

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-95342; File No. SR-C2-2022-015)

July 20, 2022

Self-Regulatory Organizations; Cboe C2 Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend its Rules Regarding Complex Orders

Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² notice is hereby given that on July 14, 2022, Cboe C2 Exchange, Inc. (the “Exchange” or “C2”) filed with the Securities and Exchange Commission (“Commission”) a proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. 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 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://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.

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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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 regarding complex orders. Specifically, the Exchange proposes to make trading available for complex orders in any ratio, as well as makes [sic] a clarifying change to the complex order rules.

Currently, the definition of complex order in Rule 1.1 provides that the term “complex order” means any order involving the concurrent purchase and/or sale of two or more different series in the same class (the “legs” or “components” of the complex order), for the same account, in a ratio equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.00) and for the purposes of executing a particular investment strategy. As such, 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) may currently be submitted for trading on the Exchange. The proposed rule change amends the definition of complex order in Rule 1.1 to provide that a “complex order” is any order involving the concurrent purchase and/or sale of two or more different series in the same class (the “legs” or “components” of the complex order), for the same account, in any ratio and for the purposes of executing a particular investment strategy. The Exchange notes that its affiliated options exchange, Cboe Options, recently amended its complex order rules in the same manner as proposed herein to permit complex orders with ratios less than one-to-three and greater than three-to-one to be eligible for electronic processing.³ The Exchange proposes to accept complex orders with ratios larger than

³ See Securities Exchange Act Release No. 94204 (February 9, 2022), 87 FR 8625 (February 15, 2022) (SR-CBOE-2021-046). The Cboe Options’ filing SR-CBOE-2021-

three-to-one or smaller than one-to-three for execution in order to provide execution opportunities for all complex orders, including those with investment strategies that do not fit within the three-to-one ratio requirement (which opportunities are afforded to those complex orders submitted to Cboe Options today).

While the proposed rule change will allow complex orders of any ratio to be traded on the Exchange, the Exchange does not propose to extend the complex order priority in Rule 5.33(f)(2)⁴ to complex orders with ratios equal to or greater than one-to-three and less than or equal to three-to-one to complex orders with larger ratios. Instead, the proposed rule change amends Rule 5.33(f)(2) to provide that, if a complex order has a ratio less than one-to-three (.333) or greater than three-to-one (3.00), the component(s) of the complex order for the leg(s) with a Customer order at the BBO must execute at a price that improves the price of that Customer order(s) on the Simple Book (the Exchange notes that this proposed rule change is described below in further detail). The proposed

046 also amended Cboe Option's complex order rules to allow the minimum increment for bids and offers on complex orders with any ratio to be in \$0.01 or greater (legs were already permitted to be executed in pennies on Cboe Options). The Exchange notes that Rule 5.33(f)(1) currently provides that the minimum increment for bids and offers on a complex order is \$0.01, and the components of a complex order may be executed in \$0.01 increments, regardless of the minimum increments otherwise applicable to the individual components of the complex order. As a result, all complex orders (including those with larger ratios as proposed in this filing) and their legs will be able to execute in pennies, and all bids and offers on all complex orders (including those with larger ratios, as proposed) will be able to be expressed in a minimum increment of \$0.01.

⁴ The System does not execute a complex order pursuant to this Rule 5.33 at a net price (1) that would cause any component of the complex strategy to be executed at a price of zero; (2) worse than the SBBO; (3) that would cause any component of the complex strategy to be executed at a price worse than the individual component price on the Simple Book; (4) worse than the price that would be available if the complex order Legged into the Simple Book; or (5) ahead of orders on the Simple Book without improving the BBO on at least one component of the complex strategy by at least \$0.01. The Exchange notes pursuant to Rule 5.33(d)(5) and (e), complex orders will execute against orders and quotes in the Simple Book (including customer orders) prior to executing against complex orders.

rule change also makes certain nonsubstantive changes to the complex priority rule. The Exchange notes that execution of complex orders with any ratio will continue to not be permitted at net prices: (i) that would cause any component of the complex strategy to be executed at a price of zero; (ii) worse than the Synthetic Best Bid or Offer (“SBBO”); (iii) that would cause any component of the complex strategy to be executed at a price worse than the individual component prices on the Simple Book; or (iv) worse than the price that would be available if the complex order legged into the Simple Book.

Specifically, regarding the nonsubstantive changes to Rule 5.33(f)(2), the proposed rule change combines subparagraph (2) with (5) (and reformats the subparagraphs with lettering, which is consistent with the general format of the Exchange Rules), as the provisions are interlinked. Specifically, Rule 5.33(f)(2)(2) provides that the System does not execute a complex order pursuant to 5.33 at a net price worse than the SBBO. Separately, Rule 5.33(f)(2)(5) provides that the System does not execute a complex order pursuant to Rule 5.33 ahead of orders on the Simple Book without improving the BBO on at least one component of the complex strategy by at least \$0.01 – in other words, a complex order could only execute against complex interest by improving the SBBO (and thus not worse than the SBBO). Because these two provisions are interrelated, the Exchange believes it is appropriate to combine them into proposed Rule 5.33(f)(2)(D).⁵ The proposed rule change amends language in proposed Rule 5.33(f)(2)(D) to provide that the System does not execute a complex order pursuant to Rule 5.33 at a net price worse than the SBBO and adds subparagraph (i) to additionally provide that if a

⁵ The proposed rule change makes other nonsubstantive changes to the sentence structure as a result of the combination of provisions, as well as other nonsubstantive changes to the formatting and paragraph structure for added clarity and consistency with the structure of corresponding Cboe Options Rule 5.33(f)(2).

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), at least one component of the complex order must execute at a price that improves the BBO for that component, which is consistent with the current rule and current functionality for complex orders in ratios that may currently be submitted on the Exchange. The proposed nonsubstantive rule changes to restructure Rule 5.33(f)(2) have no impact on complex order priority with respect to complex orders that may currently execute on the Exchange and are consistent with and align the Exchange's complex order priority rule with the structure of Cboe Options Rule 5.33(f)(2)(A), which governs Cboe Options complex order priority.⁶

Regarding the proposed rule change to incorporate complex orders with larger-ratios, as proposed, into the complex order priority provision, the proposed rule change adds subparagraph (ii) to Rule 5.33(f)(2)(D), as proposed. As described above, Rule 5.33(f)(2)(D), as proposed, provides that the System does not execute a complex order pursuant to Rule 5.33 at a net price worse than the SBBO, and, as proposed subparagraph (ii) provides, if the complex order has a ratio less than one-to-three (.333) or greater than three-to-one (3.00), the component(s) of the complex order for the leg(s) with a Customer order at the BBO must execute at a price that improves the price of that Customer order(s) on the Simple Book. As a result, to the extent a complex order with a ratio of four-to-one (for example) is submitted for electronic execution, the complex order may be executed at a net debit or credit price only if each leg of the order betters the corresponding bid (offer) of a customer order(s) in the Simple Book. Therefore, the complex order priority rules will continue to protect Customer interest on the Simple Book. The proposed rule change regarding complex order priority for complex order ratios less than one-to-three (.333) or greater

⁶ See Cboe Options Rule 5.33(f)(2)(A); and see Securities Exchange Act Release No. 95006 (May 31, 2022), 87 FR 34334 (June 6, 2022) (SR-CBOE-2022-024).

than three-to-one (3.00) is consistent with the corresponding complex priority rule on Cboe Options⁷ as it applies to complex order ratios less than one-to-three (.333) or greater than three-to-one (3.00) electronically submitted to Cboe Options, as previously approved by the Commission.⁸

The proposed rule change also 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)(i) and (e)(1) 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 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

⁷ See Cboe Options Rule 5.33(f)(2)(A)(iv)(b). The Exchange notes priority on the Exchange is slightly different than on Cboe Options, as the Exchange does not have the concept of priority customer and thus will always execute complex orders against interest in the Simple Book if possible prior to executing complex orders against other complex interest.

⁸ See Securities Exchange Act Release No. 94204 (February 9, 2022), 87 FR 8625 (February 15, 2022) (SR-CBOE-2021-046). SR-CBOE-2021-046 did not make any changes to complex orders with ratios equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.00) available on Cboe Options and Cboe Options continues to allow trading in such complex orders with smaller ratios today. Likewise, the Exchange notes that this proposal does not make any changes to currently permissible complex order ratios (equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.00)) and such complex orders with smaller ratios will continue to be available for trading on the Exchange, consistent with Cboe Options.

accepts complex orders with up to that many legs for electronic processing.⁹ 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. This proposed rule change is consistent with the corresponding Cboe Options Rule 5.33(g).¹⁰

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.¹¹ Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)¹² 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

⁹ See Cboe Notice C2021060800, *Cboe Options Introduces 16-Leg Maximum for Non-FLEX Complex Orders* (June 8, 2021), available at Cboe Options Introduces 16-Leg Maximum for Non-FLEX Complex Orders; see also *Cboe US Options Complex Book Process* (technical specifications last updated April 20, 2022), Section 2.3.2, available at US Options Complex Book Process.

¹⁰ See Cboe Options Rule 5.33(g); and see Securities Exchange Act Release No. 95006 (May 31, 2022), 87 FR 34334 (June 6, 2022) (SR-CBOE-2022-024).

¹¹ 15 U.S.C. 78f(b).

¹² 15 U.S.C. 78f(b)(5).

is consistent with the Section 6(b)(5)¹³ 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 the proposed rule change will remove impediments to and perfect the mechanism of a free and open market and benefit investors, because it will provide market participants with execution opportunities on the Exchange for all their complex trading and hedging strategies, regardless of ratio. Market participants may determine that investment and hedging strategies with ratios greater than three-to-one or less than one-to-three are appropriate for their investment purposes, and the Exchange believes it will benefit market participants if they have the flexibility to submit their investment and hedging strategies on the Exchange to achieve their desired investment results. The proposed rule change will further remove impediments to and perfect the mechanism of a free and open market and a national market system, as it will allow complex orders to be submitted on the Exchange in the same manner as complex orders may already be submitted on its affiliated options exchange, Cboe Options,¹⁴ which currently permits orders of any ratio to be submitted to the exchange, as previously approved by the Commission.¹⁵ Additionally, the proposed rule change will continue to protect customer order interest on the Simple Book, as all complex orders with a ratio greater than three-to-one or less than one-to-three will be executed only if each leg of the order improves the price of a customer order on the Simple Book on each leg. Again, as noted above, the

¹³ Id.

¹⁴ The Exchange notes that its affiliated options exchange, Cboe EDGX Exchange, Inc. (“EDGX”), also intends to file a similar rule filing to allow complex orders of any ratio to be submitted on EDGX.

¹⁵ See supra note 10. Prior to the Commission’s approval of SR-CBOE-2022-046, larger ratio complex orders were already permitted to be submitted to Cboe Options’ trading floor for execution in open outcry. The Commission’s approval of SR-CBOE-2022-046 allowed larger ratio complex orders to be submitted for electronic trading.

proposed rule change regarding complex order priority for complex order ratios less than one-to-three (.333) or greater than three-to-one (3.00) is consistent with the corresponding complex priority rule on Cboe Options as it applies to larger ratio orders submitted for electronic trading on Cboe Options.¹⁶ The nonsubstantive proposed rule change to restructure the provisions regarding complex order priority in Rule 5.33(f)(2) is intended to simplify the rule text regarding when legs of complex orders must improve prices of orders on the Simple Book, while adding clarity to the rule text through an update in its formatting and aligning such provision with the structure of Cboe Option’s corresponding complex priority rule. This proposed rule change has no impact on electronic complex order priority while still increasing investor understanding.

The proposed nonsubstantive 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 and align with Cboe Options corresponding rule.¹⁷

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 to allow for complex orders in any ratio to be submitted to the Exchange will impose any burden on intramarket competition, as the proposed rule change will apply in the same manner to all Trading Permit Holders (“TPHs”).

¹⁶ See supra note 9.

¹⁷ See supra note 12.

TPHs will have the discretion to submit complex orders with any ratio for trading on the Exchange. The Exchange does not believe the proposed rule change will impose any burden on intermarket competition as it relates to the execution of orders on the Exchange and will continue to protect the leg markets, including customer orders on the Simple Book. The Exchange believes the proposed rule change may promote competition, as market participants will have additional flexibility to execute their trading and hedging strategies in any ratio, and in the same manner that is already permitted on the Exchange's affiliated options exchange, Cboe Options. Also, other options exchanges are welcome to modify their systems to permit higher/lower ratio orders to execute electronically or on their trading floors.

The proposed nonsubstantive rule change to restructure the provisions regarding complex order priority in Rule 5.33(f)(2) and the proposed nonsubstantive rule change to Rule 5.33(g) are not intended for competitive purposes, but rather are intended to, respectively, simplify and add clarity to the complex priority rule text and to clarify a provision, reflecting more accurately current System functionality. The Exchange does not believe that the proposed nonsubstantive rule changes will impose any burden on intramarket competition that is not necessary or appropriate in furtherance of the purposes of the Act, because the change will apply in the same manner to all investors. The proposed nonsubstantive 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 changes make no changes to which or how complex orders may leg into the Simple Book. The Exchange does not believe that the proposed nonsubstantive rule changes 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

changes have no impact on how complex orders trade, as they merely make a structural update and clarifying updates.

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 Act¹⁸ and subparagraph (f)(6) of Rule 19b-4 thereunder.¹⁹

A proposed rule change filed under Rule 19b-4(f)(6)²⁰ normally does not become operative prior to 30 days after the date of the filing. However, pursuant to Rule 19b-4(f)(6)(iii),²¹ 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. The Exchange notes that complex orders with any ratio currently are eligible for electronic processing on Cboe Options, and that the proposal does not

¹⁸ 15 U.S.C. 78s(b)(3)(A)(iii).

¹⁹ 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.

²⁰ 17 CFR 240.19b-4(f)(6).

²¹ 17 CFR 240.19b-4(f)(6)(iii).

introduce any new or novel functionality.²² The Exchange states that waiver of the operative delay will benefit investors by providing them with the flexibility to submit bona-fide multi-legged trading or hedging strategies in any ratio to the Exchange. In addition, the Exchange states that waiver of the operative delay with respect to the proposed non-substantive rule changes to clarify and simplify rule text will benefit investors by providing additional transparency regarding the Exchange's rules as soon as possible.

The Commission believes that waiver of the 30-day operative delay is consistent with the protection of investors and the public interest. The Commission believes that the proposal will benefit investors by providing investors with an additional venue for trading complex orders with any ratio, including complex orders with a ratio less than one-to-three or greater than three-to-one. As discussed above, the Commission approved a Cboe Options proposal allowing complex orders with any ratio to trade electronically and to be quoted, as well as executed, in \$0.01 increments.²³ The Commission notes that the priority provisions in proposed Exchange Rule 5.33(f)(2)(D)(ii) for complex orders with a ratio less than one-to-three or greater than three-to-one—which require each component leg of such an order with a Customer order at the BBO to execute at a price that improves the price of the Customer order(s) on the Simple Book—are consistent with the requirements of Cboe Options Rule 5.33(f)(2)(A)(iv)(b).²⁴

Accordingly, the Exchange's proposal to allow market participants to submit complex orders

²² See supra note 3.

²³ See id.

²⁴ As noted above, unlike Cboe Options, the Exchange does not have the concept of a priority customer. See supra note 7. The Exchange notes that pursuant to Exchange Rules 5.33(d)(5) and (e), complex orders execute against orders and quotes in the Simple Book (including customer orders) prior to executing against complex orders. See supra note 4.

with any ratio to the Exchange does not raise new or novel regulatory issues. The Commission believes that the proposed non-substantive changes to Exchange Rules 5.33(f)(2) will modify the format of that rule so that it is consistent with the format of Cboe Rule 5.33(f)(2), and that the proposed non-substantive change to Exchange Rule 5.33(g) will update the rule and make it consistent with Cboe Rule 5.33(g). Accordingly, the Commission waives the operative delay and designates the proposed rule change operative upon filing.²⁵

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-C2-2022-015 on the subject line.

²⁵ For purposes only of waiving the 30-day operative delay, the Commission has also considered the proposed rule's impact on efficiency, competition, and capital formation. See 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-C2-2022-015. 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. 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-C2-2022-015, 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.²⁶

J. Matthew DeLesDernier

Deputy Secretary

²⁶ 17 CFR 200.30-3(a)(12).