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SECURITIES AND EXCHANGE COMMISSION
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Self-Regulatory Organizations; Cboe Exchange, Inc.; Notice of Filing of a Proposed Rule Change Relating to Adopt Rule 6.10 to Introduce a Voluntary Compression Service for Market Makers

April 6, 2021.

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 March 24, 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 and II 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 adopt Rule 6.10. 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

1 15 U.S.C. 78s(b)(1).

2 17 CFR 240.19b-4.

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 adopt Rule 6.10 to provide Market-Makers with an additional voluntary compression tool that will permit them to more efficiently compress their index option portfolios in order to reduce the required capital attributable to their portfolios while maintaining their risk exposure. The Exchange understands that regulatory capital requirements have impeded liquidity providers' (market-makers, in particular) ability to provide liquidity to the market. In response, the Exchange has made certain tools available that Trading Permit Holders ("TPHs") can use to compress the notional size of their portfolios to reduce the capital attributable to those portfolios. Pursuant to Rule 5.6(c), the Exchange may make compression orders available to TPHs, which orders enable TPHs (after submitting compression position lists to the Exchange) to execute orders in S&P 500 Index ("SPX") options without exposure to reduce the aggregate capital attributable to those positions (subject to certain requirements). Additionally, pursuant to Rule 6.8, TPHs may transfer positions in exchange-listed options off the Exchange if the transfer does not result in a change in ownership and reduces the risk-weighted assets ("RWA") associated with those positions. The Exchange believes compression continues to be an important tool to enable Market-Makers to efficiently manage the size of their portfolios and the amount of capital that must be maintained by their Clearing TPHs ("CTPHs") in connection with those portfolios. As a result, the Exchange regularly reviews its compression tools and evaluates potential enhancements to those tools. The Exchange believes that permitting TPHs to execute offsetting SPX options positions without exposure using compression orders and to effect off-floor RWA transfers of exchange-listed options has had a beneficial effect on the bank regulatory capital requirements of CTPHs' parent companies without adversely affecting the quality of the options market. The Exchange has determined that a combination of elements of these two tools would increase the efficiency of compression for Market-Makers. Specifically, the Exchange proposes, notwithstanding Rule 5.12,[3] the Exchange may make available to Market-Makers a multilateral compression service for certain index options identified by the Exchange,[4] pursuant to which a Market-Maker may close or open[5] positions in options listed on the Exchange to reduce regulatory capital attributable to its portfolio.[6]

Rule 15c3-1 (Net Capital Requirements for Brokers or Dealers) ("Net Capital Rules") requires that every registered broker-dealer, including every Market-Maker, maintain certain specified minimum levels of capital. The Net Capital Rules are designed to protect securities customers, counterparties, and creditors by requiring that broker-dealers always have sufficient liquid resources on hand to meet their financial obligations. Notably, hedged positions, including offsetting futures and options contract positions, result in certain net capital requirement reductions under the Net Capital Rules.[7]

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3 Rule 5.12 generally requires transactions in listed options to occur on a national securities exchange, unless an exception applies. Transactions effected pursuant to proposed Rule 6.10 would be such an exception.

4 The Exchange will announce which index options for which it will make the compression service available pursuant to Rule 1.5. Rule 1.5 provides that the Exchange announces to Trading Permit Holders all determinations it makes pursuant to the Rules via, among other communication methods, specifications, notices, or regulatory circulars with appropriate advanced notice, which are posted on the Exchange's website. The Exchange intends to initially make the compression service available for SPX options and then will phase in additional index options.

5 The Exchange intends to phase in its availability of the compression service, and the initial version will be available only to close positions. The Exchange will announce the date on which it will make the compression service available for opening positions as well, pursuant to Rule 1.5.

6 This is the same purpose as other currently available compression tools, such as compression orders. <u>See</u> Rule 5.6(c) (definition of compression orders). Rule 11.6 requires each Market-Maker to maintain net capital sufficient to comply with the requirements of Securities and Exchange Act (the "Act") Rule 15c3-1. 17 CFR §240.15c3-1. Additionally, Market-Makers must comply with capital requirements imposed by their CTPHs or the Options Clearing Corporation ("OCC") (if the Market-Maker is also a CTPH).

7 In addition, the Net Capital Rules permit various offsets under which a percentage of an option position's gain at any one valuation point is allowed to offset another position's

All OCC clearing members are subject to the Net Capital Rules. However, a subset of clearing members are subsidiaries of U.S. bank holding companies, which, due to their affiliations with their parent U.S. bank holding companies, must comply with additional bank regulatory capital requirements pursuant to rulemaking required under the Dodd-Frank Wall Street Reform and Consumer Protection Act.[8] Pursuant to this mandate, the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation approved a comprehensive regulatory capital framework for subsidiaries of U.S. bank holding company clearing firms.[9] Generally, these rules imposed higher minimum capital requirements, more restrictive capital eligibility standards, and higher asset risk weights than were previously mandated for clearing members that are subsidiaries of U.S. bank holding companies under the Net Capital Rules. Furthermore, these rules do not permit deductions for hedged securities or offsetting options positions.[10] Rather, capital charges under these standards are based on the aggregate notional value of short positions regardless of offsets. As a result, CTPHs generally must hold substantially more bank regulatory capital than would otherwise be required under the Net Capital Rules.[11] The impact of these regulatory

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loss at the same valuation point (e.g. vertical spreads).

8 H.R. 4173 (amending section 3(a) of the Securities Exchange Act of 1934 (the "Act") (15 U.S.C. § 78c(a))).

9 12 CFR §50; 79 FR 61440 (Liquidity Coverage Ratio: Liquidity Risk Measurement Standards).

10 Many options strategies, including relatively simple strategies often used by retail customers and more sophisticated strategies used by market-makers and institutions, are risk-limited strategies or options spread strategies that employ offsets or hedges to achieve certain investment outcomes. Such strategies typically involve the purchase and sale of multiple options (and may be coupled with purchases or sales of the underlying assets), executed simultaneously as part of the same strategy. In many cases, the potential market exposure of these strategies is limited and defined. Whereas regulatory capital requirements have historically reflected the risk-limited nature of carrying offsetting positions, these positions may now be subject to large regulatory capital requirements. Various factors, including administration costs; transaction fees; and limited market demand or counterparty interest, however, discourage market participants from closing these positions even though many market participants likely would prefer to close the positions rather than carry them to expiration.

11 See Letter from Cboe, New York Stock Exchange, and Nasdaq, Inc., to the Honorable

capital rules is compounded in index options markets due to the large notional value of index option contracts and the potentially significant number of open index options positions.

The Exchange believes these regulatory capital requirements have impeded efficient use of capital and undermine the critical liquidity role that Market-Makers play in the options market by limiting the amount of capital CTPHs can allocate to clearing member transactions. Specifically, the Exchange understands these rules have caused, and may continue to cause, CTPHs to impose stricter position limits on their clearing members. These stricter position limits may impact the liquidity Market-Makers (who participate on a significant portion of index option trades on the Exchange) might supply in the options market, which impact may be heightened when markets are volatile, and this impact may be compounded when a CTPH has multiple Market-Maker client accounts, each having largely risk-neutral portfolio holdings.[12]

In November 2019, bank regulatory agencies approved a rulemaking requiring banks to replace the Current Exposure Method ("CEM") with the Standardized Approach to Counterparty Credit Risk ("SA-CCR") by January 1, 2022. The Exchange believes CEM's primary flaws arise from the methodology's insensitivity to actual risk. For example, CEM does not account for the delta (i.e., market sensitivity) of an option position or fully recognize the offsetting of positions with opposite economic exposures. The Exchange believes implementation of SA-CCR will help correct many of CEM's flaws by incorporating risk-sensitive principles, such as delta weighting options positions and more beneficial netting of derivative contracts that have economically meaningful relationships. This means that SA-CCR, when implemented, will be less punitive to CTPHs (and the market participants for which they clear options positions) than CEM as it relates to options positions. Some CTPHs have implemented SA-CCR, while others

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Randal Quarles, Vice Chair for Supervision of the Board of Governors of the Federal Reserve System, March 18, 2020.

12 Several Market-Makers continue to express to the Exchange that these rules could hamper their ability to provide consistent liquidity in the index options markets, and have inquired about the ability engage in multilateral compression, as they are able to do for their futures positions.

have not and continue to use CEM. However, the Exchange believes implementation by all CTPHs of SA-CCR will not eliminate the need for Market-Makers to manage their positions or be concerned about the accumulation of cleared positions (particularly in options with larger notional values) that ultimately contribute to their net capital requirements and those of their clearing firms and thus the capital ratios with which those firms need to comply. The Exchange notes there are few clearing banks, and even fewer that clear for options market-makers. Increased clearing of over-the-counter products, such as swaps, by these same clearing banks means there is a risk of less available clearing bandwidth for listed options, even with the adoption of SA-CCR. Additionally, market-makers will continue to hold positions that are virtually riskless but have a significant capital impact that could be compressed in order to free up balance sheets to enable market-makers to continue to provide meaningful liquidity to the market. Therefore, even when all banks have implemented SA-CCR, the Exchange believes compression will continue to be a valuable tool for Market-Makers.[13]

As noted above, the Exchange currently offers its TPHs tools they may use to reduce the regulatory requirements attributable to their portfolios, which the Exchange believes has had a beneficial effect on the bank regulatory capital requirements of CTPHs' parent companies without adversely affecting the quality of the options market.[14] The proposed rule change is a further enhancement to the set of compression tools the Exchange currently offers, combining certain features of those tools. Specifically, pursuant to proposed Rule 6.10(a), in a manner and format and at times determines by the Exchange, of which the Exchange will provide reasonable

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13 The Exchange notes at least one other market offers certain of its members a multilateral compression tool for competitive products. See Chicago Mercantile Exchange, Inc. ("CME") Rule 857, the purpose of which is to provide market participants and their clearing members with capital relief in listed equities options without materially changing the risk exposure of a given participant's portfolio. See *CME Equity Options Compression Overview*, *at* https://www.cmegroup.com/trading/equity-index/cme-equity-options-compression-overview.html.

14 See, e.g., Rules 5.6(c) (definition of compression orders) and 5.32, 5.33, and 5.88 (describing how compression orders may execute), and 6.8 (describing permissible off-floor RWA transfers).

and sufficient advanced notice, a Market-Maker ("compression participant") may submit into an Exchange system a list of open index positions it would like to close and, if it chooses, index option positions it would like to open to replace any of those closing positions ("position lists"). A compression participant must include the amount of capital reduction associated with each closing position and the amount of capital increase associated with each opening position (with the amount of capital in a measurement unit of the compression participant's choosing) included on a position list submitted to the Exchange. Market participants measure capital using various industry standards, which provide them with the ability to select the most appropriate measurement unit for their organizations and risk management practices. Therefore, the Exchange believes it is reasonable to permit Market-Makers to provide capital amounts on their position lists using the measurement unit they generally use. The positions in the position list must in the aggregate reduce regulatory capital attributable to those positions (based on the capital amounts provided by compression participants) in accordance with the purpose of the proposed compression service.[15] Additionally, a compression participant may define and input optional risk constraints on its position list that it wants applied to any compression proposal. For example, a compression participant may constrain the net cost of a compression portfolio compared to its specified values or constrain the net delta by expiration that would result from a compression proposal. Permitting compression participants to input these constraints will allow compression participants to effect compression of their portfolios in a manner consistent with their own risk management practices and achieve the goals they seek from the compression service.

The Exchange intends to offer the compression service with sufficient frequency to permit Market-Makers to respond to intra-month reviews of regulatory capital necessary for their

[15] This is consistent with compression orders. See Rule 5.6(c) (definition of compression orders, which provide that compression orders may be used to reduce required capital associated with open SPX positions, and may include open positions to replace closing positions to reduce capital associated with open positions).

positions by clearing firms.[16] The proposed flexibility will permit the Exchange to adjust the frequency (with sufficient notice) of availability of the compression service if the Exchange deems such frequency to be more appropriate, such as in response to market conditions. The proposed flexibility is also consistent with the currently flexibility regarding the availability of compression orders.[17]

The proposed process regarding the submission of position lists is similar to the current process for submitting compression position lists in connection with the submission of compression orders. Currently, prior to submitting compression orders, TPHs must submit lists of open SPX options positions they would like to close using compression orders (while TPHs may open positions using compression orders, but do not need to include those positions on compression position lists submitted in advance to the Exchange). The proposed compression service will similarly require Market-Makers to submit lists of open option positions they would like to close and also require them to submit option positions they would like to open using the compression service.[18] The Exchange believes requiring inclusion of any positions to be opened (in addition to closed) in the positions list submitted to the compression service (as well as capital attributable to those positions) will provide the Exchange with additional information when determining whether the compression participants are using the compression service to reduce regulatory capital attributable to their positions. Therefore, the Exchange believes the proposed requirements for use of the compression service, particularly the requirement to include the amount of capital associated with each position and the requirement that the positions must in the aggregate reduce attributable regulatory capital (similar to compression orders are net

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16 The Exchange intends to initially offer the compression service on a weekly basis.

17 See Rule 5.6(c).

18 When the functionality to permit positions to be opened in the compression service is available, it will be within the discretion of a Market-Maker to open positions as part of the process; however, if a Market-Maker does want to open positions as part of compression, then it must include those opening positions on its position list.

position closing or neutral), are reasonable, as they will create additional controls to limit use of the compression service to legitimate compression purposes.

The Exchange believes permitting Market-Makers to open positions as part of the compression service (as they may currently do with compression orders) may provide additional opportunities to reduce more regulatory capital attributable to their portfolios than if they were restricted to only closing positions. The goal of compression is to alleviate bank regulatory capital requirements attributable to a market participant's portfolio. This can be achieved by closing positions, which ultimately reduces the regulatory capital associated with a Market-Maker's portfolio. However, regulatory capital reduction may be also achieved by "swapping" open positions with new positions for which there is lower regulatory capital associated. The Exchange understands Market-Makers may do this for risk management purposes. Specifically, Market-Makers retain certain options positions in their portfolios for hedging and risk exposure purposes. However, the calculation of regulatory capital associated with options positions involves a complex formula (and, as noted above, may be calculated using different methods), but it ultimately is calculating an amount based on the quantity of a position times the strike price (which is why the large notional value of index options has created issues for Market-Makers). Therefore, an option position with a lower strike price will likely have lower regulatory capital associated with that position than regulatory capital associated with a higher strike price. A Market-Maker may identify options with lower strikes that provide it with substantially similar risk exposure as some of its open positions while maintaining a hedge within its portfolio. Merely closing such higher-strike positions may reduce the required capital associated with the market participant's portfolio, but such closure may leave portions of that portfolio unhedged and thus subject to higher risk. By "swapping" its current open positions in options with higher strikes with positions in options with lower strikes (often using box spreads and combos), a market participant may maintain the same risk exposure in its portfolio while replacing higher-strike positions with lower-strike positions in order to swap related exposures.

For example, suppose a Market-Maker has 100 contracts in an SPX box spread with October expiration and strike prices of 3500 and 3600. Suppose another Market-Maker has 100 contracts for the offsetting box spread, but also want to buy 100 contracts in an SPX box spread with October expiration and strike prices of 1500 and 1600. Each Market-Maker in this transaction would be opening positions in 400 contracts as well as closing positions in 400 contracts. While each Market-Maker would have the same number of open positions after this transaction, the regulatory capital associated with each Market-Maker's portfolio would be significantly reduced given the newly opened positions have strike prices 2000 lower than the closed positions. Execution of this transaction would be riskless and would provide meaningful regulatory capital relief to the Market-Makers. Ultimately, transactions like this example are essentially riskless exchanges that carry no profit or loss for market participants, but rather are intended to provide a seamless method for market participants to reduce margin and capital requirements while maintaining the same risk exposure within their portfolios.

Currently, compression orders are limited to SPX options, as such options have a large notional value and represent the most volume executed on the Exchange.[19] Off-floor RWA transfers may occur in any exchange-listed option; however, transfers of multiply listed equity options are subject to the rules of all options exchanges that list those options, and thus would only be permissible if all other options exchanges permitted such off-floor transfers. The Exchange believes it is appropriate to offer the compression service for index options listed on the Exchange, as such index options may only be listed on the Exchange and its affiliated exchanges (and thus would not be constrained by the rules of other options exchanges to the extent they do not permit off-floor transfers for compression purposes).[20] Additionally, the index

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19 See Rules 5.6(c) (definition of compression order).

20 Certain index options listed on the Exchange are also listed on its affiliated options exchanges, which intend to submit separate filing adopting the proposed multilateral compression process upon Commission approval of this proposed rule filing.

value of nearly all index options the Exchange lists for trading is at least 100,[21] making the notional value of an index option at least 10,000.[22] Given the high notional value associated with index option contracts in general, the Exchange believes Market-Makers could benefit from compressing index options beyond SPX options within their portfolio. The following table lists the indexes on which the Exchange currently lists options, as well as the value of the index as of the close of trading on March 1, 2021:

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21 The level of VIX is generally below 100.

22 The Exchange may consider to further expand the compression service to equity options (like off-floor RWA transfers) and would submit a separate rule filing in the event it determined to do so. The Exchange notes the off-floor compression of equity options, which are multiply listed, would be subject to the rules of other options exchanges.

Index (Option Symbol)	Current Value
S&P 500 Index (SPX)	3,901.82
Mini-S&P 500 Index (XSP)	390.18
Russell 2000 Index (RUT)	2,275.32
Mini-Russell 2000 Index (MRUT)	227.53
Cboe Volatility Index (VIX)	23.35
Dow Jones Industrial Average (DJX)	315.36
S&P 100 Index (OEX and XEO)	1,773.40
S&P 500 ESG Index (SPESG)	330.51
S&P Materials Select Sector Index (SIXB)	796.03
S&P Industrials Select Sector Index (SIXI)	933.99
S&P Financial Select Sector Index (SIXM)	409.44
S&P Real Estate Select Sector Index (SIXRE)	182.02
S&P Utilities Select Sector Index (SIXU)	601.62
S&P Health Care Select Sector Index (SIXV)	1,150.89
MSCI EAFE Index (MXEA)	2,198.61
MSCI Emerging Markets Index (MXEF)	1,362.47
Russell 1000 Growth Index (RLG)	2,469.71
Russell 1000 Value Index (RLV)	1,444.77
Russell 1000 Index (RUI)	2,211.99

The large notional size of most index options compounds the negative impact of Net Capital Rules, which apply to positions in all index options, and may impact all client clearing members of clearing firms affiliated with U.S.-bank holding companies. Clearing firms may request that

Market-Makers reduce positions in listed options in addition to SPX, and the proposed rule change will provide Market-Makers with an efficient mechanism to do so with respect to their index option positions.

The proposed rule change also limits the compression service to Market-Makers. While compression orders and off-floor RWA transfers are currently available to all TPHs, a prior tool the Exchange offered for compression purposes was limited to Market-Makers.[23] The Exchange believes this is appropriate given the important role Market-Makers play in the options market and, as discussed above, the disproportionate impact Net Capital Rules have had on Market-Makers. Market-Makers in all index options ultimately hold a significant amount of open interest in these high-valued options due to their serving as the primarily liquidity providers, which results in their participation on a significant number of trades that occur. Expanding compression to all index options will permit Market-Makers in all index options to more efficiently compress the size of their portfolios in terms of notional size while maintaining their risk portfolio, which will free up their balance sheets and permit them to continue to provide meaningful liquidity in more markets. This additional liquidity would ultimately benefit all market participants.

Pursuant to proposed paragraph (b), the Exchange will create a compression proposal by conducting an automated matching process to determine which positions among the compression participants can offset. Specifically, at a time after the market close of Regular Trading Hours (“RTH”)[24] on days the Exchange accepts position lists pursuant to proposed paragraph (a), an Exchange automated process will match offsetting positions (in an anonymized manner) of compression participants that submitted position lists. This automated process matches offsetting positions on the position lists of compression participants to maximize the aggregate

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23 See Securities Exchange Act Notice 84344 (October 2, 2018), 83 FR 50721 (October 9, 2018) (SR-CBOE-2018-056) (which permitted on-floor RWA transfers).

24 Currently, the RTH trading session closes at 4:15 p.m. Eastern time for most index options. See Rule 5.1(b)(2).

capital reduction among the compression participants. Because the process is automated, it does not consider the identities of the compression participants and instead objectively optimizes the aggregate compression when creating a compression proposal. The resulting group of offsetting position matches among the compression participants on an anonymous basis constitutes the "compression proposal." Offsetting positions will be matched at the "compression price." The Exchange will programmatically determine the "compression price" using generally accepted volatility and options pricing models and considering the national best bid or offer ("NBBO") at the close of the trading day, the market prices at the daily market time, and the theoretical values provided by the compression participants in their position lists. The compression price may be in \$0.01 increments. A compression proposal must be consistent with all risk constraints set by the compressional participants when submitting their position lists. In a manner and format and at times determined by the Exchange, of which the Exchange will provide reasonable and sufficient advanced notice, the Exchange will notify each compression participant of the compression proposal.

This proposed process is similar to the Exchange's provision of individual position files to TPHs with respect to compression orders. Because compression transactions effected through the compression service will be single leg, a compression proposal will not consist of multi-leg positions as the current position files provided by the Exchange with respect to compression orders.[25] Additionally, like the position files the Exchange provides to TPHs with respect to compression orders, the proposed compression service will identify for which positions from a compression participant's position list there is offsetting size from another compression participant.[26] Unlike compression orders, a compression proposal will not identify the Market-Makers that will be the contra-parties to compression transactions. This information is currently provided for compression orders, as TPHs need to seek out contra-parties to submit compression

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25 See rule 5.6(c).

26 Id.

orders. However, the compression service enhances this process by doing this on behalf of Market-Makers, thus reducing this burden on Market-Makers and eliminating the need to identify counterparties in the compression proposal.

The compression proposal will include a compression price for each position (which, like the compression price of compression orders, may be in $0.01 increments).[27] The Exchange calculates this value using substantially similar pricing models that it understands other market participants use when pricing options. The Exchange currently disseminates indicative values for certain classes at the end of the trading day using the method, which the Exchange understands market participants currently use for various purposes including risk management purposes.[28] The Exchange believes its programmatically determined compression price using generally accepted volatility and options pricing models and available pricing information will provide compression participants with a reasonable value at which to effect their compression transactions.

The Exchange believes the proposed matching process enhances the process currently available with respect to compression orders, as it calculates for Market-Makers the positions that may be offset by positions of multiple other Market-Makers that could maximize compression results. Today, if a Market-Maker receives a position file regarding other TPHs that have offsetting size, they must all then coordinate to submit various orders for unexposed

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27 TPHs submit compression orders with the price of execution (which is subject to certain pricing requirements). See id. Compression orders may also currently be executed in pennies. Because many series the Exchange expects Market-Makers will attempt to close will be out-of-the-money, and essentially worthless, Market-Makers may not otherwise close positions in these series if a higher minimum increment causes the price to be too much higher than the option's value. The Exchange believes it is reasonable to permit these orders to be entered and executed in penny increments to provide flexibility that will enable Market-Makers to encourage participation in the compression service and maximize the reduction in capital attributable to their positions.

28 See Rule 4.17 (pursuant to which the Exchange currently disseminates indicates values for various options (including most index options the Exchange lists for trading)). The Exchange also uses similar values in certain circumstances when evaluating obvious errors that occur on the Exchange. See Rule 6.5, Interpretation and Policy .08.

execution to achieve the same results. The proposed process more efficiently identifies the different parties with contra-side interest against which a Market-Maker may execute its positions for compression purposes. As a result, the proposed process reduces the burden on Market-Makers of finding other Market-Makers with offsetting size they are willing trade when they attempt to compress their portfolios. With respect to the compression service, the Exchange would be bringing together purchasers and sellers of index options for the purpose of compression, which is consistent with its role as an exchange under the Exchange Act.[29] Those purchasers and sellers would continue to have ultimate discretion as to whether to effect the proposed compression transactions. The Exchange believes compression to be a valuable service to provide to Market-Makers, as compression enhances liquidity in the marketplace, which may lead to more liquidity and competition and tighter spreads, which ultimately benefits the entire market.

Like the current position match files the Exchange provides to TPHs in connection with compression orders, compression proposals generated by the Exchange pursuant to the proposed compression service are provided to Market-Makers for informational purposes only. A Market-Maker can choose to take no action once it receives a compression proposal. Individual Market-Makers will continue to determine whether to submit position lists to the compression service and whether to accept or decline compression proposals (and thus whether to effect or not effect the compression transactions with the compression proposals). As further described below, whether a Market-Maker chooses to accept the compression proposal and effect the compression transactions described therein is solely within the discretion of the Market-Maker. The Exchange's provision of the compression proposal does not constitute advice, guidance, a

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29 See 15 U.S.C. 78c(a)(1) (which defines an "exchange" as an organization that constitutes, maintains, or provides a marketplace or facilities for bringing together purchases and sellers of securities).

commitment to trade, an execution, or a recommendation to trade, as is the case today for compression orders.

Proposed paragraph (c) describes the conclusion of the compression process, including how compression transactions may be effected. Specifically, each compression participant for which a compression proposal includes at least one offsetting position match[30] must notify the Exchange in the Exchange-designated form and manner no later than the Exchange-established deadline of whether the compression participant approves the compression proposal. If all compression participants affirmatively approve the compression proposal, then the Exchange effects the transactions comprising the compression proposal at the specified compression prices. If any compression participant for which a compression proposal includes at least one offsetting position match declines (or does not respond to the Exchange by the deadline), then no compression transactions are effected. In other words, whether a Market-Maker effects any compression transactions (at the specified compression prices) set forth in the compression proposal is solely within the discretion of the Market-Maker. If a Market-Maker evaluates a compression proposal and determines it is not in its interest to effect the transactions as set forth in the proposal, then no compression transactions are effected. Because the compression proposal only achieves its goals of maximized compression if all compression participants approve of the proposal, it requires unanimous approval. As is the case for any transaction effected on the Exchange, all counterparties must agree to the transaction.

Following any unanimous approval of a compression proposal, the Exchange (a) distributes the information regarding the completed package to the compression participants (which information will also be available to CTPHs) and to OCC for processing and (b)

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[30] It is possible that the automated matching process described in proposed paragraph (b) will not find for a compression participant any offsetting positions of other compression participants. In that case, the compression participant with no offsetting position matches needs to take no action.

disseminates the information regarding each compression transaction effected.[31] The Exchange believes it is appropriate to share the results of any compression transactions with the Clearing Trading Permit Holders of the compression participants, as the impacted positions will ultimately be held within the clearing accounts of these CTPHs. Additionally, CTPHs have an interest in the open interest of the Market-Makers for which they perform clearing services, because CTPHs impose capital restrictions on these Market-Makers based on their open interest.[32] In addition, the Exchange believes it will benefit the market to disseminate information for compression trades as it does for all other transactions so that all market participants have knowledge of compression transactions that occur and have knowledge of any changes to open interest in the applicable products. Compression transactions are effected within the accounts of the compression participants and occur in accordance with OCC Rules (as is the case with other off-floor transfers). Compression transactions may be subject to applicable laws, rules, and regulations, including rules of other self-regulatory organizations.[33]

The primary difference between the compression service and compression orders is that the compression transactions Market-Makers decide to effect will occur off-floor after trading hours. Effecting compression transactions after the close of trading will provide Market-Makers with several benefits, including certainty regarding positions they may want to compress (as positions may change regularly throughout the trading day) and not having to interrupt their

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31 The Exchange will be disseminating compression transaction information to OPRA. The Exchange is working with OPRA to have an indicator applied to compression transaction information disseminated through OPRA but does not expect that indicator to be available upon implementation of the compression service.

32 It is for similar reasons that CTPHs may currently submit compression-position lists to the Exchange in connection with the submission of compression orders. See Rule 5.6(c).

33 Post-trade positions are held in accounts at the OCC. Therefore, any post-trade activity that occurs would be effected within those accounts. The Exchange has held multiple discussions with the OCC regarding the compression service, and the OCC has indicated its ability to accommodate any effected compression transactions. Any compression transactions will be subject to all applicable recordkeeping requirements applicable to Market-Makers under the Act and the rules and regulations thereunder, such as Rule 17a-3 and 17a-4.

provision of liquidity during the trading day to engage in risk management. Additionally, this will permit Market-Makers to not divert resources during the trading day from providing liquidity to the market to effecting transactions for risk management purposes. Currently, compression orders may be effected without exposure on the Exchange, which is similar to the proposed compression transactions. The proposed compression service eliminates the step of needing to bring orders that will not be exposed to the Exchange. As the primary purpose of the proposed compression transactions is to compress the notional size of Market-Makers' portfolios so that they may provide additional liquidity into the market (rather than, for example, obtain price improvement), the Exchange believes the benefits of exposure and execution on an exchange are not applicable to compression transactions. Additionally, because the Exchange will disseminate compression transaction information, the compression service will provide transparency to the market regarding compression transactions. The Exchange currently permits transfers of SPX option positions (which may net against each other) to occur off the Exchange for similar reasons.[34]

To demonstrate how the Exchange will conduct its multilateral compression service, suppose three Market-Makers submit to the Exchange the following position lists:

MM1

Class	**Expiry**	**Strike**	**Put/Call**	**Quantity**
SPX	2020-12-24	3700	C	300
SPX	2020-12-24	3700	P	-100
SPX	2020-12-24	3800	C	-100
SPX	2020-12-24	3800	P	-50

34 See Rule 6.8.

MM2

Class	Expiry	Strike	Put/Call	Quantity
SPX	2020-12-24	3700	C	-50
SPX	2020-12-24	3700	P	50
SPX	2020-12-24	3800	C	50
SPX	2020-12-24	3800	P	750

MM3

Class	Expiry	Strike	Put/Call	Quantity
SPX	2020-12-24	3700	C	-25
SPX	2020-12-24	3700	P	50
SPX	2020-12-24	3800	C	0
SPX	2020-12-24	3800	P	-25

In total, across the four series, MM1 submitted 550 contracts for compression, MM2 submitted 900 contracts for compression, and MM3 submitted 100 contracts for compression. For purposes of this example, no Market-Maker included additional parameters to be considered in the compression matching process. The Exchange's automated matching process evaluates these positions (on an anonymized basis) to maximize the number of positions among the three Market-Makers that can be compressed, which results in the following trade matches:

MM1

Class	Expiry	Strike	Put/Call	Trade Quantity	Contra	Compression Price
SPX	2020-12-24	3700	C	-50	MM2	1.00
SPX	2020-12-24	3700	C	-25	MM3	1.00
SPX	2020-12-24	3700	P	50	MM2	1.00

SPX	2020-12-24	3700	P	50	MM3	1.00
SPX	2020-12-24	3800	C	50	MM2	0.50
SPX	2020-12-24	3800	P	50	MM2	1.50

MM2

Class	Expiry	Strike	Put/Call	Trade Quantity	Contra	Compression Price
SPX	2020-12-24	3700	C	50	MM1	1.00
SPX	2020-12-24	3700	P	-50	MM1	1.00
SPX	2020-12-24	3800	C	-50	MM1	0.50
SPX	2020-12-24	3800	P	-50	MM1	1.50
SPX	2020-12-24	3800	P	-25	MM3	1.50

MM3

Class	Expiry	Strike	Put/Call	Trade Quantity	Contra	Compression Price
SPX	2020-12-24	3700	C	25	MM1	1.00
SPX	2020-12-24	3700	P	-50	MM1	1.00
SPX	2020-12-24	3800	P	25	MM2	1.50

In total, if all three Market-Makers approved of this compression proposal, MM1 would compress 275 contracts, MM2 would compress 225 contracts, and MM3 would compress 100 contracts, for a total of 600 contracts among all three Market-Makers, representing nearly 40% of the 1,550 total contracts submitted by the three Market-Makers. With a notional value of nearly

$400,000 per SPX contract, this compression would permit these Market-Makers to eliminate positions from their accounts that equate to a significant reduction in necessary capital to be maintained in those accounts, which the Market-Makers could instead put back into the market.[35]

The Exchange believes the proposed compression service will provide Market-Makers with an additional tool to reduce regulatory capital attributable to their portfolios in accordance with their businesses and risk management practices. The Exchange understands from customers, and Market-Makers in particular, there continues to be a significant need to reduce regulatory capital attributable to their open interest based on then-current market conditions. The need for compression is particularly true during times of extreme volatility, such as the recent historic levels of market volatility, which can make providing liquidity in index options immensely more challenging when market participants need liquidity the most. The Exchange believes the ability of Market-Makers to compress their portfolios helps reduce the risk of market dislocation, especially during periods of increased volume and volatility, as they can continue providing liquidity during such times (which may increase the regulatory capital attributed to their portfolios) because they will know that they can subsequently reduce their open positions (and concomitant regulatory capital).

As noted above, because some CTPHs carrying these are bank-owned broker/dealers, those CTPHs are subject to further bank regulatory capital requirements, which result in these additional punitive capital requirements being passed on to their market-maker clients.[36] The Exchange believes implementation of SA-CCR by all CTPHs will not eliminate the need for

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35 The Exchange notes each Market-Maker would retain any uncompressed positions. Each Market-Maker would have the option to resubmit these uncompressed positions on a new position list at the times permitted by the Exchange to potentially be part of a different compression proposal. Additionally, if any of the Market-Makers declined this compression proposal, the Market-Makers could similarly resubmit new position lists if they so choose.

36 See Letter from Cboe, New York Stock Exchange, and Nasdaq, Inc., to the Honorable Randal Quarles, Vice Chair for Supervision of the Board of Governors of the Federal Reserve System, March 18, 2020.

Market-Makers to engage in the compression of their portfolios. Market-Makers regularly avail themselves of compression orders, in which they use the information provided in the Exchange-provided position lists to identify potential counterparties that similarly need to close index option open interest. Additionally, certain TPHs avail themselves of off-floor RWA transfers across their own accounts to similarly achieve this purpose. The proposed compression transactions will be able to occur in numerous options as part of multilateral transactions effected at a single time, which will permit Market-Makers' to compress their portfolios more efficiently than they can using current compression tools. The proposed compression service streamlines current compression tools, which the Exchange believes will permit Market-Makers to reduce more efficiently any potential negative impact on the market-making community that has resulted from bank regulatory capital requirements. The Exchange expects the proposed compression service will provide Market-Makers with an additional avenue to free up much needed capital, which will benefit the entire market and all investors.

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.[37] Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)[38] 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

37 15 U.S.C. 78f(b).

38 15 U.S.C. 78f(b)(5).

is consistent with the Section 6(b)(5)[39] requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

In particular, the Exchange believes the proposed rule change will remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, protect investors and the public interest because it seeks to further mitigate the potentially negative effects of net capital requirements on liquidity in the index options markets. As described above, current regulatory capital requirements impede efficient use of capital and undermine the critical liquidity role that Market-Makers play in the index options market by limiting the amount of capital CTPHs allocate to clearing member transactions. Specifically, the rules have caused CTPHs to impose stricter position limits on their clearing members. In turn, this could force Market-Makers to reduce the size of their quotes and result in reduced liquidity in the market. The Exchange believes that providing Market-Makers with a more efficient mechanism to reduce regulatory capital attributable to their portfolios will permit Market-Makers to contribute to the availability of liquidity in the index options market and help ensure that these markets retain their competitive balance. The Exchange believes that the proposed rule would serve to protect investors by helping maintain a consistent continued depth of liquidity, particularly in volatile market conditions when liquidity is needed the most by investors.

The proposed rule change will provide liquidity providers with the ability to reduce regulatory capital more efficiently attributable to their open interest in index options as part of a multilateral matching process. Current compression tools require Market-Makers to identify counterparties against which to execute compression volume as part of multiple transactions or limit how positions may be transferred off-exchange. The proposed compression process is a streamlined version of the process used for compression orders, with three main differences (some of which incorporate elements of off-floor RWA transfers). First, the compression service

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39 Id.

would eliminate the burden on Market-Makers to identify potentially multiple counterparties to effect compression transactions that would achieve the compression goals of all compression transaction parties. The Exchange understands that TPHs generally submit compression-list positions with the goal of identifying other TPHs with offsetting positions that will enable them to submit compression orders. While the Exchange provides TPHs that submit compression-list positions with a list of positions for which there is offsetting size and the identities of the TPHs with that offsetting size, TPHs must still seek each other out to determine how to offset as much as possible among each other to achieve their compression goals, and then submit various crossing orders to do so. The proposed compression service eliminates this step, as the Exchange's automated process will match offsetting size among multiple compression participants as a single step. With respect to the proposed compression service, the Exchange would be bringing together purchases and sellers of index options for the purpose of compression who ultimately decide into which transactions they will or will not enter, which is consistent with its role as an exchange under the Exchange Act.[40]

Second, unlike compression orders, compression transactions effected through the proposed compression service would occur off-exchange and outside of regular trading hours. Compression orders are executed on the Exchange, but are not exposed before execution. The Exchange recognizes the numerous benefits of executing options transactions occur on an exchange, including price transparency, potential price improvement, and a clearing guarantee. However, the Exchange believes exposure and execution of compression transactions on the Exchange would have minimal benefits.[41] When TPHs previously exposed compression orders to the trading floor, the Exchange observed that market participants generally deferred their

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[40] See 15 U.S.C. 78c(a)(1) (which defines an "exchange" as an organization that constitutes, maintains, or provides a marketplace or facilities for bringing together purchases and sellers of securities).

[41] Because compression transactions will be effected within clearing accounts at the OCC, any compression transactions will continue have a clearing guarantee.

allocations to permit a clean cross. Because orders that were executed in compression forums on the trading floor were generally not broken up, and because the purpose of these trades is unrelated to profits and losses (making the price at which the transaction is executed relatively unimportant like competitive trades), the Exchange believes it is appropriate to not require exposure of these orders in an electronic or open outcry setting. Compression orders are currently not exposed on the Exchange for the same purpose.[42] The Exchange believes that TPHs understand the benefits that compression may bring to liquidity on the Exchange to the benefit of all market participants, which benefit the Exchange believes is greater than the benefit of exposing compression transactions prior to execution.

The Exchange believes the benefits of permitting compression transactions to occur off the exchange exceed any benefits that may result from executing these orders on the Exchange. The Exchange notes that the benefits of requiring a broker to expose an order on the trading floor generally flow to that order, which include the potential of price improvement for the order and to locate liquidity against which to execute the order. The compression service, however, will have located the necessary liquidity to offset the positions a Market-Maker is seeking to close (or open) as part of compression, as that is necessary given the nature of these transactions. Additionally, the Compression transactions have a narrow scope and are intended to achieve a limited purpose. The compression service is not intended to be a competitive trading tool. There is no need for price discovery or improvement, as the purpose of the transfer is to reduce capital requirements attributable to a market participants' positions. Unlike trades on an exchange, the price at which a compression transaction occurs is a secondary concern for the participants – the resulting reduction in capital attributable a Market-Maker's portfolio is the critical part of compression. Additionally, the Exchange intends to disseminate transaction information for all effected compression transactions to OPRA,[43] so there will be transparency to the public

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42 See Rules 5.32, 5.33, and 5.88.

43 As discussed above, the Exchange is working with OPRA to have an indicator applied to

regarding the prices and sizes of compression transactions. Because compression transactions will be effected off-exchange and not during the trading day, they will not be subject to an NBBO or customer priority like compression orders. However, the prices of these transactions must be executed at a programmatically determined price that incorporates available pricing information and uses generally accepted volatility and options pricing models, which the Exchange believes will result in compression transactions being executed at reasonable market prices.[44] The Exchange notes other off-floor transfers effected for compression purposes are not required to occur at prices at or within the then-prevailing NBBO or better than any resting Priority Customer orders.[45] The proposed rule change is narrow in scope, as it is limited to Market-Makers and index options and to transactions executed for the purpose of reducing required regulatory capital, which the Exchange believes makes permitting compression transactions to occur off the floor appropriate and important to support the provision of liquidity in the listed options market.

Third, the proposed compression service will be limited to Market-Makers, unlike compression orders, which are available to all TPHs.[46] Although the Exchange is seeking to limit participation in the compression service to Market-Makers, the Exchange believes the proposal is not designed to permit discrimination between customers, issuers, brokers, or dealers. The Exchange believes it is appropriate to restrict the compression service to Market-Makers given the critical role Market-Makers play in the options markets. The proposed rule change

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compression transaction information disseminated through OPRA but does not expect that indicator to be available upon implementation of the compression service.

44 Additionally, the Exchange believes the fact that compression transactions will occur at a programmatically determined price (and thus not permitting compression participants to determine their own compression prices) will provide an additional control to limit the use of the compression service to legitimate compression purposes.

45 See Rule 6.8.

46 The Exchange notes a previously available compression tool was limited to Market-Makers for a similar purpose. See Securities Exchange Act Notice 84344 (October 2, 2018), 83 FR 50721 (October 9, 2018) (SR-CBOE-2018-056) (which permitted on-floor RWA transfers).

seeks to alleviate the negative impact of bank capital requirements on the primary liquidity providers in the listed options market (i.e., Market-Makers), who have been and continue to be disproportionately impacted by Net Capital Requirements governing bank-affiliated clearing firms.[47] As discussed above, the proposed rule change would reduce the burden on Market-Makers to compress the size of their portfolios compared to currently available compression tools. Additionally, given that the proposed compression transactions may only occur if all parties agree to a compression proposal, the Exchange wants to ensure that compression participants are those willing to put the resources into creating position lists and engage in the compression transactions in order to encourage participation.[48] The vast majority of market participants that have made use of the Exchange's other compression tools are Market-Makers, so the Exchange believes limiting the proposed compression service will not unduly burden other TPHs.[49] Market-Makers are subject to quoting obligations, which generally result in them taking on significant amounts of positions that ultimately become subject to capital requirements, which may ultimately restrict the liquidity these Market-Makers can provide to the market. The Exchange believes the proposed rule change will still benefit all market participants, as the resulting compression transactions will result in the ability of Market-Makers to provide additional liquidity to the index options market. The Exchange believes the ability for Market-Makers to efficiently and effectively compress their portfolios in one step off the Exchange will reduce the risk of market dislocation and not interfere with Market-Maker's continuous provision of liquidity, especially during periods of increased volume and volatility. Market-Makers will be able to continue providing liquidity during such times (increasing the capital attributed to their

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[47] See Letter from Cboe, New York Stock Exchange, and Nasdaq, Inc., to the Honorable Randal Quarles, Vice Chair for Supervision of the Board of Governors of the Federal Reserve System, March 18, 2020.

[48] CME currently limits participants in its compression service to those that satisfy certain eligibility criteria.

[49] The Exchange notes that current compressions tools will continue to remain available to all TPHs. See Rules 5.6(c) and 6.8.

portfolios) because they will know that they can subsequently reduce their open positions across numerous options at one time.

The Exchange also believes it is reasonable to limit the proposed compression service to index options. Currently, compression orders are limited to SPX options, as such options have a large notional value and represent the most volume executed on the Exchange.[50] Off-floor RWA transfers may occur in any exchange-listed option; however, transfers of multiply listed equity options are subject to the rules of all options exchanges that list those options, and thus would only be permissible if all other options exchanges permitted such off-floor transfers. The Exchange believes it is appropriate to offer the compression service for index options listed on the Exchange, as such index options may only be listed on the Exchange and its affiliated exchanges (and thus would not be constrained by the rules of other options exchanges to the extent they do not permit off-floor transfers for compression purposes).[51] Additionally, the index value of nearly all index options the Exchange lists for trading is at least 100,[52] making the notional value of an index option at least 10,000.[53] Given the high notional value associated with index option contracts in general, the Exchange believes Market-Makers could benefit from compressing index options beyond SPX options within their portfolio. The large notional size of most index options compounds the negative impact of Net Capital Rules, which apply to positions in all index options, and may impact all client clearing members of clearing firms affiliated with U.S.-bank holding companies. Clearing firms may request that Market-Makers

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50 See Rules 5.6(c) (definition of compression order).

51 Certain index options listed on the Exchange are also listed on its affiliated options exchanges, which intend to submit separate filing adopting the proposed multilateral compression process upon Commission approval of this proposed rule filing.

52 The level of VIX is generally below 100.

53 The Exchange may consider to further expand the compression service to equity options (like off-floor RWA transfers) and would submit a separate rule filing in the event it determined to do so. The Exchange notes the off-floor compression of equity options, which are multiply listed, would be subject to the rules of other options exchanges.

reduce positions in listed options in addition to SPX, and the proposed rule change will provide Market-Makers with an efficient mechanism to do so with respect to their index option positions.

The proposed flexibility with respect to when the Exchange will accept and make available lists of positions Market-Makers would like to compress will permit the Exchange to react to market conditions and facilitate Market-Makers' reduction of index option open interest in response to volatility as necessary.[54] The Exchange intends to make the compression service available with sufficient frequency to permit Market-Makers to effect compression transactions in accordance with their own needs (as long as they previously submitted the applicable positions to the Exchange in advance), as well as to address intra-month position reviews by their CTPHs. The Exchange believes this enhanced compression process will allow Market-Makers to more efficiently reduce the necessary regulatory capital associated with their options positions and permit them to provide more liquidity in the market. This additional liquidity may result in tighter spreads and more execution opportunities, which benefits all investors, particularly in volatile markets.

It is critical that Market-Makers be able to efficiently manage capital and margin requirements so that they continuously have sufficient capital available to provide to the markets, which benefits all market participants. Many Market-Makers clear through CTPHs that have been impacted by bank regulatory capital requirements, and therefore the Exchange believes all market participants understand and respect the need of Market-Makers to reduce capital attributable to their positions in accordance with capital reviews performed by CTPHs as efficiently as possible, including through the use of compression. Market-Makers regularly avail themselves of compression orders, in which they use the information provided in the Exchange-provided position lists to identify potential counterparties that similarly need to close index option open interest. Additionally, certain TPHs avail themselves of off-floor RWA transfers

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54 This flexibility is consistent with the Exchange's current flexibility regarding the availability of compression orders.

across their own accounts to similarly achieve this purpose. The Exchange believes the proposed rule change is narrowly tailored for the specific purpose of facilitating the ability of Market-Makers to alleviate the negative effects of current bank regulatory capital requirements on index options that generally have large notional values. The proposed compression process will permit multilateral transactions in numerous options to be effected at a single time, which will permit Market-Makers' to compress their portfolios more efficiently than they can using current compression tools. The proposed compression service streamlines current compression tools, which the Exchange believes will permit Market-Makers to reduce more efficiently any potential negative impact on the market-making community that has resulted from bank regulatory capital requirements. The Exchange expects the proposed compression service will provide Market-Makers with an additional avenue to free up much needed capital, which will benefit the entire market and all investors. The Exchange believes the proposed rule change will protect investors by providing a more seamless execution of compression transactions and thus facilitate a more efficient way for liquidity providers to meet their capital requirements, which will protect investors as a result of the continued depth of liquidity in the index options market. Continuous increased liquidity in the options market may provide more trading opportunities and tighter spreads, providing for robust markets for all market participants.

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 purpose of the proposed rule change is to alleviate the negative impact of bank capital requirements on options market liquidity providers. The proposed compression service is not intended to be a competitive trading tool.

The Exchange does not believe the proposed rule change will impose any burden on intramarket competition, as the compression service will be available to all Market-Makers and to all index options, which generally carry a higher notional value (as noted above). Use of the compression service is completely voluntary and within the discretion of a Market-Maker. The Exchange believes it is appropriate to restrict the compression service to Market-Makers given the critical role Market-Makers play in the options markets.[55] As discussed above, the proposed rule change would reduce the burden on Market-Makers to compress the size of their portfolios compared to currently available compression tools. Additionally, given that the proposed compression transactions may only occur if all parties agree to a compression proposal, the Exchange wants to ensure that compression participants are those willing to put the resources into creating position lists and engage in the compression transactions in order to encourage participation.[56] The vast majority of market participants that used the Exchange's other compression tools are Market-Makers, so the Exchange believes limiting the proposed compression service will not unduly burden other TPHs. Market-Makers are subject to quoting obligations, which generally result in them taking on significant amounts of positions that ultimately become subject to capital requirements, which may ultimately restrict the liquidity these Market-Makers can provide to the market. The Exchange believes the proposed rule change will still benefit all market participants, as the resulting compression transactions will result in the ability of Market-Makers to provide additional liquidity to the index options market. The Exchange notes that all TPHs continue to have the opportunity to compress positions using the other compression tools the Exchange makes available.

The Exchange also believes it is reasonable to limit the proposed compression service to index options. Currently, compression orders are limited to SPX options, as such options have a large notional value and represent the most volume executed on the Exchange.[57] Off-floor RWA

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55 See Letter from Cboe, New York Stock Exchange, and Nasdaq, Inc., to the Honorable Randal Quarles, Vice Chair for Supervision of the Board of Governors of the Federal Reserve System, March 18, 2020.

56 CME currently limits participants in its compression service to those that satisfy certain eligibility criteria.

57 See Rules 5.6(c) (definition of compression order).

transfers may occur in any exchange-listed option; however, transfers of multiply listed equity options are subject to the rules of all options exchanges that list those options, and thus would only be permissible if all other options exchanges permitted such off-floor transfers. The Exchange believes it is appropriate to offer the compression service for index options listed on the Exchange, as such index options may only be listed on the Exchange and its affiliated exchanges (and thus would not be constrained by the rules of other options exchanges to the extent they do not permit off-floor transfers for compression purposes).[58] Additionally, the index value of nearly all index options the Exchange lists for trading is at least 100,[59] making the notional value of an index option at least 10,000.[60] Given the high notional value associated with index option contracts in general, the Exchange believes Market-Makers could benefit from compressing index options beyond SPX options within their portfolio. The large notional size of most index options compounds the negative impact of Net Capital Rules, which apply to positions in all index options, and may impact all client clearing members of clearing firms affiliated with U.S.-bank holding companies. Clearing firms may request that Market-Makers reduce positions in listed options in addition to SPX, and the proposed rule change will provide Market-Makers with an efficient mechanism to do so with respect to their index option positions.

The Exchange does not believe the proposed rule change will impose any burden on intermarket competition, as it will apply only to index options that are currently listed for trading only on the Exchange (and its affiliated options exchanges).[61] The proposed rule change is

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58 Certain index options listed on the Exchange are also listed on its affiliated options exchanges, which intend to submit separate filing adopting the proposed multilateral compression process upon Commission approval of this proposed rule filing.

59 The level of VIX is generally below 100.

60 The Exchange may consider to further expand the compression service to equity options (like off-floor RWA transfers) and would submit a separate rule filing in the event it determined to do so. The Exchange notes the off-floor compression of equity options, which are multiply listed, would be subject to the rules of other options exchanges.

61 If the Commission approves the proposed rule change, the Exchange's affiliated options exchanges intend to submit copycat rule filings.

intended create a more efficient effective mechanism for market participants to reduce regulatory capital attributable to all index options in their portfolios. The proposal is broader than compression orders, which are limited to SPX options, and the Exchange believes making the compression service available to all index options will provide Market-Makers with additional compression opportunities, which will free up their balance sheets to provide more liquidity in all index options, not just SPX.[62] When attempting to compress positions, Market-Makers are not seeking price improvement but rather looking to free up capital that will permit them to continue to provide liquidity to the market in their appointed classes, and thus is not intended to have a competitive impact. Because compression transaction information will be disseminated, all market participants will have access to the same information regarding compression transactions as they do to all other transaction information that occurs on the Exchange. The compression service is intended to have a limited purpose, which is to relieve the burden on liquidity providers in the options market by reducing the capital requirements attributable to their open positions. As a result, Market-Makers may be able to increase liquidity they provide to the market, which liquidity benefits all market participants.

Additionally, as noted above, the proposed multilateral compression service is substantially similar to one CME offers for the compression of futures positions.[63]

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

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62 As discussed above, the Exchange may consider to further expand the compression service to equity options (like off-floor RWA transfers) and would submit a separate rule filing in the event it determined to do so. The Exchange notes the off-floor compression of equity options, which are multiply listed, would be subject to the rules of other options exchanges.

63 See CME Rule 857.

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 self-regulatory organization consents, the Commission will:

(A) by order approve or disapprove the 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 e-mail to rule-comments@sec.gov. Please include File Number SR-CBOE-2021-020 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-2021-020. 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-2021-020 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.[64]

J. Matthew DeLesDernier,
Assistant Secretary.

[FR Doc. 2021-07385 Filed: 4/9/2021 8:45 am; Publication Date: 4/12/2021]

[64] 17 CFR 200.30-3(a)(12).