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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-84470; File No. SR-CBOE-2018-066]

Self-Regulatory Organizations; Cboe Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Permit the Exchange to List Options on the Cboe Volatility Index (“VIX options”) on a Group Basis and Make Conforming Changes Throughout the Rules, Change the Minimum Increment for VIX Options Listed Under the Nonstandard Expirations Pilot Program (if the Exchange Lists VIX on a Group Basis), and Make Nonsubstantive Changes

October 23, 2018.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on October 12, 2018, Cboe Exchange, Inc. (“Exchange” or “Cboe Options”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. The Exchange filed the proposal as a “non-controversial” proposed rule change pursuant to Section 19(b)(3)(A)(iii) of the Act³ and Rule 19b-4(f)(6) thereunder.⁴ The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A)(iii).

⁴ 17 CFR 240.19b-4(f)(6).

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 rules to permit the Exchange to list options on the Cboe Volatility Index (“VIX options”) on a group basis and make conforming changes throughout the Rules, change the minimum increment for VIX options listed under the Nonstandard Expirations Pilot Program (if the Exchange lists VIX on a group basis), and make nonsubstantive changes.

(additions are italicized; deletions are [bracketed])

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Rules of Cboe Exchange, Inc.

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Rule 6.42. Minimum Increments for Bids and Offers

[The Board of Directors may establish minimum increments for options traded on the Exchange. When the Board of Directors determines to change the minimum increments, the Exchange will designate such change as a stated policy, practice, or interpretation with respect to the administration of Rule 6.42 within the meaning of subparagraph (3)(A) of subsection 19(b) of the Exchange Act and will file a rule change for effectiveness upon filing with the Commission. Until such time as the Board of Directors makes a change to the minimum increments, t](a) Simple Orders. The [following] minimum increments [shall apply to]for bids and offers on simple orders for options traded on the Exchange are as follows:

<u>Class</u>	<u>Increment</u>	<u>Series Trading Price</u>
<u>Class Not Participating in Penny Pilot Program (including all series of VIX</u>	<u>\$0.05</u>	<u>Lower than \$3.00</u>

<u>options if the Exchange does not list VIX on a group basis pursuant to Rule 8.14)</u>	<u>\$0.10</u>	<u>\$3.00 and higher</u>
<u>and series of VIX Options not listed under the Nonstandard Expirations Pilot Program (if the Exchange lists VIX on a group basis pursuant to Rule 8.14)</u>		
<u>Class Participating in Penny Pilot Program</u>	<u>\$0.01</u>	<u>Lower than \$3.00</u>
	<u>\$0.05</u>	<u>\$3.00 and higher</u>
<u>QQQs, IWM, and SPY, and Mini-SPX Index Options (XSP) (as long as SPDR options (SPY) participate in the Penny Pilot Program)</u>	<u>\$0.01</u>	<u>All prices</u>
<u>Series of VIX Options listed under the Nonstandard Expirations Pilot Program (if the Exchange lists VIX on a group basis pursuant to Rule 8.14)</u>	<u>\$0.01</u>	<u>All prices</u>
<u>Options on the Dow Jones Industrial Average (DJX), as long as Diamonds options (DIA) participate in the Penny Pilot Program</u>	<u>\$0.01</u>	<u>Lower than \$3.00</u>
	<u>\$0.05</u>	<u>\$3.00 and higher</u>
<u>Mini-Options</u>		<u>Same as permitted for standard options on the same security</u>

(1) Subject to paragraphs (2) and (3) below, bids and offers shall be expressed in decimal increments no smaller than \$0.10, unless a different increment is approved by the Exchange for an option contract of a particular series.

(2) Subject to paragraph (3) below, bids and offers for all option series quoted below \$3 a contract shall be expressed in decimal increments no smaller than \$0.05

(3) The decimal increments for bids and offers for all series of the option classes participating in the Penny Pilot Program are: \$0.01 for all option series quoted below \$3 (including LEAPS), and \$0.05 for all option series \$3 and above (including LEAPS). For QQQQs, IWM, and SPY, the minimum increment is \$0.01 for all option series. The Exchange may replace any option class participating in the Penny Pilot Program that has been delisted with the next most actively-traded, multiply-listed option class, based on national average daily volume in the preceding six calendar months, that is not yet included in the Pilot Program. Any replacement class would be added on the second trading day following July 1, 2018. The Penny Pilot shall expire on December 31, 2018.]

([4]b) Complex Orders. Except as provided in Rule 6.53C, the minimum increment for bids and offers on complex orders, as defined in Interpretation and Policy .01 below, [may be expressed in any net price increment (that may not be less than] is \$0.01[)] or greater, [that]which may be determined by the Exchange on a class-by-class basis and announced to [the] Trading Permit Holders via Regulatory Circular[, regardless of the minimum increments otherwise appropriate to the individual legs of the order]. Notwithstanding the foregoing sentence, the minimum increment for bids and offers on complex orders in options on the S&P 500 Index (SPX) or on the S&P 100 Index (OEX and XEO), except for box/roll spreads, [shall be expressed in decimal increments no smaller than]is \$0.05 or greater, or in any increment, [as]which may be determined by the Exchange

on a class-by-class basis and announced to [the] Trading Permit Holders via Regulatory Circular. In addition:

([a]i) [T]he legs of a complex order may be executed in \$0.01 increments; and

([b]ii) complex orders are subject to special priority requirements as described in Rules 6.45, 6.53C, 24.19 and 24.20.

. . . Interpretations and Policies:

.01 For purposes of this rule, “complex order” means a spread, straddle, combination or ratio order as defined in Rule 6.53, a stock-option order as defined in Rule 1.1(ii), a security future-option order as defined in Rule 1.1(zz), or any other complex order as defined in Rule 6.53C.

.02 For purposes of this rule, “box/roll spread” or “box spread” means an aggregation of positions in a long call option and short put option with the same exercise price (“buy side”) coupled with a long put option and short call option with the same exercise price (“sell side”) all of which have the same aggregate current underlying value, and are structured as either: ([A]a) a “long box spread” in which the sell side exercise price exceeds the buy side exercise price or ([B]b) a “short box spread” in which the buy side exercise price exceeds the sell side exercise price.

.03 When the Exchange determines to change the minimum increment for a class, the Exchange will designate such change as a stated policy, practice, or interpretation with respect to the administration of Rule 6.42 within the meaning of subparagraph (3)(A) of subsection 19(b) of the Act and will file a rule change for effectiveness upon filing with the Commission.

.04 The Exchange may replace any option class participating in the Penny Pilot Program that has been delisted with the next most actively traded, multiply listed option class, based on national average daily volume in the preceding six calendar months, that is not yet included in the Pilot

Program. Any replacement class would be added on the second trading day following July 1, 2018.

The Penny Pilot will expire on December 31, 2018.

[.03 For so long as SPDR options (SPY) and options on Diamonds (DIA) participate in the Penny Pilot Program, the minimum increments for Mini-SPX Index Options (XSP) shall be the same as SPY for all options series (including LEAPS) and for options on the Dow Jones Industrial Average (DJX) are \$0.01 for all option series quoted below \$3 (including LEAPS), and \$0.05 for all option series \$3 and above (including LEAPS).

.04 The minimum price variation for bids and offers for mini-options shall be determined in accordance with Interpretation and Policy .22(d) to Rule 5.5.]

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Rule 6.53C. Complex Orders on the Hybrid System

(a) – (d) No change.

. . . Interpretations and Policies:

.01 No change.

.02 If the Exchange determines to list SPX or VIX on a group basis pursuant to Rule 8.14, a marketable complex order consisting of legs in different groups of series in the class does not automatically execute against individual orders residing in the EBook pursuant to Rule 6.53C(c)(ii)(1) or (d)(v)(1) and automatically executes against complex orders (or COA responses) in accordance with Rules 6.53C(c)(ii)(2) or (d)(v)(2) through (4). A marketable complex order consisting of legs in the same group of series in SPX or VIX executes against individual orders in the EBook in accordance with Rule 6.53C(c)(ii) and (d)(v). Complex orders consisting of legs in different groups of series that are marketable against each other may only execute at a net price that has priority over the individual orders and quotes resting in the EBook.

.03 – .12 No change.

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Rule 8.3. Appointment of Market-Makers

(a) – (b) No change.

(c) Market-Maker Appointments. Absent an exemption by the Exchange, an appointment of a Market-Maker confers the right to quote electronically and in open outcry in the Market-Maker’s appointed classes during Regular Trading Hours as described below. Subject to paragraph (e) below, a Market-Maker may change its appointed classes upon advance notification to the Exchange in a form and manner prescribed by the Exchange.

(i) Hybrid Classes. Subject to paragraphs (c)(iv) and (e) below, a Market-Maker can create a Virtual Trading Crowd (“VTC”) appointment, which confers the right to quote electronically during Regular Trading Hours in an appropriate number of Hybrid classes (as defined in Rule 1.1(aaa)) selected from “tiers” that have been structured according to trading volume statistics, except for the AA tier. All classes within a specific tier will be assigned an “appointment cost” depending upon its tier location. The following table sets forth the tiers and related appointment costs.

Tier	Hybrid Option Classes	Appointment Cost
AA	Options on the Cboe Volatility Index (VIX)	.499**
	Options on the Standard & Poor’s 500 Index (SPX)	1.0**
* * * * *		
** If the Exchange determines to list <u>SPX or VIX</u> on a group basis pursuant to Rule 8.14, the <u>SPX or VIX</u> appointment cost, <u>as applicable</u> , confers the right to trade in all <u>SPX or VIX</u> groups, <u>respectively</u> .		

(ii) – (v) No change.

(d) – (e) No change.

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Rule 8.13. Preferred Market-Maker Program

(a) – (d) No change.

. . . Interpretations and Policies:

.01 – .03 No change.

.04 If the Exchange determines to list SPX or VIX on a group basis pursuant to Rule 8.14, obligations of an SPX or VIX Market-Maker, as applicable, designated as a Preferred Market-Maker, as set forth in Rule 8.13, apply on a class basis, unless the Exchange determines to apply obligations on a group basis.

Rule 8.14. Hybrid Trading System Platforms & Market-Maker Participants

(a) – (b) No change.

. . . Interpretations and Policies:

.01 For each Hybrid 3.0 class, the Exchange may determine to authorize a group of series of the class for trading on the Hybrid Trading System and, if that authorization is granted, shall determine the eligible categories of Market-Maker participants for that group of series. The Exchange will also have the authority to determine whether to change the trading platform on which the group of series trades. If the Exchange lists SPX or VIX on the Hybrid Trading System, the Exchange may determine to list the class on a group basis, with both groups trading

on the Hybrid Trading System. The Exchange will also have the authority to change the eligible categories of Market-Makers participants for each group. In addition, the following shall apply:

(a) – (c) No change.

Rule 8.15. Lead Market-Makers

(a) – (d) No change.

. . . Interpretations and Policies:

.01 – .04 No change.

.05 If the Exchange determines to list SPX or VIX on a group basis pursuant to Rule 8.14, obligations of an SPX or VIX Market-Maker, as applicable, designated as a Lead Market-Maker, as set forth in Rule 8.15, apply on a class basis, unless the Exchange determines to apply obligations on a group basis.

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Rule 8.85. DPM Obligations

(a) – (e) No change.

. . . Interpretations and Policies:

.01 – .02 No change.

.03 If the Exchange determines to list SPX or VIX on a group basis pursuant to Rule 8.14, obligations of a Designated Primary Market-Maker with an SPX or VIX appointment, as applicable, as set forth in Rule 8.85, apply on a class basis, except if the Exchange determines to apply obligations on a group basis.

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(b) Not applicable. [sic]

(c) Not applicable. [sic]

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 Rules to permit the Exchange to list options on the Cboe Volatility Index ("VIX options") on [sic] group basis and make conforming changes throughout the Rules, change the minimum increment for VIX options listed under the Nonstandard Expirations Pilot Program (if the Exchange lists VIX on a group basis), and make nonsubstantive changes. Rule 8.14, Interpretation and Policy .01 currently permits the Exchange to authorize a

group of series of a Hybrid 3.0⁵ class for trading on the Hybrid Trading System. Rule 8.14, Interpretation and Policy .01 also permits the Exchange to list options on the S&P 500 (“SPX options”) on a group basis, with both groups trading on the Hybrid Trading System, if the Exchange lists SPX on the Hybrid Trading System.⁶ If the Exchange authorizes this, it determines the eligible categories of Market-Maker participants for the group (Designated Primary Market-Makers (“DPMs”), Lead Market-Makers (“LMMs”), or Market-Makers). The Exchange may also appoint no DPM or LMM to a class if the conditions in Rule 8.14(b) are satisfied with respect to the class. A DPM’s or LMM’s obligations will apply to a class, unless the Exchange determines to apply a DPM’s or LMM’s obligations on a group basis. Market-Maker appointments apply on a class basis. The Exchange establishes Hybrid Trading System trading parameters (e.g., applicable matching algorithm under Rule 6.45, opening rotation parameters under Rule 6.2B, automatic execution parameters under Rule 6.13, simple auction liaison parameters under Rule 6.13A, hybrid agency liaison parameters under Rule 6.14A, complex order parameters under Rule 6.53C, and automated improvement mechanism parameters under Rule 6.74A) on a group basis to the extent the Rules otherwise provide for such parameters to be established on a class basis.

⁵ “Hybrid Trading System” refers to (i) the Exchange’s trading platform that allows Market-Makers to submit electronic quotes in their appointed classes and (ii) any connectivity to the foregoing trading platform that is administered by or on behalf of the Exchange, such as a communications hub. “Hybrid 3.0 Platform” is an electronic trading platform on the Hybrid Trading System that allows one or more quoters to submit electronic quotes which represent the aggregate Market-Maker quoting interest in a series for the trading crowd. Classes authorized by the Exchange for trading on the Hybrid Trading System are referred to as Hybrid classes. Classes authorized by the Exchange for trading on the Hybrid 3.0 Platform are referred to as Hybrid 3.0 classes. See Rule 1.1(aaa). Currently, no classes trade on the Hybrid 3.0 Platform.

⁶ Currently, the Exchange lists SPX options on the Hybrid Trading System, and lists the class in two groups – one group consists of SPX options with A.M.-settled standard third-Friday expirations and the other group consists of SPX options with P.M.-settled standard third-Friday expirations and nonstandard end-of-week or end-of-month expirations. The Exchange lists both groups of SPX options on the Hybrid Trading System.

The proposed rule change amends Rule 8.14, Interpretation and Policy .01 to permit the Exchange to list a class [sic] VIX options on a group basis if the Exchange lists VIX options on the Hybrid Trading System (which it currently does).⁷ The remaining provisions of Interpretation and Policy .01 would apply. Thus, if the Exchange lists VIX options in two groups, it may determine on which trading platform each group trades (both could trade on the Hybrid Trading System, both could trade on the Hybrid 3.0 Platform, and one could trade on each platform) and the eligible categories of Market-Maker participants for each group. If the Exchange determines to appoint a DPM or LMM, the obligations of the DPM or LMM would apply to the entire VIX class, unless the Exchange determines to apply the DPM or LMM obligations, as applicable, on a group basis.⁸ Market-Maker appointments would continue to apply to the entire VIX class, as further discussed below.⁹

As it does today, when determining whether to list a class on a group basis, the Exchange intends to generally select series with common expirations or classifications (e.g., end-of-week series or end-of-month series, short-term option series, long-term option series, or series that expire on a particular expiration date) and trade them under individual listing symbols. For example, the Exchange currently lists SPX options with A.M.-settled standard third-Friday expirations under symbol “SPX” and lists options on the S&P 500 Index with P.M.-settled standard third-Friday

⁷ If VIX was a Hybrid 3.0 class, the Exchange would be able to list it on a group basis today pursuant to Rule 8.14, Interpretation and Policy .01.

⁸ The proposed rule change makes conforming changes to Rules 8.15 and 8.85. The proposed rule change also makes a similar change to Rule 8.13 with respect to Preferred Market-Makers.

⁹ The Exchange does not currently (and does not intend to) appoint Preferred Market-Makers (“PMMs”) or DPMs to VIX options pursuant to Rules 8.13 or 8.95, respectively. The Exchange currently appoints an on-floor LMM to VIX options (which includes VIXW options), and may determine to apply a DPM or LMM to each group of VIX options if the Exchange determines to list VIX on a group basis.

expirations and nonstandard expirations with all other expirations under symbol “SPXW.” The Exchange would provide sufficient notice to Trading Permit Holders if it determines to list VIX on a group basis.

If the Exchange determines to list VIX on a group basis, the Exchange would establish trading parameters (e.g. applicable matching algorithm under Rule 6.45, opening rotation parameters under Rule 6.2, automatic execution parameters under Rule 6.13, simple auction liaison parameters under Rule 6.13A, hybrid agency liaison parameters under Rule 6.14A, complex order parameters under Rule 6.53C, and automated improvement mechanism parameters under Rule 6.74A) on a group basis, as it does today for SPX and SPXW. Pursuant to the proposed rule change, the Exchange could apply a different allocation algorithm to each group of VIX options.

The Exchange believes for VIX, groups of series may exhibit different trading characteristics, including appeal to different categories of market participants. For example, the Exchange believes VIXW options may be more appealing to retail customers given their short expiration, and would be in more demand with a smaller trading increment (see discussion below). The Exchange generally establishes market models for classes based on these characteristics that most fit the product, which the Exchange believes benefits investors. This is true for VIX options with standard third-Friday expirations and VIX options with nonstandard expirations, which is why the Exchange believes it is appropriate to permit the Exchange to list VIX options in groups.

The Exchange proposes to amend Rule 6.53C, Interpretation and Policy .02 to state if the Exchange determines to list VIX options on a group basis pursuant to Rule 8.14, if a marketable complex order consists of legs in different groups of series in the class, it will not automatically execute against individual orders residing in the EBook pursuant to Rule 6.53C(c)(ii)(1) or (d)(v)(1). This is consistent with current functionality today applicable to SPX and SPXW pursuant

to Rule 6.53C, Interpretation and Policy .10. The proposed rule change extends this functionality to VIX, if the Exchange lists it on a group basis.

As discussed above, if the Exchange lists VIX on a group basis, the Exchange may apply different trading parameters (including different allocation algorithms) to each group. Due to system limitations that in the Exchange's experience were prohibitively expensive to modify, complex orders consisting of different groups of series will not automatically execute against individual orders residing in the EBook, even if they trade on the same platform. Pursuant to Rule 6.53C, complex orders may only consist of legs from the same class. While VIX and VIXW series would be part of the same class even if the Exchange lists VIX on a group basis, and thus permissible for electronic handling under the Rules, the System would treat VIX and VIXW series as different classes (since they would potentially have different settings) and would be unable to process complex orders with components in different classes. The System has settings for each class. Currently, trading is not possible "across" classes given these different settings. Each class also has separate market data inputs, as the System must read different market data for each class in connection with potential executions in the class. If the System receives a complex order with one VIX leg and one VIXW leg, it would need to trade the VIX leg against the appropriate leg in the VIX "class." After that leg execution, it would then need to trade the VIXW leg against the appropriate leg in the VIXW "class." Given the time these executions would take across classes, it would not result in the near simultaneous execution of legs that is sought by the entry of complex orders. Additionally, after the first leg execution, because the complex order has not fully executed, the System would not be able to execute any other orders within the series of the first leg, which may prevent execution opportunities of those other orders.

For example, suppose the Exchange lists VIX on a group basis, as VIX and VIXW (similar to SPX and SPXW). The Exchange may determine pursuant to Rule 6.45(a) the allocation algorithm applicable to VIX/VIXW orders.¹⁰ VIX/VIXW orders may execute against other VIX/VIXW orders in the COB upon entry or against orders and COA responses following a COA in accordance with the allocation and priority rules set forth in 6.53C(c)(ii)(2) and (d)(v)(2) through (4), respectively.¹¹ The proposed rule change states marketable VIX/VIXW orders will be eligible to automatically execute against other VIX/VIXW orders resting in the COB provided the execution is at a net price that has priority over the individual orders and quotes residing in the EBook (which is consistent with the manner in which the Exchange currently handles these complex orders are handled [sic], as provided in Rule 6.53C, Interpretation and Policy .10(b)). A VIX/VIXW order that is marketable against individual orders resting in the EBook but not marketable against any complex orders resting in the COB or COA responses will enter the COB or instead be routed to a PAR workstation during Regular Trading Hours and rejected back to the Trading Permit Holder during Extended Trading Hours if not eligible for COB entry due to the terms of the order (for example, if

¹⁰ Rule 6.45(a)(i) permits the Exchange to determine which base electronic allocation algorithm will apply to a class, and Rule 6.53C(ii)(2) permits the Exchange to determine which electronic allocation algorithm will apply to executions of complex orders on the COB. Pursuant to the proposed rule change, as discussed above, the Exchange may establish trading parameters on a group basis when the Rules otherwise provide for parameters to be established on a class basis.

¹¹ Rule 6.53C(c)(ii)(2) states the allocation of a complex order within the COB will be pursuant to the rules of trading priority otherwise applicable to incoming electronic orders in the individual component legs or another electronic matching algorithm from Rule 6.45, as determined by the Exchange on a class-by-class basis. Therefore, pursuant to that provision and the proposed rule change, the Exchange will determine for VIX/VIXW complex orders which electronic matching algorithm will apply to those orders when executing against other orders in the COB. Rules 6.53(d)(v)(2) through (4) specify the matching algorithm applicable to complex orders that execute following a COA, and those provisions will apply to VIX/VIXW complex orders pursuant to the proposed rule change.

the order is for an origin code the Exchange does not permit to rest in the COB). This is how SPX/SPXW orders are handled today.¹²

The proposed rule change amends Rule 8.3(c)(i) to state if the Exchange determines to list VIX on a group basis pursuant to Rule 8.14, the appointment cost for VIX confers the right to trade in all groups of the class. This is consistent with how appointment costs currently work for VIX, and is consistent with how the appointment cost for SPX works (which the Exchange has determined to list on a group basis). A VIX Market-Maker's obligations pursuant to Rule 8.7 will continue to apply to VIX on a class basis (i.e., series within all VIX groups), even if the Exchange lists VIX on a group basis. This is consistent with how VIX Market-Makers' obligations apply to VIX today, as VIX Market-Makers' obligations apply to all VIX series. The Exchange proposes no change to the appointment cost, and thus Market-Makers with VIX appointments will not need to purchase any additional trading permits to quote VIX if the Exchange determines to list VIX on a group basis.

The Exchange also proposes to amend Rule 6.42 to permit series of VIX options listed under the Nonstandard Expiration pilot program ("VIXW") to have a minimum increment of \$0.01 for all strike prices if the Exchange determines to list VIX on a group basis. Currently, all VIX options have a minimum increment of \$0.05 for series trading below \$3 and \$0.10 for series trading

¹² See Rule 6.12(a)(1), which states orders initially routed for electronic processing that are not eligible for automatic execution or book entry will route to PAR or back to the Trading Permit Holder, Rule 6.53C(d)(vi), which states a COA-eligible order that cannot be filled in whole or in a permissible ratio will route to the COB or back to PAR, as applicable, and Rule 6.1A(b), which states if in accordance with the Rules, an order would route to PAR, the order entry firm's booth, or otherwise for manual handling, the System will return the order to the Trading Permit Holder during Extended Trading Hours.

above \$3.¹³ The Exchange believes market demand (particularly by retail investors, who generally prefer lower trading increments) supports a lower trading increment for these series. Permitting a different minimum increment for VIXW and VIX is consistent with the Exchange's current authority (as discussed above) to determine all trading parameters and market model elements other than minimum increment on a group basis to address different trading characteristics and market demand between groups of series. Permitting VIXW series to trade at a different minimum increment than VIX series will permit the Exchange to similarly address the different trading characteristics and market demand for these two groups of series.

Additionally, penny pricing is available in weekly options on competitor products such as the iPath S&P 500 VIX Short-Term Futures exchange-traded note ("VXX"). As a result, the Exchange believes penny pricing for VIXW options is necessary for competitive reasons to allow the Exchange to price these weekly options at the same level of granularity as permitted for competitor weekly products.¹⁴ The Exchange expects this more granular pricing to lead to narrowing of the bid-ask spread for these options and increase the possible number of price points available to investors for these series. The Exchange also notes that penny increments are appropriate for Nonstandard Expiration series, because they have shorter durations than standard options, and finer increments permit more precise pricing in line with the theoretical value of these shorter-term options. The proposed rule change also makes nonsubstantive changes to Rule 6.42,

¹³ As set forth in proposed Rule 6.42, if the Exchange does not list VIX on a group basis, these same increments would apply to the entire class.

¹⁴ The Exchange notes that other options that trade on the Exchange are currently permitted to trade in penny increments because competitive products are able to trade in penny increments. See Rule 6.42, Interpretation and Policy .03 (the minimum for XSP options is \$0.01 because that is the minimum increment for SPY options, and the minimum increment for DJX options is \$0.01 for series below \$3 and \$0.05 for series \$3 and above because that is the minimum increment for DIA options).

including moving certain provisions from the main body of the Rule to interpretations and policies .03 and .04, making language more plain English, conforming paragraph numbering and lettering to other rules, and displaying the increments in a more user-friendly table.

With regard to the impact of this proposed rule change on system capacity, the Exchange has analyzed its capacity and represents that it and the Options Price Reporting Authority have the necessary systems capacity to handle any potential additional traffic associated with this proposal. The Exchange does not believe any potential increased traffic will become unmanageable since this proposed rule change with respect to minimum trading increments is limited to a single class of options. The proposed rule change does not impact the number of expirations for VIX options the Exchange may list pursuant to Rule 24.9.

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.¹⁵ Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)¹⁶ 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

¹⁵ 15 U.S.C. 78f(b).

¹⁶ 15 U.S.C. 78f(b)(5).

is consistent with the Section 6(b)(5)¹⁷ requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

In particular, the Exchange believes the proposed rule change to permit the Exchange to list VIX options on a group basis will benefit investors and promote just and equitable principles of trade, as it provides the Exchange with flexibility to establish a more appropriate market model for a group of VIX options series that may exhibit different trading characteristics than other series in the class, even if both groups trade on the same platform. Currently, the Exchange may list VIX on a group basis if the groups of a class trade on different trading platforms (e.g., if VIX was a Hybrid 3.0 class); the proposed rule change merely permits the Exchange to similarly list VIX on a group basis on the same trading platform.

Similarly, the proposed rule change to provide [sic] that VIX/VIXW complex orders will not execute against individual orders in the EBook, which is consistent with the treatment of SPX/SPXW orders. These orders will continue to be eligible for electronic processing, including electronic execution, in the same manner as complex orders consisting of VIX series only or VIXW series only, except they will not automatically execute against individual orders in the EBook for the legs due to system limitations described above and would instead rest in the COB (if eligible) or route to PAR or the Trading Permit Holder during Regular Trading Hours, or be rejected back to the Trading Permit Holder during Extended Trading Hours.

Additionally, the proposed rule change will similarly benefit investors. Retail customers generally prefer options with shorter expirations, and the proposed rule change will permit series of VIX with short expirations to be listed in a smaller increment consistent with that demand from retail investors. Permitting a different minimum increment for VIXW and VIX is consistent with

¹⁷ Id.

the Exchange's current authority (as discussed above) to determine all trading parameters and market model elements other than minimum increment on a group basis to address different trading characteristics and market demand between groups of series. Permitting VIXW series to trade at a different minimum increment than VIX series will permit the Exchange to similarly address the different trading characteristics and market demand for these two groups of series.

Penny increments for VIXW series may lead to more granular pricing and narrowing of the bid-ask spread for these options and increase the possible number of price points available for investors for these series. Additionally, as discussed above, penny pricing is available in weekly options on competitive products. The Exchange believes penny pricing for VIXW options is necessary for competitive reasons, which will and promote just and equitable principles of trade, to allow the Exchange to price these weekly options at the same level of granularity as permitted for competitor weekly products.¹⁸ The Exchange also notes that penny increments are appropriate for Nonstandard Expiration series, because they have shorter durations than standard options, and finer increments permit more precise pricing in line with the theoretical value of these shorter-term options.

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

Cboe Options 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 proposed rule change has no impact on intramarket competition, as it will apply to all market

¹⁸ The Exchange notes that other options that trade on the Exchange are currently permitted to trade in penny increments because competitive products are able to trade in penny increments. See Rule 6.42, Interpretation and Policy .03 (the minimum for XSP options is \$0.01 because that is the minimum increment for SPY options, and the minimum increment for DJX options is \$0.01 for series below \$3 and \$0.05 for series \$3 and above because that is the minimum increment for DIA options).

participants that trade VIX if the Exchange determines to list VIX on a group basis. If VIX was a Hybrid 3.0 class, the Exchange could determine to list VIX on a group basis under current rules; the proposed rule change merely permits the Exchange to similarly list VIX on a group basis on the same trading platform. The proposed rule change has no impact on intermarket competition, as the proposed rule change relates to products exclusively listed on the Exchange. Additionally, the proposed rule change to permit VIXW options to be listed in penny increments may relieve any burden on, or otherwise promote, competition, as it will allow the Exchange to price these options at the same level of granularity as permitted for competitor weekly products. The Exchange notes that other options that trade on the Exchange are currently permitted to trade in penny increments because competitive products are able to trade in penny increments.¹⁹

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

Because the foregoing proposed rule change does not:

- A. significantly affect the protection of investors or the public interest;
- B. impose any significant burden on competition; and
- C. become operative for 30 days from the date on which it was filed, or such shorter

time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A)

¹⁹ See Rule 6.42, Interpretation and Policy .03 (the minimum for XSP options is \$0.01 because that is the minimum increment for SPY options, and the minimum increment for DJX options is \$0.01 for series below \$3 and \$0.05 for series \$3 and above because that is the minimum increment for DIA options).

of the Act²⁰ and Rule 19b-4(f)(6)²¹ thereunder. At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission will institute proceedings to determine whether the proposed rule change should be approved or disapproved.

IV. Solicitation of Comments

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

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-CBOE-2018-066 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-2018-066. 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

²⁰ 15 U.S.C. 78s(b)(3)(A).

²¹ 17 CFR 240.19b-4(f)(6).

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-2018-066, 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.²²

Eduardo A. Aleman,

Assistant Secretary.

²² 17 CFR 200.30-3(a)(12).

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