

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 21		SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4		File No. * SR 2024 - * 005 Amendment No. (req. for Amendments *)	
Filing by Cboe BZX 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"/>	
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 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 Section 806(e)(1) * <input type="checkbox"/>			Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934 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"/>		
<b>Description</b> Provide a brief description of the action (limit 250 characters, required when Initial is checked *). <div>The Exchange proposes to exclude ISOs from the drill-through protection.</div>					
<b>Contact Information</b> Provide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the action. First Name * Laura Last Name * Dickman Title * VP, Associate General Counsel E-mail * ldickman@cboe.com Telephone * (312) 786-7572 Fax					
<b>Signature</b> Pursuant to the requirements of the Securities Exchange of 1934, Cboe BZX Exchange, Inc. has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized. Date 01/03/2024 (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. <div>Laura Dickman Date: 2024.01.03 11:50:52 -06'00'</div>					

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 \***

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24-005 19b-4 (Exclude ISOs from Drill

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

24-005 Exhibit 1 (Exclude ISOs from I

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**

Add Remove View

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 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.

☐

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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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 BZX Exchange, Inc. (the “Exchange” or “BZX”) proposes to amend Rule 21.17. The text of the proposed rule change is provided below and in Exhibit 1.

(additions are underlined; deletions are [bracketed])

\* \* \* \* \*

Rules of Cboe BZX Exchange, Inc.

\* \* \* \* \*

**Rule 21.17. Additional Price Protection Mechanisms and Risk Controls**

The System’s acceptance and execution of orders, quotes, and bulk messages, as applicable, are subject to the price protection mechanisms and risk controls in Rule 21.16, this Rule 21.17 and as otherwise set forth in the Rules. All numeric values established by the Exchange pursuant to this Rule will be maintained by the Exchange in publicly available specifications and/or published in a Regulatory Circular. Unless otherwise specified the price protections set forth in this Rule, including the numeric values established by the Exchange, may not be disabled or adjusted. The Exchange may share any of a User’s risk settings with the Clearing Member that clears transactions on behalf of the User.

(a) – (c) No change.

(d) *Drill-Through Price Protection.*

(1) – (2) No change.

(3) The System enters a market order with a Time-in Force of Day or limit order with a Time-in-Force of Day, GTC, or GTD (or unexecuted portion) not executed pursuant to subparagraph (1) in the BZX Options Book with a displayed price equal to the Drill-Through Price, unless the terms of the order instruct otherwise.

(A) – (G) No change.

([H]4) This protection does not apply to bulk messages or ISOs.

\* \* \* \* \*

(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 December 20, 2023. The Exchange will announce the implementation date of the proposed rule change via Exchange Notice.

(b) Please refer questions and comments on the proposed rule change to Pat Sexton, Executive Vice President, General Counsel, and Corporate Secretary, (312) 786-7467, or Laura G. Dickman, (312) 786-7572, Cboe BZX Exchange, Inc., 433 West Van Buren Street, Chicago, Illinois 60607.

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

(a) Purpose

The Exchange proposes to amend Rule 21.17. Specifically, the Exchange proposes to exclude Intermarket Sweep Orders ("ISOs") from its drill-through protection. Pursuant to Rule 21.17(d)(1), if a buy (sell) order enters the book at the conclusion of the opening auction process or would execute or post to the book when it enters the book, the Exchange's system executes the order up to an Exchange-determined buffer amount (determined on a class and premium basis) above (below) the offer (bid) limit of the Opening Collar<sup>1</sup> or the National Best Offer ("NBO") (National Best Bid ("NBB")) that existed at the time of order entry, respectively (the "drill-through price"). The System cancels or rejects any market order with a time-in-force of immediate-or-cancel ("IOC") (or unexecuted portion or limit order with time-in-force of IOC or fill-or-kill ("FOK") (or unexecuted portion not executed pursuant to the previous sentence.<sup>2</sup> Rule 21.17(d)(3)

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<sup>1</sup> See Rule 21.7(a) for the definition of Opening Collars.

<sup>2</sup> See Rule 21.17(d)(2).

establishes an iterative drill-through process, whereby the Exchange permits orders to rest in the book for multiple time periods and at more aggressive displayed prices during each time period. Specifically, for a market order with a time-in-force of day or limit order with a time-in-force of day, good-til-cancelled (“GTC”), or good-til-gate (“GTD”) (or unexecuted portion), the Exchange system enters the order in the book with a displayed price equal to the drill-through price (unless the terms of the order instruct otherwise). The order (or unexecuted portion) will rest in the book at the drill-through price for the duration of consecutive time periods (the Exchange determines on a class-by-class basis the length of the time period in milliseconds, which may not exceed three seconds), which are referred to as “iterations.” Following the end of each period, the Exchange system adds (if a buy order) or subtracts (if a sell order) one buffer amount (the Exchange determines the buffer amount on a class-by-class basis) to the drill-through price displayed during the immediately preceding period (each new price becomes the “drill-through price”). The order (or unexecuted portion) rests in the book at that new drill-through price for the duration of the subsequent period. The Exchange system applies a timestamp to the order (or unexecuted portion) based on the time it enters or is re-priced in the book for priority reasons. The order continues through this iterative process until the earliest of the following to occur: (a) the order fully executes; (b) the user cancels the order; and (c) the buy (sell) order’s limit price equals or is less (greater) than the drill-through price at any time during application of the drill-through mechanism, in which case the order rests in the book at its limit price, subject to a user’s instructions.

Currently, the drill-through protection applies to ISOs. An ISO is a limit order for an options series that meets the following requirements: (1) when routed to an Eligible

Exchange,<sup>3</sup> the order is identified as an ISO; and (2) simultaneously with the routing of the order, one or more additional ISOs, as necessary, are routed to execute against the full displayed size of any Protected Bid, in the case of a limit order to sell, or any Protected Offer, in the case of a limit order to buy, for the options series with a price that is superior to the limit price of the ISO, with such additional orders also marked as ISOs.<sup>4</sup>

The Exchange proposes to exclude ISOs from the drill-through protection.<sup>5</sup> The primary purpose of the drill-through price protection is to prevent orders from executing at prices “too far away” from the market when they enter the book for potential execution. This is inconsistent with the primary purpose of ISOs, which is to permit orders to trade at prices outside of the market. The Exchange believes excluding ISOs from the drill-through is consistent with the purpose of each type of functionality.

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<sup>3</sup> An “Eligible Exchange” means a national securities exchange registered with the SEC in accordance with Section 6(a) of the Securities Exchange Act of 1934 (the “Act”) that: (a) is a Participant Exchange in OCC (as that term is defined in Section VII of the OCC by-laws); (b) is a party to the OPRA Plan (as that term is described in Section I of the OPRA Plan); and (c) if the national securities exchange chooses not to become a party to this Plan, is a participant in another plan approved by the Securities and Exchange Commission (the “Commission”) providing for comparable Trade-Through and Locked and Crossed Market protection. The term “Trade-Through” means a transaction in an options series at a price that is lower than a Protected Bid or higher than a Protected Offer. A “Protected Bid” or “Protected Offer” means a bid or offer in an options series, respectively, that (a) is disseminated pursuant to the OPRA Plan; and (b) is the best bid or best offer, respectively, displayed by an Eligible Exchange. A “Locked Market” means a quoted market in which a Protected Bid is equal to a Protected Offer in a series of an options class, and a “Crossed Market” means a quoted market in which a Protected bid is higher than a Protected Offer in a series of an options class. See Rule 27.1(a)(5), (7), (10), (18), and (22).

<sup>4</sup> See Rules 21.1(d)(9) and 27.1(a)(9).

<sup>5</sup> See proposed Rule 21.17(d)(4). As set forth in current Rule 21.17(d)(3)(H), the drill-through protection does not apply to bulk messages. The proposed rule change moves this current exclusion to proposed Rule 21.17(d)(4) so that all orders and quotes that are excluded from the drill-through protection are maintained in the same rule provision, and the Exchange believes proposed subparagraph (4) is a more appropriate place for listing excluded orders and quotes. This nonsubstantive change regarding the exclusion of bulk messages from the drill-through protection has no impact on current behavior and merely moves the exclusion to a different subparagraph.

(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>6</sup> Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>7</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 the Section 6(b)(5)<sup>8</sup> requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

In particular, the Exchange believes the proposed rule change will promote just and equitable principles of trade, remove impediments to and perfect the mechanism of a national market system, and protect investors and the public interest, because it will increase instances in which ISOs receive executions up to their limit prices, including outside of the market prices when the ISOs were submitted to the Exchange, which the Exchange believes is consistent with the expectations of users that submit those orders. As

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<sup>6</sup> 15 U.S.C. 78f(b).

<sup>7</sup> 15 U.S.C. 78f(b)(5).

<sup>8</sup> Id.

noted above, the primary purpose of ISOs is to permit orders to trade at prices outside of the market. The primary purpose of the drill-through price protection is to prevent orders from executing at prices “too far away” from the market when they enter the book for potential execution. The Exchange believes excluding ISOs from the drill-through is consistent with the purpose of each type of functionality. Therefore, the Exchange believes the proposed rule change will enhance the Exchange system by aligning its drill-through protection with the intended purpose of ISOs.<sup>9</sup> The Exchange believes the proposed rule change may ultimately result in additional executions consistent with the expectations of users that submit ISOs, which ultimately benefits investors. The Exchange further believes the proposed rule change is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers, as it will apply to ISOs of all users.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange does not believe that the proposed rule change will impose any burden on intramarket competition that is not necessary or appropriate in furtherance of the purposes of the Act, because it will apply in the same manner to ISOs of all Members. The Exchange does not believe that the proposed rule change will impose any burden on intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act, because it relates solely to the application of one of the Exchange’s price protection mechanisms to ISOs. Additionally, the proposed rule change substantively

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<sup>9</sup> The Exchange notes ISOs will continue to receive price protection, such as from the limit order fat finger check. See Rule 21.17(b).



identical to a recent rule change by Cboe EDGX Exchange, Inc. (“EDGX Options”).<sup>10</sup> The Exchange also notes at least one other options exchange excludes ISOs from certain of its price protection measures.<sup>11</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>12</sup> and Rule 19b-4(f)(6)<sup>13</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; (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

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<sup>10</sup> See SR-CboeEDGX-2023-082 (December 21, 2023).

<sup>11</sup> See Miami International Securities Exchange, LLC (“MIAX”) Rule 515(c)(1) (ISOs excluded from MIAX’s price protection on non-market maker orders in non-proprietary products, which prevents orders from executing more than a specified number of increments away from the national best bid or offer (“NBBO”) at the time the order is received).

<sup>12</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>13</sup> 17 CFR 240.19b-4(f)(6).

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 the proposed rule change does not significantly affect the protection of investors or the public interest, because it will increase instances in which ISOs receive executions up to their limit prices, including outside of the market prices when the ISOs were submitted to the Exchange, which the Exchange believes is consistent with the expectations of users that submit those orders. As noted above, the primary purpose of ISOs is to permit orders to trade at prices outside of the market. The primary purpose of the drill-through price protection is to prevent orders from executing at prices “too far away” from the market when they enter the book for potential execution. The Exchange believes excluding ISOs from the drill-through is consistent with the purpose of each type of functionality. Therefore, the Exchange believes the proposed rule change will enhance the Exchange system by aligning its drill-through protection with the intended purpose of ISOs. The Exchange believes the proposed rule change may ultimately result in additional executions consistent with the expectations of users that submit ISOs, which ultimately benefits investors. The Exchange also believes the proposed rule change does not impose any significant burden on competition. The proposed rule change will apply in the same manner to ISOs of all Members and relates solely to the application of one of the Exchange’s price protection mechanisms to ISOs.

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.

(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 substantively identical to a recent rule change by EDGX Options.<sup>14</sup>

**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.

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<sup>14</sup> See SR-CboeEDGX-2023-082 (December 21, 2023).

EXHIBIT 1**SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34- ; File No. SR-CboeBZX-2024-005]

[Insert date]

Self-Regulatory Organizations; Cboe BZX Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend Rule 21.17

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 BZX Exchange, Inc. (the “Exchange” or “BZX”) 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 BZX Exchange, Inc. (the “Exchange” or “BZX”) proposes to amend Rule 21.17. The text of the proposed rule change is provided below.

(additions are underlined; deletions are [bracketed])

\* \* \* \* \*

Rules of Cboe BZX Exchange, Inc.

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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).

\* \* \* \* \*

#### Rule 21.17. Additional Price Protection Mechanisms and Risk Controls

The System's acceptance and execution of orders, quotes, and bulk messages, as applicable, are subject to the price protection mechanisms and risk controls in Rule 21.16, this Rule 21.17 and as otherwise set forth in the Rules. All numeric values established by the Exchange pursuant to this Rule will be maintained by the Exchange in publicly available specifications and/or published in a Regulatory Circular. Unless otherwise specified the price protections set forth in this Rule, including the numeric values established by the Exchange, may not be disabled or adjusted. The Exchange may share any of a User's risk settings with the Clearing Member that clears transactions on behalf of the User.

(a) – (c) No change.

(d) *Drill-Through Price Protection.*

(1) – (2) No change.

(3) The System enters a market order with a Time-in Force of Day or limit order with a Time-in-Force of Day, GTC, or GTD (or unexecuted portion) not executed pursuant to subparagraph (1) in the BZX Options Book with a displayed price equal to the Drill-Through Price, unless the terms of the order instruct otherwise.

(A) – (G) No change.

([H]4) This protection does not apply to bulk messages or ISOs.

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The text of the proposed rule change is also available on the Exchange's website ([http://markets.cboe.com/us/equities/regulation/rule\\_filings/bzx/](http://markets.cboe.com/us/equities/regulation/rule_filings/bzx/)), 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 Exchange proposes to amend Rule 21.17. Specifically, the Exchange proposes to exclude Intermarket Sweep Orders (“ISOs”) from its drill-through protection. Pursuant to Rule 21.17(d)(1), if a buy (sell) order enters the book at the conclusion of the opening auction process or would execute or post to the book when it enters the book, the Exchange’s system executes the order up to an Exchange-determined buffer amount (determined on a class and premium basis) above (below) the offer (bid) limit of the Opening Collar<sup>5</sup> or the National Best Offer (“NBO”) (National Best Bid (“NBB”)) that existed at the time of order entry, respectively (the “drill-through price”). The System cancels or rejects any market order with a time-in-force of immediate-or-cancel (“IOC”) (or unexecuted portion or limit order with time-in-force of IOC or fill-or-kill (“FOK”) (or unexecuted portion not executed pursuant to the previous sentence.<sup>6</sup> Rule 21.17(d)(3) establishes an iterative drill-through process, whereby the Exchange permits orders to rest in the book for multiple time periods and at more aggressive displayed prices during each time period. Specifically, for a market order with a time-in-force of day or limit order with a time-in-force of day, good-til-cancelled (“GTC”), or good-til-gate (“GTD”) (or unexecuted portion), the Exchange system enters the order in the book with a displayed

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<sup>5</sup> See Rule 21.7(a) for the definition of Opening Collars.

<sup>6</sup> See Rule 21.17(d)(2).

price equal to the drill-through price (unless the terms of the order instruct otherwise). The order (or unexecuted portion) will rest in the book at the drill-through price for the duration of consecutive time periods (the Exchange determines on a class-by-class basis the length of the time period in milliseconds, which may not exceed three seconds), which are referred to as “iterations.” Following the end of each period, the Exchange system adds (if a buy order) or subtracts (if a sell order) one buffer amount (the Exchange determines the buffer amount on a class-by-class basis) to the drill-through price displayed during the immediately preceding period (each new price becomes the “drill-through price”). The order (or unexecuted portion) rests in the book at that new drill-through price for the duration of the subsequent period. The Exchange system applies a timestamp to the order (or unexecuted portion) based on the time it enters or is re-priced in the book for priority reasons. The order continues through this iterative process until the earliest of the following to occur: (a) the order fully executes; (b) the user cancels the order; and (c) the buy (sell) order’s limit price equals or is less (greater) than the drill-through price at any time during application of the drill-through mechanism, in which case the order rests in the book at its limit price, subject to a user’s instructions.

Currently, the drill-through protection applies to ISOs. An ISO is a limit order for an options series that meets the following requirements: (1) when routed to an Eligible Exchange,<sup>7</sup> the order is identified as an ISO; and (2) simultaneously with the routing of the

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<sup>7</sup> An “Eligible Exchange” means a national securities exchange registered with the SEC in accordance with Section 6(a) of the Securities Exchange Act of 1934 (the “Act”) that: (a) is a Participant Exchange in OCC (as that term is defined in Section VII of the OCC by-laws); (b) is a party to the OPRA Plan (as that term is described in Section I of the OPRA Plan); and (c) if the national securities exchange chooses not to become a party to this Plan, is a participant in another plan approved by the Securities and Exchange Commission (the “Commission”) providing for comparable Trade-Through and Locked and Crossed Market protection. The term “Trade-Through” means a transaction in an options series at a price that is lower than a Protected Bid or

order, one or more additional ISOs, as necessary, are routed to execute against the full displayed size of any Protected Bid, in the case of a limit order to sell, or any Protected Offer, in the case of a limit order to buy, for the options series with a price that is superior to the limit price of the ISO, with such additional orders also marked as ISOs.<sup>8</sup>

The Exchange proposes to exclude ISOs from the drill-through protection.<sup>9</sup> The primary purpose of the drill-through price protection is to prevent orders from executing at prices “too far away” from the market when they enter the book for potential execution. This is inconsistent with the primary purpose of ISOs, which is to permit orders to trade at prices outside of the market. The Exchange believes excluding ISOs from the drill-through is consistent with the purpose of each type of functionality.

## 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,

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higher than a Protected Offer. A “Protected Bid” or “Protected Offer” means a bid or offer in an options series, respectively, that (a) is disseminated pursuant to the OPRA Plan; and (b) is the best bid or best offer, respectively, displayed by an Eligible Exchange. A “Locked Market” means a quoted market in which a Protected Bid is equal to a Protected Offer in a series of an options class, and a “Crossed Market” means a quoted market in which a Protected bid is higher than a Protected Offer in a series of an options class. See Rule 27.1(a)(5), (7), (10), (18), and (22).

<sup>8</sup> See Rules 21.1(d)(9) and 27.1(a)(9).

<sup>9</sup> See proposed Rule 21.17(d)(4). As set forth in current Rule 21.17(d)(3)(H), the drill-through protection does not apply to bulk messages. The proposed rule change moves this current exclusion to proposed Rule 21.17(d)(4) so that all orders and quotes that are excluded from the drill-through protection are maintained in the same rule provision, and the Exchange believes proposed subparagraph (4) is a more appropriate place for listing excluded orders and quotes. This nonsubstantive change regarding the exclusion of bulk messages from the drill-through protection has no impact on current behavior and merely moves the exclusion to a different subparagraph.

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



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 the Section 6(b)(5)<sup>12</sup> requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

In particular, the Exchange believes the proposed rule change will promote just and equitable principles of trade, remove impediments to and perfect the mechanism of a national market system, and protect investors and the public interest, because it will increase instances in which ISOs receive executions up to their limit prices, including outside of the market prices when the ISOs were submitted to the Exchange, which the Exchange believes is consistent with the expectations of users that submit those orders. As noted above, the primary purpose of ISOs is to permit orders to trade at prices outside of the market. The primary purpose of the drill-through price protection is to prevent orders from executing at prices “too far away” from the market when they enter the book for potential execution. The Exchange believes excluding ISOs from the drill-through is consistent with the purpose of each type of functionality. Therefore, the Exchange believes

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

<sup>12</sup> Id.

the proposed rule change will enhance the Exchange system by aligning its drill-through protection with the intended purpose of ISOs.<sup>13</sup> The Exchange believes the proposed rule change may ultimately result in additional executions consistent with the expectations of users that submit ISOs, which ultimately benefits investors. The Exchange further believes the proposed rule change is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers, as it will apply to ISOs of all users.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange does not believe that the proposed rule change will impose any burden on intramarket competition that is not necessary or appropriate in furtherance of the purposes of the Act, because it will apply in the same manner to ISOs of all Members. The Exchange does not believe that the proposed rule change will impose any burden on intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act, because it relates solely to the application of one of the Exchange's price protection mechanisms to ISOs. Additionally, the proposed rule change substantively identical to a recent rule change by Cboe EDGX Exchange, Inc. ("EDGX Options").<sup>14</sup> The Exchange also notes at least one other options exchange excludes ISOs from certain of its price protection measures.<sup>15</sup>

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<sup>13</sup> The Exchange notes ISOs will continue to receive price protection, such as from the limit order fat finger check. See Rule 21.17(b).

<sup>14</sup> See SR-CboeEDGX-2023-082 (December 21, 2023).

<sup>15</sup> See Miami International Securities Exchange, LLC ("MIAX") Rule 515(c)(1) (ISOs excluded from MIAX's price protection on non-market maker orders in non-proprietary products, which prevents orders from executing more than a specified number of increments away from the national best bid or offer ("NBBO") at the time the order is received).

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

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

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

Because the foregoing proposed rule change does not:

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

shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>16</sup> and Rule 19b-4(f)(6)<sup>17</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:

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<sup>16</sup> 15 U.S.C. 78s(b)(3)(A).

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

Electronic Comments:

- Use the Commission's internet comment form (<https://www.sec.gov/rules/sro.shtml>); or
- Send an email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include file number SR-CboeBZX-2024-005 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-CboeBZX-2024-005. This file number should be included on the subject line if email 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 (<https://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, DC 20549, on official business days between the hours of 10 a.m. and 3 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. Do not include personal identifiable information in submissions; you should submit only information that you wish to make available publicly. We may redact in part or withhold entirely from publication submitted material that is obscene or

subject to copyright protection. All submissions should refer to file number SR-CboeBZX-2024-005 and should be submitted on or before [INSERT DATE 21 DAYS AFTER DATE OF PUBLICATION IN THE *FEDERAL REGISTER*].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>18</sup>

**Sherry R. Haywood,**

*Assistant Secretary.*

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17 CFR 200.30-3(a)(12).