8011-01
SECURITIES AND EXCHANGE COMMISSION
[Release No. 34-87953; File No. SR-CBOE-2020-001]

Self-Regulatory Organizations; Cboe Exchange, Inc.; Notice of Filing and Immediate
Effectiveness of a Proposed Rule Change to Amend its Fees Schedule Related to Expiring Fee
Waivers and Incentive Programs


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 January 2, 2020, Cboe Exchange, Inc. (the
“Exchange” or “Cboe Options”) filed with the Securities and Exchange Commission (the
“Commission”) the proposed rule change as described in Items I, II, and III below, which Items
have been prepared by the Exchange. The Commission is publishing this notice to solicit
comments on the proposed rule change from interested persons.

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

The Exchange proposes to amend its Fees Schedule relating to various fee waivers and
incentive programs that are set to expire December 31, 2019. The amendments include
proposals to make some waivers permanent as well as proposals to extend or remove others. The
Exchange proposes to implement these amendments to its Fees Schedule on January 2, 2020.

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.

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

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

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

1. **Purpose**

The Exchange proposes to amend its Fees Schedule relating to various fee waivers and incentive programs that are set to expire December 31, 2019. The amendments include proposals to make some waivers permanent as well as proposals to extend or remove others. The Exchange proposes to implement these amendments to its Fees Schedule on January 2, 2020.

**Sector Indexes Facilitation Fee**

First, the Exchange proposes to permanently waive fees for facilitation orders in Sector Index options, thereby continuing to assess a fee of $0.00 for all qualifying orders. Currently, Footnote 11 of the Fees Schedule provides that for facilitation orders for Sector Index options executed in open outcry the Exchange will assess no Clearing Trading Permit Holder Proprietary transaction fees through December 31, 2019. By way of background, “facilitation orders” in open outcry are defined as any order in which a Clearing Trading Permit Holder (“F” capacity code) or Non-Trading Permit Holder Affiliate (“L” capacity code) is contra to any other capacity code order, provided the same executing broker and clearing firm are on both sides of the

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3 See Cboe Options Fees Schedule, Footnote 47.
transaction. In adopting a waiver for facilitation fees in Sector Index options, the Exchange recognized that Clearing Trading Permit Holders can be an important source of liquidity when they facilitate their own customers’ trading activity. As such, the Exchange believes that continuing to encourage the important role Clearing Trading Permit Holders play with respect to facilitating their own customers’ trading activity will continue to add transparency to the markets and promote price discovery to the benefit of all market participants. Therefore, the Exchange proposes to permanently waive fees for facilitation of orders in open outcry in Sector Index options permanent [sic], and thereby would continue to assess $0.00 for such orders.

**Sector Indexes License Surcharge**

The Exchange next proposes to permanently waive the Index License Surcharge of $0.10 per contract, thereby continuing to assess an Index License Surcharge fee of $0.00 for transactions in Sector Index options. In order to promote and encourage trading of the Sector Index options, listed in 2018, the Exchange adopted a waiver of the Index License Surcharge for non-customer Sector Index option transactions. The waiver has since been extended and is currently set to expire on December 31, 2019. Because the volume in these products has remained on the lower side since their listing, the Exchange wishes to continuously assess a surcharge of $0.00 for transactions in Sector Index options, instead of continuing to extend each waiver upon expiration, to indefinitely incentivize the trading of Sector Index options and

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4 See Cboe Options Fees Schedule, Footnote 11.
7 See supra note 6 [sic].
continue to grow the products. The $0.00 surcharge would continue to apply to all non-customer transactions, as it does with the current waiver.

**VIX License Index Surcharge**

The Exchange next proposes to permanently waive the Index License Surcharge of $0.10 per contract for Clearing Trading Permit Holder Proprietary (“Firm”) (capacity codes “F” or “L”) VIX orders that have a premium of $0.10 or lower and have series with an expiration of seven (7) calendar days or less. The Exchange adopted the waiver in 2016 to reduce transaction costs on expiring, low-priced VIX options, which the Exchange believed would encourage Firms to seek to close and/or roll over such positions close to expiration at low premium levels, including facilitating customers to do so, in order to free up capital and encourage additional trading. Since its adoption, the Exchange has continued to extend the waiver, which is currently set to expire on December 31, 2019, at which time the Exchange had stated that it would evaluate whether the waiver has in fact prompted Firms to close and roll over these positions close to expiration as intended. The Exchange has determined that the waiver has incentivized, and continues to incentivize, Firms to close and/or roll over such positions close to expiration at low premium levels, as well as facilitate customers to do the same. The Exchange believes that if such a waiver was not in place, and Firms were charged standard costs to roll or exit positions close to expiration at low premium levels, the closing transactions and positions currently and consistently taken by Firms would not occur. Accordingly, the Exchange proposes to permanently waive this fee, and thereby continue to assess an Index License Surcharge of $0.00

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10 See supra note 6 [sic].
per contract for Firm VIX orders that have a premium of $0.10 or lower and have series with an expiration of seven (7) calendar days or less.

**RLG, RLV, RUI, and UKXM Transaction Fees**

In order to promote and encourage trading in certain FTSE Russell Index products (i.e., Russell 1000 Growth Index ("RLG"), Russell 1000 Value Index ("RLV"), Russell 1000 Index ("RUI"), and FTSE 100 Index ("UKXM")), the Exchange adopted waivers (in 2015 and then in 2016)\(^\text{11}\) of all transaction fees (including the Floor Brokerage Fee, Index License Surcharge and CFLEX Surcharge Fee) for each of these products for all market participants.\(^\text{12}\) Since its adoption, the Exchange has continued to extend the waiver, which is currently set to expire on December 31, 2019.\(^\text{13}\) Like with the Sector Indexes License Surcharge above, because the volume in these products is consistently low, the Exchange now proposes to continuously assess a fee of $0.00 for transactions in such products, as opposed to extending the waiver every six months. As such, the Exchange proposes to permanently waive transaction fees for orders in RLG, RLV, RUI, and UKXM options in order to continue to encourage growth and trading of these products.

**MXEA and MXEF LMM Incentive Program**

The Exchange also proposes to extend the financial program for Lead Market-Makers ("LMMs") appointed in MSCI EAFE Index ("MXEA") options and MSCI Emerging Markets

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\(^\text{12}\) See Cboe Options Fees Schedule, Footnote 40.

\(^\text{13}\) See *supra* note 6 [sic].
Index ("MXEF") options. \(^{14}\) Currently, if the appointed LMM in MXEA and MXEF provides continuous electronic quotes during Regular Trading Hours that meet or exceed the above heightened quoting standards in at least 90% of the MXEA and MXEF series 80% of the time in a given month, the LMM will receive a payment for that month in the amount of $20,000 per class, per month. The Fees Schedule currently provides that this program will be in place through December 31, 2019. In order to continue to encourage LMM(s) in MXEA and MXEF to continue serving as LMMs and provide significant liquidity in these options, which, in turn, would continue to provide greater trading opportunities for all market participants, the Exchange proposes to renew this program through June 30, 2020.

**UKXM DPM Incentive Program**

The Exchange currently has a compensation plan in place for the Designated Primary Market-Maker(s) ("DPM(s)") appointed in UKXM to offset its DPM costs, which is set to expire on December 31, 2019. \(^{15}\) Specifically, the DPM appointed for an entire month in UKXM will receive a payment of $5,000 per month through December 31, 2019. \(^{16}\) The Exchange notes that DPMs incur costs when receiving an appointment, and this compensation plan is designed to offset those costs in order to encourage DPMs to continue to serve as a DPM in this product. The Exchange notes that there is low volume in UKXM and, as such, the Exchange proposes to extend this plan through December 31, 2020 to continue to incentivize DPMs to uphold its DPM

\(^{14}\) See Cboe Options Fees Schedule, “MSCI LMM Incentive Program” Table; and Securities Exchange Act Release No. 83585 (July 2, 2018), 83 FR 31825 (July 9, 2018) (SR-CBOE-2018-050); see also supra note 6 [sic].


\(^{16}\) See Cboe Options Fees Schedule, Footnote 43.
commitments in this product, thereby continuing to provide the necessary liquidity and, as a result, greater trading opportunities for all market participants in this option class.

**MXEF Customer Transactions Fee Waiver**

Lastly, the Exchange proposes to remove the current waiver of the $0.25 fee assessed for Customer (“C”) transactions in MXEF upon its expiration on December 31, 2019.¹⁷ The Exchange adopted this waiver in October 2019 in order to incentivize an increase of Customer volume in MXEF on the Exchange as a result of a precipitous decrease in MXEF Customer volume in the months leading up to October 2019. The Exchange has determined that there has since been a revived increase in Customer executions in MXEF, therefore, the Exchange proposes to let this waiver expire upon December 31, 2019 and remove it from the Fees Schedule.

2. **Statutory Basis**

The Exchange believes the proposed rule change is consistent with the Securities Exchange Act of 1934 (the “Act”) and the rules and regulations thereunder applicable to the Exchange and, in particular, the requirements of Section 6(b) of the Act.¹⁸ Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)¹⁹ requirements that the rules of an exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the

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mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest. Additionally, the Exchange believes the proposed rule change is consistent with Section 6(b)(4) of the Act, which requires that Exchange rules provide for the equitable allocation of reasonable dues, fees, and other charges among its Trading Permit Holders and other persons using its facilities.

**Sector Indexes Facilitation Fee**

The Exchange believes that the proposal to permanently waive the Clearing Trading Permit Holder Proprietary transaction fee for facilitation orders in open outcry in Sector Index options is reasonable because these orders will continue to not be charged any fee. As stated above, the Exchange believes this waiver is, and will continue to be, a reasonable means to incentivize the facilitation of customer orders by Clearing Trading Permit Holders, an important source of liquidity. This, in turn, adds to market transparency and promotes price discovery to the benefit of all market participants. The Exchange believes that this is equitable and not unfairly discriminatory because a similar fee of no charge already applies to Firm manual orders in Sector Index options as well as in other products. Moreover, The Exchange believes that continuing to assess no charge for Firm facilitation orders in open outcry in Sector Index options is equitable and not unfairly discriminatory because Clearing Trading Permit Holders have obligations which normally do not apply to other market participants (e.g., must have higher capital requirements, clear trades for other market participants, and must be members of OCC).

**Sector Indexes License Surcharge**

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21 See Cboe Fees Schedule, “Rate Table – Underlying Symbol List A”, which currently assesses a fee of $0.00 for Firm orders in RLG, RLV, RUI, and UKXM options.
The Exchange believes it is reasonable to permanently waive the Index License Surcharge for Sector Indexes because the Sector Indexes have continued to experience lower volume and are still relatively new products and the Exchange wishes to continuously encourage and promote trading of these products. Therefore, the Exchange believes that consistently and more definitively assessing no surcharge for non-customer orders, as opposed to repeatedly extending the fee waiver, is a reasonable means to continue to encourage market participants to trade these products. The Exchange also believes that the proposal to permanently waive the Index License Surcharge for non-customer transactions in Sector Index options is equitable and not unfairly discriminatory because all market participants would equally continue to be assessed a surcharge of $0.00 for transactions in Sector Indexes (the Exchange notes that customer orders are not subject to this surcharge).

**VIX Index License Surcharge**

The Exchange believes it is reasonable to waive the Index License Surcharge for Clearing Trading Permit Holder Proprietary VIX orders that have a premium of $0.10 or lower and have series with an expiration of seven calendar days or less, because the Exchange believes the current waiver has incentivized Firms to roll and close over positions close to expiration at low premium levels. Therefore, the proposal to remove the waiver and continue to assess a fee of $0.00 for such transactions would serve to consistently encourage Firms to transact and/or take positions close to expiration at low premium levels. Particularly, the Exchange believes it is reasonable to make permanent the waiver of the $0.10 per contract surcharge by consistently assessing no surcharge because Firms would be less likely to engage in these transactions, as opposed to other VIX transactions, due to the associated transaction costs. The Exchange believes that it is equitable and not unfairly discriminatory to limit the $0.00 surcharge to
Clearing Trading Permit Holder Proprietary orders because they contribute capital to facilitate the execution of VIX customer orders with a premium of $0.10 or lower and series with an expiration of seven calendar days or less. Additionally, as noted above, Clearing Trading Permit Holders have obligations, which normally do not apply to other market participants (e.g., must have higher capital requirements, clear trades for other market participants, must be members of OCC).

RLG, RLV, RUI, and UKXM Transaction Fees

The Exchange believes it is reasonable to permanently waive all transaction fees for RLG, RLV, RUI, and UKXM transactions, including the Floor Brokerage fee, the License Index Surcharge and CFLEX Surcharge Fee, and consistently assess a fee of $0.00, because the waiver of the respective fees currently in place and has continuously been extended since its adoption. Thus, permanently waiving these transaction fees would better serve to consistently promote and encourage trading of these products which have experienced relatively low volume since their listing. The proposal to make this waiver permanent is not unfairly discriminatory and is equitable because it would result in an equal assessment of no charge for any market participant’s orders in RLG, RLV, RUI, and UKXM.

MXEA and MXEF LLM Incentive Program

The Exchange believes it is reasonable to extend the MXEA and MXEF LMM Incentive Program because the Exchange wants to ensure it continues incentivizing the LMM(s) in these products to provide liquid and active markets in these products to encourage its growth. The Exchange notes that without the proposed financial incentive, there may not be sufficient incentive for TPHs to undertake an obligation to quote at heightened levels, which could result in lower levels of liquidity to the detriment of all market participants. The Exchange believes the
waiver is equitable and not unfairly discriminatory to only offer this financial incentive to MXEA and MXEF LMM(s), because it benefits all market participants trading in these options to encourage the LMM(s) to satisfy the heightened quoting standard, in turn, increasing liquidity and providing more trading opportunities and tighter spreads. Indeed, the Exchange notes that LMMs provide a crucial role in providing quotes and the opportunity for market participants to trade products, including MXEA and MXEF, which can lead to increased volume, thereby providing for a robust market. In addition, the Exchange notes that all Market-Maker types (i.e. LMMs, DPMs, as well as Primary Market-Makers (“PMMs”) take on a number of obligations, including quoting obligations, that other market participants do not have. Such Market-Makers have added market-making and regulatory requirements, which normally do not apply to other market participants. For example, Market-Makers have obligations to maintain continuous markets, engage in a course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market, and to not make bids or offers or enter into transactions that are inconsistent with a course of dealing. Also, if a MSCI LMM does not satisfy the heightened quoting standard, then it simply will not receive the offered per class payment for that month.

**UKXM DPM Incentive Program**

The Exchange believes that the proposed extension of the UKXM DPM incentive program is reasonable because it will continue to incentivize the DPM(s) to serve as a DPM(s) in this product. Continued DPM commitments in UKXM would continue to provide the necessary liquidity in this product, resulting in tighter spreads and increased trading opportunities for all market participants in this option class. The Exchange believes that the extension of this incentive program is equitable and not unfairly discriminatory, because it will apply equally to all DPMs appointed in UKXM. Like LMMs (as indicated above), DPMs play a crucial role in
providing liquid and active markets in options classes in order to encourage growth and provide trading opportunities to the benefit all market participants, and uphold certain obligations and adhere to certain regulatory requirements that other market participants do not have.

**MXEF Customer Transactions Fee Waiver**

Finally, the Exchange believes it is reasonable to remove the waiver of transaction fees for Customer orders in MXEF as it will expire on December 31, 2019. As the waiver was implemented in order to incentivize Customer MXEF executions following a noticeable decrease in Customer volume in MXEF, and the Exchange has determined that Customer executions in MXEF have increased since the application of the waiver, the Exchange believes it is reasonable to let the waiver expire as scheduled and remove it from the Fees Schedule. The proposed removal of the waiver is not unfairly discriminatory and is equitable because the waiver will no longer be applicable, as scheduled, to any orders in MXEF. Instead, the standard fee of $0.25 that applied to such transactions prior to the adoption of the waiver, will again apply equally to all Customer orders in MXEF.

**B. Self-Regulatory Organization’s Statement on Burden on Competition**

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

First, the Exchange believes the proposed rule change does impose any burden on intramarket competition that is not necessary or appropriate in furtherance of the purposes of the Act. Particularly, the proposed changes either make permanent or extend existing fee waivers and incentive programs that already apply to all similarly situated TPHs in a uniform manner. Also, the proposed change to remove an existing fee waiver does not impose any burden on intramarket competition, as the same fees that applied prior to the implementation of the waiver
will continue to apply after its removal. To the extent certain market participants receive a benefit that others do not, these different market participants have different obligations and circumstances. For example, DPMs and LMMs play a crucial role in providing active and liquid markets in their appointed products, thereby providing a robust market which benefits all market participants. Such Market-Makers also have obligations and regulatory requirements that other participants do not have. Additionally, Clearing Trading Permit Holders can be an important source of liquidity when they facilitate their own customers’ trading activity and also have other obligations, which normally do not apply to other market participants (e.g., must have higher capital requirements, clear trades for other market participants, must be members of OCC). The Exchange also notes that consistently and definitively assessing no charge (in lieu of continuously extending the relevant waivers) and that the proposed extensions of the incentive programs are designed to attract additional order flow to the Exchange. Greater liquidity benefits all market participants on the Exchange by providing more trading opportunities and tighter spreads and encourages all TPHs to send orders, thereby contributing to robust levels of liquidity.

Next, the Exchange believes the proposed rule change does not impose any burden on intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act. First, the proposed changes only affect trading on Cboe Options, as the waivers and incentive programs apply to transactions in products exclusively listed on Cboe Options. Next, the Exchange notes it operates in a highly competitive market. In addition to Cboe Options, TPHs have numerous alternative venues that they may participate on and director their order flow, including 15 options exchanges, as well as off-exchange venues. Based on publicly available information, no single options exchange has more than 22% of the market share of
executed volume of options trades. Therefore, no exchange possesses significant pricing power in the execution of option order flow. Moreover, the Commission has repeatedly expressed its preference for competition over regulatory intervention in determining prices, products, and services in the securities markets. Specifically, in Regulation NMS, the Commission highlighted the importance of market forces in determining prices and SRO revenues and, also, recognized that current regulation of the market system “has been remarkably successful in promoting market competition in its broader forms that are most important to investors and listed companies.” The fact that this market is competitive has also long been recognized by the courts. In NetCoalition v. Securities and Exchange Commission, the D.C. Circuit stated as follows: “[n]o one disputes that competition for order flow is ‘fierce.’ … As the SEC explained, ‘[i]n the U.S. national market system, buyers and sellers of securities, and the broker-dealers that act as their order-routing agents, have a wide range of choices of where to route orders for execution’; [and] ‘no exchange can afford to take its market share percentages for granted’ because ‘no exchange possesses a monopoly, regulatory or otherwise, in the execution of order flow from broker dealers’….” Accordingly, the Exchange does not believe its proposed changes to extend the above-mentioned fee waivers and incentive programs impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.


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

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

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A) of the Act\(^{25}\) and paragraph (f) of Rule 19b-4\(^{26}\) thereunder. At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission will institute proceedings to determine whether the proposed rule change should be approved or disapproved.

IV. **Solicitation of Comments**

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

**Electronic Comments:**

- Use the Commission’s Internet comment form (http://www.sec.gov/rules/sro.shtml); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-CBOE-2020-001 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.

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All submissions should refer to File Number SR-CBOE-2020-001. 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, D.C. 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to
make available publicly. All submissions should refer to File Number SR-CBOE-2020-001 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.27

J. Matthew DeLesDernier,
Assistant Secretary.

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