

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * <input type="text" value="25"/>	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - <input type="text" value="2020"/> - * <input type="text" value="023"/>	Amendment No. (req. for Amendments *) <input type="text"/>
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Filing by Cboe EDGX Exchange, Inc.  
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial * <input checked="" type="checkbox"/>	Amendment * <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input type="checkbox"/>	Section 19(b)(3)(A) * <input checked="" type="checkbox"/>	Section 19(b)(3)(B) * <input type="checkbox"/>
			Rule		
Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input checked="" type="checkbox"/> 19b-4(f)(6)	

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010	Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934
Section 806(e)(1) * <input type="checkbox"/>	Section 806(e)(2) * <input type="checkbox"/>
Section 3C(b)(2) * <input type="checkbox"/>	

Exhibit 2 Sent As Paper Document <input type="checkbox"/>	Exhibit 3 Sent As Paper Document <input type="checkbox"/>
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**Description**

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

The Exchange proposes a rule change to allow Members to establish or adjust the risk settings set forth in Interpretation and Policy .03 of Exchange Rule 11.10 on a risk group identifier basis.

**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 * <input type="text" value="Sarah"/>	Last Name * <input type="text" value="Tadtman"/>
Title * <input type="text" value="Counsel"/>	
E-mail * <input type="text" value="stadtman@cboe.com"/>	
Telephone * <input type="text" value="(913) 815-7203"/>	Fax <input type="text"/>

**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 <input type="text" value="05/28/2020"/>	VP, Associate General Counsel
By <input type="text" value="Kyle Murray"/>	<input type="text"/>
(Name *)	

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

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the 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 \***

Add Remove View

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

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

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

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

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Exhibit Sent As Paper Document

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

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

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Exhibit Sent As Paper Document

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

**Exhibit 4 - Marked Copies**

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

**Exhibit 5 - Proposed Rule Text**

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

**Partial Amendment**

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

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

(a) Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> Cboe EDGX Exchange, Inc. (“EDGX” or the “Exchange”) is filing with the Securities and Exchange Commission (the “Commission”) a proposed rule change to allow Members and Clearing Members to establish or adjust the risk settings set forth in Interpretation and Policy .03 of Exchange Rule 11.10 on a risk group identifier basis. The Exchange has designated this proposal as non-controversial and provided the Commission with the notice required by Rule 19b-4(f)(6)(iii) under the Act.<sup>3</sup> 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 May 6, 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 Sarah Tadtman, Counsel, (913) 815-7203.

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> 17 CFR 240.19b-4(f)(6)(iii).

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

(a) Purpose

The purpose of the proposed rule change is to offer Members<sup>4</sup> and Clearing Members<sup>5</sup> a more granular option to manage their credit risk in equity securities. Specifically, the Exchange proposes to allow Members and Clearing Members to establish a risk profile(s) on a risk group identifier basis that would apply the risk settings offered in Interpretation and Policy .03 of Exchange Rule 11.10 to a subset of orders.

Recently, the Exchange adopted Interpretation and Policy .03 to Exchange Rule 11.10 which provides Members certain optional risk settings.<sup>6</sup> As set forth in paragraph (a), the Exchange currently offers the Gross Credit Risk Limit<sup>7</sup> and Net Credit Risk Limit<sup>8</sup> that are applicable to a Member’s activities on the Exchange and are available to either the Member or its Clearing Member. Specifically, pursuant to paragraph (c), a Member that does not self-clear may allocate the responsibility of establishing and adjusting the applicable risk settings to its Clearing Member. Further, paragraph (b)(1) provides that the

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<sup>4</sup> See Exchange Rule 1.5(n).

<sup>5</sup> A “Clearing Member” refers to a Member that is also a member of a Qualified Clearing Agency and clears transactions on behalf of another Member. See Exchange Rule 11.13(a).

<sup>6</sup> See Securities Exchange Act No. 88783 (April 30, 2020) 85 FR 26991 (May 6, 2020) (the “Original Filing”).

<sup>7</sup> The “Gross Credit Risk Limit” refers to a pre-established maximum daily dollar amount for purchases and sales across all symbols, where both purchases and sales are counted as positive values. For purposes of calculating the Gross Credit Risk Limit, only executed orders are included. See Interpretation and Policy .03(a)(1) of Exchange Rule 11.10.

<sup>8</sup> The “Net Credit Risk Limit” refers to a pre-established maximum daily dollar amount for purchases and sales across all symbols, where purchases are counted as positive values and sales are counted as negative values. For purposes of calculating the Net Credit Risk Limit, only executed orders are included. See Interpretation and Policy .03(a)(2) of Exchange Rule 11.10.

risk limits may only be set at the market participant identifier (“MPID”) level. Now, the Exchange is proposing to amend paragraph (b)(1) to provide that the Gross Credit Risk Limit and Net Credit Risk Limit may be set at the MPID level or at a more granular risk profile level. The Exchange believes the proposed functionality will provide an effective tool for Members and Clearing Members to manage their credit risk associated with equities trading.

As provided in the Original Filing, a Member can allocate responsibility for establishing and adjusting the applicable risk settings to its Clearing Member on an MPID basis via the Exchange’s web portal. The proposal would allow a Member or its Clearing Member, if allocated such responsibility, to utilize “Purge Ports” to apply Gross Credit Risk Limits and/or Net Credit Risk Limits to more granular subsets of orders associated with the relevant MPID.<sup>9</sup> The Exchange believes the proposal will allow for proactive and reactive risk management and may be useful to firms operating multiple strategies at a given time, those operating multiple groups under a single MPID with disparate risk profiles, or Sponsoring Members<sup>10</sup> managing risk on behalf of a Sponsored Participant.<sup>11</sup> Specifically, Members or Clearing Members may assign a risk group identifier to a specific strategy,

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<sup>9</sup> The risk group identifier is a subset level of an MPID. Members can use MPID and risk group identifier risk settings in conjunction.

<sup>10</sup> See Exchange Rule 1.5(aa).

<sup>11</sup> See Exchange Rule 1.5(z). As noted in the Original Filing, the Exchange does not guarantee that the proposed risk settings described in proposed Interpretation and Policy .03, are sufficiently comprehensive to meet all of a Member’s risk management needs. Pursuant to Rule 15c3-5 under the Act, a broker-dealer with market access must perform appropriate due diligence to assure that controls are reasonably designed to be effective, and otherwise consistent with the rule. Use of the Exchange’s risk settings included in proposed Interpretation and Policy .03 will not automatically constitute compliance with Exchange or federal rules and responsibility for compliance with all Exchange and SEC rules remains with the Member. See supra note 6.

group, or Sponsored Participant and then set up a risk profile applicable to that risk group identifier. Without such functionality, the Member or its Clearing Member would only be able to manage risk at the MPID level.

A “Purge Port” is a dedicated port that permits a User to simultaneously cancel all or a subset of its orders in one or more symbols across multiple logical ports<sup>12</sup> by requesting the Exchange to effect such cancellation.<sup>13</sup> Currently, in order to effect a purge request on a specific subset of orders, a Member must identify which orders should be purged by applying a risk group identifier to such orders. As proposed, the risk group identifiers available for purge requests through Purge Ports would also be utilized to define risk profiles which constitute risk limits at the more granular order subset level. Specifically, through the Exchange’s proposed functionality, a Member or its Clearing Member would be able to set risk profiles for up to 10 risk group identifiers per Purge Port that specify different Gross Credit Risk Limits and/or Net Credit Risk Limits to orders bearing the applicable risk group identifier. The Gross Credit Risk Limit and Net Credit Risk Limit would only be applied to the specified subset of orders with the applicable risk group

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<sup>12</sup> A logical port represents a port established by the Exchange within the Exchange’s system for trading and billing purposes. Each logical port established is specific to a Member or non-Member and grants that Member or non-Member the ability to accomplish a specific function, such as order entry, order cancellation, or data receipt. In addition, logical ports enable Users to access information such as execution reports, execution report messages, auction notifications, and administrative data through a single feed.

<sup>13</sup> A User initiating such a request may also request that the Exchange block all or a subset of its new inbound orders in one or more symbols across multiple logical ports. The block will remain in effect until the User requests the Exchange remove the block. See Interpretation and Policy .02(b) of Exchange Rule 11.10. Purge Ports are available to Users while risk settings are only available to Members and its Clearing Member.

identifier.<sup>14</sup> As such, only open orders or new orders bearing the applicable risk group identifier would be canceled or automatically blocked, respectively, in the event of a risk limit breach as set forth in paragraph (e) of Interpretation and Policy .03.

As noted above, Purge Ports enable Users to simultaneously cancel all open orders, or a subset thereof, across multiple logical ports through a single cancel message. Therefore, Purge Ports allow Members to manage risk for some subset of their business, such as by trading strategy. The proposal would expand the existing Purge Port functionality to allow Members and Clearing Members to use the Exchange's automated risk management functionality in a similar manner. As a result, Members and Clearing Members would be able to set automated gross and net notional risk limits for particular risk group identifiers, while retaining the ability to mass cancel and/or block orders entered with that risk group identifier using current purge functionality, *e.g.*, in response to alerts that the Member is approaching designated limits.

(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.<sup>15</sup>

Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>16</sup> requirements that the rules of an exchange be designed to prevent

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<sup>14</sup> As proposed, a new optional port level attribute will be available to validate that each new order submitted through that specific logical port contains a risk group identifier. Once this logical port level setting is selected, any orders submitted through that session that are not tagged with a risk group identifier will be rejected in an effort to ensure intended risk thresholds are maintained.

<sup>15</sup> 15 U.S.C. 78f(b).

<sup>16</sup> 15 U.S.C. 78f(b)(5).

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.

The Exchange believes that the proposed rule change would promote just and equitable principles of trade and remove impediments to and perfect the mechanism of a free and open market because the proposal would enhance Members' and Clearing Members' ability to manage their credit risk associated with equities trading, which would, in turn, improve their risk controls to the benefit of all market participants. Specifically, as discussed above, the proposal would allow a Member or its Clearing Member, if allocated such responsibility, to utilize the existing Purge Port risk group identifier functionality to set risk profiles for up to 10 risk group identifiers per Purge Port. Each risk profile would specify the applicable Gross Credit Risk Limits and/or Net Credit Risk Limits that would be applied to the subset of orders bearing the risk group identifier. Further, the proposal would allow the automatic mass cancellation of all open orders and block new orders bearing the risk group identifier in the event of a risk limit breach. As such, the Exchange believes that the proposal will allow for proactive and reactive risk management and may be useful to firms operating multiple strategies at a given time, those operating multiple groups under a single MPID with disparate risk profiles, or Sponsoring Members managing risk on behalf of a Sponsored Participant.<sup>17</sup>

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<sup>17</sup> Supra note 11.

In addition, the Exchange believes that the proposed rule change is designed to protect investors and the public interest because the proposed functionality is a form of risk mitigation that will aid Members, and Clearing Members for firms who do not self-clear, in minimizing their risk associated with operating or clearing multiple business lines with disparate risk profiles. In turn, the introduction of such risk management functionality could enhance the integrity of trading on the securities markets and help to assure the stability of the financial system.

The Exchange also believes that building on the Purge Port functionality to provide the proposed changes would foster cooperation and coordination with persons engaged in facilitating transactions in securities because it offers enhanced use of existing functionality. This may enable more efficient use of Members' and Clearing Members' resources.

Finally, the Exchange believes that the proposed rule change does not unfairly discriminate among the Exchange's Members and Clearing Members because use of the risk settings is optional and are not a prerequisite for participation on the Exchange, and will be available to all Members and Clearing Members as an enhancement to existing Purge Port functionality. The proposed risk settings are completely voluntary and, as they relate solely to optional risk management functionality, no Member or Clearing Member is required or under any regulatory obligation to utilize them.

**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. In fact, the Exchange believes that the proposal may have a positive effect on competition because it would allow the Exchange to offer enhanced risk management

functionality. Further, by providing Members and their Clearing Members more granular means to monitor and control risk, the proposed rule may increase confidence in the proper functioning of the markets and contribute to additional competition among trading venues and broker-dealers. Rather than impede competition, the proposal is designed as an innovative way to facilitate more robust risk management by Members and Clearing Members, which, in turn, could enhance the integrity of trading on the securities markets and help to assure the stability of the financial system. Furthermore, other exchanges are free to propose similar functionality as they see fit.<sup>18</sup>

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

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

**Item 6. Extension of Time Period for Commission Action**

Not applicable.

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

(a) The proposed rule change is filed for immediate effectiveness pursuant to Section 19(b)(3)(A) of Act<sup>19</sup> and Rule 19b-4(f)(6)<sup>20</sup> 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;

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<sup>18</sup> The NYSE has adopted similar provisions that allow for risk settings at a “sub-ID” level. See Securities Exchange Act No. 88776 (April 29, 2020) 85 FR 26768 (May 5, 2020) (SR-NYSE-2020-17).

<sup>19</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>20</sup> 17 CFR 240.19b-4(f)(6).

(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 believes that the proposed rule change to adopt enhanced risk controls is designed to protect investors and the public interest because the proposed functionality is a form of risk mitigation that will aid Members and Clearing Members in minimizing their risk associated with operating multiple business lines with disparate risk profiles. In turn, the introduction of such risk management functionality could enhance the integrity of trading on the securities markets and help to assure the stability of the financial system. Additionally, the Exchange believes the proposed rule change will not significantly affect the protection of investors or the public interest and will have no significant burden on competition as the proposal would merely allow Members and Clearing Members to implement current risk controls at a more granular level. Further, as other exchanges have adopted similar provisions the proposal does not raise any novel regulatory issues.<sup>21</sup> The proposed risk settings are completely voluntary and, as they relate solely to optional risk management functionality, no Member or Clearing Member is required or under any regulatory obligation to utilize them.

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<sup>21</sup> Supra note 19.

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

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. Waiver of the operative delay would allow the Exchange to launch the proposed risk controls on the anticipated launch date of May 29, 2020. Furthermore, the waiver of the operative delay would allow Members and Clearing Members to immediately utilize the proposed functionality to manage their risk. Members or Clearing Members that do not wish to use the proposed risk controls, or wish to implement those controls at a later date, would be free to do so notwithstanding the requested waiver of the operative delay.

(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-CboeEDGX-2020-023]

[Insert date]

Self-Regulatory Organizations; Cboe EDGX Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Allow Members and Clearing Members to Establish or Adjust the Risk Settings Set Forth in Interpretation and Policy .03 of Exchange Rule 11.10 on a Risk Group Identifier Basis

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> 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 Exchange filed the proposal as a “non-controversial” proposed rule change pursuant to Section 19(b)(3)(A)(iii) of the Act<sup>3</sup> and Rule 19b-4(f)(6) thereunder.<sup>4</sup> 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 allow Members and Clearing Members to establish or adjust the risk settings set forth in Interpretation and Policy .03 of Exchange Rule 11.10 on a risk group identifier basis.

The text of the proposed rule change is provided in Exhibit 5.

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>4</sup> 17 CFR 240.19b-4(f)(6).

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/](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**

The purpose of the proposed rule change is to offer Members<sup>5</sup> and Clearing Members<sup>6</sup> a more granular option to manage their credit risk in equity securities. Specifically, the Exchange proposes to allow Members and Clearing Members to establish a risk profile(s) on a risk group identifier basis that would apply the risk settings offered in Interpretation and Policy .03 of Exchange Rule 11.10 to a subset of orders.

Recently, the Exchange adopted Interpretation and Policy .03 to Exchange Rule 11.10 which provides Members certain optional risk settings.<sup>7</sup> As set forth in paragraph (a),

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<sup>5</sup> See Exchange Rule 1.5(n).

<sup>6</sup> A "Clearing Member" refers to a Member that is also a member of a Qualified Clearing Agency and clears transactions on behalf of another Member. See Exchange Rule 11.13(a).

<sup>7</sup> See Securities Exchange Act No. 88783 (April 30, 2020) 85 FR 26991 (May 6, 2020) (the "Original Filing").

the Exchange currently offers the Gross Credit Risk Limit<sup>8</sup> and Net Credit Risk Limit<sup>9</sup> that are applicable to a Member's activities on the Exchange and are available to either the Member or its Clearing Member. Specifically, pursuant to paragraph (c), a Member that does not self-clear may allocate the responsibility of establishing and adjusting the applicable risk settings to its Clearing Member. Further, paragraph (b)(1) provides that the risk limits may only be set at the market participant identifier ("MPID") level. Now, the Exchange is proposing to amend paragraph (b)(1) to provide that the Gross Credit Risk Limit and Net Credit Risk Limit may be set at the MPID level or at a more granular risk profile level. The Exchange believes the proposed functionality will provide an effective tool for Members and Clearing Members to manage their credit risk associated with equities trading.

As provided in the Original Filing, a Member can allocate responsibility for establishing and adjusting the applicable risk settings to its Clearing Member on an MPID basis via the Exchange's web portal. The proposal would allow a Member or its Clearing Member, if allocated such responsibility, to utilize "Purge Ports" to apply Gross Credit Risk Limits and/or Net Credit Risk Limits to more granular subsets of orders associated with the relevant MPID.<sup>10</sup> The Exchange believes the proposal will allow for proactive and reactive

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<sup>8</sup> The "Gross Credit Risk Limit" refers to a pre-established maximum daily dollar amount for purchases and sales across all symbols, where both purchases and sales are counted as positive values. For purposes of calculating the Gross Credit Risk Limit, only executed orders are included. See Interpretation and Policy .03(a)(1) of Exchange Rule 11.10.

<sup>9</sup> The "Net Credit Risk Limit" refers to a pre-established maximum daily dollar amount for purchases and sales across all symbols, where purchases are counted as positive values and sales are counted as negative values. For purposes of calculating the Net Credit Risk Limit, only executed orders are included. See Interpretation and Policy .03(a)(2) of Exchange Rule 11.10.

<sup>10</sup> The risk group identifier is a subset level of an MPID. Members can use MPID

risk management and may be useful to firms operating multiple strategies at a given time, those operating multiple groups under a single MPID with disparate risk profiles, or Sponsoring Members<sup>11</sup> managing risk on behalf of a Sponsored Participant.<sup>12</sup> Specifically, Members or Clearing Members may assign a risk group identifier to a specific strategy, group, or Sponsored Participant and then set up a risk profile applicable to that risk group identifier. Without such functionality, the Member or its Clearing Member would only be able to manage risk at the MPID level.

A “Purge Port” is a dedicated port that permits a User to simultaneously cancel all or a subset of its orders in one or more symbols across multiple logical ports<sup>13</sup> by requesting the Exchange to effect such cancellation.<sup>14</sup> Currently, in order to effect a purge request on a

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and risk group identifier risk settings in conjunction.

<sup>11</sup> See Exchange Rule 1.5(aa).

<sup>12</sup> See Exchange Rule 1.5(z). As noted in the Original Filing, the Exchange does not guarantee that the proposed risk settings described in proposed Interpretation and Policy .03, are sufficiently comprehensive to meet all of a Member’s risk management needs. Pursuant to Rule 15c3-5 under the Act, a broker-dealer with market access must perform appropriate due diligence to assure that controls are reasonably designed to be effective, and otherwise consistent with the rule. Use of the Exchange’s risk settings included in proposed Interpretation and Policy .03 will not automatically constitute compliance with Exchange or federal rules and responsibility for compliance with all Exchange and SEC rules remains with the Member. See *supra* note 7.

<sup>13</sup> A logical port represents a port established by the Exchange within the Exchange’s system for trading and billing purposes. Each logical port established is specific to a Member or non-Member and grants that Member or non-Member the ability to accomplish a specific function, such as order entry, order cancellation, or data receipt. In addition, logical ports enable Users to access information such as execution reports, execution report messages, auction notifications, and administrative data through a single feed.

<sup>14</sup> A User initiating such a request may also request that the Exchange block all or a subset of its new inbound orders in one or more symbols across multiple logical ports. The block will remain in effect until the User requests the Exchange remove the block. See Interpretation and Policy .02(b) of Exchange Rule 11.10. Purge Ports are available to Users while risk settings are only available to

specific subset of orders, a Member must identify which orders should be purged by applying a risk group identifier to such orders. As proposed, the risk group identifiers available for purge requests through Purge Ports would also be utilized to define risk profiles which constitute risk limits at the more granular order subset level. Specifically, through the Exchange's proposed functionality, a Member or its Clearing Member would be able to set risk profiles for up to 10 risk group identifiers per Purge Port that specify different Gross Credit Risk Limits and/or Net Credit Risk Limits to orders bearing the applicable risk group identifier. The Gross Credit Risk Limit and Net Credit Risk Limit would only be applied to the specified subset of orders with the applicable risk group identifier.<sup>15</sup> As such, only open orders or new orders bearing the applicable risk group identifier would be canceled or automatically blocked, respectively, in the event of a risk limit breach as set forth in paragraph (e) of Interpretation and Policy .03.

As noted above, Purge Ports enable Users to simultaneously cancel all open orders, or a subset thereof, across multiple logical ports through a single cancel message. Therefore, Purge Ports allow Members to manage risk for some subset of their business, such as by trading strategy. The proposal would expand the existing Purge Port functionality to allow Members and Clearing Members to use the Exchange's automated risk management functionality in a similar manner. As a result, Members and Clearing Members would be able to set automated gross and net notional risk limits for particular risk group identifiers, while retaining the ability to mass cancel and/or block orders

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Members and its Clearing Member.

<sup>15</sup> As proposed, a new optional port level attribute will be available to validate that each new order submitted through that specific logical port contains a risk group identifier. Once this logical port level setting is selected, any orders submitted through that session that are not tagged with a risk group identifier will be rejected in an effort to ensure intended risk thresholds are maintained.

entered with that risk group identifier using current purge functionality, *e.g.*, in response to alerts that the Member is approaching designated limits.

## 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.<sup>16</sup>

Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>17</sup> 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.

The Exchange believes that the proposed rule change would promote just and equitable principles of trade and remove impediments to and perfect the mechanism of a free and open market because the proposal would enhance Members’ and Clearing Members’ ability to manage their credit risk associated with equities trading, which would, in turn, improve their risk controls to the benefit of all market participants. Specifically, as discussed above, the proposal would allow a Member or its Clearing Member, if allocated such responsibility, to utilize the existing Purge Port risk group identifier functionality to set risk profiles for up to 10 risk group identifiers per Purge

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<sup>16</sup> 15 U.S.C. 78f(b).

<sup>17</sup> 15 U.S.C. 78f(b)(5).

Port. Each risk profile would specify the applicable Gross Credit Risk Limits and/or Net Credit Risk Limits that would be applied to the subset of orders bearing the risk group identifier. Further, the proposal would allow the automatic mass cancellation of all open orders and block new orders bearing the risk group identifier in the event of a risk limit breach. As such, the Exchange believes that the proposal will allow for proactive and reactive risk management and may be useful to firms operating multiple strategies at a given time, those operating multiple groups under a single MPID with disparate risk profiles, or Sponsoring Members managing risk on behalf of a Sponsored Participant.<sup>18</sup>

In addition, the Exchange believes that the proposed rule change is designed to protect investors and the public interest because the proposed functionality is a form of risk mitigation that will aid Members, and Clearing Members for firms who do not self-clear, in minimizing their risk associated with operating or clearing multiple business lines with disparate risk profiles. In turn, the introduction of such risk management functionality could enhance the integrity of trading on the securities markets and help to assure the stability of the financial system.

The Exchange also believes that building on the Purge Port functionality to provide the proposed changes would foster cooperation and coordination with persons engaged in facilitating transactions in securities because it offers enhanced use of existing functionality. This may enable more efficient use of Members' and Clearing Members' resources.

Finally, the Exchange believes that the proposed rule change does not unfairly discriminate among the Exchange's Members and Clearing Members because use of the

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<sup>18</sup> Supra note 12.

risk settings is optional and are not a prerequisite for participation on the Exchange, and will be available to all Members and Clearing Members as an enhancement to existing Purge Port functionality. The proposed risk settings are completely voluntary and, as they relate solely to optional risk management functionality, no Member or Clearing Member is required or under any regulatory obligation to utilize them.

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. In fact, the Exchange believes that the proposal may have a positive effect on competition because it would allow the Exchange to offer enhanced risk management functionality. Further, by providing Members and their Clearing Members more granular means to monitor and control risk, the proposed rule may increase confidence in the proper functioning of the markets and contribute to additional competition among trading venues and broker-dealers. Rather than impede competition, the proposal is designed as an innovative way to facilitate more robust risk management by Members and Clearing Members, which, in turn, could enhance the integrity of trading on the securities markets and help to assure the stability of the financial system. Furthermore, other exchanges are free to propose similar functionality as they see fit.<sup>19</sup>

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.

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<sup>19</sup> The NYSE has adopted similar provisions that allow for risk settings at a "sub-ID" level. See Securities Exchange Act No. 88776 (April 29, 2020) 85 FR 26768 (May 5, 2020) (SR-NYSE-2020-17).

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

Because the foregoing proposed rule change does not:

- A. significantly affect the protection of investors or the public interest;
- B. impose any significant burden on competition; and
- C. become operative for 30 days from the date on which it was filed, or such

shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>20</sup> and Rule 19b-4(f)(6)<sup>21</sup> 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

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<sup>20</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>21</sup> 17 CFR 240.19b-4(f)(6).

- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-CboeEDGX-2020-023 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-2020-023. 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-2020-023 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.<sup>22</sup>

Secretary

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<sup>22</sup> 17 CFR 200.30-3(a)(12).

## EXHIBIT 5

(additions are underlined; deletions are [bracketed])

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## Rules of Cboe EDGX Exchange, Inc.

\* \* \* \* \*

## Rule 11.10. Order Execution

(a)-(f) No change.

*Interpretations and Policies:*

.01 No change.

.02 No change.

.03 (a) No change.

(b) *Establishing and Adjusting Limits.* Either a Member or its Clearing Member, if allocated such responsibility pursuant to paragraph (c) of this Interpretation and Policy .03, may set limits for the risk settings provided in paragraph (a) of this Interpretation and Policy .03.

(1) Limits may [only] be set at the MPID level or to a subset of orders identified within that MPID (the “risk group identifier” level). Risk group identifier setting functionality is available only on Purge Ports, as defined in paragraph (b) of Interpretation and Policy .02. For every Purge Port a Member obtains, the Member or its Clearing Member will receive the ability to set risk profiles for up to 10 risk group identifiers. Members can use MPID and risk group identifier risk settings in conjunction.

(2) Limits may be established or adjusted before the beginning of a trading day or during the trading day.

(c)-(e) No change.

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