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**SECURITIES AND EXCHANGE COMMISSION**

**[Release No. 34-91252; File No. SR-CBOE-2021-012]**

**Self-Regulatory Organizations; Cboe Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend its Fees Schedule**

March 3, 2021

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 February 22, 2021, Cboe Exchange, Inc. (the “Exchange” or “Cboe Options”) filed with the Securities and Exchange Commission (the “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

Cboe Exchange, Inc. (the “Exchange” or “Cboe Options”) proposes to amend its Fees Schedule. The text of the proposed rule change is provided in Exhibit 5.

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

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

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 surcharges in connection with the Exchange’s plan to activate the Automated Improvement Mechanism (“AIM”) Auction<sup>3</sup> for S&P 500 Index (“SPX”) and SPX Weekly (“SPXW”) options while the Exchange is operating in its normal hybrid environment, effective February 22, 2021.

By way of background, AIM includes functionality in which a Trading Permit Holder (“TPH”) (an “Initiating TPH”) may electronically submit for execution an order it represents as agent on behalf of a customer,<sup>4</sup> broker dealer, or any other person or entity

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<sup>3</sup> The Exchange notes that this includes Complex AIM (“C-AIM”), as set forth in proposed footnote 26.

<sup>4</sup> The term “customer” means a Public Customer or a broker-dealer. The term “Public Customer” means a person that is not a broker-dealer. See Rule 1.1.

(“Agency Order”) against any other order it represents as agent, as well as against principal interest in AIM (an “Initiating Order”), provided it submits the Agency Order for electronic execution into an AIM Auction.<sup>5</sup> The Exchange may designate any class of options traded on Cboe Options as eligible for AIM. The Exchange notes that all Users, other than the Initiating TPH, may submit responses to an Auction (“AIM Responses”). AIM Auctions take into account AIM Responses to the applicable Auction as well as contra interest resting on the Cboe Options Book at the conclusion of the Auction (“unrelated orders”), regardless of whether such unrelated orders were already present on the Book when the Agency Order was received by the Exchange or were received after the Exchange commenced the applicable Auction. If contracts remain from one or more unrelated orders at the time the Auction ends, they are considered for participation in the AIM order allocation process.

The Exchange does not currently activate AIM for SPX/SPXW while it operates in its normal hybrid trading environment (i.e., when the trading floor is operable).<sup>6</sup> The Exchange, however, plans to activate AIM for SPX/SPXW on February 22, 2021 for operation in the Exchange’s normal hybrid environment. In connection with the planned activation of AIM for SPX/SPXW while the Exchange functions in its normal hybrid

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<sup>5</sup> See Rule 5.37 (AIM); and Rule 5.38 (C-AIM).

<sup>6</sup> In March 2020, the Exchange suspended open outcry trading to help prevent the spread of the novel coronavirus and operated in an all-electronic configuration through June 2020. During this time, the Exchange activated AIM for SPX and SPXW options in an all-electronic environment to provide TPHs with a mechanism to execute crosses electronically, as they could no longer represent those crosses for open outcry execution. Footnote 12 in the Fees Schedule provides specifically that in the event the Exchange operates in a screen-based only environment, AIM may be available for SPX and SPXW during Regular Trading Hours, and the Fees Schedule provides for certain SPX AIM Surcharges that apply only in that case.

setting, the Exchange proposes to adopt certain surcharges under Rate Table - Underlying Symbol List A of the Fees Schedule. Specifically, the Exchange proposes to adopt an SPX AIM Hybrid Surcharge of \$0.50 per contract for all Broker-Dealer (capacity “B”), Joint Back-Office (capacity “J”), Non-TPH Market-Maker (capacity “N”) and Professional (capacity “U”) (collectively, “Non-Customers”), and Market-Maker (capacity “M”) orders in SPX/SPXW options executed in AIM. The Exchange also proposes to adopt an SPX AIM Hybrid Surcharge of \$0.39 per contract for all Clearing TPHs (capacity “F”) and for Non-Clearing TPH Affiliates (capacity “L”) (collectively, “Firms”) orders in SPX/SPXW options executed in AIM. Finally, the Exchange proposes to adopt an SPX AIM Hybrid Originator Surcharge of \$0.10. Proposed footnote 26 is appended to the proposed surcharges and provides that the SPX AIM Hybrid Surcharges, including the Originator Surcharge, apply only to SPX/SPXW orders executed in AIM and C-AIM<sup>7</sup> during RTH when the Exchange is operating in a hybrid environment (i.e., the trading floor is operable). The SPX AIM Hybrid Surcharge will apply to all SPX/SPXW AIM Agency/Primary, Contra and Response orders. The SPX AIM Hybrid Originator Surcharge will apply to all SPX/SPXW Agency/Primary orders and such fee will be invoiced to the executing TPH.

Particularly, the Exchange notes that it can determine AIM eligibility on a class-by-class basis<sup>8</sup> and, as stated above, historically has not designated SPX/SPXW as eligible for AIM Auctions. As such, the Exchange wants to encourage market participants to

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<sup>7</sup> See supra note 3. The Exchange notes that it already activates FLEX AIM for SPX/SPXW and that all currently applicable FLEX transaction fees and surcharges will continue to apply.

<sup>8</sup> See Rule 5.37(a)(1) and 5.38(a)(1).

continue to execute SPX/SPXW volume in open outcry or against quotes in its electronic Book when AIM is switched on for SPX/SPXW. The Exchange believes the SPX AIM Hybrid Surcharges (including the Originator surcharge) will provide a reasonable cost incentive to market participants to continue to execute SPX/SPXW orders as they do today as well as through AIM when appropriate once activated. More specifically, the SPX AIM Hybrid Surcharges aim to balance incentives between executing via the AIM Auctions and executing via open outcry or the electronic Book, which the Exchange believes will maintain robust hybrid markets and continue to incentivize the provision of liquidity to both its electronic and trading floor environments in order to support price discovery and increased execution opportunities. The new functionality for SPX/SPXW will allow market participants to interact with SPX/SPXW order flow in a manner not previously available in a hybrid trading environment.<sup>9</sup> Therefore, the Exchange believes it is appropriate to assess additional fees to market participants that choose to leverage auction execution opportunities outside of contributing to SPX/SPXW liquidity in open outcry and the [sic] on the electronic Book. Indeed, the Exchange currently does so in various places in the Fees Schedule with respect to other classes. For example, the Exchange currently assesses a higher charge for Non-Customer and Firm AIM Responses in all products, except Sector Indexes<sup>10</sup> and Underlying Symbol List A,<sup>11</sup> of \$0.50 (Penny

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<sup>9</sup> Previously only available while the trading floor was inoperable for a period of time during 2020. See *supra* note 6.

<sup>10</sup> Sector Index underlying symbols: IXB, SIXC, IXE, IXI, IXM, IXR, IXRE, IXT, IXU, IXV AND IXY. Corresponding option symbols: SIXB, SIXC, SIXE, SIXI, SIXM, SIXR, SIXRE, SIXT, SIXU, SIXV AND SIXY.

<sup>11</sup> Underlying Symbol List A: OEX, XEO, RUT, RLG, RLV, RUI, UKXM, SPX (includes SPXW), SPESG and VIX.

classes) and \$1.05 (Non-Penny classes) than the applicable standard transaction rates. The Exchange also notes that when it is operating in a screen-based only environment, it assesses an AIM Agency/Primary Surcharge of \$0.10, which, like the proposed SPX AIM Hybrid Originator Surcharge, applies to all AIM Agency/Primary orders in SPX/SPXW and is invoiced to the executing TPH. Additionally, the Exchange notes that it assesses certain surcharges on proprietary products (i.e., SPX/SPXW, SPESG and VIX)<sup>12</sup> to similarly create a reasonable cost equivalence between the primary execution channels (open outcry and electronic book) for such products and likewise maintain a robust hybrid system.<sup>13</sup> Overall, the proposed fees are designed to balance fees at an appropriate level in order to assess SPX/SPXW order flow to the AIM Auctions while also maintaining incentive for participation and the provision of liquidity in SPX/SPXW on the trading floor and in the electronic book when AIM is activated for SPX/SPXW.

## 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>14</sup> Specifically, the Exchange believes the proposed rule change is consistent with

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<sup>12</sup> See Cboe Options Fees Schedule, “Rate Table - Underlying Symbol List A”, which assesses an Execution Surcharge of \$0.21 for all non-Market-Maker orders in SPX and SPESG and \$0.13 for all non-Market-Maker orders in SPXW, and assesses a Customer Priority Surcharge of \$0.20 for all Customer maker orders in VIX.

<sup>13</sup> See e.g., Securities and Exchange Release Nos. 71295 (January 14, 2014), 79 FR 3443 (January 21, 2014) (SR-CBOE-2013-129); and 88426 (March 19, 2020), 85 FR 16978 (March 25, 2020) (SR-CBOE-2020-021).

<sup>14</sup> 15 U.S.C. 78f(b).

the Section 6(b)(5)<sup>15</sup> requirements that the rules of an exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest. Additionally, the Exchange believes the proposed rule change is consistent with Section 6(b)(4) of the Act,<sup>16</sup> which requires that Exchange rules provide for the equitable allocation of reasonable dues, fees, and other charges among its Trading Permit Holders and other persons using its facilities.

Particularly, the Exchange believes the proposed rule change to adopt AIM Hybrid Surcharges (including an Originator Surcharge) is reasonable because the proposed surcharges are reasonably designed to ensure that there is appropriate cost incentive to market participants to continue to execute through the Exchange's primary execution channels for SPX/SPXW once AIM is activated for SPX/SPXW. The Exchange believes that the proposed SPX AIM Hybrid Surcharges reasonably balance cost incentives between executing via the AIM Auctions and executing via open outcry or against quotes in the electronic Book, which is in the interest of the Exchange as it must both maintain robust hybrid markets, incentivizing liquidity to both its electronic and trading floor environments in order support price discovery and increased execution opportunities. The planned activation of this functionality for SPX/SPXW will allow

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

<sup>16</sup> 15 U.S.C. 78f(b)(4).

market participants to interact with SPX/SPXW order flow in a manner not previously available,<sup>17</sup> and, as a result, the Exchange believes it is reasonable to assess additional fees for market participants that choose to leverage auction execution opportunities outside of contributing to SPX/SPXW liquidity in open outcry and the on the electronic Book.

The Exchange also believes that the proposed fees in connection with SPX AIM orders are reasonable as they do not represent a significant departure from the fees currently offered under the Fees Schedule. The Exchange believes that the proposed SPX AIM Hybrid Surcharges of \$0.50 per contract for all Non-Customer and Market-Maker and \$0.39 per contract for all Firm orders executed in AIM (Agency/Primary, Contra and Response) are reasonable because these surcharges are, respectively, comparable to or less than the \$0.50 and \$1.05 rates per contract, which are generally higher than the applicable standard transaction rates, currently assessed for certain AIM orders submitted in all products (with certain exceptions). The Exchange believes that the proposed SPX AIM Hybrid Originator Surcharge is reasonable as it is equivalent to the AIM Agency/Primary Surcharge of \$0.10 that is assessed when the Exchange is operating in an screen-based only environment and likewise applies to all AIM Agency/Primary orders in SPX/SPXW and is invoiced to the executing TPH. The Exchange again notes that it assesses certain surcharges on proprietary products (i.e., SPX/SPXW, SPESG and VIX)<sup>18</sup> in order to similarly create a reasonable cost equivalence between its primary execution channels (open outcry and electronic book) for such products as the Exchange

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<sup>17</sup> Previously only available while the trading floor was inoperable for a period of time during 2020. See supra note 6.

<sup>18</sup> See supra note 12.

seeks to maintain a robust hybrid system.<sup>19</sup> Overall, the Exchange believes the proposed fees are reasonably designed to balance fees at an appropriate level in order to assess SPX/SPXW order flow to AIM Auctions while also maintaining incentive for participation in SPX/SPXW on the trading floor and in the electronic book, thereby supporting incentive for continued liquidity in SPX/SPXW through the Exchange's primary execution channels while AIM is activated for SPX/SPXW, to the benefit of all market participants.

The Exchange believes that the proposed SPX AIM Hybrid Surcharges (including the Originator Surcharge) are equitable and not unfairly discriminatory because the proposed SPX AIM Hybrid Surcharges will apply equally to all similarly situated TPHs that submit orders in SPX/SPXW into AIM. That is, the proposed fees will apply equally to all Non-Customer and Market-Maker orders in SPX/SPXW executed in AIM, to all Firm orders in SPX/SPXW executed in AIM, and to all executing TPHs that submit AIM Agency/Primary orders in SPX/SPXW. The Exchange believes that it is equitable and not unfairly discriminatory to provide lower SPX AIM Hybrid rates for Firms because the Exchange believes that Firm participation in the markets is essential to a robust hybrid market ecosystem as Firms facilitate the execution of customer orders, as well as provide clearing services, both electronically and in open outcry. The Exchange recognizes Firms as an important source of liquidity when they facilitate their own customers' trading activity, which enhances transparency and price discovery to the

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<sup>19</sup> See supra note 13.

benefit of all market participants, and, as a result, currently assesses a lower rate to Firms in various places under the Fees Schedule, including for transactions in SPX/SPXW.<sup>20</sup>

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 intramarket or intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act.

The Exchange does not believe the proposed SPX AIM Hybrid Surcharges (including the Originator Surcharge) will impose any burden on intramarket competition because they will apply equally to all similarly situated TPHs that submit orders in SPX/SPXW into AIM. That is, the proposed fees will apply equally to all Non-Customer and Market-Maker orders in SPX/SPXW submitted to AIM, to all Firm orders in SPX/SPXW submitted to AIM, and to all executing TPHs that submit AIM Agency/Primary orders in SPX/SPXW. The Exchange does not believe that providing lower SPX AIM Hybrid rates for Firms will impose any significant burden on intramarket competition that is not necessary or appropriate in furtherance of the purposes of the Act because the Exchange recognizes that Firm participation in the markets is essential to a robust hybrid market ecosystem as Firms facilitate the execution of customer orders, as well as provide clearing services, both in open outcry and electronically. As a result, the Exchange currently assesses a lower rate to Firms in various places under the Fees Schedule, including for transactions in SPX/SPXW.<sup>21</sup> The

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<sup>20</sup> See e.g., Cboe Options Fees Schedule, “Rate Table - Underlying Symbol List A”, which generally assesses lower rates for Firm transactions in SPX/SPXW (\$0.26 per contract) than for Market-Makers (\$0.28) or Non-Customers (\$0.42) in SPX/SPXW.

<sup>21</sup> See id.

Exchange believes that Firms can be an important source of liquidity when they facilitate their own customers' trading activity, which enhances transparency and price discovery to the benefit of all market participants. The Exchange again notes that the proposed SPX AIM Hybrid Surcharge comparable to or less than rates currently assessed for certain AIM orders submitted in all products (with certain exceptions) and the proposed SPX AIM Hybrid Originator Surcharge is equivalent to the existing AIM Agency/Primary Surcharge which likewise applies to AIM Agency/Primary orders in SPX/SPXW (when the Exchange is operating in an screen-based only environment).

The Exchange does not believe that the proposed rule change in connection with SPX AIM Hybrid Surcharges will impose any burden on intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act because the propose surcharges apply only to an Exchange proprietary product, which is traded exclusively on Cboe Options, and for orders executed in an auction on the Exchange.

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

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

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>22</sup> and paragraph (f) of Rule 19b-4<sup>23</sup> thereunder. At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily

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<sup>22</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>23</sup> 17 CFR 240.19b-4(f).

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

#### IV. Solicitation of Comments

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

##### Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-CBOE-2021-012 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.

All submissions should refer to File Number SR-CBOE-2021-012. 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 (<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-2021-012 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.<sup>24</sup>

**J. Matthew DeLesDernier,**

*Assistant Secretary.*

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<sup>24</sup> 17 CFR 200.30-3(a)(12).