

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-86033; File No. SR-C2-2019-012)

June 5, 2019

Self-Regulatory Organizations; Cboe C2 Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Update its Price Adjust Process to Allow for the Process to Apply to Bulk Messages

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 May 23, 2019, Cboe C2 Exchange, Inc. (the “Exchange” or “C2”) 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 as a “non-controversial” proposed rule change pursuant to Section 19(b)(3)(A)(iii) of the Act³ and Rule 19b-4(f)(6) thereunder.⁴ The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

Cboe C2 Exchange, Inc. (the “Exchange” or “C2”) proposes to update its Price Adjust process to allow for the process to apply to bulk messages. 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://markets.cboe.com/us/options/regulation/rule_filings/ctwo/), at the Exchange’s Office of the Secretary, and at the Commission’s Public Reference Room.

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).

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

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

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

1. Purpose

The Exchange proposes to amend its rules to allow for the Price Adjust process to apply to bulk messages and make corresponding changes where applicable. The Exchange is proposing these amendments in order to provide Options Members that submit bulk messages with functionality that is currently available to them for orders.

In February 2019, the Exchange adopted bulk messaging functionality, in which a User may enter, modify or cancel up to an Exchange-specified number of bids and offers. A User may submit a bulk message through a bulk port.⁵ The System⁶ handles bulk messages in the same manner as it handles an order, or quote if submitted by a Market-Maker, unless the Rules specify otherwise. Currently, Rule 6.10 allows a User to designate an order to be subject to the Price Adjust process pursuant to Rule 6.12.⁷ Pursuant to current Rule 6.12(b), the System ranks and displays a buy (sell) order that, at the time of entry, would lock or

⁵ See Rule 6.8(c)(3)

⁶ The “System” is the automated trading system the Exchange uses for the trading of option contracts. See Rule 1.1.

⁷ An order that is not designated as Cancel Back is also subject to the Price Adjust process (i.e., orders default to be subject to the Price Adjust process).

cross a Protected Quotation of the Exchange or another exchange at one minimum price increment below (above) the current National Best Offer (“NBO”) or National Best Bid (“NBB”), as applicable. The Price Adjust process applies to orders (subject to the User’s instructions or the Rules) that do not execute upon entry and go to rest in the C2 Book (for example, because an order is not marketable upon entry, is not eligible to route, etc.). It ensures these orders rest at executable prices in accordance with linkage rules.⁸ Current Rules 6.10(c) and 6.12(b) state that the Price Adjust process does not apply to bulk messages.⁹

Current Rule 6.10(c) also provides for a Cancel Back order, in which a User may designate an order not to be subject to the Price Adjust process and the System cancels or rejects such order if displaying the order on the C2 Book would create a violation of Rule 6.82 (Locked and Crossed Markets), or if the order cannot otherwise be executed or displayed in the C2 Book at its limit price. The System executes a Book Only – Cancel Back order marketable against resting orders, and cancels or rejects a Post Only – Cancel Back order that locks or crosses the opposite side of the BBO.

Furthermore, current Rule 6.12(c) provides for additional System order handling provisions regarding bulk messages submitted through bulk quoting ports. Specifically, Rule 6.12(c)(6)(A) provides that the System will cancel or reject a Post Only bulk message bid (offer) with a price that locks or crosses the Exchange best offer (bid) or ABO (ABB).¹⁰

⁸ See Section E of Chapter VI of the Rules. See also Options Order Protection and Locked/Crossed Market Plan (the “Linkage Plan”).

⁹ Specifically, the multiple bids (offers) submitted through a bulk message. Therefore, as proposed, a Price Adjust or Cancel Back designation, as applicable, applies to all bulk message bids and offers within a single message.

¹⁰ The ABBO means the best bid (offer) disseminated by other exchanges.

The Exchange notes that bulk messages that include a Post Only instruction do not remove liquidity from the Exchange or route away to other exchanges.¹¹ Current Rule 6.12(c)(6)(A) is consistent with how the System handles a Post Only – Cancel Back order.¹² Additionally, current Rule 6.12(c)(6)(B) provides that the System cancels or rejects a Book Only bulk message bid (offer) that locks or crosses the ABO (ABB) against offers (bids) resting in the C2 Book at prices the same as or better than the ABO (ABO) and then cancels the unexecuted portion of that bid (offer). Book Only orders do not route away to other exchanges.¹³ Current Rule 6.12(c)(6)(B) is consistent with how the System handles Book Only – Cancel Back orders.¹⁴ The Exchange also notes that pursuant to Rule 6.8(c), a Market-Maker with an appointment in a class may designate a bulk message for that class as Post Only or Book Only, and other Users (i.e., non-Market-Makers or Market-Makers without an appointment in a class) must designate a bulk message for that class as Post Only.¹⁵

¹¹ See Rule 6.10, which defines a “Post Only” order as an order the System ranks and executes pursuant to Rule 6.12, subjects to the Price Adjust process pursuant to Rule 6.12, or cancels or rejects (including if it is not subject to the Price Adjust process and locks or crosses a Protected Quotation of another exchange), as applicable (in accordance with User instructions), except the order may not remove liquidity from the Book or route away to another Exchange. Users may designate bulk messages as Post Only as set forth in Rule 6.8(c).

¹² See supra note 8.

¹³ See Rule 6.10, which defines a “Book Only” order as an order the System ranks and executes pursuant to Rule 6.12, subjects to the Price Adjust process pursuant to Rule 6.12, or cancels, as applicable (in accordance with User instructions), without routing away to another exchange. Users may designate bulk messages as Book Only as set forth in Rule 6.8(c).

¹⁴ See supra note 8.

¹⁵ Pursuant to the current Rules, a bulk message must be designated as Post Only or Book Only. Additionally, because bulk messages must include bids and offers, and may not be market orders, all bulk messages are limit orders. See Rules 1.1 and 6.10(b).

The Exchange now proposes to amend Rule 6.10(c) and Rule 6.12(b) to permit Users to designate bulk messages to be subject to the Price Adjust process, and permit Users to opt-out of such process for bulk messages by designating bulk messages as Cancel Back. The Price Adjust and Cancel Back designations, as applicable, will apply to all bulk message bids and offers within a single message. The Exchange notes that Users have noted the regularity with which their bulk messages are rejected because Price Adjust does not apply to them. As a result, some Users find this inefficient when submitting bulk messages. The Exchange believes that allowing bulk messages to be subject to the Price Adjust process will provide market participants with additional opportunities for execution and price improvement, as well as additional flexibility and control over their submission of bulk messages. If a User does not want a bulk message to be subject to the Price Adjust process, it may designate the bulk message as Cancel Back, as noted above. A Cancel Back bulk message will be handled in the same manner as a bulk message is handled today.¹⁶

As proposed, all bulk messages would now be subject to the Price Adjust process if it locks or crosses the BBO or ABBO and rest in the C2 Book pursuant to the process, thus avoiding display of a locked or crossed market in accordance with the linkage rules.¹⁷ Therefore, the Exchange now proposes to remove Rules 6.12(c)(6)(A) and 6.12(c)(6)(B) (and amend the subsequent lettering as a result) because Post Only and Bulk Only bulk messages will now be included in the Price Adjust process, the handling of which would now be consistent with the current order handling of Post Only and Book Only orders under

¹⁶ The Exchange also proposes to make a non-substantive change to Rule 6.12(b) to amend the capitalization of “exchange” in the phrase “or another exchange”, which is consistent with the format of this phrase throughout the Rules.

¹⁷ See supra note 8.

the Price Adjust process.¹⁸ The Exchange also notes that all bulk messages not subject to the Price Adjust process (because the User has designated a bulk message as Cancel Back) would be handled in the same manner as the proposed deleted subparagraphs (c)(6)(A) and (c)(6)(B) pursuant to the Cancel Back instruction under Rule 6.10(c).

The Exchange notes that allowing bulk messages to be subject to a repricing process is consistent with the handling of similar order (and quote) types on other exchanges.¹⁹ A similar repricing (display-price sliding) process for bulk messages currently exists under Rule 21.1(h)(1) of the Exchange's affiliated exchange, Cboe BZX Exchange, Inc. ("BZX Options"). The Exchange also notes that other exchanges subject orders (quotes) similar to Post Only and Book Only bulk messages to a repricing process like the Price Adjust process. For example, NYSE Arca, Inc. ("Arca") recently adopted order types called the Market Maker Add Liquidity Only quotation ("MMALO"), which like a Post Only instruction may not remove liquidity from the Exchange, and the Market Maker Repricing quotation ("MMRP").²⁰ Pursuant to Arca's repricing process, if these quotes would not be able to trade upon entry (for example, because the MMALO would take liquidity or display at a price that locks or crosses any interest on the Exchange or the NBBO), it would be displayed at one minimum price variation below (above) such sell (buy) interest.

¹⁸ See supra notes 11 and 13.

¹⁹ See Securities Exchange Act Release No. 84737 (December 6, 2018), 83 FR 63919 (December 12, 2018) (SR-NYSEArca-2018-74) (order approving the proposed order types). See also BZX Options Rule 21.1(h)(1).

²⁰ See Arca Rule 6.37A-O(a)(3)(A) and Rule 6.37A-O(a)(3)(C).

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.²¹

Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)²² 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)²³ requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

In particular, the Exchange believes that the proposed rule change subjecting bulk messages to the Price Adjust process will remove impediments to and perfect the mechanism of a free and open market because it provides Users with the flexibility to apply to bulk messages the same functionality they may apply to their orders. The Exchange believes that repricing bulk messages for Users (that do not opt out of the Price Adjust process), as opposed to automatically rejecting messages that lock or cross protected quotes when posted to the C2 Book, will permit Users to use bulk messages to

²¹ 15 U.S.C. 78f(b).

²² 15 U.S.C. 78f(b)(5).

²³ Id.

respond to continuously changing market conditions in a more efficient manner, as well as provide additional opportunity for execution and price improvement. The proposed repricing of bulk messages prevents the display of a locked or crossed market and is consistent with the Linkage Plan,²⁴ thereby perfecting the mechanism of a free and open market and national market system and protecting investors.

The Exchange also believes that by providing Users with the ability to designate bulk messages as subject to the Price Adjust process instead of cancelling or rejecting these messages under certain circumstances, will give Users greater flexibility and control over the circumstances under which their orders are able to interact with contra side-interest on the Exchange. The Exchange believes this may increase the opportunities for execution at multiple price points and encourage the provision of more liquidity to the market, and therefore believes that it is reasonably designed to facilitate the mechanism of price discovery.

The Exchange notes that the options markets are quote driven markets and thus dependent on liquidity providers, which are most commonly registered market-makers but also other Users, such as professional traders, for liquidity and price discovery. The Exchange believes that subjecting bulk messages to the Price Adjust process will provide liquidity providers with greater flexibility with respect to their submission of bulk messages, the primary purpose of which is to provide liquidity to the market. The Exchange believes that the reduction in the number of rejected bulk messages will promote efficacy in bulk messaging and may encourage the provision of more liquidity. This may result in more trading opportunities and tighter spreads and contribute to price

²⁴ See supra note 8.

discovery. As a result, this proposed change intends to improve overall market quality and enhance competition on the Exchange to the benefit of all investors.²⁵

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 Exchange does not believe 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, as the proposed application of the Price Adjust and the Cancel Back process to bulk messages will be available to all applicable Users (e.g. Market-Makers may submit Book Only bulk messages, therefore, the option to apply the Price Adjust or Cancel Back process to Book Only bulk messages is available to all Market-Makers). While bulk messages will by default be subject to the Price Adjust process, all Users may apply the Cancel Back instruction to bulk messages in order to opt out of that process for its bulk messages (and continue to have their bulk messages be handled in the same manner as they are today). The Exchange also notes that the Price Adjust and Cancel Back instructions are already available to all Users for orders, including Post Only and Book Only orders, and will apply to bulk messages in the same manner as they apply to orders.

The Exchange does not believe 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 it will provide Users with bulk message repricing

²⁵ The Exchange also believes that its proposed change to amend the capitalization of “exchange” when referring to “another exchange” in Rule 6.12(b) is a clarifying change that will alleviate potential investor confusion because it is consistent with the format of this phrase throughout the Rules. See supra note 14.

functionality that is similar to other order and quote repricing available on other options exchanges. The Exchange believes the proposed functionality will permit the Exchange to operate on an even playing field relative to other exchanges that have similar functionality.

As discussed above, the options markets are quote driven markets and thus dependent on various Users as liquidity providers and for price discovery. The Exchange believes the proposed amendment to subject bulk messages to the Price Adjust process will provide liquidity providers with additional flexibility and control over interactions of their bulk messages with contra-side liquidity, as well as additional opportunity for execution at multiple price points and price improvement. This may encourage the provision of more liquidity, which may result in more trading opportunities and tighter spreads, and contribute to price discovery. This may improve overall market quality and enhance competition on the Exchange, to the benefit of all investors.

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: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) 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)(iii) of the Act²⁶ and subparagraph (f)(6) of Rule 19b-4 thereunder.²⁷

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission will institute proceedings to determine whether the proposed rule change should be approved or disapproved.

IV. Solicitation of Comments

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

Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-C2-2019-012 on the subject line.

²⁶ 15 U.S.C. 78s(b)(3)(A)(iii).

²⁷ 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6)(iii) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

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-C2-2019-012. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website

(<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, D.C. 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to

File Number SR-C2-2019-012 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²⁸

Eduardo A. Aleman
Deputy Secretary

²⁸ 17 CFR 200.30-3(a)(12).