SECURITIES AND EXCHANGE COMMISSION


Self-Regulatory Organizations; Cboe Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend Certain Fees Related to Transactions in Mini-SPX Index (“XSP”) Options

November 12, 2020.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”), and Rule 19b-4 thereunder, notice is hereby given that on November 2, 2020, Cboe Exchange, Inc. (the “Exchange” or “Cboe Options”) filed with the Securities and Exchange Commission (the “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

Cboe Exchange, Inc. (the “Exchange” or “Cboe Options”) proposes to amend certain fees related to transactions in Mini-SPX Index (“XSP”) options. The text of the proposed rule change is provided in Exhibit 5.

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

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

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the

proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

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

1. Purpose

The Exchange proposes to amend its Fees Schedule to adopt and amend certain transaction fees, surcharges and routing fees for XSP options, and amend the Select Customer Options Reduction (“SCORe”) Program and the Marketing Fee Program in connection with transactions in XSP, effective November 2, 2020.

First, the Exchange notes that it proposes to adopt and amend certain fees in connection with XSP in order to more closely align the fees assessed for XSP with that of the fees assessed for S&P 500 Index (“SPX”) options. XSP options and SPX options track the same underlying index, yet XSP options are 1/10 the size of standard SPX options contracts. As such, the proposed rule change amends and adopts certain fees for XSP in the Rate Table for All Products Excluding Underlying Symbol A that are approximately 1/10 of the fees currently assessed for SPX, as follows:

- Adopts fee code XF, appended to all Clearing Trading Permit Holders (“TPHs”) (capacity “F”) and for Non-Clearing TPH Affiliates (capacity “L”) (collectively, “Firms”) orders in XSP and assesses a fee of $0.06 per contract. The proposed fee is approximately 1/10 of the fees assessed for Firm orders in SPX ($0.26 transaction fee per fee code FH + $0.17 Index License Surcharge + $0.21 SPX Execution Surcharge);

- Amends fee code MX, which is currently appended to all Market-Maker (capacity “M”) orders in XSP and assesses a fee of $0.23 per contract, to assess a fee of $0.045 per contract. The proposed fee is approximately 1/10 of the fees assessed for Market-Maker orders in SPX ($0.28 transaction per fee code MS + $0.17 Index License Surcharge); and
• Adopts fee code XB, appended to all Broker-Dealer (capacity “B”), Joint Back-Office (capacity “J”), Non-TPH Market-Maker (capacity “N”), and Professional (capacity “U”) (collectively, “Non-Customers”) orders in XSP and assesses a fee of $0.08 per contract. The proposed fee is approximately 1/10 of the fees assessed for Non-Customer orders in SPX ($0.42 transaction fee for fee code BT + $0.17 Index License Surcharge + $0.21 SPX Execution Surcharge).

In addition to the above, the proposed rule change also amends the Complex Surcharge, which currently assesses a $0.12 surcharge on Market-Maker, Firm and Non-Customer orders in equity, ETF and ETN options and all other index products. Footnote 35 provides that the Complex Surcharge applies per contract per side for noncustomer complex order executions that remove liquidity from the Complex Order Book (“COB”) and auction responses in the Complex Order Auction (“COA”) and the AIM in all classes except Sector Indexes and Underlying Symbol List A (which includes SPX). 3 Specifically, the Exchange amends footnote 35 to also exclude complex transactions in XSP, along with Sector Indexes and Underlying Symbol List A, from the Complex Surcharge. By not assessing the Complex Surcharge for Market-Maker, Firm and Non-Customer orders in XSP, the fees assessed for such orders, as proposed, will be more consistent with fees currently assessed on Market-Maker, Firm and Non-Customer orders in SPX. The Exchange also amends Rate Table - All Products Excluding Underlying Symbol List A so that the Automated Improvement Mechanism (“AIM”) Contra fee (applicable to orders yielding fee code YB and assesses a fee of $0.07) does not apply to orders in XSP. The Exchange amends footnote 18, which is appended to the AIM Contra fee, to provide that applicable standard transaction fees will apply to AIM, SAM, FLEX AIM and FLEX SAM executions in XSP, Sector Indexes and Underlying Symbol List A (which includes SPX). This proposed change will likewise provide consistency between the fees assessed for orders in XSP

3 Underlying Symbol List A includes OEX, XEO, RUT, RLG, RLV, RUI, UKXM, SPX (includes SPXW), SPESG and VIX.
and SPX. In addition to this, because fee code XF will assess a fee of $0.06 for all Firm orders in XSP, fee codes FA and FD, which assess a fee of $0.20 for Firm orders in index products in open outcry and AIM, respectively, and are eligible for the Clearing TPH Fee Cap, will no longer be applicable to Firm orders in XSP. Therefore, the Exchange proposes to update footnote 22, which is appended to the Clearing TPH Fee Cap table, to exclude transactions in XSP from the cap. Specifically, it amends footnote 22 to provide that all non-facilitation business executed in AIM or open outcry, or as a QCC or FLEX transaction, transaction fees for Clearing TPH Proprietary and/or their Non-TPH Affiliates in all products except XSP, Sector Indexes and Underlying Symbol List A (which includes SPX), in the aggregate, are capped at $55,000 per month per Clearing TPH. It additionally updates footnote 11 (which is also appended to the Clearing TPH Fee Cap table) to provide that the Clearing TPH Fee Cap in all products except XSP, Underlying Symbol List A and Sector Indexes (the “Fee Cap”)

The Exchange next proposes to amend and adopt a fee code for Customer orders (capacity “C”) in XSP. Specifically, the Exchange proposes to amend CC, which is currently appended to all Customer orders in XSP and assesses a fee of $0.04 per contract, to apply to all Customer orders in XSP that are for greater than or equal to 10 contracts (the current fee assessed will remain the same for orders of those size), and proposes to adopt fee code XC, appended to all Customer orders in XSP that are for less than 10 contract and assesses no charge to orders of those size. The Exchange notes that a separate fee assessed for Customer orders

---

4 The Exchange notes that it also corrects an error in footnote 11 by moving the abbreviated definition for the Clearing TPH Fee Cap (“Fee Cap”), to the end of the clause describing the cap.
containing up to a certain number of contracts is consistent with the manner in which the Exchange currently assesses Customer orders in ETF and ETN options. Also, in light of this proposed change, the Exchange updates footnote 9, the purpose of which is to prevent firms from dividing orders into multiple orders of less than 100 contracts in ETN and ETF options for purposes of qualifying for the fee waiver and avoiding transaction fees. Specifically, the Exchange amends footnote 9 to provide (as it similarly does in connection with ETF/ETN transaction fees) that transaction fees are waived for all customer orders that are of less than 10 contracts in XSP options, that transaction fees will be assessed on all customer orders that are of 10 contracts or more in XSP options, and that the Exchange will charge any leg of a complex order in XSP options that equals or exceeds 10 contracts, even if the leg is only partially executed below the 10 contract threshold.

The Exchange also proposes to update its routing fees in connection with Customer orders in XSP. The Exchange currently assesses routing fees that combine the cost of the away market transaction fees, the transaction fees applicable on the Exchange plus a standard $0.15 per contract routing charge. Additionally, the Exchange currently waives the away market fee and the $0.15 charge for Customer orders that were originally transmitted to the Exchange from the trading floor through an Exchange-sponsored terminal. The Exchange notes that XSP is a

---

5 See Cboe U.S. Options Fee Schedules, Fees Codes and Associated Fees, which provides that fee code CA is appended to Customer orders for greater than or equal to 100 contracts that remove liquidity in ETF [sic] options and are assessed a fee of $0.18, and that fee code CD is appended to Customer orders for less than 100 contracts that remove liquidity in ETF [sic] options and are assessed no fee.

6 The Exchange also specifies which provisions apply specifically to fees for ETF and ETN options throughout footnote 9.


8 See Securities Exchange Act Release No. 88243 (February 19, 2020), 85 FR 10760 (February 25, 2020)(SR-CBOE-2020-011), which explains that the Exchange does not pass through or otherwise charge customer orders (of any size) routed to other exchanges
proprietary product which is traded exclusively on the Exchange and, beginning on November 2, 2020, the Exchange’s affiliated options exchange, Cboe BZX Exchange, Inc. (“BZX Options”) will also begin listing and trading XSP. BZX Options plans to submit a proposal to update its fees schedule to reflect fees for orders in XSP, effective November 2, 2020. In light of the proposed fee codes for Customer orders in XSP on the Exchange (as described above) and the fees being implemented for orders in XSP executed on BZX Options, the Exchange proposes to update its routing fees for orders in XSP in the Routing Fees table, as follows:

- Amends fee code RX, which is appended to routed Customer orders in XSP and assesses a fee of $0.19, to be appended to routed Customer orders in XSP for 10 contracts or more and assesses a fee of $0.69;
- Adopts fee code RY, appended to routed Customer orders in XSP for less than 10 contracts and assesses a fee of $0.65;
- Amends fee code TX, which is appended to routed Customer orders in XSP originating on an Exchange-sponsored terminal and assesses a fee of $0.04, to be appended to routed Customer orders in XSP for 10 contracts or more originating on an Exchange-sponsored terminal (the current rate does not change); and
- Adopts fee code TY, appended to routed Customer orders in XSP for less than 10 contracts originating on an Exchange-sponsored terminal and assesses no charge.

The Exchange notes that the proposed routing fees for Customer orders in XSP are consistent with the manner in which the Exchange calculates its routing fees, including the manner in which it waives the away market fees and $0.15 routing fee for orders originating on that were originally transmitted to the Exchange from the trading floor through an Exchange-sponsored terminal (e.g. a PULSe Workstation).

The Exchange notes that, on November 2, 2020, BZX Options plans to begin listing and trading XSP options and the Exchange’s affiliated options exchange, Cboe EDGX Exchange, Inc. (“EDGX Options”), plans to delist XSP options. The Exchange’s affiliated options exchange, Cboe C2 Exchange, Inc. (“C2”), may list and trade XSP options but does not currently do so.
an Exchange-sponsored terminal (i.e., applicable to orders yielding fee codes TY and TX). For example, the proposed routing fee for orders yielding fee code RX is a combination of the $0.50 transaction fee for Customer orders on BZX Options, the $0.04 transaction fee for Customer orders (for over 10 contracts, as proposed) on the Exchange and the $0.15 additional routing fee.

Finally, the Exchange proposes to amend the SCORe Program and the Marketing Fee Program in connection with transactions in XSP. First, the Exchange proposes to remove XSP from eligibility under the SCORe Program. The SCORe Program is a discount program for Retail, Non-FLEX Customer (“C” origin code) volume in SPX (including SPXW), VIX, RUT, MXE, MXEF & XSP (“Qualifying Classes”), and is available to any TPH Originating Clearing Firm or non-TPH Originating Clearing Firm that sign up for the program. Specifically, the Exchange proposes to remove XSP from the list of Qualifying Classes under the SCORe Program table, as well as from the list of SCORe Program Qualifying Classes provided in footnote 48. The Exchange next proposes to add XSP to the Marketing Fee Program. Currently, the Marketing Fee is assessed on transactions of Market-Makers, resulting from customer orders at the per contract rate provided above on all classes of equity options, options on ETFs, options on ETNs and index options, except that the marketing fee shall not apply to Sector Indexes, DJX, MXE, MXEF, XSP or Underlying Symbol List A. A Designated Primary Market-Maker (“DPM”), a “Preferred Market-Maker (“PMM”), or a Lead Market-Maker (“LMM”) (collectively “Preferenced Market-Maker”) are given access to the marketing fee funds generated from a Preferenced order. The funds collected via this Marketing Fee are then put into pools controlled by the Preferenced Market-Maker. The Preferenced Market-Maker controlling a certain pool of funds can then determine the order flow provider(s) to which the funds should be directed in order to encourage such order flow provider(s) to send orders to the Exchange. Each month, undisbursed marketing fees in excess of $250,000 are reimbursed to the Market-Makers that contributed to the pool based upon a one month look back and their pro-rata portion of the entire amount of marketing fee collected during that month. The Exchange proposes to remove
XSP from the list of options classes in the Marketing Fee table to which the Marketing Fee does not apply and add it to the Marketing Fee table to be assessed a $0.25 collection per contract, which is the current collection fee for Penny Program classes. Because not all Firms are registered for the SCORe Program, the Exchange believes that removing XSP from SCORe Program eligibility and, instead, adding it as eligible for the Marketing Fee Program (which automatically applies) would potentially generate more customer order flow in XSP by providing incentive to Market-Makers to submit Customer orders in XSP in order to then receive reimbursement for such orders.

2. **Statutory Basis**

The Exchange believes that the proposed rule change is consistent with the objectives of Section 6 of the Act, in general, and furthers the objectives of Section 6(b)(4), in particular, as it is designed to provide for the equitable allocation of reasonable dues, fees and other charges among its Members and issuers and other persons using its facilities. The Exchange also believes that the proposed rule change is consistent with the objectives of Section 6(b)(5) 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, and, particularly, is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

---


The Exchange believes that the proposed amendments to the Fees Schedule are reasonable, equitable and not unfairly discriminatory. Specifically, the Exchange believes that it is reasonable to assess fees for Market-Maker (MX), Firm (XF), and Non-Customer (XB) orders in XSP that reflect approximately 1/10 of the transactions fees assessed for corresponding orders in SPX because of the relation between XSP options and SPX options, wherein XSP options overlie an index 1/10 the value of the index that underlies SPX options. Additionally, the Exchange believes it is reasonable to exclude XSP from the Complex Surcharge and to apply the standard transaction fees for XSP orders in lieu of the AIM Contra fee because these proposed rule changes will likewise provide consistency between the fees assessed for orders in XSP and SPX, in that, the proposed fees for XSP will remain approximately 1/10 the fees for SPX. The Exchange notes too that it is reasonable to exclude Firm Orders in XSP from the Clearing TPH Fee Cap because fee code FA and FD, orders of which are eligible for the Clearing TPH Fee Cap, will no longer be applicable to Firm orders in XSP as a result of the new fee code XF, and resulting fee of $0.06, applicable to all Firm orders in XSP. The Exchange notes that the proposed change is consistent with the manner in which Firm transaction fees in SPX are currently excluded from the Clearing TPH Fee Cap. The Exchange believes that the proposed fees for Market-Maker, Firm and Non-Customer orders are equitable and not unfairly discriminatory because the proposed fee codes will apply automatically and uniformly to all Market-Maker, Firm and Non-Customer orders, respectively, in XSP. Likewise, all such orders in XSP per respective market participant will be equally excluded from the Complex Surcharge, AIM Contra fee and Clearing TPH Fee Cap, which will provide additional consistency with the corresponding transaction fees assessed for market participants’ orders in SPX.

The Exchange also believes that the proposed fee codes for Customer orders in XSP are reasonable because applying a fee waiver for Customer orders for less than 10 contracts is reasonably designed to encourage Customer order flow in XSP options. The Exchange believes that increased Customer order flow benefits all market participants because it attracts liquidity to
the Exchange by providing more trading opportunities. This, in turn, attracts Market-Makers, signaling additional corresponding increase in order flow from other market participants, and, as a result, contributing towards a robust, well-balanced market ecosystem. The Exchange also believes that the waiver of fees for Customer orders that are less than a specified number of contracts is reasonable because it is consistent with fees currently in place for Customer orders in ETF options (including the same preventative measures regarding the breaking up of orders in footnote 9). Additionally, the Exchange believes that the proposed routing fees for Customer orders in XSP are reasonable because they represent an approximation of the anticipated cost to the Exchange for routing orders to BZX Options and is consistent with the manner in which fee codes for routed Customer orders are currently calculated (including the waiver for those Customer orders originating on an Exchange-sponsored terminal), and provided for, in the Fees Schedule. The Exchange notes too that routing through the Exchange is voluntary. The Exchange believes that the proposed transaction fees and routing fees for Customer orders in XSP are equitable and not unfairly discriminatory because they will apply automatically and uniformly to all qualifying (that is, routed, greater than or equal to 10 contracts, etc.) Customer orders. Further, the Exchange believes that it is equitable and not unfairly discriminatory to provide a lower transaction and routing rate for Customer orders because, as described above, Customer liquidity benefits all market participants by providing more execution opportunities, in turn, attracting Market Maker order flow, which ultimately enhances market quality on the Exchange to the benefit of all market participants. The Exchange also notes that the options industry has a long history of providing preferential pricing to Customers, and the Exchange’s

---

14 See supra note 5.
15 See supra note 7.
16 See supra note 8.
current fees schedule currently does so in many places, as do the fees structures of multiple other exchanges.\footnote{See e.g., NYSE American Options Fee Schedule, Section I.A, Options Transaction Fees and Credits: Rates for Options transactions; and MIAX Options Fee Schedule, Section (b)(1), Proprietary Products Exchange Fees: SPIKES, each of which assesses a lower transaction fee for customer orders than that of other market participants.}

Lastly, the Exchange believes that the proposed rule change to remove transactions in XSP from eligibility under the SCORe Program and add transactions in XSP to, instead, apply under the Marketing Fees Program, is reasonable because not all Firms are registered for the SCORe Program. Therefore, removing XSP from SCORe Program eligibility and, instead, adding it as eligible for the Marketing Fee Program (which automatically applies to all options unless specifically excluded, as XSP currently is) is reasonably designed to generate more customer order flow in XSP by providing incentive to Market-Makers to submit Customer orders in XSP in order to ultimately receive reimbursement for such orders. The proposed rule change is reasonable in that it redirects Exchange resources and funding from the SCORe Program into the Marketing Fee Program in order to increase incentive for customer order flow providers to submit customer order flow in XSP, which, as indicated above, tends to signal an increase in overall market activity, contributing to deeper, more liquid markets and a robust market ecosystem that benefits all market participants. The Exchange believes that assessing a collection fee of $0.25 for XSP orders in the Marketing Fee Program is reasonable because it is the same collection fee assessed for Pilot Program classes, which, like XSP, trade in penny increments. The Exchange believes the proposed rule change is equitable and not unfairly discriminatory because the proposed rule change will apply equally to all applicable transactions in XSP, in that, all Firm orders in XSP will, uniformly, not be eligible for the SCORe program and all Market-Maker orders in XSP will be uniformly assessed under, and otherwise a part of, the Marketing Fee Program.

B. Self-Regulatory Organization’s Statement on Burden on Competition
The Exchange believes the proposed amendments to its Fee Schedule will not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange does not believe that the proposed rule change will impose any burden on intramarket competition that is not necessary or appropriate in furtherance of the purposes of the Act because the XSP transaction and routing fee amounts for each separate type of market participant will be assessed automatically and uniformly to all such market participants, i.e., all qualifying (that is, routed, greater than or equal to 10 contracts, etc.). Customer orders in XSP will be assessed the same amount, all Market-Maker orders in XSP will be assessed the same amount, and so on. While lower fees are assessed to Customers, Customer order flow, importantly, provides increased trading opportunities signaling additional liquidity and ultimately enhancing overall market quality. As noted above, preferential pricing to Customers is a long-standing options industry practice. In addition to this, the proposed rule change to remove XSP from the SCORe Program and add it to the Marketing Fee Program will apply equally to all applicable transactions in XSP, in that, all Firm orders in XSP will, uniformly, not be eligible for the SCORe program and all Market-Maker orders in XSP will be uniformly assessed under, and otherwise a part of, the Marketing Fee Program (as almost all other options trading on the Exchange are. Overall, the proposed rule change is designed to increase incentive for customer order flow providers to submit customer order flow in XSP, which, as indicated above, contributes to a more robust market ecosystem to the benefit of all market participants.

The Exchange does not believe that the proposed rule change will impose any burden on intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act because the propose fees assessed and rebates offered apply to an Exchange proprietary product, which are traded exclusively on the Exchange and the Exchange's affiliated options exchange, BZX Options.

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

The Exchange has not solicited, and does not intend to solicit, comments on this proposed
rule change. The Exchange has not received any written comments from members or other interested parties.

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A) of the Act\(^{19}\) and paragraph (f) of Rule 19b-4\(^{20}\) thereunder. At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission will institute proceedings to determine whether the proposed rule change should be approved or disapproved.

IV. Solicitation of Comments

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

**Electronic Comments:**

- Use the Commission’s Internet comment form (http://www.sec.gov/rules/sro.shtml) or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-CBOE-2020-108 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-CBOE-2020-108. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all


comments on the Commission’s Internet website (http://www.sec.gov/rules/sro.shtml). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission’s Public Reference Room, 100 F Street, NE, Washington, 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-CBOE-2020-108 and should be submitted on or before [INSERT DATE 21 DAYS FROM PUBLICATION IN THE FEDERAL REGISTER].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.21

J. Matthew DeLesDernier,

Assistant Secretary.

[FR Doc. 2020-25385 Filed: 11/17/2020 8:45 am; Publication Date: 11/18/2020]