



December 10, 2018

Christopher J. Kirkpatrick  
Secretary  
Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21st Street, N.W.  
Washington, D.C. 20581

Re: Cboe Futures Exchange, LLC Rule Certification  
Submission Number CFE-2018-030

Dear Mr. Kirkpatrick:

Pursuant to Section 5c(c)(1) of the Commodity Exchange Act, as amended (“Act”), and §40.6(a) of the regulations promulgated by the Commodity Futures Trading Commission (“Commission”) under the Act, Cboe Futures Exchange, LLC (“CFE” or “Exchange”) hereby submits a CFE rule amendment (“Amendment”) to amend CFE Policy and Procedure XI which sets forth the Cboe/CBOT 10-Year U.S. Treasury Note Volatility Index (“VXTY”) Futures Lead Market Maker Program (“LMM Program”). A version of the Amendment which sets forth the full terms of the amended LMM Program is included in a segregated confidential Appendix A to this submission. The Amendment will become effective on January 1, 2019.

Any CFE Trading Privilege Holder (“TPH”) organization may apply to the Exchange for appointment as a lead market maker (“LMM”) in the LMM Program. The Exchange may approve one or more LMMs for VXTY futures. TPHs are selected by the Exchange based on the Exchange’s judgment as to which applicants are most qualified to perform the functions of an LMM for VXTY futures based on specified criteria. The LMM Program includes market performance benchmarks that LMMs must satisfy in order to receive specified benefits under the LMM Program. The benefits under the LMM Program are intended to attract and retain liquidity providers in VXTY futures. The LMM Program currently expires on December 31, 2018. The Amendment clarifies one provision of the LMM Program and extends the term of the LMM Program and any LMM appointments under the LMM Program for an additional year until December 31, 2019. Exhibit 1 to this submission includes an amended description of the LMM Program which CFE will include in Policy and Procedure IX of the Policies and Procedures Section of the CFE Rulebook.

As is currently the case, CFE may determine to further extend the term of the LMM Program and LMM appointments under the LMM Program, allow the LMM Program and LMM appointments under the LMM Program to expire at the end of the amended term of the LMM Program, terminate the LMM Program and all LMM appointments under the LMM Program at any time, or replace the LMM Program with a different LMM program at any time. Any of the above actions, other than allowing the LMM Program to expire, would be done through a subsequent rule amendment submission to the Commission.

CFE believes that the Amendment is consistent with Designated Contract Market Core

Principles 2 (Compliance with Rules), 4 (Prevention of Market Disruption), 9 (Execution of Transactions), and 12 (Protection of Markets and Market Participants) under Section 5 of the Act. All LMMs in the LMM Program are obligated by CFE Rule 308 to comply with Exchange rules and are required under the terms of the LMM Program to utilize Exchange match trade prevention functionality under CFE Rule 406B with respect to trading in VXTY futures. The Exchange also surveils for wash trading by LMM Program participants. Exchange rules include prohibitions against fraudulent, non-competitive, unfair, and abusive trading practices, and the Exchange monitors trading in VXTY futures for violative activity such as manipulative trading and market abuse. The Exchange believes that participation in the LMM Program will have a positive impact on the price discovery process by fostering liquidity, market width and size, and volume in VXTY futures traded on CFE's centralized market and by incentivizing market participants to devote their efforts to enhancing market quality in VXTY futures. Enhanced market quality benefits all participants in the VXTY futures market. Accordingly, CFE believes that the impact of the Amendment will be beneficial to the public and market participants.

CFE believes that the impact of the Amendment will be beneficial to the public and market participants. CFE is not aware of any substantive opposing views to the Amendment. CFE hereby certifies that the Amendment complies with the Act and the regulations thereunder. CFE further certifies that CFE has posted a notice of pending certification with the Commission and a copy of this submission on CFE's Web site (<http://cfe.cboe.com/aboutcfe/rules.aspx>) concurrent with the filing of this submission with the Commission.

Questions regarding this submission may be directed to Arthur Reinstein at (312) 786-7570 or Nicole Gordon at (312) 786-8109. Please reference our submission number CFE-2018-030 in any related correspondence.

Cboe Futures Exchange, LLC

/s/ Matthew McFarland

By: Matthew McFarland  
Managing Director

## EXHIBIT 1

(Additions are shown in underlined text and deletions are shown in ~~stricken~~ text)

### **Cboe Futures Exchange, LLC Policies and Procedures Section of Rulebook**

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#### **XI. Cboe/CBOT 10-Year U.S. Treasury Note Volatility Index Futures Lead Market Maker Program**

Trading Privilege Holder (“TPH”) organizations may apply to the Exchange for appointment as a lead market maker (“LMM”) in the Cboe/CBOT 10-Year U.S. Treasury Note Volatility Index (“VXTY”) Futures Lead Market Maker Program (“Program”).

The Exchange may approve one or more TPHs as lead market makers in the Program. Any TPH that desires to apply for LMM status in the Program should submit an application in the form of a letter outlining the organization’s qualifications and commitments. TPHs shall be selected by the Exchange based on the Exchange’s judgment as to which applicants are most qualified to perform the functions of an LMM under the Program. Factors to be considered in making this selection may include, but are not limited to, satisfaction of the qualifications listed below as well as any one or more of the factors listed in CFE Rule 515(b), as applied to LMM applicants instead of with respect to DPM applicants.

The following describes the qualifications, market performance benchmark, benefits, and appointment term under the Program unless otherwise specified.

#### **Qualifications**

- Experience in trading futures and/or options on volatility indexes.
- Ability to automatically and systemically provide Orders.

#### **Market Performance Benchmarks**

- Each LMM shall identify in advance to the Exchange the EFID(s) through which the LMM will provide Orders to satisfy the market performance benchmarks under the Program. Each LMM is required to utilize Exchange match trade prevention functionality under Rule 406B with respect to trading in VXTY futures.
- ~~• Throughout the trading day between 7:00 a.m. and 3:15 p.m. (Chicago time), each LMM in the Program shall provide at least 95% of the time Orders that result in a 2-sided quote for a minimum of 25 contracts within a maximum width of \$0.05 in all contract months.~~
- ~~• The above market performance benchmark shall be subject to relief in the event of unusual market conditions in the component options on 10 Year Treasury Note futures listed on the Chicago Board of Trade (“CBOT”) (ticker: OZN options) or other extenuating circumstances or unusual market conditions to be determined solely by the Exchange. Under conditions as specified in the foregoing sentence, each LMM in the Program shall use commercially~~

~~reasonable efforts to provide Orders that result in a continuous quote and to provide Orders that result in a two-sided quote in response to a request from the Exchange that the LMM post a market for a VXTY future or futures.~~

- Each LMM shall provide Orders in VXTY futures in conformity with specified criteria relating to minimum two-sided quote size and maximum quote width.
- The Exchange may terminate, place conditions upon, or otherwise limit a TPH's appointment as an LMM under the Program if the TPH fails to satisfy the market performance benchmarks under the Program. For example, the Exchange may reduce the applicable monthly revenue share payment to a TPH under the Program ~~by the pro-rated amount attributable to any trading days during the relevant calendar month on~~ through a proration that takes into consideration the extent to which the TPH does not satisfy the market performance benchmarks under the Program during the applicable calendar month. However, failure of a TPH to satisfy the market performance benchmarks under the Program shall not be deemed a violation of Exchange rules.

## **Benefits**

### *Transaction Fee Waiver*

- ~~Transaction fees in the VXTY futures contract (excluding regulatory fees) shall be waived through December 31, 2018 for each LMM under the Program.~~

### *Revenue Share*

- ~~For each calendar month (including any partial calendar month) during which one or more Trading Privilege Holders act as an LMM for VXTY futures under the Program, the Exchange will maintain a revenue pool for those LMMs for that calendar month. The revenue pool will be equal to 20% of the total transaction fees (excluding regulatory fees) collected by the Exchange for transactions in VXTY futures during that calendar month.~~
- ~~The revenue pool will be allocated on a pro-rata basis to the TPHs that acted as an LMM for VXTY futures during the applicable calendar month based on the contract volume of those TPHs in VXTY futures during that calendar month resulting from proprietary Orders provided by those LMMs.~~
- ~~Payments from the revenue pool for a calendar month will be made to the LMMs following the end of the applicable calendar quarter.~~
- An LMM is eligible to receive specified benefits in connection with acting as an LMM under the Program.

## **Term**

- The Program and each LMM appointment under the Program will expire on December 31, ~~2018~~ 2019. The Exchange may determine to extend the term of the Program and LMM appointments under the Program, allow the Program and LMM appointments under the Program to expire, terminate the Program and all LMM appointments under the Program at any time, or replace the Program with a different LMM program at any time.