

Required fields are shown with yellow backgrounds and asterisks.

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

File No. \* SR 2021 - \* 050

Amendment No. (req. for Amendments \*)

Filing by Cboe 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"/>
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Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	Rule	
			<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)
			<input checked="" type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)
			<input type="checkbox"/> 19b-4(f)(3)	<input type="checkbox"/> 19b-4(f)(6)

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

Section 806(e)(1) \*

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Section 806(e)(2) \*

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

Section 3C(b)(2) \*

☐

Exhibit 2 Sent As Paper Document

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Exhibit 3 Sent As Paper Document

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### Description

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

The Exchange proposes to amend its Fees Schedule with respect to its Lead Market-Maker Incentive Programs.

### 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 \* Rebecca Last Name \* Tenuta

Title \* Senior Counsel

E-mail \* rtenuta@cboe.com

Telephone \* (312) 786-7068 Fax

### Signature

Pursuant to the requirements of the Securities Exchange of 1934, Cboe Exchange, Inc. has duty caused this filing to be signed on its behalf by the undersigned thereunto duty authorized.

Date 09/01/2021

(Title \*)

By Laura G. Dickman

(Name \*)

VP, Associate General Counsel

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

*Laura Dickman* Date: 2021.09.01 09:30:46 -05'00'

Required fields are shown with yellow backgrounds and astericks.

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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

**Form 19b-4 Information \***

Add Remove View

21-050 (LMM Programs - September)

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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21-050 (LMM Programs - September)

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 Advanced 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 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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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.

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Exhibit Sent As Paper Document

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

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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.

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Exhibit Sent As Paper Document

**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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21-050 (LMM Programs - September)

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

**Partial Amendment**

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

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

(a)     Cboe Exchange, Inc. (the “Exchange” or “Cboe Options”) proposes to amend its Fees Schedule with respect to its Lead Market-Maker (“LMM”) Incentive Programs. The text of the proposed rule change is provided in Exhibit 5.

(b)     Not applicable.

(c)     Not applicable.

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

(a)     The Exchange’s President (or designee) pursuant to delegated authority approved the proposed rule change on August 31, 2021.

(b)     Please refer questions and comments on the proposed rule change to Patrick Sexton, Executive Vice President, General Counsel, and Corporate Secretary, (312) 786-7467, or Rebecca Tenuta (312) 786-7068, Cboe Exchange, Inc., 400 South LaSalle, Chicago, Illinois 60605.

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

(a)     Purpose

The Exchange proposes to amend its Fees Schedule to amend: the Mini Russell 2000 Index (“MRUT”) options LMM Incentive Program; the MSCI EAFE Index (“MXEA”) options and MSCI Emerging Markets Index (“MXEF”) options LMM Incentive Program (i.e., the MSCI LMM Incentive Program); and the Regular Trading Hours (“RTH”) S&P 500 ESG Index (“SPESG”) LMM Incentive Program, and to remove an expiring fee waiver, effective September 1, 2021.

Each LMM Incentive Program provides a rebate<sup>1</sup> to Trading Permit Holders (“TPHs”) with LMM appointments to the respective incentive program that meet certain quoting standards in the applicable series in a month. The Exchange notes that meeting or exceeding the quoting standards (both current and as proposed; described in further detail below) in each of the LMM Incentive Program products to receive the applicable rebate (both currently offered and as proposed; described in further detail below) is optional for an LMM appointed to a program. Rather, an LMM appointed to an incentive program is eligible to receive the corresponding rebate if it satisfies the applicable quoting standards, which the Exchange believes encourages the LMM to provide liquidity in the applicable class and trading session. The Exchange may consider other exceptions to the programs’ quoting standards based on demonstrated legal or regulatory requirements or other mitigating circumstances. In calculating whether an LMM appointed to an incentive program meets the applicable program’s quoting standards each month, the Exchange excludes from the calculation in that month the business day in which the LMM missed meeting or exceeding the quoting standards in the highest number of the applicable series.

#### MRUT LMM Incentive Program

The Exchange first proposes to amend its MRUT LMM Incentive Program. Currently, the program provides that if the appointed LMM in MRUT provides continuous electronic quotes during RTH that meet or exceed the program’s heightened quoting

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<sup>1</sup> The proposed rule change updates the term “payment” to “rebate” in the MSCI and MRUT LMM Incentive Programs, which more accurately reflects the type of payment an LMM appointed to the MRUT or MSCI LMM Incentive Program is eligible to receive and is consistent with language in the other LMM Incentive Programs.

standards<sup>2</sup> in at least 99% of the series 90% of the time in a given month, the LMM will receive a rebate<sup>3</sup> for that month in the amount of \$20,000 (or pro-rated amount if an appointment begins after the first trading day of the month or ends prior to the last trading day of the month).

Specifically, the Exchange proposes to amend certain quotes widths contained in the MRUT LMM Incentive Program's heightened quoting standards. Currently, for expiring MRUT options (14 days or less), the appointed LMM must meet, among other heightened quoting standards, a \$0.15 width for a quote size of 1 contract at a premium level of \$1.01 to \$3.00 and a \$0.15 width for a quote size of 1 contract at a premium level of \$3.01 to \$5.00. The proposed rule change marginally decreases both such widths in these categories to \$0.14. Currently, for MRUT options expiring in the near term (15 days to 60 days), the appointed LMM must meet, among other heightened quoting standards, a \$0.15 width for a quote size of 1 contract at a premium level of \$1.01 to \$3.00, a \$0.18 width for a quote size of one contract at a premium level of \$3.01 to \$5.00, and a \$0.20 width for a quote size of 1 contract at a premium level of \$5.01 to \$10.00. The proposed rule change marginally decreases these widths to a \$0.13 width, a \$0.16 width, and a \$0.18 width, respectively. The Exchange also proposes to increase the compensation payment offered by the MRUT LMM Incentive Program to an LMM appointed to the program for meeting the heightened quoting standards in a month from \$20,000 to \$25,000.

The proposed rule change also makes a nonsubstantive, clarifying change to the language regarding the program's MRUT Volume Incentive Pool, which currently states

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<sup>2</sup> Located in the "MRUT LMM Incentive Program" table in the Fees Schedule.

<sup>3</sup> See supra note 1.

that, “in addition to the above rebate, if the appointed LMM meets or exceeds the above heightened quoting standards in a given month and provides an average daily volume (“ADV”) in MRUT that meets or exceeds 25,000 contracts in a given month, the LMM will receive the Monthly ADV Payment amount that corresponds to the level of ADV in MRUT for that month per the MRUT Volume Incentive Pool program below.” As proposed, this language provides that, if in addition to the above rebate, if the appointed LMM meets or exceeds the above heightened quoting standards in a given month, the LMM will receive the Monthly ADV Payment amount that corresponds to the level of ADV provided by the LMM in MRUT for that month per the MRUT Volume Incentive Pool program below. The Exchange believes the updated language is simpler and more straightforward regarding the application of the MRUT Volume Incentive Pool program to an LMM that meets or exceeds the program’s heightened quoting standards. The Exchange believes that the proposed rule change will encourage LMMs appointed to the MRUT LMM Incentive Program to strive to meet tighter width standards in MRUT options in order to receive the proposed higher rebate offered under the MRUT LMM Incentive Program. Tighter spreads generally signal an increase in activity from other market participants, contributing to overall deeper, more liquid markets, price discovery and transparency, and a robust market ecosystem to the benefit of all market participants.

In addition to this, the proposed rule change also makes a nonsubstantive change to the Fees Schedule by removing an expiring fee waiver in footnote 32 (and the locations in the Fees Schedule to which it is appended to MRUT options for Market-Maker and Firm transaction fees in the Rate Table—All Products Excluding Underlying Symbol List A), which provides that transaction fees for orders executed in MRUT options with a capacity

code of “F”, “L”, or “M” will be waived through August 31, 2021. As intended, the waiver expired on August 31, 2021 and such orders will be assessed the standard transaction fees for orders submitted in MRUT options in a Market-Maker (\$0.03 per contract) or Firm (\$0.02 per contract) capacity.

#### MSCI (MXEA and MXEF) LMM Incentive Program

The Exchange proposes to amend its MSCI LMM Incentive Program. Currently, the program provides that if the appointed LMM in MXEA and MXEF options (collectively, “MSCI options”) provides continuous electronic quotes during RTH that meet or exceed the heightened quoting standards<sup>4</sup> in at least 90% of the MXEA and MXEF series 80% of the time in a given month, the LMM will receive a rebate<sup>5</sup> for that month in the amount of \$20,000 per class, per month.<sup>6</sup>

First, the Exchange proposes to amend the number of days for MSCI options to be considered as “expiring” and as “near-term” per the program. Specifically, the proposed rule change updates the days to expiry for MSCI options to be considered as expiring for purposes of the program from 7 days or less to 6 days or less and updates the days to expiry for MSCI options to be considered as near-term for the purposes of the program from 8 days to 60 days to 7 days to 60 days. The Exchange has observed that there is more significant demand for and participation in MSCI options with time to expiration of a week

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<sup>4</sup> Located in the “MSCI LMM Incentive Program” table in the Fees Schedule.

<sup>5</sup> See supra note 1.

<sup>6</sup> The proposed rule change also makes a nonsubstantive clarifying change that makes it explicit that the monthly payment may be a pro-rated amount if an appointment begins after the first trading day of the month or ends prior to the last trading day of the month, consistent with language currently in each of the LMM Incentive Programs and the manner in which the MSCI LMM Incentive Program currently works today.

or more, whereas those options with less than a week to expiration tend to experience significantly less demand and participation, wherein it becomes more difficult for LMMs to quote within specified widths and sizes. As a result, the proposed rule change to update the days to expiry within the expiring and near-term categories is intended to delineate the expiry categories in a manner that better reflects the differences in market characteristics, and thus the difference in the difficulty in meeting the quoting standards that correspond to each, between options that expire in less than a week and options that expire in a week or more (up to 60 days).

Next, the Exchange proposes to amend certain quote widths and sizes contained in the MSCI LMM Incentive Program's heightened quoting standards. Currently, for expiring MSCI options, the appointed LMM must meet, among other heightened quoting standards, a \$3.00 width for a quote size of 5 contracts at a premium of \$1.01 to \$3.00. The proposed rule change marginally decreases this width to \$2.50. For MSCI options expiring in the near-term, the appointed LMM must currently meet, among other heightened quoting standards, a \$1.20 width for a quote size of 20 contracts at a premium level of \$0.00 to \$5.00 and a \$5.00 width for a quote size of 10 contracts at a premium level of \$15.01 to \$50.00. The proposed rule change marginally reduces these widths to \$1.05 and \$4.50, respectively. Additionally, the proposed rule change also slightly reduces the quote size standards for most all of the premium categories for MSCI options expiring in the near-term. More specifically, the proposed rule change reduces the quote size standard of 20 contracts at a premium level of \$0.00 to \$5.00 to 12 contracts, the quote size standard of 15 contracts at a premium level of \$5.01 to \$15.00 to 9 contracts, the quote size standard of 10 contracts at a premium level of \$15.01 to \$50.00 to 7 contracts, the quote size standard



of 7 contracts at a premium level of \$50.01 to \$100.00 to 5 contracts, and the quote size standard of 3 contracts at a premium level of \$100.01 to \$200.00 to 2 contracts. For MSCI options expiring in the mid-term (61 days to 270 days), the appointed LMM must currently meet, among other heightened quoting standards, a \$10.00 width for a quote size of 57 contracts at a premium of \$15.01 to \$50.00. The proposed rule change also marginally decreases this quote width to \$9.00. The proposed rule change also slightly reduces the quote size standards for certain premium categories for MSCI options expiring in the mid-term by reducing the quote size standard of 15 contracts at a premium level of \$0.00 to \$5.00 to 10 contracts, the quote size standard of 10 contracts at a premium level of \$5.01 to \$15.00 to 8 contracts, and the quote size standard of 2 contracts at a premium level of \$100.01 to \$200.00 to 2 contracts.

The Exchange believes that the proposed tighter widths and smaller quote sizes for the MSCI LMM Incentive Program's heightened quoting requirements will incentivize LMMs appointed to the program to make tighter markets and quote more aggressively in MSCI options to receive the current rebate offered under the program, resulting in tighter spreads and increased liquidity to the benefits of investors.

#### RTH SPESG LMM Incentive Program

The Exchange proposes to amend the RTH SPESG LMM Incentive Program. Currently, the program provides that, if the appointed LMM provides continuous electronic quotes during RTH that meet or exceed the program's heightened quoting standards<sup>7</sup> in at least 60% of SPESG series 90% of the time in a given month, the LMM will receive a rebate for that month in the amount of a pro-rata share of a compensation pool equal to

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<sup>7</sup> Located in the "RTH SPESG LMM Incentive Program" table in the Fees Schedule.

\$50,000 (or pro-rated amount if an appointment begins after the first trading day of the month or ends prior to the last trading day of the month) for that month. If, for example, two LMMs meet the heightened continuous quoting standard in SPESG during a month, each will receive \$25,000. If only one LMM meets the heightened continuous quoting standard in SPESG during a month, that LMM would receive \$50,000 and the other one would receive nothing. The Exchange proposes to eliminate the compensation pool structure (and related explanatory language) currently applicable to the RTH SPESG LMM Incentive Program and adopt a flat-rate rebate structure per month, consistent with the current flat-rate rebate structure of the other LMM Incentive Programs. Specifically, the proposed rule change provides that if the appointed LMM provides continuous electronic quotes during RTH that meet or exceed the same heightened quoting standards in the same percentage of the series (60%) for the same percentage of the time (90%) in a given month, the LMM will receive a rebate for that month in the amount of \$20,000 (or pro-rated amount if an appointment begins after the first trading day of the month or ends prior to the last trading day of the month) for that month.

The Exchange also proposes to offer an SPESG Volume Incentive Pool under the RTH SPESG LMM Incentive Program, like that offered under the MRUT LMM Incentive Program. Specifically, the proposed rule change to the program provides that, in addition to the above rebate (i.e., the proposed \$20,000 per month rebate), if the appointed LMM meets or exceeds the above heightened quoting standards in a given month, the LMM will receive the Monthly ADV Payment amount that corresponds to the level of ADV provided by the LMM in SPESG for that month per the SPESG Volume Incentive Pool program below.

<b>SPESG ADV</b>	<b>Monthly ADV Payment</b>
0 - 999 contracts	\$0.00
1,000 - 4,999 contracts	\$5,000
5,000 - 10,000 contracts	\$15,000
Greater than 10,000 contracts	\$20,000

The proposed SPESG Volume Incentive Pool offered by the RTH SPESG LMM Incentive Program is designed to incentivize LMMs to further increase the provision of liquidity in SPESG options. Increased liquidity in SPESG options would, in turn, provide greater trading opportunities, added market transparency and enhanced price discovery for all market participants in SPESG.

(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>8</sup> Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>9</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. Additionally, the Exchange believes the proposed rule change is consistent with Section 6(b)(4) of the Act,<sup>10</sup>

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<sup>8</sup> 15 U.S.C. 78f(b).

<sup>9</sup> 15 U.S.C. 78f(b)(5).

<sup>10</sup> 15 U.S.C. 78f(b)(4).

which requires that Exchange rules provide for the equitable allocation of reasonable dues, fees, and other charges among its Trading Permit Holders and other persons using its facilities.

Regarding each of the LMM Incentive Programs generally, the Exchange believes it is reasonable, equitable and not unfairly discriminatory to continue to offer these financial incentives, including as amended, to LMMs appointed to the programs, because it benefits all market participants trading in the corresponding products during RTH. These incentive programs encourage the LMMs appointed to such programs to satisfy the heightened quoting standards, which may increase liquidity and provide more trading opportunities and tighter spreads. Indeed, the Exchange notes that these LMMs serve a crucial role in providing quotes and the opportunity for market participants to trade MRUT, MSCI and SPESG options, as applicable, which can lead to increased volume, providing for robust markets. The Exchange ultimately offers the LMM Incentive Programs, as amended, to sufficiently incentive LMMs appointed to each incentive program to provide key liquidity and active markets in the corresponding program products during the corresponding trading sessions, and believes that these incentive programs, as amended, will continue to encourage increased quoting to add liquidity in each of the corresponding program products, thereby protecting investors and the public interest. The Exchange also notes that an LMM appointed to an incentive program may undertake added costs each month in order to satisfy that heightened quoting standards (e.g., having to purchase additional logical connectivity).

Particularly, the Exchange believes that it is reasonable to amend certain widths and sizes in the heightened quoting standards under the MRUT and MSCI LMM Incentive

Programs, as applicable. The Exchange believes the proposed rule change to tighten certain widths and reduce certain quote size standards in the MRUT and MSCI LMM Incentive Programs, as applicable, is reasonably designed to facilitate LMMs appointed to the MRUT and MSCI Incentive Programs to post tighter spreads and more aggressive quotes in MRUT and MSCI options, as applicable, in order to meet the heightened quoting standards and receive the rebate offered under the incentive program. An increase in quoting activity and tighter quotes tends to signal additional corresponding increase in order flow from other market participants, which benefits all investors by deepening the Exchange's liquidity pool, potentially providing even greater execution incentives and opportunities, offering additional flexibility for all investors to enjoy cost savings, supporting the quality of price discovery, promoting market transparency and improving investor protection. The Exchange also believes that the proposed widths and sizes are reasonable because they remain generally aligned with the current heightened standards in each program, as the proposed widths and sizes are only marginally reduced in order to incentivize an increase in quoting activity and the provision of tighter markets. The Exchange also notes that another options exchange offers similar incentive programs with corresponding quote widths, sizes and premiums of comparable ranges.<sup>11</sup> Likewise, the Exchange believes that the proposed rule change to adopt an SPESG Volume Incentive Pool as part of the RTH SPESG LMM Incentive Program is reasonably designed to continue to encourage LMMs appointed to the incentive program to provide significant liquidity in SPESG options

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<sup>11</sup> See e.g., Nasdaq Phlx Options 7 Pricing Schedule, Section 5.B, XND Incentive Program.

during RTH. The Exchange notes that the MRUT LMM Incentive Program also offers a volume incentive pool structured in a substantially similar manner.

The Exchange believes that it is reasonable to amend the number of days to expiration that comprise certain expiry categories in the MSCI LMM Incentive Programs as this update is reasonably designed to make it easier for the LMMs appointed to the incentive program to satisfy the heightened quoting standards for options expiring a certain number of days out, by better aligning the applicable category of heightened quoting standards with the level of demand for MSCI options that expire in less than a week versus a week or more out.

The Exchange believes that it is reasonable to amend the monthly rebate amounts applicable to the MRUT and RTH SPESG LMM Incentive Programs. The Exchange believes that the proposed increased rebate amounts are reasonably designed to continue to incentivize an appointed LMM to meet the applicable quoting standards for MRUT and SPESG options, thereby providing liquid and active markets, which facilitates tighter spreads, increased trading opportunities, and overall enhanced market quality to the benefit of all market participants. The Exchange believes that the proposed rule change to eliminate the compensation pool structure in the RTH SPESG LMM Incentive Program and replace it with a flat-rate rebate structure is reasonable because it is consistent with the flat-rate rebate structure currently applicable to each of the other LMM Incentive Programs. The Exchange further believes that the proposed rule change to amend the rebate amount received for MRUT (\$25,000) and SPESG options (\$20,000) is reasonable because it is comparable to the rebates offered by other LMM Incentive Programs. For example, the MSCI LMM Program currently offers \$20,000 per each class (MXEF and MXEA) in

which the heightened quoting standards are met in a given month and the GTH VIX/VIXW LMM Incentive Program offers \$15,000 for VIX options in which the quoting standards are met in VIX options a given month.

The Exchange believes that the proposed changes to the LMM Incentive Programs are equitable and not unfairly discriminatory. The Exchange believes that it is equitable and not unfairly discriminatory to amend certain quoting widths and sizes in the MRUT and MSCI LMM Incentive Program, to adopt a volume incentive pool for the RTH SPESG LMM Incentive Program and to update the number of days to expiration for certain expiry categories in the MSCI LMM Incentive Program because such quote widths and sizes, volume pool program and expiry categories will equally apply to any and all TPHs with LMM appointments to the MRUT, MSCI and RTH SPESG LMM Incentive Programs, as applicable, that seek to meet the programs' heightened quoting standards in order to receive the rebates offered (both current and proposed, as applicable) under each respective program. The Exchange believes the proposed rebates applicable to the MRUT and RTH SPESG LMM Incentive Programs are equitable and not unfairly discriminatory because they, too, will equally apply to any TPH that is appointed as an LMM to the MRUT and RTH SPESG LMM Incentive Programs. Additionally, if an LMM appointed to any of the LMM Incentive Programs does not satisfy the corresponding heightened quoting standard for any given month, then it simply will not receive the rebate offered by the respective program for that month.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

The Exchange believes the proposed rule change does impose any burden on intramarket competition that is not necessary or appropriate in furtherance of the purposes of the Act. Particularly, the proposed changes to existing LMM Incentive Programs will apply to all LMMs appointed to the applicable program classes (i.e., MRUT, MXEF, MXEA and SPESG) in a uniform manner. To the extent these LMMs appointed to an incentive program receive a benefit that other market participants do not, as stated, these LMMs in their role as Mark-Makers on the Exchange have different obligations and are held to different standards. For example, Market-Makers play a crucial role in providing active and liquid markets in their appointed products, thereby providing a robust market which benefits all market participants. Such Market-Makers also have obligations and regulatory requirements that other participants do not have. The Exchange also notes that an LMM appointed to an incentive program may undertake added costs each month to satisfy that heightened quoting standards (e.g., having to purchase additional logical connectivity). The Exchange also notes that the incentive programs are designed to attract additional order flow to the Exchange, wherein greater liquidity benefits all market participants by providing more trading opportunities, tighter spreads, and added market transparency and price discovery, and signals to other market participants to direct their order flow to those markets, thereby contributing to robust levels of liquidity.



The Exchange believes the proposed rule change does not impose any burden on intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act as the LMM Incentive Programs apply only to transactions in products exclusively listed on Cboe Options. Additionally, as noted above, the incentive programs are designed to attract additional order flow to the Exchange, wherein greater liquidity benefits all market participants by providing more trading opportunities, tighter spreads, and added market transparency and price discovery, and signals to other market participants to direct their order flow to those markets, thereby contributing to robust levels of liquidity. The Exchange notes it operates in a highly competitive market. In addition to Cboe Options, TPHs have numerous alternative venues that they may participate on and direct their order flow, including 15 other options exchanges, as well as off-exchange venues, where competitive products are available for trading. Based on publicly available information, no single options exchange has more than 15% of the market share of executed volume of options trades.<sup>12</sup> Therefore, no exchange possesses significant pricing power in the execution of option order flow. Moreover, the Commission has repeatedly expressed its preference for competition over regulatory intervention in determining prices, products, and services in the securities markets. Specifically, in Regulation NMS, the Commission highlighted the importance of market forces in determining prices and SRO revenues and, also, recognized that current regulation of the market system “has been remarkably successful in promoting market competition in its broader forms that are most important to

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<sup>12</sup> See Cboe Global Markets, U.S. Options Market Volume Summary by Month (August 24, 2021), available at [http://markets.cboe.com/us/options/market\\_share/](http://markets.cboe.com/us/options/market_share/).

investors and listed companies.”<sup>13</sup> The fact that this market is competitive has also long been recognized by the courts. In *NetCoalition v. Securities and Exchange Commission*, the D.C. Circuit stated as follows: “[n]o one disputes that competition for order flow is ‘fierce.’ ... As the SEC explained, ‘[i]n the U.S. national market system, buyers and sellers of securities, and the broker-dealers that act as their order-routing agents, have a wide range of choices of where to route orders for execution’; [and] ‘no exchange can afford to take its market share percentages for granted’ because ‘no exchange possesses a monopoly, regulatory or otherwise, in the execution of order flow from broker dealers’....”<sup>14</sup> Accordingly, the Exchange does not believe its proposed changes to the incentive programs impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

**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.

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<sup>13</sup> See Securities Exchange Act Release No. 51808 (June 9, 2005), 70 FR 37496, 37499 (June 29, 2005).

<sup>14</sup> *NetCoalition v. SEC*, 615 F.3d 525, 539 (D.C. Cir. 2010) (quoting Securities Exchange Act Release No. 59039 (December 2, 2008), 73 FR 74770, 74782-83 (December 9, 2008) (SR-NYSEArca-2006-21)).

**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 the Act<sup>15</sup> and Rule 19b-4(f)(2)<sup>16</sup> thereunder.

(b) The Exchange designates that the proposed rule change establishes or changes a due, fee, or other charge imposed by the Exchange, which renders the proposed rule change effective upon filing with the Securities and Exchange Commission (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.

(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.

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

<sup>16</sup> 17 CFR 240.19b-4(f)(2).

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

Not applicable.

**Item 11.      Exhibits**

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

Exhibit 5.      Proposed rule text.

EXHIBIT 1**SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34- ; File No. SR-CBOE-2021-050]

[Insert date]

Self-Regulatory Organizations; Cboe Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to Amend its Fees Schedule with Respect to its Lead Market-Maker (“LMM”) Incentive Programs

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 Exchange, Inc. (the “Exchange” or “Cboe Options”) filed with the Securities and Exchange Commission (the “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

Cboe Exchange, Inc. (the “Exchange” or “Cboe Options”) proposes to amend its Fees Schedule with respect to its Lead Market-Maker (“LMM”) Incentive Programs. The text of the proposed rule change is provided in Exhibit 5.

The text of the proposed rule change is also available on the Exchange’s website (<http://www.cboe.com/AboutCBOE/CBOELegalRegulatoryHome.aspx>), at the Exchange’s Office of the Secretary, and at the Commission’s Public Reference Room.

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

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

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

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

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

#### **1. Purpose**

The Exchange proposes to amend its Fees Schedule to amend: the Mini Russell 2000 Index ("MRUT") options LMM Incentive Program; the MSCI EAFE Index ("MXEA") options and MSCI Emerging Markets Index ("MXEF") options LMM Incentive Program (i.e., the MSCI LMM Incentive Program); and the Regular Trading Hours ("RTH") S&P 500 ESG Index ("SPESG") LMM Incentive Program, and to remove an expiring fee waiver, effective September 1, 2021.

Each LMM Incentive Program provides a rebate<sup>3</sup> to Trading Permit Holders ("TPHs") with LMM appointments to the respective incentive program that meet certain quoting standards in the applicable series in a month. The Exchange notes that meeting or exceeding the quoting standards (both current and as proposed; described in further detail below) in each of the LMM Incentive Program products to receive the applicable rebate

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<sup>3</sup> The proposed rule change updates the term "payment" to "rebate" in the MSCI and MRUT LMM Incentive Programs, which more accurately reflects the type of payment an LMM appointed to the MRUT or MSCI LMM Incentive Program is eligible to receive and is consistent with language in the other LMM Incentive Programs.

(both currently offered and as proposed; described in further detail below) is optional for an LMM appointed to a program. Rather, an LMM appointed to an incentive program is eligible to receive the corresponding rebate if it satisfies the applicable quoting standards, which the Exchange believes encourages the LMM to provide liquidity in the applicable class and trading session. The Exchange may consider other exceptions to the programs' quoting standards based on demonstrated legal or regulatory requirements or other mitigating circumstances. In calculating whether an LMM appointed to an incentive program meets the applicable program's quoting standards each month, the Exchange excludes from the calculation in that month the business day in which the LMM missed meeting or exceeding the quoting standards in the highest number of the applicable series.

#### MRUT LMM Incentive Program

The Exchange first proposes to amend its MRUT LMM Incentive Program. Currently, the program provides that if the appointed LMM in MRUT provides continuous electronic quotes during RTH that meet or exceed the program's heightened quoting standards<sup>4</sup> in at least 99% of the series 90% of the time in a given month, the LMM will receive a rebate<sup>5</sup> for that month in the amount of \$20,000 (or pro-rated amount if an appointment begins after the first trading day of the month or ends prior to the last trading day of the month).

Specifically, the Exchange proposes to amend certain quotes widths contained in the MRUT LMM Incentive Program's heightened quoting standards. Currently, for expiring MRUT options (14 days or less), the appointed LMM must meet, among other

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<sup>4</sup> Located in the "MRUT LMM Incentive Program" table in the Fees Schedule.

<sup>5</sup> See supra note 3.

heightened quoting standards, a \$0.15 width for a quote size of 1 contract at a premium level of \$1.01 to \$3.00 and a \$0.15 width for a quote size of 1 contract at a premium level of \$3.01 to \$5.00. The proposed rule change marginally decreases both such widths in these categories to \$0.14. Currently, for MRUT options expiring in the near term (15 days to 60 days), the appointed LMM must meet, among other heightened quoting standards, a \$0.15 width for a quote size of 1 contract at a premium level of \$1.01 to \$3.00, a \$0.18 width for a quote size of one contract at a premium level of \$3.01 to \$5.00, and a \$0.20 width for a quote size of 1 contract at a premium level of \$5.01 to \$10.00. The proposed rule change marginally decreases these widths to a \$0.13 width, a \$0.16 width, and a \$0.18 width, respectively. The Exchange also proposes to increase the compensation payment offered by the MRUT LMM Incentive Program to an LMM appointed to the program for meeting the heightened quoting standards in a month from \$20,000 to \$25,000.

The proposed rule change also makes a nonsubstantive, clarifying change to the language regarding the program's MRUT Volume Incentive Pool, which currently states that, "in addition to the above rebate, if the appointed LMM meets or exceeds the above heightened quoting standards in a given month and provides an average daily volume ("ADV") in MRUT that meets or exceeds 25,000 contracts in a given month, the LMM will receive the Monthly ADV Payment amount that corresponds to the level of ADV in MRUT for that month per the MRUT Volume Incentive Pool program below." As proposed, this language provides that, if in addition to the above rebate, if the appointed LMM meets or exceeds the above heightened quoting standards in a given month, the LMM will receive the Monthly ADV Payment amount that corresponds to the level of



ADV provided by the LMM in MRUT for that month per the MRUT Volume Incentive Pool program below. The Exchange believes the updated language is simpler and more straightforward regarding the application of the MRUT Volume Incentive Pool program to an LMM that meets or exceeds the program's heightened quoting standards. The Exchange believes that the proposed rule change will encourage LMMs appointed to the MRUT LMM Incentive Program to strive to meet tighter width standards in MRUT options in order to receive the proposed higher rebate offered under the MRUT LMM Incentive Program. Tighter spreads generally signal an increase in activity from other market participants, contributing to overall deeper, more liquid markets, price discovery and transparency, and a robust market ecosystem to the benefit of all market participants.

In addition to this, the proposed rule change also makes a nonsubstantive change to the Fees Schedule by removing an expiring fee waiver in footnote 32 (and the locations in the Fees Schedule to which it is appended to MRUT options for Market-Maker and Firm transaction fees in the Rate Table—All Products Excluding Underlying Symbol List A), which provides that transaction fees for orders executed in MRUT options with a capacity code of “F”, “L”, or “M” will be waived through August 31, 2021. As intended, the waiver expired on August 31, 2021 and such orders will be assessed the standard transaction fees for orders submitted in MRUT options in a Market-Maker (\$0.03 per contract) or Firm (\$0.02 per contract) capacity.

#### MSCI (MXEA and MXEF) LMM Incentive Program

The Exchange proposes to amend its MSCI LMM Incentive Program. Currently, the program provides that if the appointed LMM in MXEA and MXEF options (collectively, “MSCI options”) provides continuous electronic quotes during RTH that

meet or exceed the heightened quoting standards<sup>6</sup> in at least 90% of the MXEA and MXEF series 80% of the time in a given month, the LMM will receive a rebate<sup>7</sup> for that month in the amount of \$20,000 per class, per month.<sup>8</sup>

First, the Exchange proposes to amend the number of days for MSCI options to be considered as “expiring” and as “near-term” per the program. Specifically, the proposed rule change updates the days to expiry for MSCI options to be considered as expiring for purposes of the program from 7 days or less to 6 days or less and updates the days to expiry for MSCI options to be considered as near-term for the purposes of the program from 8 days to 60 days to 7 days to 60 days. The Exchange has observed that there is more significant demand for and participation in MSCI options with time to expiration of a week or more, whereas those options with less than a week to expiration tend to experience significantly less demand and participation, wherein it becomes more difficult for LMMs to quote within specified widths and sizes. As a result, the proposed rule change to update the days to expiry within the expiring and near-term categories is intended to delineate the expiry categories in a manner that better reflects the differences in market characteristics, and thus the difference in the difficulty in meeting the quoting standards that correspond to each, between options that expire in less than a week and options that expire in a week or more (up to 60 days).

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<sup>6</sup> Located in the “MSCI LMM Incentive Program” table in the Fees Schedule.

<sup>7</sup> See supra note 3.

<sup>8</sup> The proposed rule change also makes a nonsubstantive clarifying change that makes it explicit that the monthly payment may be a pro-rated amount if an appointment begins after the first trading day of the month or ends prior to the last trading day of the month, consistent with language currently in each of the LMM Incentive Programs and the manner in which the MSCI LMM Incentive Program currently works today.

Next, the Exchange proposes to amend certain quote widths and sizes contained in the MSCI LMM Incentive Program's heightened quoting standards. Currently, for expiring MSCI options, the appointed LMM must meet, among other heightened quoting standards, a \$3.00 width for a quote size of 5 contracts at a premium of \$1.01 to \$3.00. The proposed rule change marginally decreases this width to \$2.50. For MSCI options expiring in the near-term, the appointed LMM must currently meet, among other heightened quoting standards, a \$1.20 width for a quote size of 20 contracts at a premium level of \$0.00 to \$5.00 and a \$5.00 width for a quote size of 10 contracts at a premium level of \$15.01 to \$50.00. The proposed rule change marginally reduces these widths to \$1.05 and \$4.50, respectively. Additionally, the proposed rule change also slightly reduces the quote size standards for most all of the premium categories for MSCI options expiring in the near-term. More specifically, the proposed rule change reduces the quote size standard of 20 contracts at a premium level of \$0.00 to \$5.00 to 12 contracts, the quote size standard of 15 contracts at a premium level of \$5.01 to \$15.00 to 9 contracts, the quote size standard of 10 contracts at a premium level of \$15.01 to \$50.00 to 7 contracts, the quote size standard of 7 contracts at a premium level of \$50.01 to \$100.00 to 5 contracts, and the quote size standard of 3 contracts at a premium level of \$100.01 to \$200.00 to 2 contracts. For MSCI options expiring in the mid-term (61 days to 270 days), the appointed LMM must currently meet, among other heightened quoting standards, a \$10.00 width for a quote size of 57 contracts at a premium of \$15.01 to \$50.00. The proposed rule change also marginally decreases this quote width to \$9.00. The proposed rule change also slightly reduces the quote size standards for certain premium categories for MSCI options expiring in the mid-term by reducing the quote size standard of 15

contracts at a premium level of \$0.00 to \$5.00 to 10 contracts, the quote size standard of 10 contracts at a premium level of \$5.01 to \$15.00 to 8 contracts, and the quote size standard of 2 contracts at a premium level of \$100.01 to \$200.00 to 2 contracts.

The Exchange believes that the proposed tighter widths and smaller quote sizes for the MSCI LMM Incentive Program's heightened quoting requirements will incentivize LMMs appointed to the program to make tighter markets and quote more aggressively in MSCI options to receive the current rebate offered under the program, resulting in tighter spreads and increased liquidity to the benefits of investors.

#### RTH SPESG LMM Incentive Program

The Exchange proposes to amend the RTH SPESG LMM Incentive Program. Currently, the program provides that, if the appointed LMM provides continuous electronic quotes during RTH that meet or exceed the program's heightened quoting standards<sup>9</sup> in at least 60% of SPESG series 90% of the time in a given month, the LMM will receive a rebate for that month in the amount of a pro-rata share of a compensation pool equal to \$50,000 (or pro-rated amount if an appointment begins after the first trading day of the month or ends prior to the last trading day of the month) for that month. If, for example, two LMMs meet the heightened continuous quoting standard in SPESG during a month, each will receive \$25,000. If only one LMM meets the heightened continuous quoting standard in SPESG during a month, that LMM would receive \$50,000 and the other one would receive nothing. The Exchange proposes to eliminate the compensation pool structure (and related explanatory language) currently applicable to the RTH SPESG LMM Incentive Program and adopt a flat-rate rebate structure per month, consistent with

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<sup>9</sup> Located in the "RTH SPESG LMM Incentive Program" table in the Fees Schedule.

the current flat-rate rebate structure of the other LMM Incentive Programs. Specifically, the proposed rule change provides that if the appointed LMM provides continuous electronic quotes during RTH that meet or exceed the same heightened quoting standards in the same percentage of the series (60%) for the same percentage of the time (90%) in a given month, the LMM will receive a rebate for that month in the amount of \$20,000 (or pro-rated amount if an appointment begins after the first trading day of the month or ends prior to the last trading day of the month) for that month.

The Exchange also proposes to offer an SPESG Volume Incentive Pool under the RTH SPESG LMM Incentive Program, like that offered under the MRUT LMM Incentive Program. Specifically, the proposed rule change to the program provides that, in addition to the above rebate (i.e., the proposed \$20,000 per month rebate), if the appointed LMM meets or exceeds the above heightened quoting standards in a given month, the LMM will receive the Monthly ADV Payment amount that corresponds to the level of ADV provided by the LMM in SPESG for that month per the SPESG Volume Incentive Pool program below.

<b>SPESG ADV</b>	<b>Monthly ADV Payment</b>
0 - 999 contracts	\$0.00
1,000 - 4,999 contracts	\$5,000
5,000 - 10,000 contracts	\$15,000
Greater than 10,000 contracts	\$20,000

The proposed SPESG Volume Incentive Pool offered by the RTH SPESG LMM Incentive Program is designed to incentivize LMMs to further increase the provision of liquidity in SPESG options. Increased liquidity in SPESG options would, in turn, provide greater trading opportunities, added market transparency and enhanced price discovery for all market participants in SPESG.

## 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>10</sup> Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>11</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. Additionally, the Exchange believes the proposed rule change is consistent with Section 6(b)(4) of the Act,<sup>12</sup> which requires that Exchange rules provide for the equitable allocation of reasonable dues, fees, and other charges among its Trading Permit Holders and other persons using its facilities.

Regarding each of the LMM Incentive Programs generally, the Exchange believes it is reasonable, equitable and not unfairly discriminatory to continue to offer these financial incentives, including as amended, to LMMs appointed to the programs, because it benefits all market participants trading in the corresponding products during RTH. These incentive programs encourage the LMMs appointed to such programs to satisfy the heightened quoting standards, which may increase liquidity and provide more trading

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<sup>10</sup> 15 U.S.C. 78f(b).

<sup>11</sup> 15 U.S.C. 78f(b)(5).

<sup>12</sup> 15 U.S.C. 78f(b)(4).

opportunities and tighter spreads. Indeed, the Exchange notes that these LMMs serve a crucial role in providing quotes and the opportunity for market participants to trade MRUT, MSCI and SPESG options, as applicable, which can lead to increased volume, providing for robust markets. The Exchange ultimately offers the LMM Incentive Programs, as amended, to sufficiently incentive LMMs appointed to each incentive program to provide key liquidity and active markets in the corresponding program products during the corresponding trading sessions, and believes that these incentive programs, as amended, will continue to encourage increased quoting to add liquidity in each of the corresponding program products, thereby protecting investors and the public interest. The Exchange also notes that an LMM appointed to an incentive program may undertake added costs each month in order to satisfy that heightened quoting standards (e.g., having to purchase additional logical connectivity).

Particularly, the Exchange believes that it is reasonable to amend certain widths and sizes in the heightened quoting standards under the MRUT and MSCI LMM Incentive Programs, as applicable. The Exchange believes the proposed rule change to tighten certain widths and reduce certain quote size standards in the MRUT and MSCI LMM Incentive Programs, as applicable, is reasonably designed to facilitate LMMs appointed to the MRUT and MSCI Incentive Programs to post tighter spreads and more aggressive quotes in MRUT and MSCI options, as applicable, in order to meet the heightened quoting standards and receive the rebate offered under the incentive program. An increase in quoting activity and tighter quotes tends to signal additional corresponding increase in order flow from other market participants, which benefits all investors by deepening the Exchange's liquidity pool, potentially providing even greater execution

incentives and opportunities, offering additional flexibility for all investors to enjoy cost savings, supporting the quality of price discovery, promoting market transparency and improving investor protection. The Exchange also believes that the proposed widths and sizes are reasonable because they remain generally aligned with the current heightened standards in each program, as the proposed widths and sizes are only marginally reduced in order to incentivize an increase in quoting activity and the provision of tighter markets. The Exchange also notes that another options exchange offers similar incentive programs with corresponding quote widths, sizes and premiums of comparable ranges.<sup>13</sup> Likewise, the Exchange believes that the proposed rule change to adopt an SPESG Volume Incentive Pool as part of the RTH SPESG LMM Incentive Program is reasonably designed to continue to encourage LMMs appointed to the incentive program to provide significant liquidity in SPESG options during RTH. The Exchange notes that the MRUT LMM Incentive Program also offers a volume incentive pool structured in a substantially similar manner.

The Exchange believes that it is reasonable to amend the number of days to expiration that comprise certain expiry categories in the MSCI LMM Incentive Programs as this update is reasonably designed to make it easier for the LMMs appointed to the incentive program to satisfy the heightened quoting standards for options expiring a certain number of days out, by better aligning the applicable category of heightened quoting standards with the level of demand for MSCI options that expire in less than a week versus a week or more out.

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<sup>13</sup> See e.g., Nasdaq Phlx Options 7 Pricing Schedule, Section 5.B, XND Incentive Program.



The Exchange believes that it is reasonable to amend the monthly rebate amounts applicable to the MRUT and RTH SPESG LMM Incentive Programs. The Exchange believes that the proposed increased rebate amounts are reasonably designed to continue to incentivize an appointed LMM to meet the applicable quoting standards for MRUT and SPESG options, thereby providing liquid and active markets, which facilitates tighter spreads, increased trading opportunities, and overall enhanced market quality to the benefit of all market participants. The Exchange believes that the proposed rule change to eliminate the compensation pool structure in the RTH SPESG LMM Incentive Program and replace it with a flat-rate rebate structure is reasonable because it is consistent with the flat-rate rebate structure currently applicable to each of the other LMM Incentive Programs. The Exchange further believes that the proposed rule change to amend the rebate amount received for MRUT (\$25,000) and SPESG options (\$20,000) is reasonable because it is comparable to the rebates offered by other LMM Incentive Programs. For example, the MSCI LMM Program currently offers \$20,000 per each class (MXEF and MXEA) in which the heightened quoting standards are met in a given month and the GTH VIX/VIXW LMM Incentive Program offers \$15,000 for VIX options in which the quoting standards are met in VIX options a given month.

The Exchange believes that the proposed changes to the LMM Incentive Programs are equitable and not unfairly discriminatory. The Exchange believes that it is equitable and not unfairly discriminatory to amend certain quoting widths and sizes in the MRUT and MSCI LMM Incentive Program, to adopt a volume incentive pool for the RTH SPESG LMM Incentive Program and to update the number of days to expiration for certain expiry categories in the MSCI LMM Incentive Program because such quote

widths and sizes, volume pool program and expiry categories will equally apply to any and all TPHs with LMM appointments to the MRUT, MSCI and RTH SPESG LMM Incentive Programs, as applicable, that seek to meet the programs' heightened quoting standards in order to receive the rebates offered (both current and proposed, as applicable) under each respective program. The Exchange believes the proposed rebates applicable to the MRUT and RTH SPESG LMM Incentive Programs are equitable and not unfairly discriminatory because they, too, will equally apply to any TPH that is appointed as an LMM to the MRUT and RTH SPESG LMM Incentive Programs. Additionally, if an LMM appointed to any of the LMM Incentive Programs does not satisfy the corresponding heightened quoting standard for any given month, then it simply will not receive the rebate offered by the respective program for that month.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

The Exchange believes the proposed rule change does impose any burden on intramarket competition that is not necessary or appropriate in furtherance of the purposes of the Act. Particularly, the proposed changes to existing LMM Incentive Programs will apply to all LMMs appointed to the applicable program classes (i.e., MRUT, MXEF, MXEA and SPESG) in a uniform manner. To the extent these LMMs appointed to an incentive program receive a benefit that other market participants do not, as stated, these LMMs in their role as Mark-Makers on the Exchange have different obligations and are held to different standards. For example, Market-Makers play a crucial role in providing active and liquid markets in their appointed products, thereby

providing a robust market which benefits all market participants. Such Market-Makers also have obligations and regulatory requirements that other participants do not have. The Exchange also notes that an LMM appointed to an incentive program may undertake added costs each month to satisfy that heightened quoting standards (e.g., having to purchase additional logical connectivity). The Exchange also notes that the incentive programs are designed to attract additional order flow to the Exchange, wherein greater liquidity benefits all market participants by providing more trading opportunities, tighter spreads, and added market transparency and price discovery, and signals to other market participants to direct their order flow to those markets, thereby contributing to robust levels of liquidity.

The Exchange believes the proposed rule change does not impose any burden on intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act as the LMM Incentive Programs apply only to transactions in products exclusively listed on Cboe Options. Additionally, as noted above, the incentive programs are designed to attract additional order flow to the Exchange, wherein greater liquidity benefits all market participants by providing more trading opportunities, tighter spreads, and added market transparency and price discovery, and signals to other market participants to direct their order flow to those markets, thereby contributing to robust levels of liquidity. The Exchange notes it operates in a highly competitive market. In addition to Cboe Options, TPHs have numerous alternative venues that they may participate on and direct their order flow, including 15 other options exchanges, as well as off-exchange venues, where competitive products are available for trading. Based on publicly available information, no single options exchange has more than 15% of the

market share of executed volume of options trades.<sup>14</sup> Therefore, no exchange possesses significant pricing power in the execution of option order flow. Moreover, the Commission has repeatedly expressed its preference for competition over regulatory intervention in determining prices, products, and services in the securities markets. Specifically, in Regulation NMS, the Commission highlighted the importance of market forces in determining prices and SRO revenues and, also, recognized that current regulation of the market system “has been remarkably successful in promoting market competition in its broader forms that are most important to investors and listed companies.”<sup>15</sup> The fact that this market is competitive has also long been recognized by the courts. In *NetCoalition v. Securities and Exchange Commission*, the D.C. Circuit stated as follows: “[n]o one disputes that competition for order flow is ‘fierce.’ ... As the SEC explained, ‘[i]n the U.S. national market system, buyers and sellers of securities, and the broker-dealers that act as their order-routing agents, have a wide range of choices of where to route orders for execution’; [and] ‘no exchange can afford to take its market share percentages for granted’ because ‘no exchange possesses a monopoly, regulatory or otherwise, in the execution of order flow from broker dealers’....”<sup>16</sup> Accordingly, the Exchange does not believe its proposed changes to the incentive programs impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

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<sup>14</sup> See Cboe Global Markets, U.S. Options Market Volume Summary by Month (August 24, 2021), available at [http://markets.cboe.com/us/options/market\\_share/](http://markets.cboe.com/us/options/market_share/).

<sup>15</sup> See Securities Exchange Act Release No. 51808 (June 9, 2005), 70 FR 37496, 37499 (June 29, 2005).

<sup>16</sup> *NetCoalition v. SEC*, 615 F.3d 525, 539 (D.C. Cir. 2010) (quoting Securities Exchange Act Release No. 59039 (December 2, 2008), 73 FR 74770, 74782-83 (December 9, 2008) (SR-NYSEArca-2006-21)).

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

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

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>17</sup> and paragraph (f) of Rule 19b-4<sup>18</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
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-CBOE-2021-050 on the subject line.

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<sup>17</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>18</sup> 17 CFR 240.19b-4(f).

Paper comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-CBOE-2021-050. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, D.C. 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-CBOE-2021-050 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>19</sup>

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<sup>19</sup> 17 CFR 200.30-3(a)(12).

Secretary

## Options Transaction Fees (1)(3)(4)(7)(13)(15)(33)(39)

Rate Table - All Products Excluding Underlying Symbol List A (34)				Options Transaction Fees (1/3/14/17/18/19/20/25/30/35)											
Capacity		Products	Capacity Code	Transaction Fee Per Contract								AIM Response (20)			
				Manual		Electronic		AIM Agency/Primary (19)	AIM Contra (18)	Penny Classes	Non-Penny Classes				
				Penny Classes	Non-Penny Classes										
Customer (2)(8)(9)		Equity Options	C	{CK} \$0.00		{CE} \$0.00 if adding liquidity {CA} \$0.18 if original order size is ≥100 contracts and removing liquidity {CD} \$0.00 if original order size is <100 contracts and removing liquidity		{CK} \$0.00							
		ETF and ETN Options		{CK} \$0.00											
		MRUT				{CQ} \$0.02									
		XSP				{CC} \$0.04 ≥10 contracts / {XC} \$0.00 <10 contracts									
		MXEA				{CM} \$0.25		{YB} \$0.07							
		MXEF				{CN} \$0.25									
		All Other Index Products				{CB} \$0.18									
		Sector Indexes (47)	F L			{CP} \$0.30									
		MRUT [(32)]				{FM} \$0.02									
		XSP				{XF} \$0.06									
		Equity, ETF, and ETN Options and All Other Index Products		{FA} \$0.20 - See Clearing Trading Permit Holder Fee Cap		{FB} \$0.43		{FC} \$0.70		{FD} \$0.20 - See Clearing Trading Permit Holder Fee Cap		{YB} \$0.07	{NB} \$0.50	{NC} \$1.05	
		Sector Indexes (47)													
		Facilitation (11)		{FF} \$0.00				{FI} \$0.25							
		MRUT [(32)]						{FI} \$0.25							
Cboe Options Market-Maker/DPM/LMM (10)		XSP	M					{MM} \$0.03							
		Equity, ETF, and ETN Options, Sector Indexes (47) and All Other Index Products		{MB} \$0.35		{MA} \$0.23 - See Liquidity Provider Sliding Scale and Liquidity Provider Sliding Scale Adjustment Table		{YB} \$0.07							
		MRUT [(32)]						{MX} \$0.045							
Broker-Dealer (16)		MRUT	B N U J					{BM} \$0.04							
		XSP						{XB} \$0.08							
Non-Trading Permit Holder Market Maker (16)		Equity, ETF, and ETN Options and All Other Index Products		{BA} \$0.25		{BB} \$0.47		{BC} \$0.75		{BD} \$0.20		{YB} \$0.07		{NB} \$0.50	{NC} \$1.05
		Sector Indexes (47)		{WA} \$0.12 "U" Capacity Code Only											
Professional /Joint Back-Office		Equity, ETF, and ETN Options and All Other Index Products						{BE} \$0.40							
Complex Surcharge (35)		Equity, ETF, and ETN Options and All Other Index Products	F J L M B N U			\$0.12									
Surcharge Fee (14) Index License		DJX, MXEA and MXEF and Sector Indexes						\$0.10 (\$0.00 for Sector Indexes (47))							
		MRUT						\$0.02							
FLEX Surcharge Fee (17) - DJX, MRUT, MXEA, MXEF, NDX, NDXP and XSP Only			C F J L M B N U					\$0.10 (capped at \$250 per trade)							
Exotic Surcharge			C					\$0.25 (\$0.03 for XSP and MRUT Only)							
Capacity	Capacity Code	Premium Level	Expiring		Near Term		Mid Term		Long Term						
			14 days or less		15 days to 60 days		61 days to 270 days		271 days or Greater						
			Width	Size	Width	Size	Width	Size	Width	Size					
LMM	M	\$0.00 - \$1.00	\$0.08	1	\$0.10	1	\$0.15	1	\$0.80	1					
		\$1.01 - \$3.00	\$0.1[5]4	1	\$0.1[5]3	1	\$0.15	1	\$0.85	1					
		\$3.01 - \$5.00	\$0.1[5]4	1	\$0.1[8]6	1	\$0.20	1	\$1.00	1					
		\$5.01 - \$10.00	\$0.45	1	\$0.20[18]	1	\$0.35	1	\$1.25	1					
		\$10.01 - \$25.00	\$1.25	1	\$0.55	1	\$0.50	1	\$2.25	1					
		\$25.01 - \$100.00	\$3.00	1	\$2.00	1	\$1.75	1	\$4.00	1					
		Greater than \$100.00	\$8.00	1	\$8.00	1	\$8.00	1	\$8.00	1					
For MRUT, if the appointed LMM provides continuous electronic quotes during Regular Trading Hours that meet or exceed the above heightened quoting standards in at least 99% of the MRUT series 90% of the time in a given month, the LMM will receive a [payment]rebate for that month in the amount of \$2[0]5,000 (or pro-rated amount if an appointment begins after the first trading day of the month or ends prior to the last trading day of the month). The Exchange may consider other exceptions to this quoting standard based on demonstrated legal or regulatory requirements or other mitigating circumstances. In calculating whether an LMM met the heightened quoting standard each month, the Exchange will exclude from the calculation in that month the business day in which the LMM missed meeting or exceeding the heightened quoting standard in the highest number of series. In addition to the above rebate, if the appointed LMM meets or exceeds the above heightened quoting standards in a given month [and provides an average daily volume ("ADV") in MRUT that meets or exceeds 25,000 contracts in a given month], the LMM will receive the Monthly average daily volume ("ADV") Payment amount that corresponds to the level of ADV provided by the LMM in MRUT [provided] for that month per the MRUT Volume Incentive Pool program below.															

MRUT LMM Volume Incentive Pool			
Capacity	Capacity Code	MRUT ADV	Monthly ADV Payment
LMM	M	0 - 24,999 contracts	\$0.00
		25,000 - 49,999 contracts	\$25,000
		50,000 - 100,000 contracts	\$35,000
		Greater than 100,000 contracts	\$50,000



Cboe Exchange, Inc.  
Fees Schedule - [August] September 1[7], 2021

MSCI LMM Incentive Program										
Capacity	Capacity Code	Premium Level	Expiring		Near Term		Mid Term		Long Term	
			[7]6 days or less		[8]7 days to 60 days		61 days to 270 days		271 days or Greater	
			Width	Size	Width	Size	Width	Size	Width	Size
LMM	M	\$0.00 - \$5.00	\$[3.00]2.50	5	\$1.[2]05	[20]12	\$2.50	1[5]0	\$5.00	10
		\$5.01 - \$15.00	\$6.00	3	\$2.50	[15]9	\$5.00	[10]8	\$10.00	7
		\$15.01 - \$50.00	\$15.00	2	\$[5.00]4.50	[10]7	\$[10]9.00	7	\$20.00	5
		\$50.01 - \$100.00	\$25.00	1	\$15.00	[7]5	\$20.00	5	\$30.00	3
		\$100.01 - \$200.00	\$40.00	1	\$25.00	[3]2	\$35.00	[3]2	\$48.00	2
		Greater than \$200.00	\$60.00	1	\$40.00	1	\$50.00	1	\$72.00	1

For MXEA and MXEF, if the appointed LMM provides continuous electronic quotes during Regular Trading Hours that meet or exceed the above heightened quoting standards in at least 90% of the MXEA and MXEF series 80% of the time in a given month, the LMM will receive a [payment]rebate for that month in the amount of \$20,000 per class, per month [or pro-rated amount if an appointment begins after the first trading day of the month or ends prior to the last trading day of the month]. The Exchange may consider other exceptions to this quoting standard based on demonstrated legal or regulatory requirements or other mitigating circumstances. In calculating whether an LMM met the heightened quoting standard each month, the Exchange will exclude from the calculation in that month the business day in which the LMM missed meeting or exceeding the heightened quoting standard in the highest number of series.

\* \* \* \* \*

RTH SPESG LMM Incentive Program										
Capacity	Capacity Code	Premium Level	Expiring		Near Term		Mid Term		Long Term	
			7 days or less		8 days to 60 days		61 days to 270 days		271 days or Greater	
			Width	Size	Width	Size	Width	Size	Width	Size
LMM	M	\$0.00 - \$5.00	\$0.50	10	\$0.40	25	\$0.60	15	\$1.00	10
		\$5.01 - \$15.00	\$2.00	7	\$1.60	18	\$2.40	11	\$4.00	7
		\$15.01 - \$50.00	\$5.00	5	\$4.00	13	\$6.00	8	\$10.00	5
		\$50.01 - \$100.00	\$10.00	3	\$8.00	8	\$12.00	5	\$20.00	3
		\$100.01 - \$200.00	\$20.00	2	\$16.00	5	\$24.00	3	\$40.00	2
		Greater than \$200.00	\$30.00	1	\$24.00	3	\$36.00	1	\$60.00	1

For SPESG, if the appointed LMM provides continuous electronic quotes during Regular Trading Hours that meet or exceed the above heightened quoting standards in at least 60% of SPESG series 90% of the time in a given month, the LMM will receive a rebate for that month in the amount of [a pro-rata share of a compensation pool equal to \$50,000]\$20,000 (or pro-rated amount if an appointment begins after the first trading day of the month or ends prior to the last trading day of the month) for that month. [If, for example, two LMMs meet the heightened continuous quoting standard in SPESG during a month, each will receive \$25,000. If only one LMM meets the heightened continuous quoting standard in SPESG during a month, that LMM would receive \$50,000 and the other one would receive nothing.] The Exchange may consider other exceptions to this quoting standard based on demonstrated legal or regulatory requirements or other mitigating circumstances. In calculating whether an LMM met the heightened quoting standard each month, the Exchange will exclude from the calculation in that month the business day in which the LMM missed meeting or exceeding the heightened quoting standard in the highest number of series. In addition to the above rebate, if the appointed LMM meets or exceeds the above heightened quoting standards in a given month, the LMM will receive the Monthly average daily volume ("ADV") Payment amount that corresponds to the level of ADV provided by the LMM in SPESG for that month per the SPESG Volume Incentive Pool program below.

SPESG LMM Volume Incentive Pool			
Capacity	Capacity Code	SPESG ADV	Monthly ADV Payment
LMM	M	0 - 999 contracts	\$0.00
		1,000 - 4,999 contracts	\$5,000
		5,000 - 10,000 contracts	\$15,000
		Greater than 10,000 contracts	\$20,000

Footnotes:	
Footnote Number	Description
1-31	No change.
[32] <u>RESERVED</u>	[Transaction fees for orders executed in MRUT options with a capacity code of "F", "L", or "M" will be waived through August 31, 2021.]
33-50	No change.