

• Send an email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-CboeBYX-2019-008 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-CboeBYX-2019-008. 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 (<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, DC 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. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-CboeBYX-2019-008 and should be submitted on or before June 6, 2019.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>12</sup>

**Eduardo A. Aleman,**  
*Deputy Secretary.*

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## **SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34-85831; File No. SR-CboeEDGX-2019-028]

### **Self-Regulatory Organizations; Cboe EDGX Exchange, Inc.; Notice of Filing of a Proposed Rule Change To Adopt Rule 21.22 (Complex Automated Improvement Mechanism)**

May 10, 2019.

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 April 26, 2019, Cboe EDGX Exchange, Inc. (the "Exchange" or "EDGX") filed with the Securities and Exchange Commission (the "Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

Cboe EDGX Exchange, Inc. (the "Exchange" or "EDGX") proposes to adopt Rule 21.22. 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://markets.cboe.com/us/options/regulation/rule\\_filings/edgx/](http://markets.cboe.com/us/options/regulation/rule_filings/edgx/)), at the Exchange's Office of the Secretary, and at the Commission's Public Reference Room.

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

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

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

##### **1. Purpose**

In 2016, the Exchange's parent company, Cboe Global Markets, Inc. ("Cboe Global"), which is the parent company of Cboe Exchange, Inc. ("Cboe Options") and Cboe C2 Exchange, Inc. ("C2"), acquired the Exchange, Cboe EDGA Exchange, Inc. ("EDGA"), Cboe BZX Exchange, Inc. ("BZX or BZX Options"), and Cboe BYX Exchange, Inc. ("BYX" and, together with C2, Cboe Options, the Exchange, EDGA, and BZX, the "Cboe Affiliated Exchanges"). The Cboe Affiliated Exchanges are working to align certain system functionality, retaining only intended differences between the Cboe Affiliated Exchanges, in the context of a technology migration. Cboe Options intends to migrate its technology to the same trading platform used by the Exchange, C2, and BZX Options in the fourth quarter of 2019. The proposal set forth below is intended to add certain functionality to the Exchange's System that is available on Cboe Options in order to ultimately provide a consistent technology offering for market participants who interact with the Cboe Affiliated Exchanges. Although the Exchange intentionally offers certain features that differ from those offered by its affiliates and will continue to do so, the Exchange believes that offering similar functionality to the extent practicable will reduce potential confusion for Users.

The proposed rule change permits use of its Automated Improvement Mechanism ("AIM") for complex orders. Specifically, the proposed rule change adopts Rule 21.22, which describes how complex orders may be submitted to and will be processed in an AIM Auction ("C-AIM" or "C-AIM Auction").<sup>3</sup> Complex orders will be processed and executed in a C-AIM Auction pursuant to proposed Rule 21.22 in a similar manner as simple orders are processed and executed in an AIM Auction pursuant to Rule 21.19. C-AIM will provide market participants with an opportunity to receive price improvement for their complex orders. The proposed rule change is similar to the complex order price improvement mechanism of Cboe Options and other

<sup>3</sup> While the proposed rule change defines an AIM Auction for complex orders as a C-AIM Auction, the same mechanism is used to process both simple orders and complex orders. For clarity and ease of reference, the Exchange proposes a separate name and rule for C-AIM to help Users distinguish how the mechanism applies to simple and complex orders.

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

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

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

options exchanges. The Exchange believes the similarity of C-AIM to AIM and the mechanisms of other exchanges will allow the Exchange's proposed price improvement functionality to fit seamlessly into the options market and benefit market participants who are already familiar with this similar functionality. The Exchange also believes this will encourage Options Members to compete vigorously to provide the opportunity for price improvement for complex orders in a competitive auction process.

An Options Member (the "Initiating Member") may electronically submit for execution a complex order it represents as agent ("Agency Order") against principal interest or a solicited complex order(s)<sup>4</sup> (an "Initiating Order") provided it submits the Agency Order for electronic execution into a C-AIM Auction pursuant to proposed Rule 21.22. For purposes of proposed Rule 21.22, the term "SBBO" means the synthetic best bid or offer<sup>5</sup> at the particular point in time applicable to the reference, and the term "Initial SBBO" means the synthetic best bid or offer at the time the C-AIM Auction is initiated.<sup>6</sup>

As defined, the Initiating Order may be comprised of multiple orders, in which case they must total the same size as the Agency Order. This will accommodate multiple contra-parties and increase the opportunities for customer orders to be submitted into a C-AIM Auction with the potential for price improvement, since the Initiating Order must stop the full size of the Agency Order. This will have no impact on the execution of the Agency Order, which may trade against multiple contra-parties depending on the final execution price(s), as set forth in proposed paragraph (e). The Exchange notes that with regard to order entry, the

first order submitted into the system is marked as the agency side and the second order is marked as the initiating/ contra-side. Additionally, the Initiating Order will always be entered as a single order, even if that order consists of multiple contra-parties, which are allocated their portion of the trade in a post-trade allocation.

The Initiating Member may initiate a C-AIM Auction if all of the following conditions are met:

- The Agency Order may be in any class of options traded on the Exchange.
- The Initiating Member must mark an Agency Order for C-AIM Auction processing.
- There is no minimum size for Agency Orders. The Initiating Order must be for the same size as the Agency Order.
- The price of the Agency Order and Initiating Order must be in an increment of \$0.01.
- The Initiating Member may not designate an Agency Order or Initiating Order as Post Only.
- An Initiating Member may only submit an Agency Order to a C-AIM Auction after the complex order book ("COB") opens.

The System rejects or cancels both an Agency Order and Initiating Order submitted to a C-AIM Auction that do not meet these conditions.<sup>7</sup>

The Initiating Order must stop the entire Agency Order at a price that satisfies the following:

- If the Agency Order is to buy (sell) and (a) the applicable side of the Exchange's best bid or offer ("BBO") on any component of the complex strategy represents a Priority Customer order on the Simple Book, the stop price must be at least \$0.01 better than the SBB (SBO); or (b) the applicable side of the BBO on each component of the complex strategy represents a non-Priority Customer order or quote on the Simple Book, the stop price must be at or better than the SBB (SBO). This ensures the execution price of the Agency Order will improve the price of any Priority Customer orders resting on the Simple Book.<sup>8</sup>

<sup>7</sup> See proposed Rule 21.22(a). Proposed paragraph (a) is the same as the corresponding paragraph for simple AIM (see Rule 21.19(a)), except the proposed rule change does not provide that an Initiating Member may not submit an Agency Order if the NBBO is crossed (unless the Agency Order is an AIM ISO or Sweep and AIM). As noted above, there is no NBBO for complex orders, and the legs of complex orders are not subject to the restriction on NBBO trade-throughs. Additionally, the proposed rule change references the opening of the COB rather than the market open, as the opening of the COB is when complex orders may begin trading.

<sup>8</sup> This is consistent with complex order priority, which ensures the execution price of complex orders will not be executed at prices inferior to the SBBO or at a price equal to the SBBO when there

- If the Agency Order is to buy (sell) and (a) a Priority Customer buy (sell) complex order rests on the COB, the stop price must be at least \$0.01 better than the bid (offer) of the resting complex order; or (b) a non-Priority Customer buy (sell) complex order rests on the COB, the stop price must be at least \$0.01 better than the bid (offer) of the resting complex order, unless the Agency Order is a Priority Customer order, in which case the stop price must be at or better than the bid (offer) of the resting complex order. This ensures the execution price of the Agency Order will improve the price of any resting Priority Customer complex orders on the COB, and that the execution price of a Priority Customer Agency Order will not be inferior to the price of any resting non-Priority Customer complex orders on the COB.<sup>9</sup>

- If the Agency Order is to buy (sell) and (a) the BBO of any component of the complex strategy represents a Priority Customer order on the Simple Book, the stop price must be at least \$0.01 better than the SBO (SBB), or (b) the BBO of each component of the complex strategy represents a non-Priority Customer order on the Simple Book, the stop price must be at or better than the SBO (SBB). This ensures the execution price of the Agency Order will improve the price of any Priority Customer orders resting in the Simple Book at the opposite side of the SBBO, and not be through the opposite side of the SBBO. While the stop price may cross the opposite side best-priced complex order resting on the opposite side of the COB, as noted below, any complex interest at a better price than the stop price will trade ahead of the Initiating Order. Pursuant to proposed paragraph (e), any contra-side interest available at better prices than the stop price at the conclusion of a C-AIM Auction will execute against the Agency Order ahead of the Initiating Order. Therefore, the Agency Order will execute at the best prices available at the conclusion of the C-AIM Auction, even if the stop price was inferior to those prices. Simple AIM Auctions may similarly start at prices inferior to the

is a Priority Customer at the BBO for any component. See Rule 21.20(c)(2)(E). As noted above, there is no NBBO for complex orders, so the proposed rule change does not have a price requirement for the stop price related to the NBBO, unlike simple AIM. See Rule 21.19(b)(1).

<sup>9</sup> This corresponds to the same-side simple order check for AIM, which requires the Agency Order to improve the price of a resting Priority Customer order on the Simple Book, or a non-Priority Customer order or quote on the Simple Book unless the Agency Order is for a Priority Customer. See Rule 21.19(b)(2).

<sup>4</sup> Unlike simple AIM, there is no restriction on the solicited order being for the account of any Options Market Maker registered in the applicable series on the Exchange, as there are no Market Maker appointments to complex strategies. Additionally, bulk messages (the equivalent of quoting functionality) are not available for complex orders. See Rule 21.20(b).

<sup>5</sup> The SBBO is calculated using the best displayed price for each component of a complex strategy from the Simple Book. See Rule 21.20(a)(11).

<sup>6</sup> See proposed introductory paragraph to Rule 21.22. This proposed paragraph is the same as the corresponding paragraph for simple AIM (introductory paragraph to Rule 21.19), except it refers to SBBO rather than the national best bid or offer ("NBBO"). There is no NBBO for complex orders, as complex orders may be executed without consideration of any prices for the complex strategy that might be available on other exchanges trading the same complex strategy. See Rule 21.20(c)(2)(E). Additionally, executions of legs of complex orders are exceptions to the prohibition of trade-throughs. See Rule 27.2(b)(8).

NBBO for the series in certain instances.<sup>10</sup>

- The Initiating Member must specify (a) a single price at which it seeks to execute the Agency Order against the Initiating Order (a “single-price submission”), including whether it elects to have last priority in allocation (as described below), or (b) an initial stop price and instruction to automatically match the price and size of all C-AIM responses and other trading interest (“auto-match”) up to a designated limit price or at all prices that improve the stop price. These options provide the Initiating Member with flexibility regarding the prices at which it desires to trade against the Initiating Order, and the same flexibility that is currently available to Options Members with respect to simple orders.<sup>11</sup>

The System rejects or cancels both an Agency Order and Initiating Order submitted to a C-AIM Auction that do not meet these conditions.<sup>12</sup>

Upon receipt of an Agency Order that meets the above conditions, the C-AIM Auction process commences. With respect to Agency Orders for which the smallest leg is less than 50 standard option contracts (or 500 mini-option contracts), only one C-AIM Auction may be ongoing at any given time in a complex strategy, and C-AIM Auctions in the same complex strategy may not queue or overlap in any manner. One or more C-AIM Auctions in the same complex strategy for Agency Orders for which the smallest leg is 50 standard option contracts (or 500 mini-option contracts) or more may occur at the same time. C-AIM Auctions in different complex strategies may be ongoing at any given time, even if the complex

strategies have overlapping components. A C-AIM Auction may be ongoing at the same time as an AIM Auction in any component of the complex strategy.

To the extent there is more than one C-AIM Auction in a complex strategy underway at a time, the C-AIM Auctions conclude sequentially based on the exact time each C-AIM Auction commenced, unless terminated early pursuant to proposed paragraph (d). In the event there are multiple C-AIM Auctions underway that are each terminated early pursuant to proposed paragraph (d), the System processes the C-AIM Auctions sequentially based on the exact time each C-AIM Auction commenced. If the System receives a simple order that causes an AIM and C-AIM (or multiple AIM and/or C-AIM) Auctions to conclude pursuant to proposed paragraph (d) and Rule 21.19(d), the System first processes AIM Auctions (in price-time priority) and then processes C-AIM Auctions (in price-time priority). At the time each C-AIM Auction concludes, the System allocates the Agency Order pursuant to proposed paragraph (e) and takes into account all C-AIM Auction responses and unrelated orders and quotes in place at the exact time of conclusion.<sup>13</sup>

The Exchange currently permits concurrent AIM Auctions in the same series (for Agency Orders of 50 or more contracts) and thus believes it is appropriate to similarly permit concurrent C-AIM Auctions in the same complex strategy (for Agency Orders for which the smallest leg is for 50 or more contracts). Different complex strategies are essentially different products, as orders in those strategies cannot interact, just as orders in different series or classes cannot interact. Therefore, the Exchange believes concurrent C-AIM Auctions in different complex strategies is appropriate given that concurrent simple AIM Auctions in different series or different classes may occur. Similarly, while it is possible for a complex order to leg into the Simple Book, a complex order may only execute against simple orders if there is interest in each component in the appropriate ratio for the complex strategy. A simple order in one component of a complex

strategy cannot on its own interact with a complex order in that complex strategy. Therefore, the Exchange believes it is appropriate to permit concurrent AIM and C-AIM Auctions that share a component. As proposed, C-AIM Auctions will ensure that Agency Orders execute at prices that protect Priority Customer orders in the Simple Book and that are not inferior to the SBBO at the conclusion of the C-AIM Auction, even when there are concurrent simple and complex auctions occurring. The proposed rule change sets forth how any auctions with overlapping components will conclude if terminated due to the same event.

The Exchange notes it is currently possible for auctions in a component leg and a complex strategy containing that component (such as a simple AIM Auction in the component and a complex order auction (“COA”) in the complex strategy that contains that component) to occur concurrently, and at the end of each auction, it is possible for interest resting in the Simple Book to trade against the complex order subject to the COA. While these auctions may be occurring at the same time, they will be processed in the order in which they are terminated (similar to how the System will process auctions as proposed above). In other words, suppose there is an AIM Auction in a series and a COA in a complex strategy for which one of the components is the same series both occurring, which began and will terminate in that order, and each of which last 100 milliseconds. While it is possible for both auctions to terminate nearly simultaneously, the System will still process them in the order in which they terminate. When the AIM Auction terminates, the System will process it in accordance with Rule 21.19, and the auctioned order may trade against any resting interest (in addition to the contra-side order and responses submitted to that AIM Auction, which may only trade against the order auctioned in that AIM pursuant to Rule 21.19). The System will then process the COA Auction when it terminates, and the auctioned order may trade against any resting interest, including any simple interest that did not execute against the AIM order (in addition to the contra-side order and responses submitted to that COA Auction, which may only trade against the order auctioned in that COA), pursuant to Rule 21.20.

The System initiates the C-AIM Auction process by sending a C-AIM Auction notification message detailing the side, size, price, Capacity, Auction ID, and complex strategy of the Agency Order to all Options Members that elect

<sup>10</sup> Simple AIM has no price checks for orders on the opposite side of the Agency Order. The proposed rule change adopts price checks for simple orders that constitute the SBBO on the opposite side of the Agency Order to ensure that the Agency Order does not execute at a price through the opposite side SBBO to protect orders (including Priority Customer orders) resting in the Simple Book. While there is no complex AIM sweep or complex sweep and AIM order for C-AIM, because complex orders do not route (and there is no applicable NBBO), permitting the stop price to cross the opposite side of the COB is consistent with those order types in simple AIM, which permit the stop price to be inferior to the Initial NBBO. See Rule 21.19(b)(3). The execution at the conclusion of a C-AIM Auction will essentially “sweep” better-priced contra-side complex interest that is available on the Exchange.

<sup>11</sup> These are the same options available for Initiating Members in simple AIM. See Rule 21.19(b)(4).

<sup>12</sup> See proposed Rule 21.22(b). Proposed paragraph (a) is the same as the corresponding paragraph for simple AIM (see Rule 21.19(a)), except as described above, including using the SBBO and COB prices rather than the NBBO as reference prices for the stop price.

<sup>13</sup> See proposed Rule 21.22(c)(1). Proposed paragraph (c)(1) is the same as the corresponding paragraph for simple AIM (see Rule 21.19(c)(1)), except the proposed change adds how the System will handle ongoing auctions that include an overlapping component (whether that component is the subject of an ongoing simple AIM Auction or part of a complex strategy for which a different C-AIM Auction is ongoing) and adds that whether concurrent C-AIM Auctions (subject to the same minimum size restriction as simple orders) in the same complex strategy may occur is based on the size of the smallest leg of the Agency Order.

to receive C-AIM Auction notification messages. C-AIM Auction notification messages are not included in OPRA.<sup>14</sup> A C-AIM Auction will last for a period of time determined by the Exchange, which may be no less than 100 milliseconds and no more than one second, and which the Exchange will announce to Options Members via Exchange Notice and/or technical specifications.<sup>15</sup> An Initiating Member may not modify or cancel an Agency Order or Initiating Order after submission to a C-AIM Auction.<sup>16</sup>

Any User other than the Initiating Member (determined by EFID) may submit responses to a C-AIM Auction that are properly marked specifying size, side of the market, and the Auction ID for the C-AIM Auction to which the User is submitting the response. A C-AIM Auction response may only participate in the C-AIM Auction with the Auction ID specified in the response.<sup>17</sup>

- The minimum price increment for C-AIM responses is \$0.01. The System rejects a C-AIM response that is not in a \$0.01 increment.<sup>18</sup>

- C-AIM responses that cross the Initial SBBO or the price of a complex order resting at the top of the COB on the same side as the Agency Order are capped at (a) the better of the Initial SBBO or the price of the resting complex order, or (b) \$0.01 better than the better of the Initial SBBO or the resting complex order if the BBO of any component of the complex strategy or the resting complex order, respectively, is a Priority Customer order. The System executes these C-AIM responses, if possible, at the most aggressive permissible price not outside the Initial SBBO or price of the resting complex order. This will ensure the execution

price does not cross the Initial SBBO or prices of resting complex orders, which the stop price must be at or better than (and must be better than if represented by a Priority Customer order) as discussed above.<sup>19</sup>

- A User may submit multiple C-AIM responses at the same or multiple prices to a C-AIM Auction. The System aggregates all of a User's complex orders on the COB and C-AIM responses for the same EFID at the same price.<sup>20</sup> The Exchange believes this is appropriate since all interest at a single price is considered for execution against the Agency Order at that price, and can then together be subject to the size cap, as discussed below. This (combined with the proposed size cap described below) will prevent an Options Member from submitting multiple orders or responses at the same price to obtain a larger pro-rata share of the Agency Order.

- The System caps the size of a C-AIM response, or the aggregate size of a User's complex orders on the COB and C-AIM responses for the same EFID at the same price, at the size of the Agency Order (*i.e.*, the System ignores size in excess of the size of the Agency Order when processing the C-AIM Auction). The Exchange believes this will prevent an Options Member from submitting an order or response with an extremely large size in order to obtain a larger pro-rata share of the Agency Order.<sup>21</sup>

- C-AIM responses must be on the opposite side of the market as the Agency Order. The System rejects a C-AIM response on the same side of the market as the Agency Order.<sup>22</sup>

- C-AIM responses may be designated with the MTP modifier of MTP Cancel Newest, but no other MTP modifiers. The System rejects a C-AIM response with any other MTP modifier.<sup>23</sup>

- C-AIM responses may not be designated as immediate-or-cancel

(“IOC”). The System rejects a C-AIM response designated as IOC.<sup>24</sup>

- C-AIM responses are not visible to C-AIM Auction participants or disseminated to OPRA.<sup>25</sup>

- A User may modify or cancel its C-AIM responses during the C-AIM Auction.<sup>26</sup>

A C-AIM Auction concludes at the earliest to occur of the following times:

- The end of the C-AIM Auction period;
- upon receipt by the System of an unrelated non-Priority Customer complex order on the same side as the Agency Order that would post to the COB at a price better than the stop price;
- upon receipt by the System of an unrelated Priority Customer complex order on the same side as the Agency Order that would post to the COB at a price equal to or better than the stop price;
- upon receipt by the System of an unrelated non-Priority Customer order or quote that would post to the Simple Book and cause the SBBO on the same side as the Agency Order to be better than the stop price;
- upon receipt by the System of a Priority Customer order in any component of the complex strategy that would post to the Simple Book and cause the SBBO on the same side as the Agency Order to be equal to or better than the stop price;
- upon receipt by the System of a simple non-Priority Customer order that would cause the SBBO on the opposite side of the Agency Order to be better than the stop price, or a Priority Customer order that would cause the SBBO on the opposite side of the Agency Order to be equal to or better than the stop price;
- the market close; and
- any time the Exchange halts trading in the complex strategy or any component of the complex strategy, provided, however, that in such instance, the C-AIM Auction concludes without execution.<sup>27</sup>

<sup>14</sup> See proposed Rule 21.22(c)(2). The proposed C-AIM Auction notification message is the same as the corresponding message for simple AIM (see Rule 21.19(c)(2)), except the proposed rule change indicates the notification message for a C-AIM Auction will include the complex strategy rather than the series. The proposed rule change also states the C-AIM notification message will include the Capacity of the Agency Order. The notification message for simple AIM includes Capacity, but that detail is not currently included in Rule 21.19.

<sup>15</sup> See proposed Rule 21.22(c)(3). The proposed C-AIM Auction period is the same as the auction period for simple AIM (see Rule 21.19(c)(3)).

<sup>16</sup> See proposed Rule 21.22(c)(4). The proposed C-AIM Auction notification message [sic] is the same as the corresponding provision for simple AIM (see Rule 21.19(c)(4)).

<sup>17</sup> See proposed Rule 21.22(c)(5). The proposed provisions regarding C-AIM responses are the same as the provisions regarding AIM responses, except as set forth below. See Rule 21.19(c)(5).

<sup>18</sup> See proposed Rule 21.22(c)(5)(A). The proposed minimum increment for C-AIM responses is the same as the minimum increment for AIM responses. See Rule 21.19(c)(5)(A).

<sup>19</sup> See proposed Rule 21.22(c)(5)(B); see also proposed Rule 21.22(b)(2). This proposed provision is similar to the corresponding provision for AIM responses, except it refers to the SBBO and prices of complex order rather than the NBBO. See Rule 21.19(c)(5)(B).

<sup>20</sup> See proposed Rule 21.22(c)(5)(C). This is the same as the corresponding provision for simple AIM, except it proposes to aggregate responses with complex order interest rather than simple order interest. See Rule 21.19(c)(5)(C).

<sup>21</sup> See proposed Rule 21.22(c)(5)(D). This is the same as the corresponding provision for simple AIM, except it proposes to aggregate responses with complex order interest, and cap aggregate complex size, rather than simple order interest. See Rule 21.19(c)(5)(D).

<sup>22</sup> See proposed Rule 21.21(c)(5)(E). This is the same as the corresponding provision for simple AIM. See Rule 21.19(c)(5)(E).

<sup>23</sup> See proposed Rule 21.22(c)(5)(F). This is the same as the corresponding provision for simple AIM. See Rule 21.19(c)(5)(F).

<sup>24</sup> See proposed Rule 21.22(c)(5)(G). This is the same as the corresponding provision for simple AIM, except the proposed rule change does not reference fill-or-kill (“FOK”) as a prohibited designation for C-AIM response. FOK is never available for complex orders, and thus will not be available for C-AIM responses (and does not need to be specifically prohibited for C-AIM responses). See Rules 21.19(c)(5)(G) and 21.20(b).

<sup>25</sup> See proposed Rule 21.22(c)(5)(H). This is the same as the corresponding provision for simple AIM. See Rule 21.19(c)(5)(H).

<sup>26</sup> See proposed Rule 21.22(c)(5)(I). This is the same as the corresponding provision for simple AIM. See Rule 21.19(c)(5)(I).

<sup>27</sup> See proposed Rule 21.22(d). The proposed events that cause a C-AIM Auction to conclude are similar as those that cause a simple AIM Auction

The Exchange proposes to conclude the C-AIM Auction in response to the incoming orders described above, as they would cause the SBBO or the best-priced complex order on the same side of the market as the Agency Order to be better priced than the stop price, or cause the stop price to be the same price as the SBBO with a Priority Customer order on the BBO for a component or a Priority Customer complex order on the COB. Similarly, the incoming orders described above would cause the opposite side SBBO to be at or better than the stop price. These events would create circumstances under which a C-AIM Auction would not have been initiated, and therefore, the Exchange believes it is appropriate to conclude a C-AIM Auction when they exist.

If the System receives an unrelated market or marketable limit complex order (against the SBBO or the best price of a complex order resting in the COB), including a Post Only complex order, on the opposite side of the market during a C-AIM Auction, the C-AIM Auction does not end early, and the System executes the order against interest outside the C-AIM Auction or posts the complex order to the COB. If contracts remain from the unrelated complex order at the time the C-AIM Auction ends, they may be allocated for execution against the Agency Order pursuant to proposed paragraph (e).<sup>28</sup> Because these orders may have the opportunity to trade against the Agency Order following the conclusion of the C-AIM Auction, which execution must still be at or better than the SBBO and the best-priced complex orders on the COB, the Exchange does not believe it is necessary to cause a C-AIM Auction to conclude early in the event the Exchange receives such orders. This will provide more time for potential price improvement, and the unrelated complex order will have the opportunity to trade against the Agency Order in the same manner as all other contra-side interest.

At the conclusion of the C-AIM Auction, the System executes the Agency Order against the Initiating Order or contra-side complex interest (which includes complex orders on the COB and C-AIM responses) at the best price(s) as follows, which price(s) must be at or between the SBBO and the best prices of any complex orders resting on

to conclude, except are based on the entry of simple or complex orders that impact the SBBO or the best available prices on the same side of the COB rather than the BBO. *See* Rule 21.19(d).

<sup>28</sup> *See* proposed Rule 21.22(d). Similarly, market or marketable limit simple orders on the opposite side of the Agency Order will not cause an AIM Auction to end. *See* Rule 21.19(d).

each side of the COB at the conclusion of the C-AIM Auction:

- If the C-AIM Auction results in no price improvement, the System executes the Agency Order at the stop price against contra-side interest in the following order:

- Priority Customer complex orders on the COB (in time priority);
- the Initiating Order for the greater of (a) one contract or (b) up to 50% of the Agency Order if there is contra-side complex interest from one other User at the stop price or 40% of the Agency Order if there is contra-side complex interest from two or more other Users at the stop price (which percentages are based on the number of contracts remaining after execution against Priority Customer complex orders). Under no circumstances does the Initiating Member receive an allocation percentage, at the final price point, of more than 50% of the initial Agency Order in the event there is interest from one other User or 40% of the initial Agency Order in the event there is interest from two or more other Users;
- remaining contra-side complex interest in a pro-rata manner; and
- the Initiating Order to the extent there are any remaining contracts.<sup>29</sup>

- If the C-AIM Auction results in price improvement for the Agency Order and the Initiating Member selected a single-price submission, the System executes the Agency Order at each price level better than the stop price against contra-side complex interest in the following order:

- Priority Customer complex orders on the COB (in time priority); and
- all other contra-side complex interest in a pro-rata manner.

If the price at which the balance of the Agency Order can be fully executed equals the stop price, then the System executes any remaining contracts from the Agency Order at that price in the order described in the preceding bulleted paragraph.<sup>30</sup>

- If the C-AIM Auction results in price improvement for the Agency Order and the Initiating Member selected auto-match, at each price level

<sup>29</sup> *See* proposed Rule 21.22(e)(2). This is the same as the allocation of contra-side simple interest in simple AIM if there is price improvement for a single-price submission, except the Exchange does not propose to make Priority Orders available in C-AIM, and the Exchange does not offer complex reserve orders so there would be no nondisplayed Reserve Quantity available on the COB for execution. *See* Rule 21.19(e)(1).

<sup>30</sup> *See* proposed Rule 21.22(e)(1). This is the same as the allocation of contra-side simple interest in simple AIM if there is no price improvement, except the Exchange does not propose to make Priority Orders available in C-AIM. *See* Rule 21.19(e)(1).

better than the stop price (or at each price level better than the stop price up to the limit price if the Initiating Member specified one), the System executes the Agency Order against the Initiating Order for the number of contracts equal to the aggregate size of all other contra-side complex interest and then executes the Agency Order against that contra-side complex interest in the order set forth in the preceding bulleted paragraph. If the price at which the balance of the Agency Order can be fully executed equals the stop price, the System executes those contracts at that price in the order set forth in first bulleted paragraph above.<sup>31</sup>

- If the Initiating Member selects a single-price submission, it may elect for the Initiating Order to have last priority to trade against the Agency Order. If the Initiating Member elects last priority, then notwithstanding proposed subparagraphs (e)(1) and (2) (as described above), the System only executes the Initiating Order against any remaining Agency Order contracts at the stop price after the Agency Order is allocated to all contra-side complex interest (in the order set forth in proposed subparagraph (e)(2) above) at all prices equal to or better than the stop price. Last priority information is not available to other market participants and may not be modified after it is submitted.<sup>32</sup>

The System cancels or rejects any unexecuted C-Aim responses (or unexecuted portions) at the conclusion of the C-AIM Auction.<sup>33</sup>

Because, as proposed, the execution prices for an Agency Order will always be better than the SBBO existing at the conclusion of the C-AIM Auction if it includes a Priority Customer order on any leg, the Agency Order will only execute against the Initiating Order, C-AIM responses, and complex orders resting in the COB, and will not leg into the Simple Book, at the conclusion of a C-AIM Auction. This is consistent with current complex order priority principles, pursuant to which complex orders may only trade against complex interest at prices that improve the BBO of any component that is represented by a Priority Customer order.<sup>34</sup>

Currently, the Exchange makes one auction available to complex orders, the

<sup>31</sup> *See* proposed Rule 21.22(e)(3). The proposed auto-match functionality for C-AIM is the same as the corresponding auto-match functionality for simple AIM. *See* Rule 21.19(e)(3).

<sup>32</sup> *See* proposed Rule 21.22(e)(4). The proposed last priority option for C-AIM is the same as the corresponding last priority option for simple AIM. *See* Rule 21.19(e)(4).

<sup>33</sup> *See* proposed Rule 21.22(e)(6).

<sup>34</sup> *See* proposed Rule 21.22(e)(5) and current Rule 21.20(c)(3).

complex order auction (“COA”).<sup>35</sup> Pursuant to current EDGX Rules for execution following a COA, a complex order will be allocated first in price priority and then at the same price to Priority Customer orders resting on the Simple Book, COA responses and unrelated complex orders on the COB in time priority, and remaining individual orders in the Simple Book (*i.e.*, non-Priority Customer), which will be allocated pursuant to Rule 21.8.<sup>36</sup>

The Simple Book and the COB are separate, and orders on each do not interact unless a complex order legs into the Simple Book. As a result, the System is not able to calculate the aggregate size of complex auction responses and complex orders on the COB and the size of simple orders in the legs that comprise the complex strategy at each potential execution price (as executions may occur at multiple prices) prior to execution of an order following the complex auction. Following a COA, the System first looks to determine whether there are Priority Customer orders resting in the Simple Book at the final auction price (and in the applicable ratio). If there are, the System executes the complex order against those simple orders. Following that execution, the System then looks back at the COA responses and complex orders resting in the COB to determine whether there is interest against which the order can execute. If there is, the System executes the remaining portion of the complex order against that complex contra-side interest. Finally, if there is any size left, the System looks back at the Simple Book to determine whether any orders in the legs are able to trade against any remaining contracts in the complex order. If there is, the System executes the remaining portion of the complex order again against orders in the Simple Book. Because of this process, prior to execution against any Priority Customer simple orders at a single price level, the System would not know the aggregate interest available on both the Simple Book and COB to execute against the auctioned order at that price level.

If the Exchange permitted Agency Orders to leg into the Simple Book following a C-*AIM* Auction, it similarly would not know how much aggregate simple and complex interest is available at a price level once it began executing the Agency Order at that price level. Unlike a COA, however, the amount of aggregate interest available to execute against the Agency Order will be relevant in a C-*AIM* Auction with respect to the allocation of contracts

against the Agency Order and other interest at each price level, and with respect to determining the final price level at which the Agency Order will execute. For example, when auto-match is selected, because the System will not be able to determine the aggregate size of contra-side interest (including simple and complex) at that price level, it would not be able to determine how many contracts of the Agency Order should execute against the Initiating Order (which should equal the aggregate size of that contra-side interest). Additionally, because the System will not be able to determine the aggregate size of contra-side interest (including simple and complex) at the stop price, it would not be able to determine the applicable percentage of the Agency Order that should execute against the Initiating Order.

The Exchange notes there would be significant technical complexities associated with reprogramming priority within the System to permit Agency Orders to leg into the Simple Book following a C-*AIM* Auction<sup>37</sup> and allocate the Agency Order in a manner consistent with standard priority principles and crossing auctions, while making the most crossing functionality available to Options Members. The proposed rule change will ensure the Agency Order executes in accordance with the C-*AIM* allocation principles (which are consistent with *AIM* allocation principles), which provide Priority Customers with priority over the Initiating Order (and other contra-side interest) but also provide for the Initiating Order to execute against a certain portion of the Agency Order, as well as provide Initiating Members with flexibility to submit single-price submissions or auto-match at multiple price levels. The Exchange believes providing this functionality will encourage Options Members to submit complex orders into C-*AIM* Auctions and provide customer orders with opportunities for price improvement. It will also ensure orders (including Priority Customer orders) on the Simple Book are protected in accordance with current complex order priority

principles,<sup>38</sup> as an Agency Order will only be permitted to execute at prices that do not trade at the SBBO existing at the conclusion of the C-*AIM* Auction if it includes a Priority Customer order on any leg, and that do not trade through the SBBO existing at the conclusion of the C-*AIM* Auction.<sup>39</sup>

In lieu of the procedures set forth above, an Initiating Member may enter an Agency Order for the account of a Priority Customer paired with a solicited order(s) for the account of a Priority Customer, which paired orders the System automatically executes without a C-*AIM* Auction (“Customer-to-Customer C-*AIM* Immediate Cross”), subject to the following:

- The transaction price must be at or between the SBBO and may not equal either side of the SBBO if the BBO of any component of the complex strategy represents a Priority Customer order on the Simple Book;
- the transaction price must be at or between the best-priced complex orders in the complex strategy resting on the COB and may not equal the price of a Priority Customer complex order resting on either side of the COB; and
- the System does not initiate a Customer-to-Customer Complex C-*AIM* Immediate Cross if the transaction price equals (A) either side of the SBBO and the BBO of any component of the complex strategy represents a Priority Customer order on the Simple Book, or (B) the price of a Priority Customer complex order resting on either side of the COB. Instead, the System cancels the Agency Order and Initiating Order.<sup>40</sup>

An Options Member may only use a C-*AIM* Auction where there is a genuine intention to execute a bona fide transaction.<sup>41</sup>

A pattern or practice of submitting orders or quotes for the purpose of disrupting or manipulating C-*AIM* Auctions, including to cause a C-*AIM* Auction to conclude before the end of the C-*AIM* Auction period, will be deemed conduct inconsistent with just and equitable principles of trade and a violation of Rule 3.1. It will also be

<sup>38</sup> See proposed Rule 21.22(e)(5) and current Rule 21.20(c)(3).

<sup>39</sup> See Rule 21.20(c)(2)(E) and (d)(6).

<sup>40</sup> See proposed Rule 21.22(f). The proposed Customer-to-Customer C-*AIM* Immediate Cross is similar to the Customer-to-Customer *AIM* Immediate Cross, except it compares the price of the Priority Customer orders to the SBBO and best-priced complex orders in the COB rather than the NBBO, as the simple *AIM* version does. See Rule 21.19(f).

<sup>41</sup> See proposed Rule 21.22, Interpretation and Policy .01. This provision is the same as the corresponding provision for simple *AIM*. See Rule 21.19, Interpretation and Policy .01.

<sup>35</sup> See Rule 21.20(d).

<sup>36</sup> See Rule 21.20(d)(7).

<sup>37</sup> The Exchange notes it currently does not permit all-or-none (“AON”) orders to leg into the Simple Book following a COA due to the same technical complexities.<sup>37</sup> [sic] While an Agency Order is not submitted as an AON order, an Agency Order, like an AON order, must execute in its entirety or not at all. See Rule 21.1(d)(4). Because an Agency Order must fully execute at the conclusion of a C-*AIM* Auction (and will never rest in the COB), it effectively functions like an AON Order, and the Exchange believes it is similarly appropriate to not leg Agency Orders into the Simple Book.

deemed conduct inconsistent with just and equitable principles of trade and a violation of Rule 3.1 to engage in a pattern of conduct where the Initiating Member breaks up an Agency Order into separate orders for the purpose of gaining a higher allocation percentage than the Initiating Member would have otherwise received in accordance with the allocation procedures contained in proposed paragraph (e) above.<sup>42</sup>

Rule 22.12 prevents an Options Member from executing agency orders to increase its economic gain from trading against the order without first giving other trading interests on the Exchange an opportunity to either trade with the agency order or to trade at the execution price when the Options Member was already bidding or offering on the book. However, the Exchange recognizes that it may be possible for an Options Member to establish a relationship with a Priority Customer or other person to deny agency orders the opportunity to interact on the Exchange and to realize similar economic benefits as it would achieve by executing agency orders as principal. It would be a violation of Rule 22.12 for an Options Member to circumvent such rule by providing an opportunity for (a) a Priority Customer affiliated with the Options Member, or (b) a Priority Customer with whom the Options Member has an arrangement that allows the Options Member to realize similar economic benefits from the transaction as the Options Member would achieve by executing agency orders as principal, to regularly execute against agency orders handled by the firm immediately upon their entry as Customer-to-Customer C-AIM Immediate Crosses pursuant to proposed paragraph (f) of this Rule.<sup>43</sup> In addition to proposed Interpretation and Policy .03, the Exchange proposes to amend Rule 22.12(c) to add reference to C-AIM as an exception to the general restriction on the execution of orders as principal against orders they represent as agent.

## 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>44</sup> Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>45</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>46</sup> requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The proposed rule change is generally intended to add certain system functionality currently offered by Cboe Options to the Exchange's System in order to provide a consistent technology offering for the Cboe Affiliated Exchanges. A consistent technology offering, in turn, will simplify the technology implementation, changes, and maintenance by Users of the Exchange that are also participants on Cboe Affiliated Exchanges. This will provide Users with greater harmonization of price improvement auction mechanisms available among the Cboe Affiliated Exchanges.

The proposed rule change will provide market participants with access to an auction mechanism for execution of complex orders, which will provide them with greater flexibility in pricing complex orders and may provide more opportunities for price improvement. C-AIM as proposed will function in a substantially similar manner as AIM for simple orders, the Exchange's current price improvement mechanism—the proposed differences relate primarily to basing the price and execution of the Agency Order on the SBBO and the COB, rather than on the NBBO, and to ensure execution prices are consistent with complex order priority principles. C-AIM provides equal access to the exposed Agency Orders for all market participants, as all Options Members that subscribe to the Exchange's data feeds will have the opportunity to interact with orders submitted into C-

AIM Auctions.<sup>47</sup> C-AIM will benefit investors, because it is designed to provide investors seeking to execute complex orders with opportunities to access additional liquidity and receive price improvement. It will provide Options Members with a facility in which to execute customers' complex orders, potentially at improved prices. The proposed rule change may result in increased liquidity available at improved prices for complex orders, with competitive final pricing out of the Initiating Member's control. The Exchange believes C-AIM will promote and foster competition and provide more options contracts with the opportunity for price improvement.

The Exchange believes the proposed rule change will remove impediments to and perfect the mechanism of a free and open market and a national market system, because other options exchanges similarly permit complex orders to be submitted into their price improvement auctions.<sup>48</sup> The general framework of the proposed C-AIM Auction process (such as the eligibility requirements, the auction response period, the same-side stop price requirements, response requirements, and auction notification process),<sup>49</sup> is substantively the same as the framework of the AIM Auction for simple orders, except to account for the differences between simple and complex orders, as described above. The Exchange believes using the same general framework for the simple and complex auctions will benefit investors, as it will minimize confusion regarding how the auction mechanisms work.

Further, the new functionality may lead to an increase in Exchange volume and should allow the Exchange to better compete against other markets that already offer an electronic complex order price improvement mechanism, while providing an opportunity for price improvement for Agency Orders and ensuring that Priority Customers on the Simple Book and the COB are protected. C-AIM Auction functionality should promote and foster competition and provide more options contracts with the opportunity for price improvement, which should benefit market participants.

<sup>47</sup> Any Options Member can subscribe to the options data disseminated through the Exchange's data feeds.

<sup>48</sup> See, e.g., Cboe Options Rule 6.74A, Interpretation and Policy .08; Nasdaq ISE LLC ("ISE") Rule 723(e); Nasdaq PHLX LLC ("PHLX") Rule 1087; BOX Exchange LLC ("BOX") Rule 7245; and Miami International Securities Exchange, LLC ("MIAX") Rule 515A, Interpretation and Policy .12.

<sup>49</sup> See Rule 21.19.

<sup>42</sup> See proposed Rule 21.22, Interpretation and Policy .02. This provision is the same as the corresponding provision for simple AIM. See Rule 21.19, Interpretation and Policy .02.

<sup>43</sup> See proposed Rule 21.22, Interpretation and Policy .031 [sic]. This provision is the same as the corresponding provision for simple AIM. See Rule 21.19, Interpretation and Policy .03.

<sup>44</sup> 15 U.S.C. 78f(b).

<sup>45</sup> 15 U.S.C. 78f(b)(5).

<sup>46</sup> *Id.*



The Exchange believes the proposed rule change will result in efficient trading and reduce the risk for investors that seek access to additional liquidity and price improvement for complex orders by providing additional opportunities to do so. The proposed priority and allocation rules in the C-AIM Auction are consistent with the Exchange's current complex order priority principles, pursuant to which complex orders may only trade against complex interest at prices that improve the BBO of any component that is represented by a Priority Customer order.<sup>50</sup> This will ensure a fair and orderly market by protecting Priority Customer orders on the Simple Book while still affording the opportunity for price improvement for complex orders during each C-AIM Auction commenced on the Exchange. The proposed allocation is also consistent with the allocation principles for the simple AIM Auction, which ensures protection of Priority Customer orders resting on the COB.<sup>51</sup> In a simple AIM Auction, Priority Customer orders receive priority, including over the Initiating Order's guaranteed participation. Similarly, in a C-AIM Auction, Priority Customer complex orders receive priority, including over the Initiating Order's guaranteed participation.

The purpose of C-AIM is to provide a facility for Options Members that locate liquidity for their customer orders to execute these orders (and potentially obtain better prices). An Initiating Member that provides or locates interest to execute against its customer orders at the best then-available price (or better) will receive in exchange for that effort execution priority over non-Priority Customers (who do not expend similar efforts to trade against the Agency Order and do not provide price improvement) to trade against a specified percentage of the Agency Order at the stop price. The Exchange believes the proposed rule change promotes just and equitable principles of trade, because it will protect Priority Customer complex orders resting on the COB while encouraging Options Members to continue to provide or locate liquidity against which their customers may execute their complex orders. The Exchange believes this may also encourage non-Priority Customers to submit interest at improved prices if they seek to execute against Agency Orders.

By keeping the priority and allocation rules for a C-AIM Auction similar to the allocation used for a simple AIM Auction on the Exchange, consistent with current complex order priority, and consistent across possible outcomes of a C-AIM Auction, the proposed rule change reduces the ability of market participants to misuse the C-AIM Auction to circumvent standard priority rules in a manner that is designed to prevent fraudulent and manipulative acts and practices, and to promote just and equitable principles of trade on the Exchange. The proposed execution and priority rules will allow orders to interact with interest in the COB, and will allow interest on the COB to interact with option orders in the price improvement mechanisms in an efficient and orderly manner. The Exchange believes this interaction of orders will benefit investors by increasing the opportunity for complex orders to receive executions, while also enhancing the execution quality for orders resting on the COB.

The proposed C-AIM Auction eligibility requirements are reasonable and promote a fair and orderly market and national market system, because they are the same as the eligibility requirements for a simple AIM Auction, except the proposed rule change excludes the requirement related to the NBBO, because there is no NBBO for complex orders, and the legs of complex orders are not subject to the restriction on NBBO trade-throughs. Additionally, the proposed rule change references the opening of the COB rather than the market open, as the opening of the COB is when complex orders may begin trading. These are minor differences that relate solely to underlying differences between simple and complex orders.

The proposed rule that an Initiating Member may not designate an Agency Order or Initiating Order as Post Only protects investors, because it provides transparency regarding functionality that will not be available for C-AIM. The Exchange believes this is appropriate, as the purpose of a Post Only complex order is to not execute upon entry and instead rest in the COB, while the purpose of submitting orders to a C-AIM Auction is to receive an execution following the auction and not enter the COB. Pursuant to proposed Rule 21.22, an Agency Order will fully execute against contra-side interest (the Initiating Order, other contra-side complex interest, or a combination of both), and thus there cannot be remaining contracts in an Agency Order to enter the COB. Similarly, the Initiating Order may only execute against the Agency Order at the

conclusion of a C-AIM Auction, and thus will not enter the COB.

The Exchange believes the proposed rule change to permit the Initiating Order to be comprised of multiple orders that total the size of the Agency Order may increase liquidity and opportunity for Agency Orders to participate in C-AIM Auctions, and therefore provide Agency Orders with additional opportunities for price improvement, which is consistent with the principles behind the C-AIM Auction. The Exchange believes this will be beneficial to participants because allowing multiple contra-parties should foster competition for filling the contra-side order and thereby result in potentially better prices, as opposed to only allowing one contra-party, which would require that contra-party to guarantee the entire Agency Order, which could result in a worse price for the trade. The Initiating Order for simple AIM Auctions may be comprised of multiple contra-parties.<sup>52</sup>

The proposed C-AIM Auction requirements for the stop price are reasonable and promote a fair and orderly market and national market system, because they are consistent with the corresponding requirements for a simple AIM Auction (including the options for a single-price submission and auto-match), except the proposed requirements are based on the SBBO and complex order prices in the COB rather than the NBBO. As noted above, there is no NBBO for complex orders. The proposed stop price requirements promote just and equitable principles of trade, because they protect Priority Customer orders in the Simple Book and Priority Customer complex orders in the COB, and prevent trading through the SBBO and the best-priced orders on the COB.

As discussed above, the Exchange has proposed to allow C-AIM Auctions to occur concurrently with other C-AIM Auctions for the same complex strategies. Although C-AIM Auctions for Agency Orders will be allowed to overlap, the Exchange does not believe this raises any issues that are not addressed through the proposed rule change described above. For example, although overlapping, each C-AIM Auction will be started in a sequence and with a time that will determine its processing. Thus, even if there are two C-AIM Auctions in the same complex strategy that commence and conclude, at nearly the same time, each C-AIM Auction will have a distinct conclusion at which time the C-AIM Auction will be allocated. In turn, when the first C-

<sup>50</sup> See proposed Rule 21.22(e)(5) and current Rule 21.20(c)(3).

<sup>51</sup> See Rule 21.19(e).

<sup>52</sup> See Rule 21.19.



AIM Auction concludes, unrelated orders that then exist will be considered for participation in the C-AIM Auction. If unrelated orders are fully executed in such C-AIM Auction, then there will be no unrelated orders for consideration when the subsequent C-AIM Auction is processed (unless new unrelated order interest has arrived). If instead there is remaining unrelated order interest after the first C-AIM Auction has been allocated, then such unrelated order interest will be considered for allocation when the subsequent C-AIM Auction is processed. As another example, each C-AIM response is required to specifically identify the Auction for which it is targeted and if not fully executed will be cancelled back at the conclusion of the Auction. Thus, C-AIM responses will be specifically considered only in the specified C-AIM Auction.

The Exchange does not believe that allowing multiple auctions to overlap for Agency Orders presents any unique issues that differ from functionality already in place on the Exchange. Pursuant to Rule 21.19(c)(1), multiple AIM Auctions for Agency Orders for 50 or more contracts may overlap. Different complex strategies are essentially different products, as orders in those strategies cannot interact, just as orders in different series or classes cannot interact. Therefore, the Exchange believes concurrent C-AIM Auctions in different complex strategies is appropriate given that concurrent simple AIM Auctions in different series or different classes may occur. Similarly, while it is possible for a complex order to leg into the Simple Book, a complex order may only execute against simple orders if there is interest in each component in the ratio of the complex strategy. A simple order in one component of a complex strategy cannot on its own interact with a complex order in that complex strategy. Therefore, the Exchange believes it is appropriate to permit concurrent AIM and C-AIM Auctions in the same component. As proposed, C-AIM Auctions will ensure that Agency Orders execute at prices that protect Priority Customer orders in the Simple Book and that are not inferior to the SBBO, even when there are concurrent simple and complex auctions occurring. The proposed rule change sets forth how any auctions with overlapping components will conclude if terminated due to the same event. The Rules do not currently prevent a COA in a complex strategy from occurring at the same time as an AIM in one of the components of the complex strategy. Therefore, the Exchange believes it is similarly

reasonable to permit a C-AIM in a complex strategy to occur at the same time as an AIM in one of the components of the complex strategy.

The proposed auction process will promote a free and open market, because it ensures equal access to information regarding C-AIM Auctions and the exposed Agency Orders for all market participants, as all Options Members that subscribe to the Exchange's data feeds with the opportunity to interact with orders submitted into C-AIM Auctions.<sup>53</sup> The proposed auction notification message includes the same information as the auction notification message for simple AIM Auctions, and will be available in the same data feed. The Exchange has proposed a range between no less than 100 milliseconds and no more than one second for the duration of a C-AIM Auction, which is the same duration of a simple AIM Auction. This will provide investors with more timely execution of their complex orders, while ensuring there is an adequate exposure of complex orders. This proposed auction response time should provide investors with the opportunity to receive price improvement for complex orders through C-AIM while reducing market risk. The Exchange believes a briefer time period reduces the market risk for the Initiating Member, versus an auction with a longer period, as well as for any Options Member providing responses to a broadcast. As such, the Exchange believes the proposed rule change would help perfect the mechanism for a free and open national market system, and generally help protect investors and the public interest. All Options Members will have an equal opportunity to respond with their best prices during the C-AIM Auction. Since the Exchange considers all complex interest present in the System, and not solely C-AIM responses, for execution against the Agency Order, those participants who are not explicit responders to a C-AIM Auction may receive executions via C-AIM as well.

The proposed C-AIM Auction response requirements are reasonable and promote a fair and orderly market and national market system, because they are virtually identical to the corresponding requirements for a simple AIM Auction and benefit investors by providing clarity regarding how they may respond to a C-AIM Auction. The only differences are the proposed rule change does not explicitly prohibit FOK, because it is never available for

complex orders (and thus would not be available for C-AIM responses), C-AIM responses will be aggregated with other complex size rather than other simple interest, and C-AIM responses will be capped at the SBBO or prices of complex orders rather than the NBBO (because, as discussed above, there is no NBBO for complex orders and restricting prices based on the SBBO and complex orders will ensure protection of Priority Customer orders). This will further benefit investors by providing consistency across the Exchange's price improvement mechanisms.

The proposed rule change will also perfect the mechanism of a free and open market and a national market system, because it is consistent with linkage rules. Rule 27.2(b)(8) provides that a transaction that is effected as a portion of a complex trade is exception to the prohibition on effecting trade-throughs. As discussed above, any executions following a C-AIM Auction will not trade-through the SBBO or prices of complex orders resting on the COB (and will always improve the SBBO or COB prices if they consist of a Priority Customer order).

The proposed events that will conclude a C-AIM Auction are reasonable and promote a fair and orderly market and national market system, because they are consistent with the corresponding events that will conclude a simple AIM Auction, and benefit investors by providing clarity regarding what will cause a C-AIM Auction to conclude. These events would create circumstances under which a C-AIM would not have been permitted to start, and thus the Exchange believes it is appropriate to conclude a C-AIM Auction if those circumstances occur. As is the case with a simple AIM Auction (which will not conclude early due to the receipt of an opposite side simple order), the Exchange will not conclude a C-AIM Auction early due to the receipt of an opposite side complex order. The Exchange believes this promotes just and equitable principles of trade, because these orders may have the opportunity to trade against the Agency Order following the conclusion of the C-AIM Auction, which execution must still be at or better than the SBBO and prices of complex orders in the COB. The Exchange believes this will protect investors, because it will provide more time for price improvement, and the unrelated order will have the opportunity to trade against the Agency Order in the same manner as all other contra-side complex interest.

<sup>53</sup> Any Options Member can subscribe to the options data disseminated through the Exchange's data feeds.

With respect to trading halts, as described above, in the case of a trading halt on the Exchange in the affected complex strategy or any component series, the C-AIM Auction will be cancelled without execution. This is consistent with simple AIM, which will be cancelled without execution if there is a trading halt on the Exchange in the affected series. Cancelling C-AIM Auctions without execution in this circumstance is consistent with Exchange handling of trading halts in the context of continuous trading on EDGX Options and promotes just and equitable principles of trade and, in general, protects investors and the public interest.<sup>54</sup>

The Exchange believes the proposed execution of Agency Orders at the conclusion of a C-AIM Auction are reasonable and promote a fair and orderly market and national market system, because they are consistent with the execution of Agency Orders at the conclusion of a simple AIM Auction. Similar to the allocation that occurs following a simple AIM Auction (which allocates contra-side simple interest in the same manner), best-priced contra-side interest executes against the Agency Order first, and Priority Customer complex orders will have first priority at each price level, followed by other contra-side complex interest. The proposed rule change provides for the Initiating Order to receive the same percentage entitlement at the stop price, and also allows the Initiating Member to receive last priority, or auto-match at prices better than the stop price. The proposed rule change does not adopt Priority Order status for C-AIM, which is only available in simple AIM for classes the Exchange designates.

As noted above, there would be significant technical complexities associated with reprogramming priority within the System to permit Agency Orders to leg into the Simple Book following a C-AIM Auction<sup>55</sup> and allocate the Agency Order in a manner consistent with standard priority principles and crossing auctions, while making the most crossing functionality

available to Options Members. The proposed rule change will ensure the Agency Order executes in accordance with the C-AIM allocation principles (which are consistent with AIM allocation principles), which provide Priority Customers with priority but also provide for the Initiating Order to execute against a certain portion of the Agency Order, as well as provide Initiating Members with flexibility to auto-match executions at multiple price levels. The Exchange believes providing this functionality will encourage Options Members to submit complex orders into C-AIM Auctions and provide customer orders with opportunities for price improvement. It will also ensure orders (including Priority Customer orders) on the Simple Book are protected in accordance with current complex order priority principles,<sup>56</sup> as an Agency Order will only be permitted to execute at prices that do not trade at the SBBO existing at the conclusion of the C-AIM Auction if it includes a Priority Customer order at the BBO on any leg, and that do not trade through the SBBO existing at the conclusion of the C-AIM Auction.<sup>57</sup> The proposed allocation will also ensure the Agency Order does not trade at the same price as a Priority Customer complex order resting on the COB or through the best-priced complex orders on the COB, and will protect investors by providing Priority Customer complex orders with priority at each price level.

The proposed Customer-to-Customer C-AIM Immediate Cross functionality is reasonable and will promote a fair and orderly market and national market system, because it is consistent with the corresponding Customer-to-Customer AIM Immediate Cross functionality. Similar to above, the pricing restrictions for Customer-to-Customer C-AIM Immediate Cross are based on the SBBO and complex orders in the COB rather than the NBBO (as is the case for Customer-to-Customer AIM Immediate Cross). The proposed pricing restrictions will ensure that the transaction price for Customer-to-Customer C-AIM Immediate Crosses may not be at the same price as any Priority Customer complex orders resting on the COB or at the SBBO if the BBO of any component of the complex strategy represents a Priority Customer order on the Simple Book, and thus at a price at least as good as the price at which the orders would have executed had they been submitted separately to the COB. The proposed functionality

will benefit investors, because it will enhance and automate order entry firms' ability to submit two contra-side side [sic] customer complex orders. The proposed rule change will provide Options Member [sic] with a more efficient means of executing their customer complex orders (in the same efficient manner in which they may currently execute their customer simple orders) subject to the Exchange's existing requirements limiting principal transactions.

As is the case with AIM, an Options Member may not use C-AIM to create a misleading impression of market activity (*i.e.*, C-AIM may only be used where there is a genuine intention to execute a bona fide transaction). The proposed regulatory provisions are substantially the same as those applicable to simple AIM, and the Exchange believes they will protect customers and the public interest, prevent fraudulent and manipulative acts and practices, and promote just and equitable principles of trade.

The proposed rule change is also consistent with Section 11(a)(1) of the Act<sup>58</sup> and the rules promulgated thereunder. Generally, Section 11(a)(1) of the Act restricts any member of a national securities exchange from effecting any transaction on such exchange for (a) the member's own account, (b) the account of a person associated with the member, or (c) an account over which the member or a person associated with the member exercises discretion (collectively referred to as "covered accounts"), unless a specific exemption is available. Examples of common exemptions include the exemption for transactions by broker dealers acting in the capacity of a market maker under Section 11(a)(1)(A),<sup>59</sup> the "G" exemption for yielding priority to non-members under Section 11(a)(1)(G) of the Act and Rule 11a1-1(T) thereunder,<sup>60</sup> and "Effect vs. Execute" exemption under Rule 11a2-2(T) under the Act.<sup>61</sup> The "Effect vs. Execute" exemption permits an exchange member, subject to certain conditions, to effect transactions for covered accounts by arranging for an unaffiliated member to execute transactions on the exchange. To comply with Rule 11a2-2(T)'s

<sup>54</sup> The Exchange notes that trading on the Exchange in any option contract will be halted whenever trading in the underlying security has been paused or halted by the primary listing market and other circumstances. See Rule 20.3.

<sup>55</sup> The Exchange notes it currently does not permit all-or-none ("AON") orders to leg into the Simple Book following a COA due to the same technical complexities.<sup>55</sup> [sic] While an Agency Order is not submitted as an AON order, an Agency Order, like an AON order, must execute in its entirety or not at all and thus effectively functions like an AON Order. See Rule 21.1(d)(4). Therefore, the Exchange believes it is similarly appropriate to not leg Agency Orders into the Simple Book at the conclusion of a C-AIM Auction.

<sup>56</sup> See proposed Rule 21.22(e)(5) and current Rule 21.20(c)(3).

<sup>57</sup> See Rule 21.20(c)(2)(E) and (d)(6).

<sup>58</sup> 15 U.S.C. 78k(a). Section 11(a)(1) prohibits a member of a national securities exchange from effecting transactions on that exchange for its own account, the account of an associated person, or an account over which it or its associated person exercises discretion unless an exception applies.

<sup>59</sup> 15 U.S.C. 78k(a)(1)(A).

<sup>60</sup> 15 U.S.C. 78k(a)(1)(G) and 17 CFR 240.11a1-1(T).

<sup>61</sup> 17 CFR 240.11a2-2(T).

conditions, a member: (a) Must transmit the order from off the exchange floor; (b) may not participate in the execution of the transaction once it has been transmitted to the member performing the execution;<sup>62</sup> (c) may not be affiliated with the executing member; and (d) with respect to an account over which the member has investment discretion, neither the member nor its associated person may retain any compensation in connection with effecting the transaction except as provided in the Rule. For the reasons set forth below, the Exchange believes that Exchange Members entering orders into a C-AIM Auction would satisfy the requirements of Rule 11a2-2(T).

The Exchange does not operate a physical trading floor. In the context of automated trading systems, the Commission has found that the off-floor transmission requirement is met if a covered account order is transmitted from a remote location directly to an exchange's floor by electronic means.<sup>63</sup> The Exchange represents that the System and the proposed C-AIM Auction receive all orders electronically through remote terminals or computer-to-computer interfaces. The Exchange represents that orders for covered accounts from Options Members will be transmitted from a remote location directly to the proposed C-AIM mechanism by electronic means.

The second condition of Rule 11a2-2(T) requires that neither a member nor an associated person participate in the execution of its order once the order is transmitted to the floor for execution. The Exchange represents that, upon submission to the C-AIM Auction, an order or C-AIM response will be executed automatically pursuant to the rules set forth for C-AIM. In particular, execution of an order (including the Agency Order and the Initiating Order) or a C-AIM response sent to the mechanism depends not on the Options Member entering the order or response,

but rather on what other orders and responses are present and the priority of those orders and responses. Thus, at no time following the submission of an order or response is an Options Member able to acquire control or influence over the result or timing of order or response execution.<sup>64</sup> Once the Agency Order and Initiating Order have been transmitted, the Initiating Member that transmitted the orders will not participate in the execution of the Agency Order or Initiating Order. Initiating Members submitting Agency Orders and Initiating Orders will relinquish control to modify or cancel their Agency Orders and Initiating Orders upon transmission to the System. Further, no Options Member, including the Initiating Member, will see a C-AIM response submitted into C-AIM, and therefore and will not be able to influence or guide the execution of their Agency Orders, Initiating Orders, or C-AIM responses, as applicable. Finally, the last priority feature will not permit an Options Member to have any control over an order. The election to apply last priority to an Initiating Order is available prior to the submission of the order and therefore could not be utilized to gain influence or guide the execution of the Agency Order. The information provided with respect to the last priority feature by the Initiating Member will not be broadcast and further, the information may not be modified by the Initiating Member during the Auction [sic].

Rule 11a2-2(T)'s third condition requires that the order be executed by an exchange member who is unaffiliated with the member initiating the order. The Commission has stated that the requirement is satisfied when automated exchange facilities, such as the C-AIM Auction, are used, as long as the design of these systems ensures that members do not possess any special or unique trading advantages in handling their orders after transmitting them to the exchange.<sup>65</sup> The Exchange

represents that the C-AIM Auction is designed so that no Options Member has any special or unique trading advantage in the handling of its orders after transmitting its orders to the mechanism.

Rule 11a2-2(T)'s fourth condition requires that, in the case of a transaction effected for an account with respect to which the initiating member or an associated person thereof exercises investment discretion, neither the initiating member nor any associated person thereof may retain any compensation in connection with effecting the transaction, unless the person authorized to transact business for the account has expressly provided otherwise by written contract referring to Section 11(a) of the Act and Rule 11a2-2(T) thereunder.<sup>66</sup> The Exchange recognizes that Options Members relying on Rule 11a2-2(T) for transactions effected through the C-AIM Auction must comply with this condition of the Rule and the Exchange will enforce this requirement pursuant to its obligations under Section 6(b)(1) of the Act to enforce compliance with federal securities laws.

The Exchange believes that the instant proposal is consistent with Rule 11a2-2(T), and that therefore the exception should apply in this case.

The proposed rule change will also perfect the mechanism of a free and open market and a national market system, because it is consistent with linkage rules. Rule 27.2(b)(8) provides that a transaction that is effected as a portion of a complex trade is exception to the prohibition on effecting trade-throughs. As discussed above, any executions following a C-AIM Auction

execution of an order is automatic once it has been transmitted into the system. Because the design of these systems ensures that members do not possess any special or unique trading advantages in handling their orders after transmitting them to the exchange, the Commission has stated that executions obtained through these systems satisfy the independent execution requirement of Rule 11a2-2(T). See 1979 Release.

<sup>66</sup> See 17 CFR 240.11a2-2(T)(a)(2)(iv). In addition, Rule 11a2-2(T)(d) requires a member or associated person authorized by written contract to retain compensation, in connection with effecting transactions for covered accounts over which such member or associated persons thereof exercises investment discretion, to furnish at least annually to the person authorized to transact business for the account a statement setting forth the total amount of compensation retained by the member in connection with effecting transactions for the account during the period covered by the statement which amount must be exclusive of all amounts paid to others during that period for services rendered to effect such transactions. See also 1978 Release (stating "[t]he contractual and disclosure requirements are designed to assure that accounts electing to permit transaction-related compensation do so only after deciding that such arrangements are suitable to their interests").

<sup>62</sup> The member may, however, participate in clearing and settling the transaction.

<sup>63</sup> See, e.g., Securities Exchange Act Release Nos. 61419 (January 26, 2010), 75 FR 5157 (February 1, 2010) (SR-BATS-2009-031) (approving BATS options trading); 59154 (December 23, 2008), 73 FR 80468 (December 31, 2008) (SRBSE-2008-48) (approving equity securities listing and trading on BSE); 57478 (March 12, 2008), 73 FR 14521 (March 18, 2008) (SR-NASDAQ-2007-004 and SR-NASDAQ-2007-080) (approving NOM options trading); 53128 (January 13, 2006), 71 FR 3550 (January 23, 2006) (File No. 10-131) (approving The Nasdaq Stock Market LLC); 44983 (October 25, 2001), 66 FR 55225 (November 1, 2001) (SR-PCX-00-25) (approving Archipelago Exchange); 29237 (May 24, 1991), 56 FR 24853 (May 31, 1991) (SR-NYSE-90-52 and SR-NYSE-90-53) (approving NYSE's Off-Hours Trading Facility); and 15533 (January 29, 1979), 44 FR 6084 (January 31, 1979) ("1979 Release").

<sup>64</sup> An Initiating Member may not cancel or modify an Agency Order or Initiating Order after it has been submitted into C-AIM. See proposed Rule 21.22(c)(4). Options Members may modify or cancel their responses after being submitted to into a C-AIM. See proposed Rule 21.22(d)(5)(H). The Exchange notes that the Commission has stated that the non-participation requirement does not preclude members from cancelling or modifying orders, or from modifying instructions for executing orders, after they have been transmitted so long as such modifications or cancellations are also transmitted from off the floor. See Securities Exchange Act Release No. 14563 (March 14, 1978), 43 FR 11542, 11547 (the "1978 Release").

<sup>65</sup> In considering the operation of automated execution systems operated by an exchange, the Commission noted that, while there is not an independent executing exchange member, the

will not trade-through the SBBO or prices of complex orders resting on the COB (and will always improve the SBBO or COB prices if they consist of a Priority Customer order).

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

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange does not believe the proposed rule change will impose any burden on intramarket competition, as the proposed rule change will apply in the same manner to all orders submitted to a C-AIM Auction. The proposed C-AIM Auction is voluntary for Options Members to use and will be available to all Options Members. As discussed above, the Exchange believes the proposed rule change should encourage Options Members to compete amongst each other by responding with their best price and size for a particular auction. By offering all Options Members the ability to participate in the proposed allocation during the C-AIM Auction, an Options Member will be encouraged to submit complex orders outside of the C-AIM Auction at the best and most aggressive prices. Within the C-AIM Auction, the Exchange believes the proposed rule change will encourage Options Member [sic] to compete vigorously to provide the opportunity for price improvement in a competitive auction process. The proposed execution and allocation rules are consistent with those applicable to simple AIM, as well as complex order priority, and therefore will ensure protection of Priority Customer orders in both the Simple Book and the COB.

The Exchange does not believe the proposed rule change will impose any burden on intermarket competition, because other options exchanges offer similar complex order price improvement auctions.<sup>67</sup> The general framework and primary features of the proposed C-AIM Auction process (such as the eligibility requirements, auction response period, response requirements, and auction notification process),<sup>68</sup> are substantively the same as the framework for simple AIM. The auction process is also similar, and is modified to address the underlying differences between simple and complex orders. For example, C-AIM will base pricing and

execution requirements on the SBBO and complex orders in the COB, rather than the NBBO (which does not apply to complex orders), to ensure consistency with Priority Customer priority and complex order priority principles.

The Exchange believes that the proposed rule change will relieve any burden on, or otherwise promote, competition. The Exchange believes this proposed rule change is necessary to permit fair competition among the options exchanges and to establish more uniform price improvement auction rules on the various options exchanges. The Exchange anticipates that this proposal will create new opportunities for the Exchange to attract new business and compete on equal footing with those options exchanges with complex order price improvement auctions and for this reason the proposal does not create an undue burden on intermarket competition. Rather, the Exchange believes that the proposed rule would bolster intermarket competition by promoting fair competition among individual markets.

*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**

Within 45 days of the date of publication of this notice in the **Federal Register** or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the Exchange consents, the Commission will:

- A. By order approve or disapprove such proposed rule change, or
- B. institute proceedings to determine whether the proposed rule change should be disapproved.

**IV. Solicitation of Comments**

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

*Electronic Comments*

- Use the Commission's internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-CboeEDGX-2019-028 on the subject line.

*Paper Comments*

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

All submissions should refer to File Number SR-CboeEDGX-2019-028. 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 (<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, DC 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-CboeEDGX-2019-028, and should be submitted on or before June 6, 2019.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>69</sup>

**Eduardo A. Aleman,**

*Deputy Secretary.*

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<sup>67</sup> See, e.g., Cboe Options Rule 6.74A, Interpretation and Policy .08; ISE Rule 723(e); PHLX Rule 1087; BOX Rule 7245; and MIAX Rule 515A, Interpretation and Policy .12.

<sup>68</sup> See Rule 21.19.

<sup>69</sup> 17 CFR 200.30-3(a)(12).