

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-88721; File No. SR-C2-2020-004)

April 22, 2020

Self-Regulatory Organizations; Cboe C2 Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to Remove its Optional Daily Risk Limits Pursuant to Rule 6.14

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 April 13, 2020, 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 and II 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 remove its optional daily risk limits pursuant to Rule 6.14. 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 remove the optional daily risk limit settings for Users in Rule 6.14(c)(4).⁵ The daily risk limits are voluntary functionality. Pursuant to current Rule 6.14(c)(4), if a User enables this functionality they may establish one or more of the following values for each of its ports, which the System aggregates (for simple and complex orders) across all of a User’s ports (i.e., applies on a firm basis): (i) cumulative notional booked bid value (“CBB”); (ii) cumulative notional booked offer value (“CBO”); (iii) cumulative notional executed bid value (“CEB”); and (iv) cumulative notional executed offer value (“CEO”). The User may then establish a limit order notional cutoff, a market order notional cutoff, or both, each of which it may establish on a net basis, gross basis, or both. If a User exceeds a cutoff value, the System cancels or rejects all incoming limit orders or market orders, respectively. If a User establishes a limit order notional cutoff but does not establish (or sets as zero) the market order notional cutoff, the System cancels or rejects all market orders. The System calculates a notional cutoff on a gross basis by summing CBB, CBO, CEB, and CEO. The System calculates a notional cutoff on a net basis by summing CEO and

⁵ As a result of the proposed rule change, the Exchange also updates the subsequent paragraph numbering in current subparagraphs (c)(5) through (c)(10).

CBO, then subtracting the sum of CEB and CBB, and then taking the absolute value of the resulting amount. This functionality does not apply to bulk messages.

The Exchange proposes to remove the daily limit risk mechanism because use of this mechanism on Users' ports is infrequent. Indeed, no Users currently have the daily risk limit enabled on a port connected to the Exchange. Because so few Users enable this functionality for their ports, the Exchange believes the current demand does not warrant the Exchange resources necessary for ongoing System support for the risk mechanism (e.g., the System must maintain and apply algorithms that track and calculate gross and net notional exposure). The Exchange again notes that the use of the daily risk limit is voluntary. The Exchange will continue to offer to Users a full suite of price protection mechanisms and risk controls which sufficiently mitigate risks associated with Users entering orders and quotes at unintended prices, and risks associated with orders and quotes trading at prices that are extreme and potentially erroneous, as a likely result of human or operational error. This includes other price protections and risk controls associated with notional value of a User's orders and quotes. For example, Rule 6.14(c)(3) provides for a voluntary functionality in which the System cancels or rejects an incoming order or quote with a notional value that exceeds the maximum notional value a User establishes for each of its ports, and Rule 6.14(c)(5)⁶ provides for a voluntary functionality in which a User may establish risk limits within a class or across classes⁷ defined by certain parameters, of which the notional value of executions is an parameter option. Once a risk parameter is reached, no new trades are executed and any orders or quotes in route are System-rejected.

⁶ The Exchange notes that as a result of the proposed removal of Rule 6.14(c)(4), current Rule 6.14(c)(5) will become new Rule 6.14(c)(4).

⁷ And for one Executing Firm ID ("EFID") or a group of EFIDs.

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.⁸ Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)⁹ 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)¹⁰ 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 will remove impediments to and perfect the mechanism of a free and open market and national market system and benefit investors, because it will delete from the Rules a risk control that the Exchange will no longer offer, thereby promoting transparency in its Rules. The Exchange notes, too, that other options exchange do not offer daily risk limits, or other risk controls, associated with notional value of their users’ order or quotes.¹¹ The Exchange does not believe that the proposed rule change will affect the

⁸ 15 U.S.C. 78f(b).

⁹ 15 U.S.C. 78f(b)(5).

¹⁰ Id.

¹¹ See NYSE CGW FIX Gateway Specification for NYSE American Options and NYSE Arca Options (last updated February 27, 2020) available at https://www.nyse.com/publicdocs/nyse/markets/nyse/FIX_Specification_and_API.pdf,

protection of investors or the public interest or the maintenance of a fair and orderly market because this risk control is so infrequently implemented, and currently, no User has this risk control established in any port connected to the Exchange. In addition to this, the Exchange notes that the use of this risk control is voluntary and the Exchange will continue to offer a full suite of price protection mechanisms and risk controls, including those associated with notional value of a Users' orders and quotes, which sufficiently mitigate risks associated with Users entering orders and quotes at unintended prices, and risks associated with orders and quotes trading at prices that are extreme and potentially erroneous, as a likely result of human or operational error. Also, the Exchange believes the low usage rate for the daily risk limits does not warrant the continued resources necessary for System support of such controls. As a result, the Exchange believes the proposed rule change will also remove impediments to and perfect the mechanism of a free and open market and national market system by allowing the Exchange to reallocate System capacity and resources to more frequently elected System functionality, including other price protection and risk control 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 competitive in nature, but rather is intended to remove a risk control that is rarely used on the Exchange. The Exchange does not believe that the proposed rule change would impose a burden on intramarket competition that is not necessary or appropriate in furtherance of the purposes of the Act because it will remove the option to use this risk control

which provides for various User-defined risk controls, like those of the Exchange, but does not offer parameter settings in connection with aggregate notional values. NYSE American Options and NYSE Arca Options also do not offer such settings in their rules.

for all Users on the Exchange. In addition to this, and as stated above, the use of the daily risk limit is voluntary and the Exchange will continue to offer various other price protections and risk controls that sufficiently mitigate risks associated with market participants entering and/or trading orders and quotes at unintended or extreme prices. Further, the Exchange does not believe that the proposed rule change would impose a burden on intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act because the proposed rule change reflects the current risk control offerings on other options exchanges.¹²

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 after the date of the filing, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act¹³ and Rule 19b-4(f)(6)¹⁴ thereunder.

The Exchange has asked the Commission to waive the 30-day operative delay.¹⁵ The Commission finds that waiving the 30-day operative delay is consistent with the protection of

¹² See *supra* note 11.

¹³ 15 U.S.C. 78s(b)(3)(A).

¹⁴ 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file 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.

¹⁵ 17 CFR 240.19b-4(f)(6)(iii).

investors and the public interest. The Exchange represents that generally the Daily Risk Limits are utilized infrequently by its Users and that currently the functionality is not being used at all. The Exchange also indicates that eliminating Daily Risk Limits will enable the efficient allocation of technical resources and the Exchange will continue to offer an effective suite of risk management options to its Users pursuant to Rule 6.14. Accordingly, the Commission designates the proposal operative upon filing.¹⁶

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.

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-C2-2020-004 on the subject line.

¹⁶ For purposes only of waiving the 30-day operative delay, the Commission has considered the proposed rule change's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

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-C2-2020-004. 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, 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; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer

to File Number SR-C2-2020-004 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.¹⁷

J. Matthew DeLesDernier
Assistant Secretary

¹⁷ 17 CFR 200.30-3(a)(12).