

regulations thereunder with respect to 24X are satisfied.<sup>1</sup>

24X's Form 1 application states that 24X would be wholly-owned by its parent company, 24X US Holdings LLC ("US Holdings"), which in turn is wholly-owned by 24X Bermuda Holdings LLC ("Bermuda Holdings").

The Form 1 application provides that 24X would operate a fully automated electronic trading platform for the trading of listed equities and would not maintain a physical trading floor. It also provides that liquidity would be derived from quotes as well as orders to buy and orders to sell submitted to 24X electronically by Members from remote locations. 24X proposes to have one class of membership open to registered broker-dealers. One novel feature of 24X's proposed trading rules is that 24X intends to allow equities trading 24 hours a day, 7 days per week, 365 days a year.<sup>2</sup> 24X has proposed specific rules to govern trading outside of regular trading hours.<sup>3</sup> Another notable feature in 24X's Form 1 application is that it contemplates allowing market participants to trade fractional shares.<sup>4</sup>

A more detailed description of the manner of operation of 24X's proposed system can be found in Exhibit E to 24X's Form 1 application. The proposed rulebook for the proposed exchange can be found in Exhibit B to 24X's Form 1 application, and the governing documents for 24X, US Holdings and Bermuda Holdings can be found in Exhibit A and Exhibit C to 24X's Form 1 application. A listing of the officers and directors of 24X can be found in Exhibit J to 24X's Form 1 application. A complete set of forms concerning membership and access can be found in Exhibit F to 24X's Form 1 application.

24X's Form 1 application, including all of the Exhibits referenced above, is available online at [www.sec.gov/rules/other.shtml](http://www.sec.gov/rules/other.shtml) as well as in the Commission's Public Reference Room. Interested persons are invited to submit written data, views, and arguments concerning 24X's Form 1, including whether the application is consistent with the Exchange Act.

Comments may be submitted by any of the following methods:

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

<sup>2</sup> See proposed 24X Rule 11.1 (describing the hours of trading and trading days for 24X).

<sup>3</sup> For example, see proposed 24X Rule 11.16 (describing what orders are eligible for execution outside of regular trading hours).

<sup>4</sup> See proposed 24X Rule 11.16(q) (defining the unit of trading in stocks as one thousandth of a share).

#### 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](mailto:rule-comments@sec.gov). Please include File Number 10-239 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 10-239. 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/other.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to 24X's Form 1 filed with the Commission, and all written communications relating to the application 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. 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 publicly available. All submissions should refer to File Number 10-239 and should be submitted on or before July 21, 2022.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>5</sup>

**J. Matthew DeLesDernier,**

*Assistant Secretary.*

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**BILLING CODE 8011-01-P**

<sup>5</sup> 17 CFR 200.30-3(a)(16) and (a)(71)(i).

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-95006; File No. SR-CBOE-2022-024]

### Self-Regulatory Organizations; Cboe Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change To Amend Its Rules Regarding Complex Orders

May 31, 2022.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on May 23, 2022, Cboe Exchange, Inc. (the "Exchange" or "Cboe Options") filed with the Securities and Exchange Commission (the "Commission") the proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. The Exchange filed the proposed rule change pursuant to Section 19(b)(3)(A)(iii) of the Act<sup>3</sup> and Rule 19b-4(f)(6) thereunder.<sup>4</sup> The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

Cboe Exchange, Inc. (the "Exchange" or "Cboe Options") proposes to amend its Rules regarding complex orders. The text of the proposed rule change is provided in Exhibit 5.

The text of the proposed rule change is also available on the Exchange's website (<http://www.cboe.com/AboutCBOE/CBOELegalRegulatoryHome.aspx>), at the Exchange's Office of the Secretary, and at the Commission's Public Reference Room.

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

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in 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.

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

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

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

<sup>4</sup> 17 CFR 240.19b-4(f)(6).

*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 regarding complex orders. Specifically, the Exchange proposes to clarify certain provisions, codify certain functionality, and correct certain language, as well as to retain class-by-class flexibility to keep complex order electronic eligibility for complex orders with ratios less than one-to-three and greater than three-to-one in classes determined by the Exchange (*i.e.*, the same as it currently is with respect to those classes).

In February of 2022, the Commission approved the Exchange's proposal to permit complex orders with ratios less than one-to-three and greater than three-to-one to trade in penny increments and be eligible for electronic processing.<sup>5</sup> Prior to that, complex orders with these ratios were only able to trade on the Exchange's trading floor in open outcry (and in the standard increments for the applicable class).

The proposed rule change makes three changes to the definition of complex order in Rule 1.1: (1) It deletes the sentence that narrows the definition of complex orders for purposes of electronic processing to those with ratios greater than or equal to one-to-three and less than or equal to three-to-one; (2) it clarifies that the term complex order includes Index Combo orders unless the context otherwise requires; and (3) it provides the Exchange with flexibility to determine on a class basis whether to permit complex orders with ratios less than one-to-three and greater than three-to-one to be eligible for electronic processing. First, currently, the definition of complex order indicates that for purposes of Rules 5.33 (which relates to electronic trading of complex orders) and 5.85(b)(1) (which relates to open outcry trading of complex orders), the term "complex order" means a complex order with any ratio equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.00), an Index Combo order, a stock-option order, or a security future-option order. Pursuant to this provision, only complex orders with a ratio equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.00) (in addition to Index Combo Orders, stock-

<sup>5</sup> See Securities Exchange Act Release No. 94204 (February 9, 2022), 87 FR 8625 (February 15, 2022) (SR-CBOE-2021-046). The Exchange has not yet implemented this change and intends to after this proposed rule change becomes operative.

option orders, and security future-option orders) may trade electronically.<sup>6</sup> The Exchange proposes to delete this sentence because, in accordance with a rule filing previously approved by the Commission,<sup>7</sup> the Exchange intends to modify its System to permit complex orders of any ratio to trade electronically (except in classes determined by the Exchange, as further discussed below), so the term complex order generally will have the same meaning with respect to both open outcry and electronic trading, which eliminates the need to have a separate definition for electronic trading.<sup>8</sup> Therefore, the Exchange proposes to delete the provision that indicates complex order means complex orders with that ratio restriction for purposes of Rule 5.33.<sup>9</sup>

Second, the complex order definition currently states that unless the context otherwise requires, the term complex order includes stock-option orders and security future-option orders. Specifically, the proposed rule change provides that "[u]nless the context otherwise requires, the term complex order includes Index Combo orders,<sup>10</sup> stock-option orders and security future-option orders." The proposed rule change adds "Index Combo orders" to that sentence, because as discussed above the proposed rule change is deleting the immediately following sentence. That sentence includes the term "Index Combo" as a type of complex order for purposes of electronic and open outcry processing. Despite deletion of that sentence, an Index

<sup>6</sup> For the purpose of applying these ratios to complex orders comprised of legs for both mini-options and standard options, ten mini-option contracts represent one standard option contract. For the purpose of applying these ratios to complex orders comprised of legs for both micro-options and standard options, 100 micro-option contracts represent one standard option contract.

<sup>7</sup> See Securities Exchange Act Release No. 94204 (February 9, 2022), 87 FR 8625 (February 15, 2022) (SR-CBOE-2021-046).

<sup>8</sup> See Securities Exchange Act Release No. 94204 (February 9, 2022), 87 FR 8625 (February 15, 2022) (SR-CBOE-2021-046).

<sup>9</sup> Similarly, the Exchange proposes to delete the reference to Rule 5.85(b)(1), as the ratios relevant for purposes of open outcry priority as described in Rule 5.85(b)(1) are already set forth in that provision, making this reference redundant and thus unnecessary.

<sup>10</sup> An "Index Combination" is a purchase (sale) of an index option call and sale (purchase) of an index option put with the same underlying index, expiration date, and strike price, and a "delta" is the positive (negative) number of Index Combinations that must be sold (purchased) to establish a market neutral hedge with one or more series of the same index option. An Index Combo order may not have a ratio greater than eight options to one Index Combination (8.00) and will be subject to all provisions applicable to complex orders (excluding the one-to-three/three-to-one ratio) in the Rules. Rule 5.33(b)(3).

Combo is still a type of complex order (as set forth in Rule 5.33) and thus this proposed change retains that concept in the complex order definition. This change merely clarifies in the definition of complex order that an Index Combo order will generally be considered a "complex order" for purposes of the Rules.

Third, as noted above, the Commission previously approved a proposed rule change that would permit complex orders with all ratios to be eligible for electronic processing, as opposed to just complex orders with ratios greater than or equal to one-to-three (.333) or less than or equal to three-to-one (3.00).<sup>11</sup> Prior to implementing that change, the Exchange believes it is appropriate to retain flexibility to determine on a class-by-class basis whether to maintain the status quo—specifically whether to permit complex orders with ratios less than one-to-three (.333) or greater than three-to-one (3.00) to be eligible for electronic processing. Certain classes have significant volume executed in open outcry trading on the Exchange's trading floor. The Exchange and its customers continue to believe the trading floor is an important source of liquidity, which is provided efficiently by a large pool of accessible Market-Makers and floor brokers. However, Market-Makers and floor brokers expend resources to have a presence on the trading floor, which they do because a certain level of order flow routes to the floor. The Exchange believes it is beneficial to provide investors with flexibility to have their complex order interest execute either electronically or in open outcry. However, the Exchange also believes it is important to balance that flexibility with the need to ensure significant order flow continues to route to the trading floor, providing an ongoing incentive for liquidity providers to populate the floor. This is particularly important in classes with high open outcry volume. Therefore, the proposed rule change adds to the definition of complex order in Rule 1.1 that the Exchange determines on a class-by-class basis whether complex orders with ratios less than one-to-three (.333) or greater than three-to-one (3.00) are eligible for electronic processing.<sup>12</sup>

The proposed rule change next corrects an error in the definition of

<sup>11</sup> See Securities Exchange Act Release No. 94204 (February 9, 2022), 87 FR 8625 (February 15, 2022) (SR-CBOE-2021-046). The Exchange has yet to implement this change and plans to do so after this proposed rule change is operative.

<sup>12</sup> The proposed rule change also makes conforming changes to Rules 5.6 (definition of complex order), 5.30(a)-(c), 5.33, and 5.83(b).

COA-eligible and Do-Not-COA orders in rule 5.33(c)(5). The Exchange's System currently determines whether an order is "COA-eligible" by comparing the price of an order to resting interest on the same side as the order in the Simple Book and in the Complex Order Book ("COB"). However, the current definition inadvertently inverted the relevant terms and compares the price of a buy complex order to the synthetic best offer ("SBO") and sell complex orders and compares the price of a sell complex order to the synthetic best bid ("SBB") and buy complex orders, which would be opposite-side interest. The proposed rule change corrects this error and revises the definition to provide that whether a complex order is COA-eligible will be determined by comparing the order's price to same-side interest, which is consistent with current System functionality. Specifically, a "COA-eligible" complex order is a buy (sell) complex order with User instructions to (or which default to) initiate a COA that is priced (i) equal to or higher (lower) than the SBB (SBO) (provided that if any of the bids or offers on the Simple Book that comprise the SBB (SBO) is represented by a Priority Customer order, the complex order must be priced at least one minimum increment higher (lower) than the SBB (SBO) and (ii) higher (lower) than the price of buy (sell) complex orders resting at the top of the COB. This is consistent with the provisions that will cause a COA to terminate early, pursuant to which a COA will end early because of incoming same-side interest.<sup>13</sup> Additionally, the proposed rule change is consistent with another exchange's definition of "COA-eligible" order.<sup>14</sup>

The proposed rule change also makes non-substantive changes to Rule

5.33(f)(2)(A). Specifically, the proposed rule change combines subparagraph (ii) with (v) (and renumbers the subparagraphs), as the provisions ultimately mean the same thing. Specifically, Rule 5.33(f)(2)(A)(i) provides that the System does not execute a complex order pursuant to Rule 5.33 at a net price worse than the SBBO or equal to the SBBO when there is a Priority Customer order at the SBBO, except all-or-none ("AON") complex orders may only execute at prices better than the SBBO. Therefore, if there is a Priority Customer Order comprising part of the SBBO, a complex order could only execute by improving the SBBO, which would require improvement of component prices. This is what current Rule 5.33(f)(2)(A)(v) requires. Specifically, that provision states that the System does not execute a complex order pursuant to Rule 5.33 at a net price that would cause any component of the complex strategy to be executed at a price ahead of a Priority Customer Order on the Simple Book without improving the BBO of (a) at least one component of the complex strategy, if the complex order has a ratio equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.00), or is an Index Combo order; or (b) each component of the complex strategy with a Priority Customer Order at the BBO, if the complex order has a ratio less than one-to-three (.333) or greater than three-to-one (3.00). Because these two provisions are interrelated, the Exchange believes it is appropriate to combine them into proposed Rule 5.33(f)(2)(A)(iv).<sup>15</sup> The proposed rule change has no impact on complex order priority.

The proposed rule change also clarifies that for complex order priority for complex orders with ratios equal to or greater than one-to-three and less than or equal to three-to-one, complex order priority in open outcry is slightly different than complex order priority for these complex orders in electronic trading. Specifically, in electronic trading, these complex orders may not execute when there is a Priority Customer order on any leg on the SBBO while in open outcry trading, these orders can trade at the SBBO unless there is a Priority Customer order on every leg comprising the SBBO. Current Rule 5.85(b)(1) states that a complex order with any ratio equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.00) or that is an Index Combo order may be executed at

a net debit or credit price without giving priority to equivalent bids (offers) in the individual series legs that are represented in the trading crowd or in the Book if the price of at least one leg of the order improves the corresponding bid (offer) of a Priority Customer order(s) in the Book by at least one minimum trading increment as set forth in Rule 5.4(b). The proposed rule change clarifies that this provision means that one component of the complex order must improve the price of one component leg in the Book if there is a Priority Customer order at the top of the Book for each leg of the Priority Customer order (rather than just at least one leg, which is the case for electronic trading complex order priority, as discussed above). Because open outcry and electronic complex order priority differ with respect to complex orders with any ratio equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.00) and Index Combo orders, the Exchange believes it is appropriate to clarify that in the Rules. Therefore, the proposed rule change adds to Rule 5.85(b)(1) a sentence stating that, in other words, if there is a Priority Customer order at the top of the Simple Book on each leg comprising the SBBO for the complex strategy, at least one component of the complex order must execute at a price that improves the price of the Priority Customer order on the Simple Book for that component.<sup>16</sup> The proposed rule change has no impact on open outcry complex order priority.

Finally, the proposed rule change updates Rule 5.33(g) to reflect that the System accepts for electronic processing complex orders with more than four legs. Current Rule 5.33(g) states that a complex order may execute against orders and quotes resting in the Simple Book pursuant to Rule 5.33(d)(5)(A) and (e) if it can execute in full or in a permissible ratio and if it has no more than a maximum number of legs, which the Exchange determines on a class-by-class basis and may be two, three or four, subject to certain restrictions, including that non-Customer complex orders with two option legs that are both

<sup>13</sup> Specifically, Rule 5.33(d)(3) provides that the COA response time interval terminates early (a) when the System receives a non-COA-eligible order on the same side as the COA-eligible order that initiated the COA but with a price better than the COA price, in which case the System terminates the COA and processes the COA-eligible order pursuant to Rule 5.33(d)(5) and enters the new order in the COB; (b) when the System receives a non-Priority Customer Order in a leg of the complex order that would improve the SBBO on the same side as the COA-eligible order that initiated the COA to a price better than the COA price, in which case the System terminates the COA and processes the COA-eligible order pursuant to Rule 5.33(d)(5), enters the new order in the Simple Book, and updates the SBBO; or (c) if the System receives a Priority Customer Order in a leg of the complex order that would join or improve the SBBO on the same side as the COA-eligible order that initiated the COA to a price equal to or better than the COA price, in which case the System terminates the COA and processes the COA-eligible order pursuant to Rule 5.33(d)(5), enters the new order in the Simple Book, and updates the SBBO.

<sup>14</sup> See Choe C2 Exchange, Inc. Rule 5.33(b)(2).

<sup>15</sup> The proposed rule change makes other nonsubstantive changes to the sentence structure as a result of the combination of provisions.

<sup>16</sup> Complex order priority with respect to complex orders with ratios less than one-to-three (.333) and greater than three-to-one (3.00) (except for Index Combo orders) is the same in both electronic and open outcry trading. Therefore, the proposed rule change adds to Rule 5.85(b)(2) the same language from proposed Rule 5.33(f)(2)(iv)(b), which states that for complex order with those ratios, if there is a Priority Customer order on any leg(s) comprising the SBBO, the component(s) of the complex order for the leg(s) with a Priority Customer order at the BBO must execute at a price that improves the price of that Priority Customer order(s) on the Simple Book by at least one minimum increment.

buy or both sell and that are both calls or both puts may not leg into the Simple Book and all complex orders with three or four option legs that are all buy or all sell may not leg into the Simple Book. The proposed rule change modifies the parenthetical regarding legging restrictions to indicate that the maximum number the Exchange may determine on a class-by-class basis may be up to 16, as the Exchange's System currently accepts complex orders with up to that many legs for electronic processing.<sup>17</sup> The proposed rule change makes no changes to which or how complex orders may leg into the Simple Book but rather updates this provision to reflect current functionality.

## 2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the Securities Exchange Act of 1934 (the "Act") and the rules and regulations thereunder applicable to the Exchange and, in particular, the requirements of Section 6(b) of the Act.<sup>18</sup> Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>19</sup> requirements that the rules of an exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest. Additionally, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>20</sup> requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

In particular, the proposed rule change makes no changes to how complex orders are processed or executed, but rather updates the Rules to reflect more accurately current System functionality and to make clarifying and simplifying changes, which the Exchange believes will remove impediments to and perfect the mechanism of a free and open market

and a national market system, and, in general, protect investors and the public interest. As noted above, the Commission previously approved a proposed rule change that would permit complex orders with all ratios to be eligible for electronic processing, as opposed to just complex orders with ratios greater than or equal to one-to-three (.333) or less than or equal to three-to-one (3.00).<sup>21</sup> The proposed rule change to delete the part of the complex order definition in Rule 1.1 that restricts electronic processing to complex orders with ratios greater than or equal to one-to-three and less than or equal to three-to-one is consistent with the Exchange's prior proposed rule change to permit complex orders of all ratios to be eligible for electronic processing—this language was previously inadvertently not deleted.<sup>22</sup>

Additionally, the proposed rule change to permit the Exchange to determine on a class basis whether to permit these larger/smaller ratio complex orders to be eligible for electronic processing<sup>23</sup> will further remove impediments to and perfect the mechanism of a free and open market and a national market system by permitting the Exchange to balance the flexibility of permitting complex orders to trade in open outcry or electronically with the need to ensure that significant order flow continues to route to the trading floor, providing an ongoing incentive for liquidity providers to populate the floor. The Exchange believes this will further protect investors who rely on liquidity on the trading floor, particularly for complex orders. While the Exchange generally believes any increase in electronic order flow will not be significant enough to impact liquidity available on the trading floor, the Exchange believes it is still appropriate to retain this flexibility in the Rules to provide it with authority to act swiftly if it appears floor liquidity has been or may be impacted.<sup>24</sup> With

respect to any class for which the Exchange does not permit larger/smaller ratio complex orders to be eligible for electronic processing, that results in no change for these orders, as these orders currently can only trade in open outcry.

The proposed change to the definition of COA-eligible order in Rule 5.33(b)(5)(A) merely conforms the provision to the System, which compares the price of the order to same-side interest rather than opposite-side interest. The current language inadvertently inverted the terms; the proposed rule change corrects this, which makes the rule text consistent with the System and thus provides additional transparency, ultimately benefiting investors. This is consistent with the provisions that will cause a COA to terminate early, pursuant to which a COA will end early because of incoming same-side interest.<sup>25</sup> Additionally, the proposed rule change is consistent with another exchange's definition of "COA-eligible" order.<sup>26</sup>

The proposed rule change to update the provisions regarding complex order priority in Rules 5.33(f)(2) and 5.85(b)(1) is a nonsubstantive change intended to simplify the rule text regarding when legs of complex orders must improve prices of orders on the Simple Book. Similarly, the proposed rule change to clarify complex order priority in open outcry is merely a clarification of the current priority. The Exchange believes this will benefit investors, particularly since it is different than electronic complex order priority with respect to complex orders with ratios greater than or equal to one-to-three (.333) and less than or equal to three-to-one (3.00). These proposed rule changes have no impact on electronic or open outcry complex order priority.

<sup>25</sup> Specifically, Rule 5.33(d)(3) provides that the COA response time interval terminates early (a) when the System receives a non-COA-eligible order on the same side as the COA-eligible order that initiated the COA but with a price better than the COA price, in which case the System terminates the COA and processes the COA-eligible order pursuant to Rule 5.33(d)(5) and enters the new order in the COB; (b) when the System receives a non-Priority Customer Order in a leg of the complex order that would improve the SBBO on the same side as the COA-eligible order that initiated the COA to a price better than the COA price, in which case the System terminates the COA and processes the COA-eligible order pursuant to Rule 5.33(d)(5), enters the new order in the Simple Book, and updates the SBBO; or (c) if the System receives a Priority Customer Order in a leg of the complex order that would join or improve the SBBO on the same side as the COA-eligible order that initiated the COA to a price equal to or better than the COA price, in which case the System terminates the COA and processes the COA-eligible order pursuant to Rule 5.33(d)(5), enters the new order in the Simple Book, and updates the SBBO.

<sup>26</sup> See Choe C2 Exchange, Inc. Rule 5.33(b)(2).

<sup>21</sup> See Securities Exchange Act Release No. 94204 (February 9, 2022), 87 FR 8625 (February 15, 2022) (SR-CBOE-2021-046). The Exchange has yet to implement this change and plans to do so after this proposed rule change is operative.

<sup>22</sup> See Securities Exchange Act Release No. 94204 (February 9, 2022), 87 FR 8625 (February 15, 2022) (SR-CBOE-2021-046).

<sup>23</sup> See proposed Rule 1.1 (definition of complex order) and corresponding changes in Rules 5.6(c) (definition of complex order), 5.30(a)(4), (b)(4), and (c)(4), 5.33(a) (definition of complex order), and 5.83(b).

<sup>24</sup> The Exchange would announce any changes to classes in which complex orders with ratios less than one-to-three or greater than three-to-one were eligible or no longer eligible for electronic processing in accordance with Rule 1.5, providing Trading Permit Holders with sufficient advanced notice of any such change.

<sup>17</sup> See Choe Notice C2021060800, *Choe Options Introduces 16-Leg Maximum for Non-FLEX Complex Orders* (June 8, 2021), available at Choe Options Introduces 16-Leg Maximum for Non-FLEX Complex Orders; see also *Choe US Options Complex Book Process* (technical specifications last updated April 20, 2022), Section 2.3.2, available at US Options Complex Book Process.

<sup>18</sup> 15 U.S.C. 78f(b).

<sup>19</sup> 15 U.S.C. 78f(b)(5).

<sup>20</sup> *Id.*

Finally, the proposed rule change to the provision regarding complex order legging in Rule 5.33(g) will protect investors, as it merely updates the provision to reflect that the System accepts for electronic processing complex orders with more than four legs. The proposed rule change makes no changes to which or how complex orders may leg into the Simple Book but rather updates this provision to reflect current functionality.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The proposed rule change is not intended for competitive purposes, but rather to clarify certain provisions, codify certain functionality, and correct certain language, as well as to retain class-by-class flexibility to keep complex order electronic eligibility the same as it currently.

The Exchange does not believe that the proposed rule change will impose any burden on intramarket competition that is not necessary or appropriate in furtherance of the purposes of the Act, because all changes will apply in the same manner to all investors. To the extent the Exchange determines to not permit higher/lower ratio complex orders to be eligible for electronic processing in any class, that will result in maintaining the status quo for complex orders in that class, as the Exchange currently does not permit complex orders with those ratios to be processed electronically. Additionally, manual handling and open outcry processing will be available for all complex orders with such ratios from all investors. The other proposed rule changes have no impact on trading and thus will not change how any investors' complex orders are processed or executed on the Exchange. As noted above, the proposed rule change makes no changes to electronic or open outcry complex order priority, which orders can initiate a COA, or how complex orders may leg into the Simple Book.

The Exchange does not believe that the proposed rule change will impose any burden on intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act, because the proposed rule change has no impact on how complex orders trade, as it makes primarily clarifying updates, corrections, and other nonsubstantive changes. The Exchange is unaware of any other options exchanges that permit complex orders with ratios less than

.333 or greater than 3.00 to trade electronically. Therefore, to the extent the Exchange does not make complex orders with those ratios in a class eligible for electronic processing, the Exchange would be permitting complex orders to trade in the same manner as other options exchanges. Other options exchanges are welcome to modify their systems to permit higher/lower ratio orders to execute electronically or on their trading floors.

#### *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) of the Act<sup>27</sup> and Rule 19b-4(f)(6)<sup>28</sup> 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.

A proposed rule change filed under Rule 19b-4(f)(6)<sup>29</sup> normally does not become operative prior to 30 days after the date of the filing. However, pursuant to Rule 19b-4(f)(6)(iii),<sup>30</sup> the Commission may designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange has asked the Commission to waive the 30-day operative delay. As discussed above, the proposal will allow the Exchange to determine on a class-by-class basis whether complex orders with ratios less than one-to-three and greater than three-to-one will be eligible for electronic

processing. The Exchange states that this flexibility will allow the Exchange to balance the benefits of permitting the electronic processing of these complex orders with the need to ensure that significant order flow continues to route to the Exchange's trading floor, thereby providing an ongoing incentive for liquidity providers to maintain a presence on the floor. The Exchange further states that waiver of the operative delay will benefit investors by allowing the Exchange to broaden the availability of electronic complex order processing in many option classes as soon as possible. In addition, the Exchange states that the proposed amendments to the complex order priority provisions in Exchange Rules 5.33(f)(2) and 5.85(b)(1) are non-substantive changes designed to simply and clarify those rules. The proposal also corrects errors in the definition of COA-eligible order and updates Exchange Rule 5.33(g) to reflect that the Exchange's System accepts for electronic processing complex orders with up to 16 legs. The Commission finds that waiving the operative delay is consistent with the protection of investors and the public interest because it will allow the Exchange to make available without delay the electronic processing of complex orders with ratios less than one-to-three and greater than three-to-one in classes determined by the Exchange. The ability to trade these orders electronically, as well as on the trading floor, will provide investors with additional flexibility in determining how their complex orders are executed. The proposed changes to correct, update, and add clarity to the Exchange's rules will benefit investors by helping to ensure that the Exchange's rules are clear and accurate. For these reasons, the Commission designates the proposal operative upon filing.<sup>31</sup>

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 shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

<sup>27</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>28</sup> 17 CFR 240.19b-4(f)(6).

<sup>29</sup> 17 CFR 240.19b-4(f)(6).

<sup>30</sup> 17 CFR 240.19b-4(f)(6)(iii).

<sup>31</sup> For purposes only of accelerating the operative date of this proposal, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

#### 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](mailto:rule-comments@sec.gov). Please include File Number SR-CBOE-2022-024.

##### *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-2022-024. 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 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-2022-024, and should be submitted on or before June 27, 2022.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>32</sup>

**J. Matthew DeLesDernier,**

*Assistant Secretary.*

[FR Doc. 2022-12012 Filed 6-3-22; 8:45 am]

**BILLING CODE 8011-01-P**

#### SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-95011; File No. SR-NSCC-2022-003]

#### Self-Regulatory Organizations; National Securities Clearing Corporation; Order Approving Proposed Rule Change To Introduce Central Clearing for Securities Financing Transaction Clearing Service

May 31, 2022.

##### I. Introduction

On March 28, 2022, National Securities Clearing Corporation ("NSCC") filed with the Securities and Exchange Commission ("Commission"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> proposed rule change SR-NSCC-2022-003. The proposed rule change was published for comment in the **Federal Register** on April 19, 2022.<sup>3</sup> For the reasons discussed below, the Commission is approving the proposed rule change.

##### II. Description of the Proposed Rule Change

###### A. Overview of Proposal

NSCC proposes to expand its central counterparty ("CCP") services to include securities financing transactions

<sup>32</sup> 17 CFR 200.30-3(a)(12).

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

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

<sup>3</sup> Securities Exchange Act Release No. 94694 (April 12, 2022), 87 FR 23372 (April 19, 2022) (SR-NSCC-2022-003) ("Notice of Filing"). NSCC also filed the proposal contained in the Proposed Rule Change as advance notice SR-NSCC-2022-801 ("Advance Notice") with the Commission pursuant to Section 806(e)(1) of the Dodd-Frank Wall Street Reform and Consumer Protection Act entitled the Payment, Clearing, and Settlement Supervision Act of 2010 ("Clearing Supervision Act"). 12 U.S.C. 5465(e)(1); 17 CFR 240.19b-4(n)(1)(i). Notice of filing of the Advance Notice was published for comment in the **Federal Register** on April 19, 2022. Securities Exchange Act Release No. 94695 (April 12, 2022), 87 FR 23328 (April 19, 2022) (SR-NSCC-2022-801). On May 27, 2022, the Commission published a notice of no objection to the Advance Notice. Securities Exchange Act Release No. 94998 (May 27, 2022). The proposal contained in the Proposed Rule Change and the Advance Notice shall not take effect until all regulatory actions required with respect to the proposal are completed.

("SFTs"), also referred to generally as securities lending,<sup>4</sup> SFTs are transactions in which a securities lender loans securities to a securities borrower, for a fee. The borrowers typically use the borrowed securities to cover short sales or fails to deliver that may result from either short or long sales.<sup>5</sup> A lender typically lends securities to generate income through the fees that it charges.

As a CCP, NSCC would interpose itself between the securities lender and borrower and become the counterparty to each entity. NSCC would then be obligated to complete the transaction, that is, to return loaned securities to the lender and collateral to the borrower, even if a lender or borrower in an SFT fails to satisfy its obligations, thereby assuming the risk of each entity's failure to perform to each other.

Specifically, NSCC would novate and guarantee SFTs that involve eligible securities, meaning equity securities (including ETFs) cleared at NSCC with a particular per share price, initially set at \$5 or greater. The service would be limited to overnight SFTs (*i.e.*, with a one business day term), with the ability for the parties to extend an expiring SFT into a new transaction.

The SFT service would be available to existing NSCC members.<sup>6</sup> In addition, NSCC would create two new membership categories that would be able to submit SFTs for central clearing: Sponsoring Members that would sponsor institutional clients into NSCC and act as a principal to SFTs with their clients, and Agent Clearing Members that submit SFTs on behalf of institutional customers strictly as an agent. These two new types of membership would allow the proposed service to meet the existing market practices for SFTs, where different types of entities employ different trading strategies and relationships to accommodate their regulatory and other requirements.

Consistent with its risk management for all other transactions in equity securities, NSCC would collect margin from the lender and borrower for

<sup>4</sup> The Options Clearing Corporation ("OCC") operates a stock loan program as a CCP. NSCC's new service is similar to OCC's service with one key difference: Unlike OCC's service, which only covers transactions between OCC's direct members (*i.e.*, broker to broker), NSCC's new service would allow indirect participation by buy-side clients. See Section II.B.(2).

<sup>5</sup> A short sale is any sale of securities that a seller does not own or has borrowed. See 17 CFR 242.200(a).

<sup>6</sup> Capitalized terms not defined herein are defined in the NSCC Rules & Procedures ("Rules"), available at [http://www.dtcc.com/~media/Files/Downloads/legal/rules/nsc\\_rules.pdf](http://www.dtcc.com/~media/Files/Downloads/legal/rules/nsc_rules.pdf).