offset functionality useful as it would allow them to specify more or less aggressive pegged prices for MDOs resting on the EDGX Book. The Exchange is therefore proposing to introduce the offset functionality as an optional feature that can be included at the preference of the User entering an MDO for trading on the

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[6] An MDO defaults to a Displayed instruction unless the User includes a Non-Displayed instruction on the order. See EDGX Rule 11.8(g)(4). Similar to the current handling of orders entered with a Primary Peg instruction, the Exchange is not proposing to accept displayed MDOs with an aggressive offset at this time. Such orders would add functionality to the Exchange that would effectively set the NBBO through a pegged order, and the Exchange believes that this could potentially add complexity to its System.

Exchange. An offset would allow a User to choose an appropriate, often less aggressive, price based on client instructions and/or order parameters, and would provide flexibility for firms that would not need to send multiple limit orders at different price points in order to achieve the same result.

The proposed changes related to the offset instruction are included in proposed subparagraph (9) under EDGX Rule 11.8(g). In addition, the Exchange proposes to make conforming changes to language currently included in EDGX Rule 11.8(g). First, rather than explaining that an MDO is "executable at" the applicable NBB or NBO, the rule would instead provide that an MDO is "pegged to" the NBB or NBO, "with or without an offset." Second, language that describes when an MDO is executable at its limit price would be amended to state that an MDO to buy (sell) with a limit price that is less (higher) than its pegged price, including any offset, is posted to the EDGX Book at its limit price. This change would replace references to circumstances where an MDO is posted to the EDGX Book at its limit price due to such limit price being less aggressive than the prevailing NBB or NBO, as the applicable NBB or NBO is not the relevant pegged price for MDOs entered with an offset. Third, the Exchange would amend language contained in EDGX Rule 11.8(g)(6) and (8), which deal with limit up-limit down ("LULD") and locked/crossed market handling, respectively, to account for the fact that an MDO entered with an offset would not be posted at the NBB or NBO. Specifically, the Exchange would amend EDGX Rule 11.8(g)(6) to reference handling in situations where the applicable LULD price band is at or through the "the order's pegged price" rather than "an existing Protected Bid" or "an existing Protected Offer." With the introduction of an offset, the Exchange's LULD handling would only apply when the LULD price band is at or through the pegged price of the MDO, which could be different from the price of an existing Protected Bid or

Offer. Similarly, the Exchange would amend EDGX Rule 11.8(g)(8) to provide that an MDO's pegged price would be adjusted to the current NBO (for bids) or NBB (for offers), when "an MDO posted on" the EDGX Book is crossed by another market. The current version of the rule references the EDGX Book being crossed by another market since the MDO would be posted at the best price available on the Exchange (*i.e.*, the applicable NBB or NBO). With the introduction of an offset, however, an MDO may be more or less aggressive than the NBB or NBO, and this handling would apply when the posted MDO is itself crossed by another market. Each of these changes are meant to reflect the proposed operation of MDOs that are entered with an offset, as previously described, and would not otherwise impact the handling of MDOs entered on the Exchange.

Quote Depletion Protection

The Exchange also proposes to introduce an optional instruction that Users would be able to include on an MDO to limit the order's ability to exercise discretion in certain circumstances: "Quote Depletion Protection" or "QDP."[7] Similar to crumbling quote features offered for Discretionary Peg Orders entered on IEX, QDP would restrict the exercise of discretion on MDOs entered with this instruction in circumstances where applicable market conditions indicate that it may be less desirable to execute within an order's discretionary range.[8] The QDP feature would do this by tracking significant executions of orders that constitute the best bid or

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7 Proposed changes related to the introduction of the QDP instruction are reflected in proposed subparagraph (10) under EDGX Rule 11.8(g).

8 A Discretionary Peg order resting on IEX is only eligible to trade at its resting price during periods of "quote instability." See IEX Rule 11.190(b)(10). In turn, IEX Rule 11.190(g) describes IEX's quote instability calculation, which uses a proprietary mathematical formula "to assess the probability of an imminent change to the current Protected NBB to a lower price or Protected NBO to a higher price."

offer on EDGX.[9] As proposed, a "QDP Active Period" would be enabled or refreshed for buy (sell) MDOs if the best bid (offer) displayed on the EDGX Book is executed below one round lot.[10]. During this QDP Active Period, an MDO entered with a QDP instruction would not exercise discretion for a limited period of time. Instead, such an order would be only be executable at its ranked price.[11] The ranked price is always executable unless the User cancels the order from the book.

Once activated, the QDP Active Period would remain in place to prevent the execution of MDOs within their discretionary ranges for a specified period. Specifically, the Exchange proposes that when a QDP Active Period is initially enabled, or refreshed by a subsequent execution of the best bid (offer) then displayed on the EDGX Book, it would remain enabled for two milliseconds.[12] The Exchange believes that this two millisecond QDP Active Period, which is the same period currently used for Discretionary Peg Orders on IEX, is sufficient to facilitate the protection provided by the QDP instruction, while at the same time not unduly limiting the

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9 The Exchange originally proposed to include cancellations of the best bid or offer displayed on the EDGX Book when at the national best bid or offer. While the Exchange continues to believe that it may be beneficial for Users to include cancellations in the QDP logic, the Exchange intends to further evaluate how to best include such a trigger.

10 Rule 611 of Regulation NMS generally limits executions to prices that are at or better than the protected best bid or offer. However, there are circumstances, such as the use of intermarket sweep orders, where an order may be executed at an inferior price. In these circumstances, an execution of the EDGX BBO below one round lot would trigger a QDP Active Period even though that quotation is inferior to the NBBO.

11 An MDOs ranked price is the order's displayed or non-displayed pegged price, which may or may not include an offset, as proposed, or the order's limit price if that limit price is less aggressive than the applicable pegged price.

12 The QDP Active Period would always last for at least two milliseconds. If the QDP Active Period is refreshed by a subsequent execution, such execution would result in a new two millisecond timer being started. Although the MDO would not exercise discretion during the QDP Active Period, its priority would not be impacted, and any applicable priority at its pegged price would be retained when QDP is enabled.

ability of orders entered with this instruction to exercise discretion and execute at more aggressive prices within the order's discretionary range.

Finally, since the QDP instruction is designed to protect resting MDOs based on the execution of the best bids and offers displayed on the EDGX Book, the Exchange anticipates that Users may prefer to utilize the QDP instruction along with an offset instruction that results in the MDO being posted at a price that is inferior to the applicable NBB or NBO (with discretion to the midpoint). The Exchange also believes that given the less aggressive offset, and the fact that these orders are seeking additional protection, there may be less incentive for Users to include a Displayed instruction. As a result, unless the User chooses otherwise, an MDO to buy (sell) entered with a QDP instruction would default to a Non-Displayed instruction and would include an Offset Amount equal to one Minimum Price Variation below (above) the NBB (NBO).[13] This implementation is similar to the implementation of Discretionary Peg Orders on IEX but would permit Users to change these default instructions based on their specific needs.[14] For example, if a client wishes to be more passive, a firm could utilize an offset that is greater than the default. If used with a QDP instruction, the offset would establish a displayed or non-displayed ranked price that is and would remain accessible, including during any QDP Active Period.

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13 The Exchange also proposes to amend EDGX Rule 11.8(g)(4) to reflect the fact that MDOs entered with a QDP instruction would default to Non-Displayed. MDOs that are not entered with the QDP instruction would continue to default to a Displayed instruction, as currently provided in EDGX Rule 11.8(g)(4).

14 As previously discussed, Discretionary Peg Orders on IEX are posted at the less aggressive of one MPV less aggressive than the primary quote or the order's limit price. See supra note 5. Such orders are also Non-Displayed. See IEX Rule 11.190(a)(3).

Examples. The examples below illustrate the proposed operation of the QDP instruction:[15]

Example 1:

NBBO: $10.00 x $10.01

Order 1: Buy 100 shares @ $10.00 Displayed

Order 2: Buy 200 shares @ $10.01 – MDO with QDP, Hidden, Offset= -$0.01

Order 3: Sell 1 shares @ $10.00 IOC – Time = 12:00:00:000

Order 4: Sell 100 shares @ $10.00 Midpoint Pegged IOC – Time = 12:00:00:001

Order 2, which is an MDO to buy, is ranked at $9.99 non-displayed with discretion to the midpoint price of $10.005. When Order 3 is entered it will trade a single share with Order 1 at $10.00, triggering a QDP Active Period for Order 2 because of the execution of the EDGX Best Bid below one round lot. This restricts the ability for Order 2 to exercise discretion for two milliseconds, and prevents the execution of Order 4 within Order 2's discretionary range. As a result, the Order 4 would be cancelled without an execution.

Example 2:

NBBO: $10.00 x $10.01

Order 1: Buy 100 shares @ $10.00 Displayed

Order 2: Buy 200 shares @ $10.01 – MDO with QDP, Hidden, Offset= -$0.01

Order 3: Sell 200 shares @ $9.99 ISO IOC – Time = 12:00:00:000

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15 For purposes of these examples, orders are reflected in the order in which they are received, and only the identified orders are present on the EDGX Book.

This example is the same as Example 1, except that Order 3 is an ISO IOC for 200 shares that is priced equal to the non-displayed ranked price of Order 2, and there is no Order 4. Order 3 would trade 100 shares with Order 1 at $10.00, triggering a QDP Active Period. However, the triggering of a QDP Active Period would not prevent the execution of an MDO at its ranked price. As a result, Order 3 would trade its remaining 100 shares with Order 2 at $9.99.

Example 3:

NBBO: $10.00 x $10.01

Order 1: Buy 100 shares @ $10.00 Displayed

Order 2: Buy 200 shares @ $10.01 – MDO with QDP, Hidden, Offset= -$0.01

Order 3: Sell 100 share @ $10.00 IOC – Time = 12:00:00:000

Order 4: Sell 100 shares @ $10.00 Midpoint Pegged IOC – Time = 12:00:00:003

This example is the same as Example 1, except that Order 3 is for 100 shares and Order 4 is entered after the QDP Active Period has concluded. In this example, Order 3 would trade 100 shares with Order 1 at $10.00, triggering a QDP Active Period. The QDP Active Period triggered by the execution of the EDGX Best Bid below one round lot would be disabled after two milliseconds, and Order 4 would execute 100 shares against Order 2 at $10.005.

Example 4:

NBBO: $10.00 x $10.01

Order 1: Sell 100 shares @ $10.01 Displayed

Order 2: Buy 200 shares @ $10.01 – MDO with QDP, Hidden, Offset= -$0.01

Order 3: Buy 1 shares @ $10.01 IOC – Time = 12:00:00:000

Order 4: Sell 100 shares @ $10.00 Midpoint Pegged IOC – Time = 12:00:00:001

This example is the same as Example 1, except that Order 1 is to sell at $10.01 instead of to buy at $10.00, and Order 3 is to buy at $10.01 instead of to sell at $10.00. As with Example 1, when Order 3 is entered it will trade a single share with Order 1, which in this case would occur at Order 1's limit price of $10.01. However, a QDP Active Period for an MDO would only enabled by an execution of an order on the same side of the market. Thus, Order 2, which is an MDO to buy, would not be impacted by the execution of the EDGX Best Offer below one round lot. As a result, Order 2 would remain executable within its discretionary range and would trade 100 shares at $10.005 with Order 4.

Example 5:

NBBO: $10.00 x $10.01

Order 1: Buy 100 shares @ $10.00 Displayed

Order 2: Buy 200 shares @ $10.01 – MDO with QDP, Hidden, Offset= -$0.03

Order 3: Sell 1 shares @ $10.00 IOC – Time = 12:00:00:000

Order 4: Sell 100 shares @ $10.00 Midpoint Pegged IOC – Time = 12:00:00:001

This example is the same as Example 1, except that Order 2 is entered with a less aggressive offset of -$0.03. Order 2, which is an MDO to buy, is therefore ranked at $9.97 non-displayed with discretion to the midpoint price of $10.005. When Order 3 is entered it will trade a single share with Order 1 at $10.00, triggering a QDP Active Period for Order 2 because of the execution of the EDGX Best Bid below one round lot.

This restricts the ability for Order 2 to exercise discretion for two milliseconds, and prevents the execution of Order 4 within Order 2's discretionary range. As a result, the Order 4 would be cancelled without an execution. The larger offset included by the User would not impact the implementation of the QDP instruction.

Example 6:

NBBO: $10.00 x $10.01

Order 1: Buy 100 shares @ $10.00 Displayed

Order 2: Buy 200 shares @ $10.01 – MDO with QDP, Hidden, Offset= -$0.03

Order 3: Sell 200 shares @ $9.97 ISO IOC – Time = 12:00:00:000

This example is the same as Example 2, except that Order 2 is entered with a less aggressive offset of -$0.03, and Order 3 is priced at the modified non-displayed ranked price of Order 2, which is $9.97 in this example. Order 3 would trade 100 shares with Order 1 at $10.00, triggering a QDP Active Period. However, the triggering of a QDP Active Period would not prevent the execution of an MDO at its ranked price. As a result, Order 3 would trade its remaining 100 shares with Order 2 at $9.97. The larger offset included by the User would not impact the implementation of the QDP instruction.[16]

Example 7:

NBBO: $10.00 x $10.01

Order 1: Buy 100 shares @ $10.00 Displayed

Order 2: Buy 200 shares @ $10.01 – MDO with QDP, Hidden, Offset= -$0.01

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16 An incoming order would, however, need to be aggressive enough to reach the ranked price of the MDO in order to execute against it when QDP is enabled.

Order 3: Sell 200 shares @ $10.00 IOC – Time = 12:00:00:000

Order 2, which is an MDO to buy, is ranked at $9.99 non-displayed with discretion to the midpoint price of $10.005. When Order 3 is entered it would first trade 100 shares with Order 1 at $10.00. A QDP Active Period is then immediately enabled for Order 2 because of the execution of the EDGX Best Bid below one round lot. This restricts the ability for Order 2 to exercise discretion for two milliseconds, and prevents the execution of the remaining 100 shares of Order 3 within Order 2's discretionary range. As a result, the remaining quantity of Order 3 would be cancelled.

Example 8:

NBBO: $10.00 x $10.01

Order 1: Buy 100 shares @ $9.99 Displayed

Order 2: Buy 100 shares @ 10.00 Displayed

Order 3: Buy 100 shares @ $10.01 – MDO with QDP, Hidden, Offset = -$0.02

Order 4: Sell 100 shares @ $10.00 IOC – Time = 12:00:00:000

Order 5: Sell 100 shares @ $9.99 ISO IOC – Time = 12:00:00:001

Order 6: Sell 100 shares @ $10.00 ISO IOC – Time = 12:00:00:002

Order 3, which is an MDO to buy, is ranked at $9.98 non-displayed with discretion to the midpoint price of $10.005. When Order 4 is entered it would trade 100 shares with Order 2 at $10.00. A QDP Active Period is then immediately enabled for Order 3 because of the execution of the EDGX Best Bid below one round lot. This restricts the ability for Order 3 to exercise discretion for two milliseconds. When Order 5 is entered it would trade 100 shares with Order 1, which is now the EDGX Best Bid, at $9.99, refreshing the QDP

Active Period and extending it until 12:00:00:003. When Order 6 is entered it would be cancelled without an execution as Order 3 would still be subject to the extended QDP Active Period.

(b) Statutory Basis

The Exchange believes the proposed rule change is consistent with the requirements of Section 6(b) of the Act,[17] in general, and Section 6(b)(5) of the Act,[18] in particular, in that it is designed to remove impediments to and perfect the mechanism of a free and open market and a national market system, to promote just and equitable principles of trade, and, in general, to protect investors and the public interest and not to permit unfair discrimination between customers, issuers, brokers, or dealers. The two proposed changes would increase the usefulness of MDOs offered by the Exchange, and would allow the Exchange to better compete with order types on other national securities exchanges that offer similar features to their members.

Offset Instruction for MDOs

The Exchange believes that it is consistent with the protection of investors and the public interest to introduce an offset instruction that Users could choose to include on their MDOs.[19] With this proposed change, MDOs would behave similarly to orders entered with a Primary Peg instruction today in that such orders could be entered with an offset that results in the order being pegged to a price that is more or less aggressive than the applicable NBB or NBO on the same

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17 15 U.S.C. § 78f(b).

18 15 U.S.C. § 78f(b)(5).

19 The Exchange notes that technical changes proposed to EDGX Rule 11.8(g), including paragraphs (6) and (8) thereunder merely reflect language changes that are necessary since an MDO would be allowed with an offset. The Exchange believes that these changes would promote just and equitable principles of trade as they would ensure that MDO handling remains transparent with the introduction of the offset instruction.

side of the market (*i.e.*, NBB for buy orders and NBO for sell orders). This change would make MDOs a more flexible tool for members and investors. Further, the introduction of the offset instruction on MDOs would be similar to and competitive with features offered on other national securities exchanges that offer similar order types. For example, Discretionary Peg Orders offered on IEX are pegged one MPV less aggressive than the applicable NBB or NBO when posted to the order book, with discretion to the midpoint of the NBBO (subject to the order's limit price). Introducing an offset instruction for MDOs offered on EDGX would allow members and investors that trade on the Exchange to utilize similar functionality. Such functionality could be used for a number of purposes, including to mitigate risk by posting an order at a price that is lower (higher) than the prevailing NBB (NBO). Although broker-dealers could implement similar functionality on their own by consuming market data feeds and sending limit orders to the Exchange at prices that are offset from the NBBO, implementing this functionality through an exchange order type ensures that it is widely available to market participants on a fair and non-discriminatory basis.

At the same time, the offset instruction would be offered on a purely voluntary basis, and with flexibility for Users to choose the amount of any offset, thereby maintaining flexibility to continue using the current offering, which pegs MDOs to the applicable NBB or NBO without an offset, and to choose different offsets based on a User's specific needs. The Exchange does not believe that providing additional flexibility to Users to select the amount of any offset raises any significant or novel concerns, either on its own or in conjunction with the proposed introduction of the QDP instruction. As previously stated, similar offset functionality is already available for Users that are able to enter orders with both a Primary Peg and Discretionary Range instruction today. Further, although such an offset instruction could be combined with the proposed QDP

instruction, the Exchange believes that this combination is likely to inure to the benefit of buy-side or other investors that choose to use MDOs with these instructions. Although another exchange operator, *i.e.*, IEX, has chosen to require that all Discretionary Peg Orders entered on that exchange are ranked with a one MPV offset, the Exchange believes that flexibility to choose whether to include an offset, and the amount of any offsets, is beneficial for market participants that require additional discretion to manage their order flow on the Exchange. Further, regardless of the size of any offset chosen by the entering firm, MDOs would always be executable at their pegged price, *i.e.*, including when a QDP Active period has been triggered for the order, and will further be eligible to provide liquidity up to the midpoint of the NBBO when QDP is inactive, or in the case of MDOs entered without the optional QDP instruction. As is the case for orders entered with a Primary Peg instruction and an offset, displayed MDOs would not be accepted with an offset that results in such orders being posted at a price that is better than the applicable NBB or NBO. Users that wish to enter an MDO with an aggressive offset would be required to enter such orders with a non-displayed instruction, thereby ensuring that such orders would not be eligible to set a new NBBO, which the Exchange believes may unnecessarily increase the complexity of its System.[20]

Quote Depletion Protection

The Exchange also believes that it is consistent with the protection of investors and the public interest to introduce the QDP instruction to provide additional protection to Users that enter MDOs with this instruction. Similar to Discretionary Peg Orders offered by IEX, the QDP instruction would provide Users with protective features that would limit the order's ability to exercise discretion in certain circumstances that may be indicative of a quotation that is moving

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20 See supra note 6.

against the resting MDO – *i.e.*, a buy quotation that is moving to a lower price for MDOs to buy, or a sell quotation that is moving to a higher price for MDOs to sell. The specific trigger for enabling a QDP Active Period, or refreshing a QDP Active Period that has already been enabled, would be based on the execution of the best bid or offer displayed by the Exchange on the same side of the market. Any trade that results in such bid or offer being executed below one round lot would trigger a QDP Active Period.

To test the potential performance of the proposed QDP instruction in protecting Users from a potential negative price move, the Exchange reviewed trading data for a ten day period from February 3, 2020 to February 14, 2020, and observed market movements in the two milliseconds following instances where QDP would have been enabled due to the execution of the EDGX Best Bid or Offer below one round lot. Based on the results of that review, the Exchange believes that QDP instruction would offer significant protection to investors by preventing the exercise of discretion in situations where there is a reasonable likelihood of the market moving against the resting MDO. As illustrated in the table below, the national best bid (offer) moved to an inferior price – *i.e.*, to a lower (higher) price from the perspective of an order to buy (sell) – more than half of the time in the two milliseconds following a potential triggering of a QDP Active Period when QDP would be active, and moved in the opposite direction less than two percent of the time. Further, although the market was static and did not move in either direction a significant portion of the time, the opportunity cost of disabling discretion in those limited circumstances is small as QDP would only be enabled for 338 milliseconds on average throughout the trading day. The Exchange therefore believes that the MDOs entered with a QDP instruction would benefit from avoiding potentially impactful executions within the order's

discretionary range when there are impending price moves that might otherwise negatively affect the performance of that order.

QDP Performance Statistics (Average Per Security) [21]

Daily Time QDP is Active	Correct Prediction	Static	False Prediction
0.338 seconds	50.37%	47.92%	1.71%

When a QDP Active Period is enabled or refreshed, the MDO would forgo discretion for a limited period but would remain executable at its displayed or non-displayed ranked price. The Exchange notes that IEX, which offers similar protective functionality to its members, currently offers non-displayed pegged orders, and does not offer a displayed variant of its either its Discretionary Peg Order or other pegged orders.[22] Although the Exchange would continue to offer displayed MDOs with the introduction of the QDP instruction, the Exchange believes that this implementation is consistent with the requirements of the Exchange Act as an MDO that is displayed on the Exchange would always remain accessible at its displayed price, including when a QDP Active Period is triggered. The Exchange would not delay or otherwise restrict executions of an MDO entered with a QDP instruction at the order's pegged price. The triggering of a QDP Active Period would solely implicate the discretionary range afforded to such orders,

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21 For purposes of these statistics a correct prediction is when the NBB(O) moves lower (higher) after QDP would have been triggered on the buy (sell) side of the market in the two milliseconds that follow the triggering event. The two-millisecond period used for this study corresponds to the proposed length of the QDP Active Period.

22 See IEX Rule 11.190(a)(3)(G).

which is at all times non-displayed, and is not disseminated to market participants. As a result, an MDO that is displayed on the EDGX Book would always be executable at the price displayed to investors.

The QDP instruction may provide additional comfort to Users entering MDOs that would allow them to utilize discretion, and thereby provide potential price improvement opportunities to incoming orders, while at the same time limiting the exercise of discretion in circumstances where an execution within the order's discretionary range may be undesirable. The Exchange therefore believes that the introduction of the QDP instruction would remove impediments to and perfect the mechanism of a free and open market and a national market system. Further, while the QDP instruction would be available to all Users, use of this instruction would be voluntary, meaning that Users could choose to use this instruction, or not, based on their specific needs. As previously stated, the Exchange believes that it is important to give market participants flexibility with respect to how they reflect their trading interest on the Exchange. Similar to the ability for firms to choose whether to include an offset, or the amount of such an offset, enabling the QDP instruction as an optional feature would allow members and investors to determine how best to utilize these instructions based on their trading needs and those of their customers. This flexibility would provide broker-dealers with an option to reduce their need to constantly evaluate real-time market data updates that may negatively impact their clients' orders and/or outcome.

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

The Exchange does not believe that the proposed rule change would impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. To the contrary, the proposal is a competitive response to similar features available on other

markets, such as IEX, and would therefore facilitate increased competition between exchange markets. As with other national securities exchanges, the Exchange must continually assess and improve its offerings to compete with other exchanges and off-exchange venues. The proposed rule change is indicative of this competition. Further, the Exchange does not believe that the proposed rule change would implicate any competitive concerns with respect to its Users. Both instructions proposed to be introduced for MDOs with this filing would be available to all Users on an equal and non-discriminatory basis. Rather than impede competition, the proposed rule change would provide additional tools for members and investors to facilitate their trading goals.

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

No comments were solicited or received on the proposed rule change.

6. Extension of Time Period for Commission Action

Not applicable.

7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)

Not applicable.

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

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

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

Not applicable.

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

Not applicable.

11. Exhibits

Exhibit 1 – Form of Notice of Proposed Rule Change for Federal Register.

Exhibit 5 – Text of the Proposed Rule Change

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34- ; File No. SR-CboeEDGX-2020-010]

[Insert date]

Self-Regulatory Organizations; Cboe EDGX Exchange, Inc.; Notice of Filing of a Proposed Rule Change Relating to Amend EDGX Rule 11.8(g), which Describes the Handling of Midpoint Discretionary Orders Entered on the Exchange

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 EDGX Exchange, Inc. (the "Exchange" or "EDGX") 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 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 EDGX Exchange, Inc. ("EDGX" or the "Exchange") is filing with the Securities and Exchange Commission (the "Commission") a proposed rule change to amend EDGX Rule 11.8(g), which describes the handling of Midpoint Discretionary Orders entered on the Exchange. The text of the proposed rule change is provided in Exhibit 5.

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

2 17 CFR 240.19b-4.

The text of the proposed rule change is also available on the Exchange's website (http://markets.cboe.com/us/options/regulation/rule_filings/edgx/), at the Exchange's Office of the Secretary, and at the Commission's Public Reference Room.

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

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

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

1. Purpose

A Midpoint Discretionary Order ("MDO") is a Limit Order that is executable at the national best bid ("NBB") for an order to buy or the national best offer ("NBO") for an order to sell while resting on the EDGX Book, with discretion to execute at prices to and including the midpoint of the national best bid or offer ("NBBO").[3] The purpose of the proposed rule change is to amend EDGX Rule 11.8(g) to introduce two optional instructions that Users would be able to include on MDOs entered on the Exchange. First, the Exchange would allow Users to enter MDOs with an offset to the NBBO, similar to orders entered with a Primary Peg Instruction today.[4] Second, the Exchange would allow Users to enter MDOs that include a Quote Depletion Protection ("QDP") instruction that would disable discretion for a limited period in certain circumstances where the best bid

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3 See EDGX Rule 11.8(g).

4 See EDGX Rule 11.6(j)(2).

or offer displayed on the EDGX Book is executed below one round lot. The Exchange believes that both of these features would enhance the usefulness of MDOs to members and investors, and would allow the exchange to better compete with other national securities exchanges that currently offer order types that include similar features.

Offset Instruction

As explained, MDOs are pegged to the same side of the NBBO, with discretion to execute at prices to and including the midpoint of the NBBO. An MDO is therefore similar to an order entered with both a Primary Peg instruction and an instruction to exercise discretion to the NBBO midpoint. It is also similar to certain order types offered by other national securities exchanges, including Discretionary Peg Orders offered by the Investors Exchange LLC ("IEX").[5] Today, Users can include an offset on orders entered on the Exchange that include a Primary Peg instruction, which allows them to specify that the order be pegged to a price above or below the NBB or NBO to which the order is pegged. Specifically, pursuant to Rule 11.6(j)(2), which defines the Primary Peg instruction, a User may, but is not required to, select an offset equal to or greater than one Minimum Price Variation ("MPV") above or below the applicable NBB or NBO. Although an offset is generally available to Users that enter an order with the Primary Peg instruction, it is not available for an MDO that is similarly pegged to the same side of the NBBO – *i.e.*, pegged to NBB for buy orders, or NBO for sell orders. The Exchange now proposes to extend the flexibility to include an offset instruction to MDOs, thus increasing the usefulness of this order type.

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5 See IEX Rule 11.190(b)(10). Discretionary Peg Orders on IEX are posted at the less aggressive of one MPV less aggressive than the primary quote or the order's limit price.

As proposed, MDOs entered with an offset would function in the same manner as currently implemented for Primary Peg orders entered with an offset pursuant to Rule 11.6(j)(2), thereby ensuring a familiar and consistent experience for Users. First, a User entering an MDO would be able to select an offset equal to or greater than one MPV above or below the NBB or NBO that the order is pegged to ("Offset Amount"). Second, the Offset Amount for an MDO that is to be displayed on the EDGX Book would need to result in the price of such order being inferior to or equal to the inside quote on the same side of the market.[6] Although the Exchange expects that some Users may continue to want MDOs that are ranked at the same side of the NBBO without any offset, certain other Users may find the offset functionality useful as it would allow them to specify more or less aggressive pegged prices for MDOs resting on the EDGX Book. The Exchange is therefore proposing to introduce the offset functionality as an optional feature that can be included at the preference of the User entering an MDO for trading on the Exchange. An offset would allow a User to choose an appropriate, often less aggressive, price based on client instructions and/or order parameters, and would provide flexibility for firms that would not need to send multiple limit orders at different price points in order to achieve the same result.

The proposed changes related to the offset instruction are included in proposed subparagraph (9) under EDGX Rule 11.8(g). In addition, the Exchange proposes to make

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6 An MDO defaults to a Displayed instruction unless the User includes a Non-Displayed instruction on the order. See EDGX Rule 11.8(g)(4). Similar to the current handling of orders entered with a Primary Peg instruction, the Exchange is not proposing to accept displayed MDOs with an aggressive offset at this time. Such orders would add functionality to the Exchange that would effectively set the NBBO through a pegged order, and the Exchange believes that this could potentially add complexity to its System.

conforming changes to language currently included in EDGX Rule 11.8(g). First, rather than explaining that an MDO is "executable at" the applicable NBB or NBO, the rule would instead provide that an MDO is "pegged to" the NBB or NBO, "with or without an offset." Second, language that describes when an MDO is executable at its limit price would be amended to state that an MDO to buy (sell) with a limit price that is less (higher) than its pegged price, including any offset, is posted to the EDGX Book at its limit price. This change would replace references to circumstances where an MDO is posted to the EDGX Book at its limit price due to such limit price being less aggressive than the prevailing NBB or NBO, as the applicable NBB or NBO is not the relevant pegged price for MDOs entered with an offset. Third, the Exchange would amend language contained in EDGX Rule 11.8(g)(6) and (8), which deal with limit up-limit down ("LULD") and locked/crossed market handling, respectively, to account for the fact that an MDO entered with an offset would not be posted at the NBB or NBO. Specifically, the Exchange would amend EDGX Rule 11.8(g)(6) to reference handling in situations where the applicable LULD price band is at or through the "the order's pegged price" rather than "an existing Protected Bid" or "an existing Protected Offer." With the introduction of an offset, the Exchange's LULD handling would only apply when the LULD price band is at or through the pegged price of the MDO, which could be different from the price of an existing Protected Bid or Offer. Similarly, the Exchange would amend EDGX Rule 11.8(g)(8) to provide that an MDO's pegged price would be adjusted to the current NBO (for bids) or NBB (for offers), when "an MDO posted on" the EDGX Book is crossed by another market. The current version of the rule references the EDGX Book being crossed by another market since the MDO would be posted at the best price

available on the Exchange (*i.e.*, the applicable NBB or NBO). With the introduction of an offset, however, an MDO may be more or less aggressive than the NBB or NBO, and this handling would apply when the posted MDO is itself crossed by another market. Each of these changes are meant to reflect the proposed operation of MDOs that are entered with an offset, as previously described, and would not otherwise impact the handling of MDOs entered on the Exchange.

Quote Depletion Protection

The Exchange also proposes to introduce an optional instruction that Users would be able to include on an MDO to limit the order's ability to exercise discretion in certain circumstances: "Quote Depletion Protection" or "QDP."[7] Similar to crumbling quote features offered for Discretionary Peg Orders entered on IEX, QDP would restrict the exercise of discretion on MDOs entered with this instruction in circumstances where applicable market conditions indicate that it may be less desirable to execute within an order's discretionary range.[8] The QDP feature would do this by tracking significant executions of orders that constitute the best bid or offer on EDGX.[9] As proposed, a "QDP Active Period" would be enabled or refreshed for buy (sell) MDOs if the best bid (offer)

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7 Proposed changes related to the introduction of the QDP instruction are reflected in proposed subparagraph (10) under EDGX Rule 11.8(g).

8 A Discretionary Peg order resting on IEX is only eligible to trade at its resting price during periods of "quote instability." See IEX Rule 11.190(b)(10). In turn, IEX Rule 11.190(g) describes IEX's quote instability calculation, which uses a proprietary mathematical formula "to assess the probability of an imminent change to the current Protected NBB to a lower price or Protected NBO to a higher price."

9 The Exchange originally proposed to include cancellations of the best bid or offer displayed on the EDGX Book when at the national best bid or offer. While the Exchange continues to believe that it may be beneficial for Users to include cancellations in the QDP logic, the Exchange intends to further evaluate how to best include such a trigger.

displayed on the EDGX Book is executed below one round lot.[10]. During this QDP Active Period, an MDO entered with a QDP instruction would not exercise discretion for a limited period of time. Instead, such an order would be only be executable at its ranked price.[11] The ranked price is always executable unless the User cancels the order from the book.

Once activated, the QDP Active Period would remain in place to prevent the execution of MDOs within their discretionary ranges for a specified period. Specifically, the Exchange proposes that when a QDP Active Period is initially enabled, or refreshed by a subsequent execution of the best bid (offer) then displayed on the EDGX Book, it would remain enabled for two milliseconds.[12] The Exchange believes that this two millisecond QDP Active Period, which is the same period currently used for Discretionary Peg Orders on IEX, is sufficient to facilitate the protection provided by the QDP instruction, while at the same time not unduly limiting the ability of orders entered with this instruction to exercise discretion and execute at more aggressive prices within the order's discretionary range.

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10 Rule 611 of Regulation NMS generally limits executions to prices that are at or better than the protected best bid or offer. However, there are circumstances, such as the use of intermarket sweep orders, where an order may be executed at an inferior price. In these circumstances, an execution of the EDGX BBO below one round lot would trigger a QDP Active Period even though that quotation is inferior to the NBBO.

11 An MDOs ranked price is the order's displayed or non-displayed pegged price, which may or may not include an offset, as proposed, or the order's limit price if that limit price is less aggressive than the applicable pegged price.

12 The QDP Active Period would always last for at least two milliseconds. If the QDP Active Period is refreshed by a subsequent execution, such execution would result in a new two millisecond timer being started. Although the MDO would not exercise discretion during the QDP Active Period, its priority would not be impacted, and any applicable priority at its pegged price would be retained when QDP is enabled.

Finally, since the QDP instruction is designed to protect resting MDOs based on the execution of the best bids and offers displayed on the EDGX Book, the Exchange anticipates that Users may prefer to utilize the QDP instruction along with an offset instruction that results in the MDO being posted at a price that is inferior to the applicable NBB or NBO (with discretion to the midpoint). The Exchange also believes that given the less aggressive offset, and the fact that these orders are seeking additional protection, there may be less incentive for Users to include a Displayed instruction. As a result, unless the User chooses otherwise, an MDO to buy (sell) entered with a QDP instruction would default to a Non-Displayed instruction and would include an Offset Amount equal to one Minimum Price Variation below (above) the NBB (NBO).[13] This implementation is similar to the implementation of Discretionary Peg Orders on IEX but would permit Users to change these default instructions based on their specific needs.[14] For example, if a client wishes to be more passive, a firm could utilize an offset that is greater than the default. If used with a QDP instruction, the offset would establish a displayed or non-displayed ranked price that is and would remain accessible, including during any QDP Active Period.

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13 The Exchange also proposes to amend EDGX Rule 11.8(g)(4) to reflect the fact that MDOs entered with a QDP instruction would default to Non-Displayed. MDOs that are not entered with the QDP instruction would continue to default to a Displayed instruction, as currently provided in EDGX Rule 11.8(g)(4).

14 As previously discussed, Discretionary Peg Orders on IEX are posted at the less aggressive of one MPV less aggressive than the primary quote or the order's limit price. See supra note 5. Such orders are also Non-Displayed. See IEX Rule 11.190(a)(3).

Examples. The examples below illustrate the proposed operation of the QDP instruction:[15]

Example 1:

NBBO: $10.00 x $10.01

Order 1: Buy 100 shares @ $10.00 Displayed

Order 2: Buy 200 shares @ $10.01 – MDO with QDP, Hidden, Offset= - $0.01

Order 3: Sell 1 shares @ $10.00 IOC – Time = 12:00:00:000

Order 4: Sell 100 shares @ $10.00 Midpoint Pegged IOC – Time = 12:00:00:001

Order 2, which is an MDO to buy, is ranked at $9.99 non-displayed with discretion to the midpoint price of $10.005. When Order 3 is entered it will trade a single share with Order 1 at $10.00, triggering a QDP Active Period for Order 2 because of the execution of the EDGX Best Bid below one round lot. This restricts the ability for Order 2 to exercise discretion for two milliseconds, and prevents the execution of Order 4 within Order 2's discretionary range. As a result, the Order 4 would be cancelled without an execution.

Example 2:

NBBO: $10.00 x $10.01

Order 1: Buy 100 shares @ $10.00 Displayed

Order 2: Buy 200 shares @ $10.01 – MDO with QDP, Hidden, Offset= -$0.01

Order 3: Sell 200 shares @ $9.99 ISO IOC – Time = 12:00:00:000

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15 For purposes of these examples, orders are reflected in the order in which they are received, and only the identified orders are present on the EDGX Book.

This example is the same as Example 1, except that Order 3 is an ISO IOC for 200 shares that is priced equal to the non-displayed ranked price of Order 2, and there is no Order 4. Order 3 would trade 100 shares with Order 1 at $10.00, triggering a QDP Active Period. However, the triggering of a QDP Active Period would not prevent the execution of an MDO at its ranked price. As a result, Order 3 would trade its remaining 100 shares with Order 2 at $9.99.

Example 3:

NBBO: $10.00 x $10.01

Order 1: Buy 100 shares @ $10.00 Displayed

Order 2: Buy 200 shares @ $10.01 – MDO with QDP, Hidden, Offset= -$0.01

Order 3: Sell 100 share @ $10.00 IOC – Time = 12:00:00:000

Order 4: Sell 100 shares @ $10.00 Midpoint Pegged IOC – Time = 12:00:00:003

This example is the same as Example 1, except that Order 3 is for 100 shares and Order 4 is entered after the QDP Active Period has concluded. In this example, Order 3 would trade 100 shares with Order 1 at $10.00, triggering a QDP Active Period. The QDP Active Period triggered by the execution of the EDGX Best Bid below one round lot would be disabled after two milliseconds, and Order 4 would execute 100 shares against Order 2 at $10.005.

Example 4:

NBBO: $10.00 x $10.01

Order 1: Sell 100 shares @ $10.01 Displayed

Order 2: Buy 200 shares @ $10.01 – MDO with QDP, Hidden, Offset= -$0.01

Order 3: Buy 1 shares @ $10.01 IOC – Time = 12:00:00:000

Order 4: Sell 100 shares @ $10.00 Midpoint Pegged IOC – Time = 12:00:00:001

This example is the same as Example 1, except that Order 1 is to sell at $10.01 instead of to buy at $10.00, and Order 3 is to buy at $10.01 instead of to sell at $10.00. As with Example 1, when Order 3 is entered it will trade a single share with Order 1, which in this case would occur at Order 1's limit price of $10.01. However, a QDP Active Period for an MDO would only enabled by an execution of an order on the same side of the market. Thus, Order 2, which is an MDO to buy, would not be impacted by the execution of the EDGX Best Offer below one round lot. As a result, Order 2 would remain executable within its discretionary range and would trade 100 shares at $10.005 with Order 4.

Example 5:

NBBO: $10.00 x $10.01

Order 1: Buy 100 shares @ $10.00 Displayed

Order 2: Buy 200 shares @ $10.01 – MDO with QDP, Hidden, Offset= -$0.03

Order 3: Sell 1 shares @ $10.00 IOC – Time = 12:00:00:000

Order 4: Sell 100 shares @ $10.00 Midpoint Pegged IOC – Time = 12:00:00:001

This example is the same as Example 1, except that Order 2 is entered with a less aggressive offset of -$0.03. Order 2, which is an MDO to buy, is therefore ranked at $9.97 non-displayed with discretion to the midpoint price of $10.005. When Order 3 is entered it will trade a single share with Order 1 at $10.00, triggering a QDP Active Period for Order 2 because of the execution of the EDGX Best Bid below one round lot. This restricts the ability for Order 2 to exercise discretion for two milliseconds, and prevents the execution of Order 4 within Order 2's

discretionary range. As a result, the Order 4 would be cancelled without an execution. The larger offset included by the User would not impact the implementation of the QDP instruction.

Example 6:

NBBO: $10.00 x $10.01

Order 1: Buy 100 shares @ $10.00 Displayed

Order 2: Buy 200 shares @ $10.01 – MDO with QDP, Hidden, Offset= -$0.03

Order 3: Sell 200 shares @ $9.97 ISO IOC – Time = 12:00:00:000

This example is the same as Example 2, except that Order 2 is entered with a less aggressive offset of -$0.03, and Order 3 is priced at the modified non-displayed ranked price of Order 2, which is $9.97 in this example. Order 3 would trade 100 shares with Order 1 at $10.00, triggering a QDP Active Period. However, the triggering of a QDP Active Period would not prevent the execution of an MDO at its ranked price. As a result, Order 3 would trade its remaining 100 shares with Order 2 at $9.97. The larger offset included by the User would not impact the implementation of the QDP instruction.[16]

Example 7:

NBBO: $10.00 x $10.01

Order 1: Buy 100 shares @ $10.00 Displayed

Order 2: Buy 200 shares @ $10.01 – MDO with QDP, Hidden, Offset= -$0.01

Order 3: Sell 200 shares @ $10.00 IOC – Time = 12:00:00:000

16 An incoming order would, however, need to be aggressive enough to reach the ranked price of the MDO in order to execute against it when QDP is enabled.

Order 2, which is an MDO to buy, is ranked at $9.99 non-displayed with discretion to the midpoint price of $10.005. When Order 3 is entered it would first trade 100 shares with Order 1 at $10.00. A QDP Active Period is then immediately enabled for Order 2 because of the execution of the EDGX Best Bid below one round lot. This restricts the ability for Order 2 to exercise discretion for two milliseconds, and prevents the execution of the remaining 100 shares of Order 3 within Order 2's discretionary range. As a result, the remaining quantity of Order 3 would be cancelled.

Example 8:

NBBO: $10.00 x $10.01

Order 1: Buy 100 shares @ $9.99 Displayed

Order 2: Buy 100 shares @ 10.00 Displayed

Order 3: Buy 100 shares @ $10.01 – MDO with QDP, Hidden, Offset = -$0.02

Order 4: Sell 100 shares @ $10.00 IOC – Time = 12:00:00:000

Order 5: Sell 100 shares @ $9.99 ISO IOC – Time = 12:00:00:001

Order 6: Sell 100 shares @ $10.00 ISO IOC – Time = 12:00:00:002

Order 3, which is an MDO to buy, is ranked at $9.98 non-displayed with discretion to the midpoint price of $10.005. When Order 4 is entered it would trade 100 shares with Order 2 at $10.00. A QDP Active Period is then immediately enabled for Order 3 because of the execution of the EDGX Best Bid below one round lot. This restricts the ability for Order 3 to exercise discretion for two milliseconds. When Order 5 is entered it would trade 100 shares with Order 1, which is now the EDGX Best Bid, at $9.99, refreshing the QDP Active Period and extending it until 12:00:00:003. When

Order 6 is entered it would be cancelled without an execution as Order 3 would still be subject to the extended QDP Active Period.

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the requirements of Section 6(b) of the Act,[17] in general, and Section 6(b)(5) of the Act,[18] in particular, in that it is designed to remove impediments to and perfect the mechanism of a free and open market and a national market system, to promote just and equitable principles of trade, and, in general, to protect investors and the public interest and not to permit unfair discrimination between customers, issuers, brokers, or dealers. The two proposed changes would increase the usefulness of MDOs offered by the Exchange, and would allow the Exchange to better compete with order types on other national securities exchanges that offer similar features to their members.

Offset Instruction for MDOs

The Exchange believes that it is consistent with the protection of investors and the public interest to introduce an offset instruction that Users could choose to include on their MDOs.[19] With this proposed change, MDOs would behave similarly to orders entered with a Primary Peg instruction today in that such orders could be entered with an offset that results in the order being pegged to a price that is more or less aggressive than

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17 15 U.S.C. § 78f(b).

18 15 U.S.C. § 78f(b)(5).

19 The Exchange notes that technical changes proposed to EDGX Rule 11.8(g), including paragraphs (6) and (8) thereunder merely reflect language changes that are necessary since an MDO would be allowed with an offset. The Exchange believes that these changes would promote just and equitable principles of trade as they would ensure that MDO handling remains transparent with the introduction of the offset instruction.

the applicable NBB or NBO on the same side of the market (*i.e.*, NBB for buy orders and NBO for sell orders). This change would make MDOs a more flexible tool for members and investors. Further, the introduction of the offset instruction on MDOs would be similar to and competitive with features offered on other national securities exchanges that offer similar order types. For example, Discretionary Peg Orders offered on IEX are pegged one MPV less aggressive than the applicable NBB or NBO when posted to the order book, with discretion to the midpoint of the NBBO (subject to the order's limit price). Introducing an offset instruction for MDOs offered on EDGX would allow members and investors that trade on the Exchange to utilize similar functionality. Such functionality could be used for a number of purposes, including to mitigate risk by posting an order at a price that is lower (higher) than the prevailing NBB (NBO). Although broker-dealers could implement similar functionality on their own by consuming market data feeds and sending limit orders to the Exchange at prices that are offset from the NBBO, implementing this functionality through an exchange order type ensures that it is widely available to market participants on a fair and non-discriminatory basis.

At the same time, the offset instruction would be offered on a purely voluntary basis, and with flexibility for Users to choose the amount of any offset, thereby maintaining flexibility to continue using the current offering, which pegs MDOs to the applicable NBB or NBO without an offset, and to choose different offsets based on a User's specific needs. The Exchange does not believe that providing additional flexibility to Users to select the amount of any offset raises any significant or novel concerns, either on its own or in conjunction with the proposed introduction of the QDP instruction. As

previously stated, similar offset functionality is already available for Users that are able to enter orders with both a Primary Peg and Discretionary Range instruction today. Further, although such an offset instruction could be combined with the proposed QDP instruction, the Exchange believes that this combination is likely to inure to the benefit of buy-side or other investors that choose to use MDOs with these instructions. Although another exchange operator, *i.e.*, IEX, has chosen to require that all Discretionary Peg Orders entered on that exchange are ranked with a one MPV offset, the Exchange believes that flexibility to choose whether to include an offset, and the amount of any offsets, is beneficial for market participants that require additional discretion to manage their order flow on the Exchange. Further, regardless of the size of any offset chosen by the entering firm, MDOs would always be executable at their pegged price, *i.e.*, including when a QDP Active period has been triggered for the order, and will further be eligible to provide liquidity up to the midpoint of the NBBO when QDP is inactive, or in the case of MDOs entered without the optional QDP instruction. As is the case for orders entered with a Primary Peg instruction and an offset, displayed MDOs would not be accepted with an offset that results in such orders being posted at a price that is better than the applicable NBB or NBO. Users that wish to enter an MDO with an aggressive offset would be required to enter such orders with a non-displayed instruction, thereby ensuring that such orders would not be eligible to set a new NBBO, which the Exchange believes may unnecessarily increase the complexity of its System.[20]

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20 See supra note 6.

Quote Depletion Protection

The Exchange also believes that it is consistent with the protection of investors and the public interest to introduce the QDP instruction to provide additional protection to Users that enter MDOs with this instruction. Similar to Discretionary Peg Orders offered by IEX, the QDP instruction would provide Users with protective features that would limit the order's ability to exercise discretion in certain circumstances that may be indicative of a quotation that is moving against the resting MDO – *i.e.*, a buy quotation that is moving to a lower price for MDOs to buy, or a sell quotation that is moving to a higher price for MDOs to sell. The specific trigger for enabling a QDP Active Period, or refreshing a QDP Active Period that has already been enabled, would be based on the execution of the best bid or offer displayed by the Exchange on the same side of the market. Any trade that results in such bid or offer being executed below one round lot would trigger a QDP Active Period.

To test the potential performance of the proposed QDP instruction in protecting Users from a potential negative price move, the Exchange reviewed trading data for a ten day period from February 3, 2020 to February 14, 2020, and observed market movements in the two milliseconds following instances where QDP would have been enabled due to the execution of the EDGX Best Bid or Offer below one round lot. Based on the results of that review, the Exchange believes that QDP instruction would offer significant protection to investors by preventing the exercise of discretion in situations where there is a reasonable likelihood of the market moving against the resting MDO. As illustrated in the table below, the national best bid (offer) moved to an inferior price – *i.e.*, to a lower (higher) price from the perspective of an order to buy (sell) – more than half of the time

in the two milliseconds following a potential triggering of a QDP Active Period when QDP would be active, and moved in the opposite direction less than two percent of the time. Further, although the market was static and did not move in either direction a significant portion of the time, the opportunity cost of disabling discretion in those limited circumstances is small as QDP would only be enabled for 338 milliseconds on average throughout the trading day. The Exchange therefore believes that the MDOs entered with a QDP instruction would benefit from avoiding potentially impactful executions within the order's discretionary range when there are impending price moves that might otherwise negatively affect the performance of that order.

QDP Performance Statistics (Average Per Security) [21]

Daily Time QDP is Active	Correct Prediction	Static	False Prediction
0.338 seconds	50.37%	47.92%	1.71%

When a QDP Active Period is enabled or refreshed, the MDO would forgo discretion for a limited period but would remain executable at its displayed or non-displayed ranked price. The Exchange notes that IEX, which offers similar protective functionality to its members, currently offers non-displayed pegged orders, and does not offer a displayed variant of its either its Discretionary Peg Order or other pegged

[21] For purposes of these statistics a correct prediction is when the NBB(O) moves lower (higher) after QDP would have been triggered on the buy (sell) side of the market in the two milliseconds that follow the triggering event. The two-millisecond period used for this study corresponds to the proposed length of the QDP Active Period.

orders.[22] Although the Exchange would continue to offer displayed MDOs with the introduction of the QDP instruction, the Exchange believes that this implementation is consistent with the requirements of the Exchange Act as an MDO that is displayed on the Exchange would always remain accessible at its displayed price, including when a QDP Active Period is triggered. The Exchange would not delay or otherwise restrict executions of an MDO entered with a QDP instruction at the order's pegged price. The triggering of a QDP Active Period would solely implicate the discretionary range afforded to such orders, which is at all times non-displayed, and is not disseminated to market participants. As a result, an MDO that is displayed on the EDGX Book would always be executable at the price displayed to investors.

The QDP instruction may provide additional comfort to Users entering MDOs that would allow them to utilize discretion, and thereby provide potential price improvement opportunities to incoming orders, while at the same time limiting the exercise of discretion in circumstances where an execution within the order's discretionary range may be undesirable. The Exchange therefore believes that the introduction of the QDP instruction would remove impediments to and perfect the mechanism of a free and open market and a national market system. Further, while the QDP instruction would be available to all Users, use of this instruction would be voluntary, meaning that Users could choose to use this instruction, or not, based on their specific needs. As previously stated, the Exchange believes that it is important to give market participants flexibility with respect to how they reflect their trading interest on the Exchange. Similar to the ability for firms to choose whether to include an offset, or the

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22 See IEX Rule 11.190(a)(3)(G).

amount of such an offset, enabling the QDP instruction as an optional feature would allow members and investors to determine how best to utilize these instructions based on their trading needs and those of their customers. This flexibility would provide broker-dealers with an option to reduce their need to constantly evaluate real-time market data updates that may negatively impact their clients' orders and/or outcome.

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

The Exchange does not believe that the proposed rule change would impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. To the contrary, the proposal is a competitive response to similar features available on other markets, such as IEX, and would therefore facilitate increased competition between exchange markets. As with other national securities exchanges, the Exchange must continually assess and improve its offerings to compete with other exchanges and off-exchange venues. The proposed rule change is indicative of this competition. Further, the Exchange does not believe that the proposed rule change would implicate any competitive concerns with respect to its Users. Both instructions proposed to be introduced for MDOs with this filing would be available to all Users on an equal and non-discriminatory basis. Rather than impede competition, the proposed rule change would provide additional tools for members and investors to facilitate their trading goals.

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

No comments were solicited or received on the proposed rule change.

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

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds

such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the Exchange consents, the Commission will:

A. by order approve or disapprove such proposed rule change, or

B. institute proceedings to determine whether the proposed rule change should be 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-CboeEDGX-2020-010 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-CboeEDGX-2020-010. 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-CboeEDGX-2020-010 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.[23]

Secretary

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[23] 17 CFR 200.30-3(a)(12).

EXHIBIT 5

Proposed new language is underlined; proposed deletions are in [brackets].

Rules of Cboe EDGX Exchange, Inc.

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Rule 11.8. Order Types

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(g) MidPoint Discretionary Order ("MDO"). An MDO is a Limit Order that when resting on the EDGX Book is [executable at] pegged to the NBB for an order to buy or the NBO for an order to sell [while resting on the EDGX Book], with or without an offset, with discretion to execute at prices to and including the midpoint of the NBBO. Upon entry, an MDO will only execute against resting orders that include a Super Aggressive instruction priced at the MDO's pegged price if the MDO also contains a Displayed instruction and against orders with an NDS instruction priced at the MDO's pegged price or within its discretionary range. Should a resting contra-side order within the MDO's discretionary range not include an NDS instruction, the incoming MDO will be placed on the EDGX Book and its discretionary range shortened to equal the limit price of the contra-side resting order. Likewise, where an incoming order with a Post Only instruction does not remove liquidity on entry pursuant to Rule 11.6(n)(4) against a resting MDO, the discretionary range of the resting MDO will be shortened to equal the limit price of the incoming contra-side order with a Post Only instruction. Once resting on the EDGX Book, an MDO will only act as a liquidity provider against all incoming orders that are executable at the resting MDO's pegged price or at any price within the resting MDO's discretionary range. An MDO's pegged price and discretionary range are bound by its limit price. An MDO to buy [or] (sell) with a limit price that is less (higher) than [the prevailing NBB or higher than the prevailing NBO, respectively,] its pegged price, including any offset, is posted to the EDGX Book at its limit price. The pegged prices of an MDO are derived from the NBB or NBO, and cannot independently establish or maintain the NBB or NBO. An MDO will exercise the least amount of price discretion necessary from its pegged price to its discretionary price. An MDO in a stock priced at $1.00 or more can only be executed in sub-penny increments when it executes at the midpoint of the NBBO. Notwithstanding that an MDO may be a Limit Order and include a discretionary range, its operation and available modifiers are limited to this Rule 11.8(g).

(1) Time-in-Force. An MDO may only contain the following time-in-force terms: Day, RHO, GTX, GTD, PRE, PTX, or PTD.

(2) Size. MDOs may be entered as a Round Lot or Mixed Lot only. A User may include a Minimum Execution Quantity instruction on a MDO with a Non-Displayed instruction.

(3) Session. MDOs may be executed during the Early Trading Session, Pre-Opening Session, Regular Session, and Post-Closing Session.

(4) Display. An MDO will default to a Displayed instruction unless the User includes a Non-Displayed instruction or QDP instruction on the order, and will be Displayed or Non-Displayed on the EDGX Book at its pegged or limit price in accordance with paragraph (g) above. An MDO with a Displayed instruction will default to a Non-Attributable instruction, unless the User selects the Attributable instruction.

(5) Routing/Posting. MDOs are not eligible for routing pursuant to Rule 11.11.

(6) Limit-Up/Limit Down. Pursuant to Rule 11.10(a)(3), an MDO to buy will be re-priced to the Upper Price Band where the price of the Upper Price Band moves below [an existing Protected Bid] the order's pegged price. An MDO to sell will be re-priced to the Lower Price Band where the price of the Lower Price Band moves above [an existing Protected Offer] the order's pegged price. MDOs will only execute at their pegged prices and not within their Discretionary Ranges when: (i) the price of the Upper Price Band equals or moves below [an existing Protected Bid] the order's pegged price; or (ii) the price of the Lower Price Band equals or moves above [an existing Protected Offer] the order's pegged price. When the conditions in (i) or (ii) of the preceding sentence no longer exist, MDOs will resume trading against other orders in their Discretionary Range and being pegged to the NBBO.

(7) Any unexecuted portion of an MDO that is resting on the EDGX Book will receive a new time stamp each time its pegged price is automatically adjusted in response to changes in the NBBO.

(8) Locked or Crossed Market. With respect to an MDO with either a Displayed instruction or a Non-Displayed instruction, when an MDO posted on the EDGX Book is crossed by another market, the MDO's pegged price will be automatically adjusted to the current NBO (for bids) or the current NBB (for offers) with no discretion to the midpoint of the NBBO. If an MDO displayed on the Exchange would be a Locking Quotation or Crossing Quotation, the displayed price of the order will be automatically adjusted by the System to one Minimum Price Variation below the current NBO (for bids) or to one Minimum Price Variation above the current NBB (for offers) with no discretion to execute to the midpoint of the NBBO.

(9) Offset. A User may select an offset equal to or greater than one Minimum Price Variation above or below the NBB or NBO that the order is pegged to ("Offset Amount"). The Offset Amount for an MDO that is to be displayed on the EDGX Book must result in the price of such order being inferior to or equal to the inside quote on the same side of the market.

(10) Quote Depletion Protection ("QDP"). QDP is an optional instruction that a User may include on an MDO to limit the order's ability to exercise discretion in certain circumstances. A "QDP Active Period" will be enabled or refreshed for buy (sell) MDOs if the best bid (offer) displayed on the EDGX Book is executed below one round lot. During the QDP Active Period, an MDO entered with a QDP instruction will not exercise discretion, and is executable only at its ranked price. When a QDP Active Period is initially enabled, or refreshed by a subsequent execution of the best bid (offer) then displayed on the EDGX Book, it will remain enabled for two milliseconds. Unless the User chooses otherwise, an MDO to buy (sell) entered with a QDP instruction will default to a Non-Displayed instruction and will include an Offset Amount equal to one Minimum Price Variation below (above) the NBB (NBO).

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