

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-99510; File No. SR-CboeEDGX-2024-012)

February 9, 2024

Self-Regulatory Organizations; Cboe EDGX Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend Certain Rules Related to Stock-Option Orders

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on February 6, 2024, 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 and II below, which Items have been prepared by the Exchange. The Exchange filed the proposal pursuant to Section 19(b)(3)(A)(iii) of the Act³ and Rule 19b-4(f)(6) thereunder.⁴ The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

Cboe EDGX Exchange, Inc. (the “Exchange” or “EDGX Options”) proposes to amend certain Rules related to stock-option orders. 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/), at the Exchange’s Office of the Secretary, and at the Commission’s Public Reference Room.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A)(iii).

⁴ 17 CFR 240.19b-4(f)(6).

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

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

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

1. Purpose

The Exchange proposes to update certain of its Rules regarding the definition and execution of stock-option orders. Rule 21.20(b) defines a “stock-option order” as the purchase or sale of a stated number of units of an underlying stock or a security convertible into the underlying stock (“convertible security”) coupled with the purchase or sale of an option contract(s) on the opposite side of the market representing either (a) the same number of units of the underlying stock or convertible security or (b) the number of units of the underlying stock necessary to create a delta neutral position, but in no case in a ratio greater than eight-to-one (8.00), where the ratio represents the total number of units of the underlying stock or convertible security in the option leg(s) to the total number of units of the underlying stock or convertible security in the stock leg.⁵

⁵ Only those stock-option orders in the classes designated by the Exchange with no more than the applicable number of legs are eligible for processing. Stock-option orders execute in the same manner as other complex orders, except as otherwise specified in Rule 21.20.

Rule 21.20(f)(2)(B) currently describes certain restrictions on executions of stock-option orders. Current Rule 21.20(f)(2)(B) provides that stock-option orders that execute electronically are subject to the following:

- For a stock-option order with one option leg, the option leg may not trade at a price worse than the individual component price on the Simple Book or at the same price as a Priority Customer Order on the Simple Book.
- For a stock-option order with more than one option leg, the option legs must trade at prices pursuant to Rule 21.20(f)(2)(A) above.⁶
- A stock-option order may only execute if the stock leg is executable at the price(s) necessary to achieve the desired net price.⁷
- The System executes the buy (sell) stock leg of a stock-option order pursuant to Rule 21.20 up to a buffer amount above (below) the NBO (NBB) for the stock leg.⁸

⁶ Rule 21.20(f)(2)(A) states the System does not execute a complex order pursuant to Rule 21.20 at a net price: (i) that would cause any component of the complex strategy to be executed at a price of zero; (ii) that would cause any component of the complex strategy to be executed at a price worse than the individual component prices on the Simple Book; (iii) worse than the price that would be available if the complex order Legged into the Simple Book; or (iv) worse than the synthetic best bid or offer (“SBBO”) or equal to the SBBO when there is a Priority Customer order on any leg comprising the SBBO and: (a) if a complex order has a ratio equal to or greater than oneto-three [sic] (.333) and less than or equal to three-to-one (3.00), at least one component of the complex order must execute at a price that improves the BBO for that component; or (b) if the complex order has a ratio less than one-to-three (.333) or greater than three-to-one (3.00), the component(s) of the complex order for the leg(s) with a Priority Customer order at the BBO must execute at a price that improves the price of that Priority Customer order(s) on the Simple Book, except AON complex orders may only execute at prices better than the SBBO.

⁷ To facilitate the execution of the stock leg and options leg(s) of an executable stock-option order at valid increments pursuant to Rule 21.20(f)(1)(B), the legs may trade outside of their expected notional trade value by a specified amount (which the Exchange determines), unless the order has a capacity of “C”.

⁸ See Rule 21.20(f)(2)(B) (the provisions off which the Exchange proposes to number as subparagraphs (i) through (iv)). The rule further provides that the execution price of the buy (sell) stock leg of a QCC with Stock Order may be any price (including outside the NBBO for the stock leg), except the price must be permitted by Regulation SHO and the Limit Up-Limit Down Plan. See proposed Rule 21.20(f)(2)(B)(iv).

The Exchange previously amended its rules to permit complex orders of all ratios to be executed on the Exchange, subject to certain execution restrictions.⁹ Rule 21.20(a) currently defines “complex order” as any order involving the concurrent purchase and/or sale of two or more different series in the same class (the “legs” or “components” of the complex order), for the same account, in any ratio and for the purposes of executing a particular investment strategy. Only those complex orders with no more than the applicable number of legs (determined by the Exchange) are eligible for processing.

The Exchange first proposes to adopt definitions of “conforming” and “nonconforming” complex orders in Rule 21.20(a). The Exchange notes these proposed definitions are consistent with definitions used by other options exchanges.¹⁰ Specifically, the Exchange proposes to define a “conforming complex order” as (a) a complex order with a ratio on the options legs greater than or equal to one-to-three (.333) or less than or equal to three-to-one (3.00) and (b) a stock-option order with a ratio less than or equal to eight-to-one (8.00), where the ratio represents the total number of units of the underlying stock or convertible security in the option leg(s) to the total number of units of the underlying stock or convertible security in the stock leg. The Exchange proposes to define a “nonconforming complex order” as (a) a complex order with a ratio on the options legs less than one-to-three (.333) or greater than three-to-one (3.00) and (b) a stock-option order with a ratio greater than eight-to-one (8.00), where the ratio represents the total number of units of the underlying stock or convertible security in the option leg(s) to the total number of units of the

⁹ See Securities Exchange Release No. 95321 (July 19, 2022), 87 FR 44174 (July 25, 2022) (SR-CboeEDGX-2021-033).

¹⁰ See Cboe Exchange, Inc. (“Cboe Options”) Rule 1.1 (definitions of “conforming complex order” and “nonconforming complex order”); and Miami International Securities Exchange, LLC (“MIAX”) Rule 518(a)(8) and (16) (defining “conforming ratio” and “nonconforming ratio”).

underlying stock or convertible security in the stock leg.¹¹ The proposed definitions of conforming and nonconforming complex orders each provide that, for the purpose of applying these ratios to complex orders comprised of legs for both mini-options and standard options, ten mini-option contracts represent one standard option contract. These proposed ratio applications are consistent with the current definitions of complex order and stock-option order.

The proposed rule change amends Rule 21.20(f)(2)(A) to incorporate the proposed definitions of conforming and nonconforming complex orders but makes no other substantive changes to this rule. These proposed changes are consistent with industry terminology regarding complex orders with these ratios.

Based on the definition in Rule 21.20 of complex orders, which includes stock-option orders, the Exchange's previous rule change was intended to apply to stock-option orders (i.e., to permit stock-option orders of any ratio to be processed).¹² The reasons set forth in that rule change for expanding processing of nonconforming complex orders applies to all complex orders, including stock-option orders. However, the Exchange inadvertently did not update certain provisions specific to stock-option orders. Therefore, in addition to adding the proposed definitions of conforming and nonconforming complex orders, the proposed rule change updates the definition of stock-option order in Rule 21.20 to allow the Exchange to permit stock-option orders of any ratio to be processed (rather than stock-option orders in ratios no greater than eight-to-one (8.00)).¹³ This is

¹¹ The proposed definitions of conforming and nonconforming complex order provide that, for the purpose of applying these ratios to complex orders comprised of legs for both mini-options and standard options, ten mini-option contracts represent one standard option contract.

¹² See *supra* note 9; and Exchange Notice, Cboe EDGX and C2 Options Introduce New Net, Leg Price Increments and Enhanced Handling for Complex Orders with Non-Conforming Ratios, dated July 1, 2022 (available at https://cdn.cboe.com/resources/release_notes/2022/Cboe-EDGX-and-C2-Options-Introduce-New-Net-Leg-Price-Increments-and-Enhanced-Handling-for-Complex-Orders-with-Non-Conforming-Ratios.pdf).

¹³ The proposed rule change also amends the paragraph lettering in the definition of stock-option order to conform to the paragraph numbering and lettering scheme used throughout the Rules.

consistent with the language currently included in the definition of “complex order” in Rule 21.20(a), the intent of which is to permit nonconforming complex orders (including stock-option orders) to be submitted for processing on the Exchange pursuant to Rule 21.20.¹⁴

The proposed rule change also adds proposed Rule 21.20(f)(2)(B)(v) to state the System does not execute a stock-option order pursuant to Rule 21.20 at a net price worse than the SBBO or equal to the SBBO when there is a Priority Customer order on any leg comprising the SBBO and:

- (a) if a conforming stock-option order, at least one option component of the stock-option order must execute at a price that improves the BBO for that component by at least one minimum increment; or
- (b) if a nonconforming stock-option order, the option component(s) of the stock-option order for the leg(s) with a Priority Customer order at the BBO must execute at a price that improves the price of that Priority Customer order(s) on the Simple Book by at least one minimum increment, except AON¹⁵ stock-option orders may only execute at prices better than the SBBO. This is consistent with the permissible execution prices of conforming and nonconforming complex orders with only option components.¹⁶ Therefore, execution of all conforming and nonconforming complex orders, including stock-option orders, continues to protect Priority Customer interest on the Exchange.

The proposed rule change has no impact on the requirements for stock-option orders or how they may be executed. For example, all stock-option orders (both conforming and nonconforming) must satisfy the criteria set forth in the definitions of stock-option orders in Rule 21.20(b), as set forth above. Additionally, all stock-option orders must comply with the Qualified Contingent Trade

¹⁴ The Exchange notes other options exchanges rules permit the electronic processing of nonconforming stock-option orders. See Cboe Rule 5.33(b)(5) (definition of “stock-option order”); and MIAX Rule 518(a)(5) (definition of “complex order”).

¹⁵ See Rule 21.1(d)(4) for definition of “all-or-none” or “AON” orders.

¹⁶ See Rule 21.20(f)(2)(A)(iv). This execution priority is also the same as other options exchanges. See Cboe Options Rule 5.33(f)(2)(B); and MIAX Rule 518, Interpretation and Policy .01(c).

(“QCT”) exemption.¹⁷ The Exchange represents that its surveillances incorporate stock-option orders with all ratios, including nonconforming ratios.

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.¹⁸ Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)¹⁹ 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)²⁰ requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

In particular, the Exchange believes the proposed rule change to adopt definitions of conforming and nonconforming complex orders (including stock-option orders) in Rule 21.20(a), and to incorporate these proposed definitions into Rule 21.20(f)(2)(A)(iv) will protect investors, as it incorporates into the Exchange’s Rules terminology generally used in the industry to refer to complex orders with ratios equal to and greater than one-to-three (0.333) and less three-to-one

¹⁷ See Rule 21.20, Interpretation and Policy .04.

¹⁸ 15 U.S.C. 78f(b).

¹⁹ 15 U.S.C. 78f(b)(5).

²⁰ Id.

(3.00) (conforming) and less than one-to-three (0.333) and greater than three-to-one 3.00 (nonconforming), and stock-option orders with ratios less than or equal to eight-to-one (8.00) (conforming) and greater than eight-to-one (8.00) (nonconforming). Therefore, the Exchange believes this proposed rule change adds transparency and reduces potential confusion within the Exchange's Rules. These definitions ultimately make no substantive changes to the rules and relate merely to terminology. The Exchange notes these definitions are substantially similar to definitions used in other options exchanges' rulebooks.²¹

Additionally, the Exchange believes the proposed rule change to provide for the processing of stock-option orders with any ratio will 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, as it will eliminate confusion regarding what types of stock-option orders are permissible for processing. As noted above, when the Exchange amended its Rules to permit the processing of nonconforming complex orders, the intent of that amendment was to permit the processing of all nonconforming complex orders, including nonconforming stock-option orders. The reasons set forth in the Exchange's prior rule filing regarding expansion of processing of nonconforming complex orders applies to all complex orders, including stock-option orders; the Exchange inadvertently omitted updates to certain provision regarding stock-option orders to incorporate that change.²² The proposed rule change merely updates the definition of stock-option order to incorporate the same change that was made to the definition of complex order with respect to processing to provide consistency and transparency in the Exchange's Rules. As noted above, the proposed rule changes regarding execution of

²¹ See Cboe Rule 1.1 (definitions of "conforming complex order" and "nonconforming complex order"); and MIAX Rule 518(a)(8) and (16) (defining "conforming ratio" and "nonconforming ratio").

²² See supra note 9.

conforming and nonconforming stock-option orders are consistent with the Exchange's previously adopted rules regarding execution of other conforming and nonconforming complex orders, as well as the rules of other options exchanges.²³

The proposed rule change also adds a provision in Rule 21.20(f)(2)(B) regarding the specific permissible execution prices for conforming and nonconforming stock-option orders, consistent with the execution pricing for other conforming and nonconforming complex orders, which further adds transparency regarding the execution of these orders on the Exchange. The Exchange believes the proposed rule change will add clarity, transparency, and consistency to its Rules, thus eliminating potential confusion about the permissible execution prices of conforming and nonconforming complex orders, which will ultimately remove impediments to and perfect the mechanisms of a free and open market and national market system, and in general protect investors. The proposed rule change will further remove impediments to and perfect the mechanism of a free and open market and a national market system, as it is consistent with the rules of other options exchanges.²⁴

The proposed rule change will permit the electronic trading of nonconforming stock-option orders but has no impact on the requirements for stock-option orders or how they may be executed. Execution of all conforming and nonconforming complex orders, including stock-option orders, will continue to protect Priority Customer interest on the Exchange. All stock-option orders (both conforming and nonconforming) must satisfy the criteria set forth in the definition of stock-option orders in Rule 21.20(b), which is described above. Additionally, all

²³ See Cboe Options Rule 5.33(f)(2)(B); and MIAX Rule 518, Interpretation and Policy .01(c).

²⁴ See Cboe Rules 1.1 (definitions of "conforming complex order" and "nonconforming complex order") and Rule 5.33(f)(2)(B); and MIAX Rule 518(a)(8) and (16) (defining "conforming ratio" and "nonconforming ratio") and Interpretation and Policy .01(c).

stock-option orders must comply with the QCT exemption.²⁵ The Exchange represents that its surveillances incorporate stock-option orders with all ratios, including nonconforming ratios.

The Exchange believes the proposed changes to update paragraph lettering and numbering of certain subparagraphs will benefit investors, as it conforms these provisions to the lettering and numbering scheme used throughout the Rulebook, which promotes consistency throughout the Rulebook and may ultimately reduce potential investor confusion.

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

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

The Exchange does not believe that the proposed rule change will impose any burden on intramarket competition that is not necessary or appropriate in furtherance of the purposes of the Act, as the proposed rule change applies equally to all Members. Therefore, any Member may submit conforming and nonconforming stock-option orders, which will all be handled by the Exchange in a uniform manner. Further, the Exchange's proposal will continue to protect Priority Customer interest on the Exchange.

The Exchange does not believe that the proposed rule change will impose any burden on intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act, as it has no impact on the requirements for stock-option orders or how they may be executed. As discussed above, the proposed rule change merely updates certain rule provisions it inadvertently did not update in connection with a previous rule change. Additionally, the proposed rule change is consistent with the offering of other options exchanges.²⁶ The Exchange

²⁵ See Rule 21.20, Interpretation and Policy .04.

²⁶ See Cboe Options Rule 5.33(f)(2)(B); and MIAX Rule 518, Interpretation and Policy .01(c).

believes availability of conforming and nonconforming complex orders, including stock-option orders, may promote competition, as it provides investors with multiple venues at which to execute these orders, giving investors greater flexibility and choice of where to send their orders.

The Exchange believes the proposed rule change to make nonsubstantive updates to lettering and numbering of subparagraphs will have no burden on intramarket or intermarket competition, as these changes are not competitive and merely conform these subparagraphs to the lettering and numbering scheme used throughout the Rulebook.

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

Pursuant to Section 19(b)(3)(A) of the Act²⁷ and Rule 19b-4(f)(6)²⁸ thereunder, the Exchange has designated this proposal as one that effects a change that: (i) does not significantly affect the protection of investors or the public interest; (ii) does not impose any significant burden on competition; and (iii) by its terms, does not become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act²⁹ and Rule 19b-4(f)(6) thereunder.³⁰

A proposed rule change filed pursuant to Rule 19b-4(f)(6) under the Act normally does not become operative for 30 days after the date of its filing. However, Rule 19b-4(f)(6)(iii)³¹

²⁷ 15 U.S.C. 78s(b)(3)(A).

²⁸ 17 CFR 240.19b-4(f)(6).

²⁹ 15 U.S.C. 78s(b)(3)(A).

³⁰ 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

³¹ 17 CFR 240.19b-4(f)(6)(iii).

permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange has asked the Commission to waive the 30-day operative delay so that the proposal may become operative immediately upon filing. The Exchange states that waiver of the operative delay will immediately eliminate potential confusion regarding the permissibility of conforming and nonconforming stock-option orders on the Exchange and will provide investors with an additional venue for executing nonconforming stock-option orders. The Exchange further states that the proposal is not novel because other options exchanges have substantially similar definitions of conforming and nonconforming complex orders, other options exchanges permit electronic processing of nonconforming stock-option orders, and the proposed execution pricing requirements for nonconforming stock-option orders are consistent with the execution pricing requirements of other options exchanges.³² The Exchange also states that the proposed execution pricing requirements will protect Priority Customer interest on the Exchange.

As discussed above, the proposed definitions of conforming and nonconforming stock-option order are substantively identical to definitions adopted by other options exchanges.³³ In addition, the proposed execution pricing requirements for stock-option orders are consistent with the rules of other options exchanges.³⁴ The proposal does not raise new or novel regulatory issues and will provide investors with an additional venue for executing nonconforming stock-option orders electronically. For these reasons, the Commission believes that waiver of the 30-

³² See Cboe Options Rules 1.1 (definitions of “conforming complex order” and “nonconforming complex order”) and 5.33(f)(2)(B); and MIAX Rule 518(a)(8) and (16) (defining “conforming ratio” and “non-conforming ratio”) and MIAX Rule 518, Interpretation and Policy .01(c).

³³ See Cboe Rule 1.1 and MIAX Rules 518(a)(8) and (16).

³⁴ See Cboe Rule 5.33(f)(2)(B)(v) and MIAX Rules 518(c)(1)(iv) and (v) and MIAX Rule 518, Interpretation and Policy .01(c).

day operative delay is consistent with the protection of investors and the public interest.

Accordingly, the Commission waives the 30-day operative delay and designates the proposed rule change operative upon filing.³⁵

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission will institute proceedings to determine whether the proposed rule change should be approved or disapproved.

IV. Solicitation of Comments

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

Electronic Comments:

- Use the Commission's Internet comment form

(<https://www.sec.gov/rules/sro.shtml>); or

- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-CboeEDGX-2024-012 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.

³⁵ For purposes only of waiving the 30-day operative delay, the Commission has also considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

All submissions should refer to File Number SR-CboeEDGX-2024-012. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<https://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street NE, Washington, DC 20549, on official business days between the hours of 10 a.m. and 3 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. Do not include personal identifiable information in submissions; you should submit only information that you wish to make available publicly. We may redact in part or withhold entirely from publication submitted material that is obscene or subject to copyright

protection. All submissions should refer to file number SR-CboeEDGX-2024-012 and should be submitted on or before [INSERT DATE 21 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.³⁶

Sherry R. Haywood,

Assistant Secretary.

³⁶ 17 CFR 200.30-3(a)(12).