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–NASDAQ–2019–008, and should be submitted on or before March 22, 2019.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[12]

Eduardo A. Aleman,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–85200; File No. SR–CboeEDGX–2019–005]

Self-Regulatory Organizations; Cboe EDGX Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change To Amend Rule 20.6 To Apply the Obvious Error Rule to Stock-Option Orders, and To Amend Rules 21.1(d) and 21.20 To Add Qualified Contingent Cross With Stock Order Functionality

February 26, 2019.

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 February 12, 2019, Cboe EDGX Exchange, Inc. (the "Exchange" or "EDGX") 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 Exchange filed the proposal pursuant to Section 19(b)(3)(A)(iii) of the Act[3] 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.

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

Cboe EDGX Exchange, Inc. (the "Exchange" or "EDGX") proposes to amend Rules [sic] 20.6 to apply the obvious error rule to stock-option

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[12] 17 CFR 200.30–3(a)(12).

[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).

orders, and to amend Rules 21.1(d) and 21.20 to add Qualified Contingent Cross with Stock Order ("QCC with Stock Order") functionality. The text of the proposed rule change is provided below.

(additions are *italicized;* deletions are [bracketed])

*   *   *   *   *

Rules of Cboe EDGX Exchange, Inc.

*   *   *   *   *

Rule 20.6.   Nullification and Adjustment of Options Transactions Including Obvious Errors

The Exchange may nullify a transaction or adjust the execution price of a transaction in accordance with this Rule. However, the determination as to whether a trade was executed at an erroneous price may be made by mutual agreement of the affected parties to a particular transaction. A trade may be nullified or adjusted on the terms that all parties to a particular transaction agree, provided, however, that such agreement to nullify or adjust must be conveyed to the Exchange in a manner prescribed by the Exchange prior to 8:30 a.m. Eastern Time on the first trading day following the execution. It is considered conduct inconsistent with just and equitable principles of trade for any Member to use the mutual adjustment process to circumvent any applicable Exchange rule, the Act or any of the rules and regulations thereunder.

(a)–(l) No change.

Interpretations and Policies

.01–.03   No change.

.04   Complex Orders *and Stock-Option Orders:*

(a)–(b) No change.

(c) If the option leg of a stock-option order qualifies as an Obvious Error under paragraph (c)(1) or a Catastrophic Error under paragraph (d)(1), then the option leg that is an Obvious or Catastrophic Error will be adjusted in accordance with paragraph (c)(4)(A) or (d)(3), respectively, regardless of whether one of the parties is a Customer. However, the option leg of any Customer order subject to this paragraph (c) will be nullified if the adjustment would result in an execution price higher (for buy transactions) or lower (for sell transactions) than the Customer's limit price on the stock-option order, and the Exchange will attempt to nullify the stock leg. Whenever a stock trading venue nullifies the stock leg of a stock-option order or whenever the stock leg cannot be executed, the Exchange will nullify the option leg upon request of one of the parties to the transaction or in accordance with paragraph (c)(3).

*   *   *   *   *

Rule 21.1.   Definitions

The following definitions apply to Chapter XXI for the trading of options listed on EDGX Options.

(a)–(c)   No change.

(d) The term "Order Type" shall mean the unique processing prescribed for designated orders, subject to the restrictions set forth in

paragraph (j) below with respect to orders and bulk messages submitted through bulk ports, that are eligible for entry into the System, and shall include:

(1)–(9)   No change.

(10) A "Qualified Contingent Cross Order" is comprised of an originating order to buy or sell at least 1,000 standard option contracts that is identified as being part of a qualified contingent trade, as that term is defined in paragraph (A) below, coupled with a contra-side order or orders totaling an equal number of contracts. *See Rule 21.20 for a definition of a QCC with Stock Order.* For purposes of this order type:

*   *   *   *   *

Rule 21.20.   Complex Orders

(a) No change.

(b) Availability of Types of Complex Orders. The Exchange will determine and communicate to Members via specifications and/or a Regulatory Circular listing when the complex order types, among the complex order types set forth in this Rule, are available for use on the Exchange. The complex order types that may be submitted are limit orders and market orders, and orders with a Time in Force of GTD, IOC, DAY, GTC, or OPG as such terms are defined in Rule 21.1(f). Users may not submit complex orders through bulk ports. The following complex orders will also be accepted by the Exchange:

(1)–(5)   No change.

(6) QCC with Stock Orders. A "QCC with Stock Order" is a qualified contingent cross order, as defined in Rule 21.1(d)(10), entered with a stock component to be electronically communicated by the Exchange to a designated broker-dealer for execution on behalf of the submitting User pursuant to subparagraph (c)(7) below. QCC with Stock Orders are available to Users on a voluntary basis.

(c) Trading of Complex Orders. The Exchange will determine and communicate to Members via specifications and/or Regulatory Circular which complex order origin codes (*i.e.,* non-broker-dealer customers, broker-dealers that are not Market Makers on an options exchange, and/or Market Makers on an options exchange) are eligible for entry onto the COB. Complex orders will be subject to all other Exchange Rules that pertain to orders submitted to the Exchange generally, unless otherwise provided in this Rule.

(1)–(6)   No change.

(7) QCC with Stock Orders. The System processes QCC with Stock Orders as follows:

(A) Entry of QCC with Stock Order. When a User enters a QCC with Stock Order on the Exchange, it enters a QCC Order with a stock component (pursuant to Rule 21.10(d)(10)). When entering a QCC with Stock Order, the User must:

(i) Include a net price for the stock and option components;

(ii) give up a Clearing Member in accordance with Rule 21.12; and

(iii) designate a specific broker-dealer to which the stock components will be communicated, which broker-dealer the Exchange must have identified as having connectivity to electronically communicate

the stock components of QCC with Stock Orders to stock trading venues and with which the User must have entered into a brokerage agreement (the ''designated broker-dealer''). The Exchange will have no financial arrangements with the broker-dealers it has identified with respect to communicating stock orders to them.

(B) Option Component.

(i) If the option component (i.e., the QCC Order) of a QCC with Stock Order can execute, the System executes it in accordance with Rule 21.8, but does not immediately send the User a trade execution report. The System then automatically communicates the stock component to the designated broker-dealer for execution at a stock trading venue.

(ii) If the option component of a QCC with Stock Order cannot execute, the System cancels the QCC with Stock Order, including both the stock and option components.

(C) Stock Component.

(i) If the System receives an execution report for the stock component of a QCC with Stock Order from the designated broker-dealer, the Exchange sends the User the trade execution report for the QCC with Stock Order, including execution information for both the stock and option components. The execution price of the buy (sell) stock leg of a QCC with Stock Order may be any price (including outside the NBBO for the stock leg), except the price must be permitted by Regulation SHO and the Limit Up-Limit Down Plan.

(ii) If the System receives a report from the designated broker-dealer that the stock component of a QCC with Stock Order cannot execute, the Exchange nullifies the option component trade and notifies the User of the reason for the nullification.

* * * * *

The text of the proposed rule change is also available on the Exchange's website (*http://markets.cboe.com/us/ options/regulation/rule_filings/edgx/*), 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

In 2016, the Exchange's parent company, Cboe Global Markets, Inc. (''Cboe Global''), which is the parent company of Cboe Exchange, Inc. (''Cboe Options'') and Cboe C2 Exchange, Inc. (''C2''), acquired the Exchange, Cboe EDGA Exchange, Inc. (''EDGA''), Cboe BZX Exchange, Inc. (''BZX or BZX Options''), and Cboe BYX Exchange, Inc. (''BYX'' and, together with C2, Cboe Options, the Exchange, EDGA, and BZX, the ''Cboe Affiliated Exchanges''). The Cboe Affiliated Exchanges are working to align certain system functionality, retaining only intended differences between the Cboe Affiliated Exchanges, in the context of a technology migration. Cboe Options intends to migrate its technology to the same trading platform used by the Exchange, C2, and BZX Options in the fourth quarter of 2019. The proposal set forth below is intended to add certain functionality to the Exchange's System that is available on Cboe Options in order to ultimately provide a consistent technology offering for market participants who interact with the Cboe Affiliated Exchanges. Although the Exchange intentionally offers certain features that differ from those offered by its affiliates and will continue to do so, the Exchange believes that offering similar functionality to the extent practicable will reduce potential confusion for Users.

QCC With Stock Order

The Exchange proposes to offer QCC with Stock Order functionality to Users. QCC with Stock Order functionality facilitates the execution of the stock component of qualified contingent trades (''QCTs''). Specifically, a QCC with Stock Order is a QCC order entered with a stock component to be communicated to a designated broker-dealer for execution. QCC with Stock Orders will assist Users in maintaining compliance with rules regarding the execution of the stock components of QCTs, and help maintain an audit trail for surveillance of Users for compliance with such rules. Currently, although the Exchange offers qualified contingent cross (''QCC'') order functionality, it does not facilitate electronic communication of the stock component of QCC orders for execution. The proposed rule change provides Users with the option to electronically submit the stock component of QCC orders to the Exchange, and describes how the Exchange will electronically

communicate the stock component to a designated broker-dealer for execution on behalf of Users.

A QCC order is comprised of an originating order to buy or sell at least 1000 contracts that is identified as being part of a QCT,[5] coupled with a contra-side order or orders totaling an equal number of contracts. QCC orders may execute without exposure provided the execution (1) is not at the same price as a public customer order resting in the electronic book and (2) is at or between the national best bid or offer (''NBBO'').[6] QCC orders will be cancelled if they cannot be executed.[7]

Since QCC orders represent one component of a QCT, each QCC order must be paired with a stock order. When a User enters a QCC order, the User is responsible for executing the associated stock component of the QCT within a reasonable period of time after the QCC order is executed. The Exchange conducts surveillance of Users to ensure that Users execute the stock component of a QCT at or near the same time as the options component. While the Exchange does not specify how the User should go about executing the stock component of the trade, this process is often manual and is therefore a compliance risk for Users if they do not execute the stock component within a reasonable time period of execution of the options component. Thus, the Exchange is proposing to offer QCC with Stock Order functionality, pursuant to which the Exchange will automatically communicate the stock component of a QCT to a designated broker-dealer for execution in connection with the execution of a QCC order on the Exchange. This functionality will

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[5] *See* Rule 21.1(d)(10). A ''qualified contingent trade'' is a transaction consisting of two or more component orders, executed as agent or principal, where: (1) At least one component is an NMS stock, as defined in Rule 600 of Regulation NMS under the Exchange Act; (2) all components are effected with a product or price contingency that either has been agreed to by all the respective counterparties or arranged for by a broker-dealer as principal or agent; (3) the execution of one component is contingent upon the execution of all other components at or near the same time; (4) the specific relationship between the component orders (*e.g.,* the spread between the prices of the component orders) is determined by the time the contingent order is placed; (5) the component orders bear a derivative relationship to one another, represent different classes of shares of the same issuer, or involve the securities of participants in mergers or with intentions to merge that have been announced or cancelled; and (6) the transaction is fully hedged (without regard to any prior existing position) as a result of other components of the contingent trade. The proposed rule change amends Rule 21.1(d)(10) to add a cross-reference to the proposed definition of a QCC with Stock Order in Rule 21.20.

[6] *See* Rule 21.1(d)(10).

[7] *Id.*

reduce the compliance burden on Users by providing an automated means of executing the stock component of a QCT, and also will provide benefits for the Exchange's surveillance by providing an audit trail for the execution of the stock component. QCC with Stock Orders can be entered by Users through a front-end order and execution management system or through a User's own electronic connection to the Exchange.

QCC with Stock Orders will be available to all Users on a voluntary basis.[8] Under the proposed rule, when a User enters a QCC with Stock Order on the Exchange, it enters a QCC order with a stock component (pursuant to Rule 21.1(d)(10)). When entering a QCC with Stock Order, the User must:

• Enter a net price for the stock and option components. Net-priced QCC with Stock Orders reduce the chance that Users will miss the market since the Exchange will calculate a price for the stock and options components that honors the net price of the package and current market prices, if possible. It is also consistent with the use of QCTs.[9] The Exchange will not allow QCC with Stock Orders with a specified price for the stock component or the option component;

• give up a Clearing Member in accordance with Rule 21.12. Pursuant to Rule 21.12, a User must give up a Clearing Member it previously identified to the Exchange as a Designated Give Up for that User for all orders it submits to the Exchange; and

• designate a specific broker-dealer to which the stock components will be communicated, which broker-dealer the Exchange must have identified as having connectivity to electronically communicate the stock components of QCC with Stock Orders to stock trading venues and with which the User must have entered into a brokerage agreement (the ''designated broker-dealer''). The Exchange will have no financial

arrangements with any broker-dealer it has identified with respect to communicating stock orders to them.[10] The Exchange currently has one broker-dealer that has established connectivity for executing the stock component of QCC with Stock Orders. If the Exchange adds more in the future, and the User enters into brokerage agreements with multiple of the broker-dealers designated by the Exchange, the User must specify to which broker-dealer the Exchange should communicate the stock components of its QCC with Stock Orders when entering QCC with Stock Orders.

Current Exchange fees applicable to QCC orders will apply to the options component of QCC with Stock Orders.[11] To the extent the Exchange will apply a fee to the stock component of QCC with Stock Orders, the Exchange will submit a separate rule filing to adopt such a fee.

If the option component of a QCC with Stock Order satisfies the conditions of proposed Rule 21.20(b)(6) [sic] upon entry, the System executes the order in accordance with Rule 21.8 (which describes how simple option orders execute). However, the Exchange does not immediately send the User a trade execution report for this option execution.[12] Because the User submitted a QCC with Stock Order to execute as a package, the Exchange waits to send a trade execution report to the User until after it has determined whether all components of the QCC with Stock Order have executed, as described below. After the QCC order is executed, the Exchange will then automatically communicate the stock component to the designated broker-dealer for execution.

Although the option component (which is a QCC order) of a QCC with Stock Order is eligible for automatic execution, it is possible that the option component order may not be executable based on market prices at the time the order is entered (*e.g.* the order would execute at the same price as a customer). If the QCC order cannot execute after one attempt, the System cancels the QCC with Stock Order, including both the stock and options components. This

prevents execution of the stock component of a QCT where the options component has not been successfully executed, consistent with the purpose of contingent trades and the QCT exemption.

As noted above, if the option component executes, the System then automatically communicates the stock component to the designated broker-dealer for execution. If the System receives an execution report for the stock component of a QCC with Stock Order from the designated broker-dealer, the Exchange sends the User the trade execution report for the QCC with Stock Order, including execution information for both the stock and option components. However, if the System receives a report from the designated broker-dealer that the stock component of the QCC with Stock Order cannot execute,[13] the Exchange nullifies the option component trade and notifies the User of the reason for the nullification.[14] This proposed rule change prevents execution of the option component of a QCT where the stock component has not been successfully executed, just as the proposed rule change prevents execution of the stock component of a QCT where the option component has not been successfully executed by cancelling the stock component if the option component cannot execute.

Currently, whenever a stock trading venue nullifies the stock leg of a stock-option order or whenever the stock leg cannot execute, the Exchange will nullify the option leg upon request of one of the parties to the transaction or on an Exchange Official's own motion in accordance with the Rules.[15] As noted above, to qualify as a QCT, the execution of one component is contingent upon the execution of all other components at or near the same time.[16] Given this requirement, if the

[8] *See* proposed Rule 21.20(b)(6).

[9] *See* Securities Exchange Act Release No. 54389 (August 31, 2006), 71 FR 52829, 52831 (September 7, 2006) (Order Granting an Exemption for Qualified Contingent Trades from Rule 611(a) of Regulation NMS Under the Securities Exchange Act of 1934) (''QCT Exemption Order''). In its exemption request, the Securities Industry Association (''SIA'') indicated parties to a contingent transaction are focused on the spread or ratio between the transaction prices for each of the component instruments, rather than on the absolute price of any single component instrument. The SIA also noted the economics of a contingent trade are based on the relationship between the prices of the security and related derivative or security. *See* Letter to Nancy M. Morris, Secretary, Commission, from Andrew Madoff, SIA Trading Committee, SIA, dated June 21, 2006 (''SIA Exemption Request''), at 2.

[10] The Exchange also represents that broker dealers it identifies as having connectivity to electronically communicate the stock components of QCC with Stock Orders to stock trading venues do not receive other special benefits related to trading on the exchange.

[11] *See* Cboe EDGX Options Fee Schedule.

[12] Even though the Exchange does not send the User an execution report immediately following execution of the option component, the Exchange disseminates the trade at that time pursuant to the OPRA Plan and creates a record to be sent to the Clearing Corporation.

[13] For example, if the stock execution venue to which the designated broker-dealer routed the stock component is experiencing system issues, the stock component may not be able to execute. Additionally, the Exchange understands certain stock execution venues apply risk controls to the stock components of QCTs, which may prevent execution of the stock components at certain prices.

[14] The Exchange will nullify the option component trade in the same manner as it currently nullifies any other trades (when nullification is permitted under the Rules).

[15] *See* proposed Rule 20.6, Interpretation and Policy .04(c). As discussed below, proposed Rule 20.6, Interpretation and Policy .04(c) is virtually identical to rules of other options exchanges. Pursuant to Rule 20.6, other nullifications may generally occur only if both parties agree.

[16] *See* QCT Exemption Order, which requires the execution of one component of the QCT to be contingent upon the execution of all other components at or near the same time to qualify for the exemption. In the SIA Exemption Request, the

stock component does not execute at or near the same time as the option component, it is reasonable to expect a User that submitted a QCC with Stock Order to request such nullification.[17] If the stock component does not execute, rather than require the User that submitted a QCC with Stock Order to contact the Exchange to request the nullification of the option component execution pursuant to proposed Rule 20.6, Interpretation and Policy .04 if the stock component cannot execute, the proposed rule change simply eliminates this requirement for the submitting User to make such a request. Instead, the proposed rule states the Exchange will automatically nullify the option transaction if the stock component does not execute. The Exchange believes such nullification without a request from the User is consistent with the definitions of QCC and QCT orders. The proposed rule change merely automates an otherwise manual process for Users.

Additionally, the Exchange believes this automatic nullification will reduce any compliance risk for the User associated with execution of a QCC order and lack of execution of a stock order at or near the same time.[18] The Exchange conducts surveillance to ensure a User executes the stock component of a QCT, which will also apply to QCC with Stock Orders, if the option component executed. As a result, if the stock component does not execute when initially submitted to a stock trading venue by the designated broker-dealer, a User may be subject to compliance risk if it does not execute the stock component within a

reasonable time period of the execution of the option component. The proposed rule change reduces this compliance risk for Users.

Example 1:
Stock NBBO: $100 × $101
Option NBBO: $1 × $2

A User submits a QCC with Stock Order buying 1,000 puts and 100,000 shares of stock with a net price of $101.50. A QCC order is entered on the Exchange and executed at a price of $1.50. The Exchange reports this trade to OPRA. The Exchange routes the stock component to an Exchange-designed broker-dealer at a price of $100. The Exchange receives a trade execution report from the designated broker-dealer that the stock component executed at $100, and sends a trade execution report for both components of the QCC with Stock Order to the User.

Example 2:
Stock NBBO: $100 × $101
Option NBBO: $1 × $2

A User submits a QCC with Stock Order buying 1,000 puts and 100,000 shares of stock with a net price of $101.50. A QCC order is entered on the Exchange and executed at a price of $1.50. The Exchange reports this trade to OPRA. The Exchange routes the stock component to an Exchange-designed broker-dealer at a price of $100. The Exchange receives a report from the designated broker-dealer that the stock component did not execute. The Exchange nullifies the option component trade, and sends a report to the User of the reason for the nullification.

Example 3:
Stock NBBO: $100 × $101
ABBO: $1.00 × $1.05
Exchange BBO: $1.00 (Priority Customer) × 1.01 (Priority Customer)

A User submits a QCC with Stock Order buying 1,000 puts and 100,000 shares of stock with a net price of 101.01. A QCC order is entered on the Exchange at a price of $1.01. Because the QCC order is at the same price as a priority customer order resting on the Exchange, the Exchange cancels the QCC with Stock Order.

Obvious Error

The proposed rule change applies much of current Rule 20.6 to stock-option orders.[19] The proposed rule change deviates from the current rule only to account for the unique qualities

of stock-option orders. The proposed rule reflects the fact that stock-option orders contain a stock component that is executed on a stock trading venue, and the Exchange may not be able to ensure that the stock trading venue will adjust or nullify the stock execution in the event of an obvious or catastrophic error.

Proposed Interpretation and Policy .04(c) governs stock-option orders. It provides that if the option leg of a stock-option order qualifies as an Obvious Error under subparagraph (c)(1) or a Catastrophic Error under subparagraph (d)(1), then the option leg that is an Obvious or Catastrophic Error will be adjusted in accordance with subparagraph (c)(4)(A) or (d)(3), respectively, regardless of whether one of the parties is a Customer. However, the option leg of any Customer order subject to proposed Interpretation and Policy .04(c) will be nullified if the adjustment would result in an execution price higher (for buy transactions) or lower (for sell transactions) than the Customer's limit price on the stock-option order, and the Exchange will attempt to nullify the stock leg. Whenever a stock trading venue nullifies the stock leg of a stock-option order or whenever the stock leg cannot be executed, the Exchange will nullify the option leg upon request of one of the parties to the transaction or in accordance with subparagraph (c)(3).

Similar to Interpretation and Policy .04(a), an options leg (or legs) of a stock-option order must qualify as an obvious or catastrophic error under the Current Rule in order for the stock-option order to qualify as an obvious or catastrophic error. Also similar to Interpretation and Policy .04(a), if an options leg (or legs) does qualify as an obvious or catastrophic error, the option leg (or legs) will be adjusted in accordance with subparagraph (c)(4)(A) or (d)(3), respectively, regardless of whether one of the parties is a Customer. Again, as with Interpretation and Policy .04(a), where at least one party to a complex order transaction is a Customer, the Exchange will nullify the option leg and attempt to nullify the stock leg if adjustment would result in an execution price higher (for buy transactions) or lower (for sell transactions) than the Customer's limit price on the complex order or individual leg(s).

The stock leg of a stock-option order is not executed on the Exchange; rather, the stock leg is sent to a stock trading venue for execution. The Exchange is unaware of a mechanism by which the Exchange can guarantee that the stock leg will be nullified by the stock trading venue in the event of an obvious or

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SIA stated that for contingent trades, the execution of one order is contingent upon the execution of the other order. SIA further stated that, by breaking up one or more components of a contingent trade and requiring that such components be separately executed, one or more parties may trade "out of hedge." *See* SIA Exemption Request at 3. In the words of Rob Base and DJ E–Z Rock, it takes two (executions) to make a thing (a QCT) go right.

[17] As set forth in Rule 21.1(d)(10), when submitting a QCC order, a User submits an order as well as a contra-side order or orders totaling an equal number of contracts, which execute against each other if they satisfy the conditions set forth in that Rule. As a result, if that User requests nullification of the QCC order execution (or as proposed, if the Exchange automatically nullifies the QCC order execution) if the stock component cannot execute, no other party is impacted by the nullification.

[18] In the SIA Exemption Request, the SIA stated that parties to a contingent trade will not execute one side of the trade without the other component or components being executed in full (or in ratio) and at the specified spread or ratio. *See* SIA Exemption Request at 2. While a broker-dealer could re-submit the stock component to a stock trading venue or execution after it initially fails to execute, there is a compliance risk that the time at which the stock component executes is not close enough to the time at which the option component executed.

[19] In order for a stock-option order to qualify as an obvious or catastrophic error, at least one of the legs must itself qualify as an obvious or catastrophic error under current Rule 21.20. *See* Rule 20.6, Interpretation and Policy .04. A QCC with Stock Order is a type of stock-option order.

catastrophic error on the Exchange. Thus, in the event of the nullification of the option leg pursuant to proposed Interpretation and Policy .04(c), the Exchange will attempt to have the stock leg nullified by the stock trading venue by either contacting the stock trading venue or notifying the parties to the transaction that the option leg is being nullified. The party or parties to the transaction may ultimately need to contact the stock trading venue to have the stock portion nullified.

Finally, the Exchange proposes to provide guidance that whenever the stock trading venue nullifies the stock leg of a stock-option order, the option will be nullified upon request of one of the parties to the transaction or by an Official acting on their own motion in accordance with subparagraph (c)(3). There are situations in which buyer and seller agree to trade a stock-option order, but the stock leg cannot be executed. The Exchange proposes to provide guidance that whenever the stock portion of a stock-option order cannot be executed, the Exchange will nullify the option leg upon request of one of the parties to the transaction or on an Official's own motion.

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.[20] Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)[21] requirements that the rules of an exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest. Additionally, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)[22] requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The Exchange believes the proposed rule change is designed to promote just and equitable principles of trade

because it will provide Users with optional functionality to facilitate the stock component of a QCT. The QCC with Stock Order is an optional piece of functionality offered to Users to communicate the stock component of a QCT to a designated broker-dealer for execution. A User that does not wish to use QCC with Stock Order functionality can continue to execute a QCT by entering a QCC order on the Exchange and separately executing the stock component of the QCT [sic] another venue, as it may do today. A User can also build its own technology to electronically communicate the stock component of any QCT to a broker-dealer for execution.

QCC with Stock Orders reduce Users' compliance burden because it allows for the automatic submission of the stock component of a QCT in connection with the execution of the options component(s) as a QCC order on the Exchange. QCC with Stock Order functionality also provides benefits to the Exchange by establishing an audit trail for the execution of the stock component of a QCT within a reasonable period of time after the execution of the QCC order. The proposed rule change further reduces Users' compliance risk by providing that the Exchange will, in addition to cancelling the stock component if the option component cannot execute, nullify any option component execution when the stock component does not execute without a request from the User. Nullification of the option trade is consistent with the requirement that a User must execute the stock component of a QCT within a reasonable period of time after executing the option component on the Exchange as a QCC order. The proposed rule change simply eliminates the requirement that one party to the transaction request nullification of the option component trade before the Exchange nullifies the option trade (as proposed), because such nullification is consistent with the definitions of QCC orders and QCT. The proposed rule change merely automates an otherwise manual process for Users. As noted above, to qualify as a QCT, the execution of one component is contingent upon the execution of all other components at or near the same time.[23] Since the purpose of a QCC with Stock Order is for all components to trade at or near the same time, if the stock component does not execute at or near the same time as the option component, it is reasonable to expect a User that submitted a QCC with Stock Order to request such nullification to

avoid any compliance risk associated with execution of a QCC order and lack of execution of a stock order at or near the same time.[24]

The Exchange conducts surveillance to ensure a User executes the stock component of a QCT, which will also apply to QCC with Stock Orders, if the option component executed. As a result, if the stock component does not execute when initially submitted to a stock trading venue by the designated broker-dealer, a User may be subject to compliance risk if it does not execute the stock component within a reasonable time period of the execution of the option component. The proposed rule change reduces this compliance risk for Users. The Exchange therefore believes the proposed rule change removes impediments to and perfects the mechanisms of a free and open market and a national market system, and in general, protects investors and the public interest.

The Exchange believes the proposed rule change to require a User to submit a QCC with Stock Order with a net price will also perfect the mechanism of a free and open market and a national market system and protect investors, because a net price will reduce the chance that Users will miss the market since the Exchange will calculate a price for the stock and options components that honors the net price of the package and current market prices, if possible. As noted above, a User that wants to enter a net price for the stock and option components can execute a QCT by entering a QCC order on the Exchange and separately executing the stock component of the QCT [sic] another venue, as it may do today. As noted above, submission of a QCC with Stock Order is consistent with the use of QCTs.[25]

Additionally, the proposed functionality is similar to functionality offered by another options exchange[26] and consistent with the QCT exemption previously approved by the Commission.[27]

The proposed rule change to adopt obvious error provisions stock-option orders is consistent with efforts among options exchanges to seek harmonized rules related to the adjustment and nullification of erroneous options transactions. The Exchange believes that the proposed rule change will provide greater transparency and clarity with

20 15 U.S.C. 78f(b).

21 15 U.S.C. 78f(b)(5).

22 *Id.*

23 *See supra* notes 5 and 16.

24 *See supra* note 18.

25 *See supra* notes 5, 16, and 18.

26 *See* Cboe Options Rules 6.53(u) and 6.53C, Interpretation and Policy .06(g); *see also* Nasdaq ISE, LLC ("ISE") Rules 715(t) and 721(c) and Supplementary Material.

27 *See* QCT Exemption Order.

respect to the adjustment and nullification of erroneous options transactions. The proposed rule change is virtually identical to the rules of other options exchanges.[28] Particularly, the proposed changes seek to achieve consistent results for participants across U.S. options exchanges while maintaining a fair and orderly market, protecting investors and protecting the public interest. Based on the foregoing, the Exchange believes that the proposal is consistent with Section 6(b)(5) of the Act [29] in that the proposed rule change will foster cooperation and coordination with persons engaged in regulating and facilitating transactions [sic].

The Exchange believes the various provisions allowing or dictating adjustment rather than nullification of a trade are necessary given the benefits of adjusting a trade price rather than nullifying the trade completely. Because options trades are used to hedge, or are hedged by, transactions in other markets, including securities and futures, many Options Members, and their customers, would rather adjust prices of executions rather than nullify the transactions and, thus, lose a hedge altogether. As such, the Exchange believes it is in the best interest of investors to allow for price adjustments as well as nullifications.

The Exchange does not believe that the proposal is unfairly discriminatory, even though it differentiates in certain places between Customers and non-Customers. As with the Current Rule, Customers are treated differently, often affording them preferential treatment. This treatment is appropriate in light of the fact that Customers are not necessarily immersed in the day-to-day trading of the markets, are less likely to be watching trading activity in a particular option throughout the day, and may have limited funds in their trading accounts. At the same time, the Exchange reiterates that in the U.S. options markets generally there is significant retail customer participation that occurs directly on (and only on) options exchanges such as the Exchange. Accordingly, differentiating among market participants with respect to the adjustment and nullification of erroneous options transactions is not unfairly discriminatory because it is reasonable and fair to provide Customers with additional protections as compared to non-Customers.

The Exchange believes its proposal related to stock-option orders is consistent with the Act. Stock-option orders consist of an option component and a stock component. Due to the fact that the Exchange has no control over the venues on which the stock is executed the proposal focuses on the option component of the stock-option order by adjusting or nullifying the option in accordance with subparagraph (c)(4)(A) or (d)(3). Also, nullifying the option component if the stock component cannot be executed ensures that market participants receive the execution for which they bargained. Stock-option orders are negotiated and agreed to as a package; thus, if for any reason the stock portion of a stock-option order cannot ultimately be executed, the parties should not be saddled with an options position sans stock.

The proposed rule change is generally intended to align system functionality currently offered by the Exchange with Cboe Options functionality in order to provide a consistent technology offering for the Cboe Affiliated Exchanges. A consistent technology offering, in turn, will simplify the technology implementation, changes, and maintenance by Users of the Exchange that are also participants on Cboe Affiliated Exchanges. The proposed rule change would also provide Users with access to functionality that is generally available on options exchanges other than the Cboe Affiliated Exchanges,[30] which may result in the more efficient execution of QCTs and provide Users with additional flexibility and increased functionality on the Exchange's System. Additionally, the proposed functionality is consistent with the QCT exemption previously approved by the Commission.[31] The Exchange believes this consistency will promote a fair and orderly national options market system.

When Cboe Options migrates to the same technology as that of the Exchange and other Cboe Affiliated Exchanges, Users of the Exchange and other Cboe Affiliated Exchanges will have access to similar functionality on all Cboe Affiliated Exchanges. As such, the proposed rule change would foster cooperation and coordination with

persons engaged in facilitating transactions in securities and would remove impediments to and perfect the mechanism of a free and open market and a national market system.

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. QCC with Stock Orders facilitate Users [sic] compliance with the requirements associated with executing QCC orders on the Exchange, and are not designed to impose any unnecessary burden on competition. QCC with Stock Order functionality is available to Users on a voluntary basis, and Users are not required to use QCC with Stock Orders when executing QCTs. The proposed rule change has no impact on Users that elect to execute QCTs without using QCC with Stock Order functionality. Those Users may continue to execute QCTS [sic] in the same manner as they do today by entering a QCC order on the Exchange and separately executing the stock component of the QCT another venue. A User can also build its own technology to electronically communicate the stock component of any QCT to a broker-dealer for execution. For Users that elect to use QCC with Stock Order functionality to execute QCTs, the proposed rule change reduces those Users' compliance burdens to satisfy their obligation to execute the related stock component of the QCT within a reasonable period of time after the QCC order is executed on the Exchange, as this functionality provides an automated means for satisfying this obligation.

QCC with Stock Orders are available to all Users either through a front-end order and execution management system or through a User's own electronic connection to the Exchange. Additionally, the proposed functionality is similar to functionality offered by another options exchange [32] and consistent with the QCT exemption previously approved by the Commission.[33]

The Exchange believes the proposed rule change to adopt obvious error rules related to stock-option orders will not impose a burden on intermarket competition but will rather alleviate any burden on competition because it is the result of a collaborative effort by all

[28] *See, e.g.,* Cboe Options Rule 6.25, Interpretation and Policy .07; ISE Rule 720, Supplementary Material .05; and MIAX Rule 521, Interpretation and Policy .03.

[29] 15 U.S.C. 78f(b)(5).

[30] *See* Cboe Options Rules 6.53(u) and 6.53C, Interpretation and Policy .06 (which permits QCC orders with one or more option components and QCC with Stock Orders, and stock-option orders with one or more option legs, respectively); ISE Rules 715(t) and 721(c) and Supplementary Material .01 through .03 (which permits QCC orders and QCC with stock orders); and MIAX Rule 518 (which permits stock-option orders with one or more option legs and QCC orders with one or more option components).

[31] *See* QCT Exemption Order.

[32] *See* Cboe Options Rules 6.53(u) and 6.53C, Interpretation and Policy .06(g); *see also* ISE Rules 715(t) and 721(c) and Supplementary Material.

[33] *See* QCT Exemption Order.

options exchanges to harmonize and improve the process related to the adjustment and nullification of erroneous options transactions. The Exchange does not believe that the rules applicable to such process is an area where options exchanges should compete, but rather, that all options exchanges should have consistent rules to the extent possible. Particularly where a market participant trades on several different exchanges and an erroneous trade may occur on multiple markets nearly simultaneously, the Exchange believes that a participant should have a consistent experience with respect to the nullification or adjustment of transactions. Several other options exchanges have virtually identical rules.[34]

The Exchange does not believe that the proposed rule change imposes a burden on intramarket competition because the obvious error provisions apply to all market participants equally within each participant category (*i.e.,* Customers and non-Customers). With respect to competition between Customer and non-Customer market participants, the Exchange believes that the proposed rule change acknowledges competing concerns and tries to strike the appropriate balance between such concerns. For instance, the Exchange believes that protection of Customers is important due to their direct participation in the options markets as well as the fact that they are not, by definition, market professionals. At the same time, the Exchange believes due to the quote-driven nature of the options markets, the importance of liquidity provision in such markets and the risk that liquidity providers bear when quoting a large breadth of products that are derivative of underlying securities, that the protection of liquidity providers and the practice of adjusting transactions rather than nullifying them is of critical importance. As described above, the Exchange will apply specific and objective criteria to determine whether an erroneous transaction has occurred and, if so, how to adjust or nullify a transaction.

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.

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[34] *See* Cboe Options Rule 6.25, Interpretation and Policy .07, ISE Rule 720, Supplementary Material .05, and MIAX Rule 521, Interpretation and Policy .03.

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) of the Act [35] and Rule 19b–4(f)(6) [36] 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 email to *rule-comments@sec.gov.* Please include File Number SR–CboeEDGX–2019–005 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–CboeEDGX–2019–005. This file number should be included on the subject line if email 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

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[35] 15 U.S.C. 78s(b)(3)(A).

[36] 17 CFR 240.19b–4(f)(6).

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–CboeEDGX–2019–005 and should be submitted on or before March 22, 2019.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[37]

Eduardo A. Aleman,
Deputy Secretary.

[FR Doc. 2019–03705 Filed 2–28–19; 8:45 am]

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–85201; File No. SR–BOX–2019–04]

Self-Regulatory Organizations; BOX Exchange LLC; Notice of Filing of a Proposed Rule Change To Amend the Fee Schedule on the BOX Market LLC ("BOX") Options Facility To Establish BOX Connectivity Fees for Participants and Non-Participants Who Connect to the BOX Network; Suspension of and Order Instituting Proceedings To Determine Whether To Approve or Disapprove the Proposed Rule Change

February 26, 2019.

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 February 13, 2019, BOX Exchange LLC ("Exchange") filed with the Securities and Exchange Commission ("Commission") a proposed rule change as described in Items I and II below, which Items have been prepared by the

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[37] 17 CFR 200.30–3(a)(12).

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

[2] 17 CFR 240.19b–4.