

April 28, 2017

Self-Regulatory Organizations; C2 Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Related to Rule 6.13

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 April 25, 2017, C2 Options Exchange, Incorporated (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 pursuant to Section 19(b)(3)(A) 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**

The Exchange seeks to amend Rule 6.13. The text of the proposed rule change is provided below.

(additions are underlined; deletions are [bracketed])

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**C2 Options Exchange, Incorporated  
Rules**

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**Rule 6.13. Complex Order Execution**  
(a) – (b) No change

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<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).

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

(c) Process for Complex Order RFR Auction. Prior to routing to the COB, eligible complex orders may be subject to an automated request for responses (“RFR”) auction process.

(1) For purposes of paragraph (c):

(A) “COA” is the automated complex order RFR auction process.

(B) A “COA-eligible order” means a complex order that, as determined by the Exchange on a class-by-class basis, is eligible for a COA considering the order’s [marketability (defined as a number of ticks away from the current market),] size, complex order type and complex order origin types (i.e. non-broker-dealer public customer, broker-dealers that are not Market-Makers or specialists on an options exchange, and/or Market-makers or specialists on an options exchange). Complex orders processed through a COA may be executed without consideration to prices of the same complex orders that might be available on other exchanges.

(2) Initiation of a COA:

(A) The System will send an RFR message to all Participants who have elected to receive RFR messages on receipt of (i) a COA-eligible order with two or more legs that is better than the same side of the Exchange spread market or (ii) a complex order with three or more legs that meets the class, size, and complex order type parameters of subparagraph (c)(1)(B) and is marketable against the Exchange spread market. Complex orders as described in subparagraph (c)(2)(A)(ii) will initiate a COA regardless of the order's routing parameters or handling instructions. Immediate or cancel orders that are not marketable against the derived net market in accordance with subparagraph (c)(2)(B) will be cancelled. The RFR message will identify the component series, the size and side of the market of the COA-eligible order and any contingencies, if applicable.

(B) [Notwithstanding the foregoing, Participants may request on an order-by-order basis that incoming COA-eligible orders not COA (a “do-not-COA” request).] Notwithstanding subparagraph (c)(2)(A)(i), Trading Permit Holders may request on an order-by-order basis that an incoming COA-eligible order with two legs not COA (a “do-not-COA” request). Notwithstanding subparagraph (c)(2)(A)(ii), the System will reject back to a Trading Permit Holder any complex order described in that subparagraph that includes a do-not-COA request. An order initially submitted to the Exchange with a do-not-COA request may still COA after it has rested on the COB pursuant to Interpretation and Policy .02.

(3) – (9) No change.

*... Interpretations and Policies:*

**.01 -- .07** No change.

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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.

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

1. Purpose

Exchange seeks to amend Rule 6.13(c) in order to hardcode the marketability parameter (i.e., the price at which a complex order may initiate a COA); amend Rule 6.13(c)(2) related to when a complex order will initiate a COA to account for risks to Market-Makers associated with the use of the Exchange's Quote Risk Monitoring ("QRM") Mechanism; and amend Rule 6.13(c)(2) to make conforming changes to the "do-not-COA" functionality. The Exchange notes that other than the fact the proposed rule text does not reference manual order handling or the Public Automated Routing ("PAR") workstation (because C2 is entirely electronic) all of the proposed rule changes are based on and identical to CBOE Rule 6.53C(d)(i) – (ii).

Marketability

Currently, the marketability parameter in Rule 6.13(c)(1)(B) defined as a number of ticks away from the current market, sets the price at which a complex order will initiate a COA. The Exchange proposes to remove the marketability parameter from the definition of "COA-eligible

order,” which will remove the Exchange’s flexibility to set the price at which a complex order will initiate a COA. The Exchange does not foresee any issues with removing the flexibility to determine the price at which a COA will be initiated because the Exchange does not foresee a future need to modify the price at which auctions are initiated. If unforeseen circumstances arise where the Exchange believes it is necessary to modify the price at which auctions are initiated then the Exchange will submit a subsequent rule filing. Additionally, removing such flexibility may provide increased certainty to market participants about the price at which a complex order will initiate a COA, helping to remove impediments to and perfect the mechanism of a free and open market.

The Exchange proposes to hardcode the price at which a complex order may initiate a COA in Proposed Rule 6.13(c)(2)(A). For example, assuming all of the non-price specific requirements are met, a complex order with two or more legs under proposed subparagraph (c)(2)(A)(i) will initiate a COA if the Exchange spread market<sup>5</sup> is 1 – 1.20 and the complex order is to buy at \$1.01 or higher or to sell at 1.19 or lower.<sup>6</sup> Additionally, assuming the non-price specific requirements are met, a complex order with three legs under subparagraph (c)(2)(A)(ii) will initiate a COA if the Exchange Spread Market is 1 – 1.20 and the complex order is to buy at \$1.20 or higher or to sell at \$1.00 or lower. Initiating a COA in these situations will relieve the risk to Market-Makers noted below, which helps promote just and equitable principles of trade by relieving risk to Market-Makers allowing them to more efficiently and effectively provide important liquidity.

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<sup>5</sup> The term “Exchange spread market” means the derived net market based on the BBOs in the individual series legs comprising a complex order and, if a stock-option order, the NBBO of the stock leg. See Rule 1.1.

<sup>6</sup> The Exchange notes that the prices at which a complex order will initiate a COA under subparagraph (c)(2)(A)(i) is consistent with the current settings for the marketability parameter. This portion of the proposal simply hardcodes existing settings.

## QRM

Under Rule 8.12, C2 offers Market-Makers that are obligated to provide and maintain continuous electronic quotes in an option class the QRM Mechanism, which is functionality to help Market-Makers manage their quotes and related risk. Market-Makers with appointments on the System<sup>7</sup> must, among other things, provide and maintain continuous electronic quotes in a specified percentage of series in each class for a specified percentage of time.<sup>8</sup> To comply with this requirement, each Market-Maker may use its own proprietary quotation and risk management system to determine the prices and sizes at which it quotes. In addition, each Market-Maker may use QRM.<sup>9</sup>

A Market-Maker's risk in a class is not limited to the risk in a single series of that class. Rather, a Market-Maker is generally actively quoting in multiple classes, and each class may comprise hundreds or thousands of individual series. The System automatically executes orders against a Market-Maker's quotes in accordance with the Exchange's priority and allocation rules.<sup>10</sup> As a result, a Market-Maker has exposure and risk in all series in which it is quoting in each of its appointed classes. QRM is an optional functionality that helps Market-Makers, and Participant organizations with which a Market-Maker is associated, limit this overall exposure and risk.

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<sup>7</sup> The term "System" means the automated trading system used by the Exchange for the trading of options contracts. See Rule 1.1.

<sup>8</sup> See e.g., Rules 8.5, 8.13, and 8.17.

<sup>9</sup> Although Market-Makers or Participant organizations must establish parameters for an acronym or firm, as applicable, for each QRM function set forth in Rule 8.12, a Market-Maker or Participant organization could set the value for the total number of contracts executed in a class at a level exceeding the total number of contracts it actually quotes in the class, which allows Market-Makers or Participant organization who prefer to use their own risk-management systems to enter values that assure the Exchange parameters will not be triggered.

<sup>10</sup> See Rules 6.12 and 6.13.

Specifically, if a Market-Maker elects to use QRM, the System will cancel a Market-Maker's quotes in all series in an appointed class if certain parameters the Market-Maker establishes are triggered. Market-Makers may set the following QRM parameters (Market-Makers may set none, some or all of these parameters):

- a maximum number of contracts for that class (the "contract limit") and a specified rolling time period in seconds within which such contract limit is to be measured (the "measurement interval");
  - a maximum cumulative percentage (which is the sum of the percentages of the original quoted size of each side of each series that trade) (the "cumulative percentage limit") that the Market-Maker is willing to trade within a specified measurement interval;
- or
- a maximum number of series for which either side of the quote is fully traded (the "number of series fully traded") within a specified measurement interval.

If the Exchange determines the Market-Maker has traded more than the contract limit or cumulative percentage limit, or has traded at least the number of series fully traded, of a class during the specified measurement interval, the System will cancel all of the Market-Maker's electronic quotes in that class (and any other cases with the same underlying security) until the Market-Maker refreshes those quotes (a "QRM Incident"). A Market-Maker, or Participant organization with which the Market-Maker is associated, may also specify a maximum number of QRM Incidents that may occur on an Exchange-wide basis during a specified measurement interval. If the Exchange determines that a Market-Maker or Participant Organization, as applicable, has reached its QRM Incident limit during the specified measurement interval, the System will cancel all of the Market-Maker's or Participant Organization's quotes, as applicable,

and the Market-Maker's orders resting in the book in all classes and prevent the Market-Maker and Participant organization from sending additional quotes or orders to the Exchange until the earlier to occur of (1) the Market-Maker or Participant organization reactivates this ability or (2) the next trading day.

The purpose of the QRM functionality is to allow Market-Makers to provide liquidity across most series in their appointed classes without being at risk of executing the full cumulative size of all their quotes before being given adequate opportunity to adjust their quotes. For example, if a Market-Maker can enter quotes with a size of 25 contracts in 100 series of class ABC, its potential exposure is 2,500 contracts in ABC. To mitigate the risk of having all 2,500 contracts in ABC execute without the opportunity to evaluate its positions, the Market-Maker may elect to use QRM. If the Market-Maker elects to use the contract limit functionality and sets the contract limit at 100 and the measurement interval at five seconds for ABC, the System will automatically cancel the Market-Maker's quotes in all series of ABC if 100 or more contracts in series of ABC execute during any five-second period.

To assure that all quotations are firm for their full size, the System performs the parameter calculations after an execution against a Market-Maker's quote occurs. For example, using the same parameters in class ABC as above, if a Market-Maker has executed a total of 95 contracts in ABC within the previous three seconds, a quote in a series of ABC with a size of 25 contracts continues to be firm for all 25 contracts. An incoming order in that series could execute all 25 contracts of that quote, and, following the execution, the total size parameter would add 25 contracts to the previous total of 95 for a total of 120 contracts executed in ABC. Because the total size executed within the previous five seconds now exceeds the 100 contract limit for ABC, the System would, following the execution, immediately cancel all of the Market-

Maker's quotes in series of ABC. The Market-Maker would then enter new quotes for series in ABC. Thus, QRM limits the amount by which a Market-Maker's executions in a class may exceed its contract limit to the largest size of its quote in a single series of the class (or 25 in this example).

The Exchange proposes to amend Rule 6.13 regarding complex orders to limit a potential source of unintended Market-Maker risk related to how the System calculates risk parameters under Rule 8.12 when complex orders leg into the market.<sup>11</sup> As discussed above, by checking the risk parameters following each execution in a series, the risk parameters allow a Market-Maker to provide liquidity across multiple series of a class without being at risk of executing the full cumulative size of all its quotes. This is not the case, however, when a complex order legs into the regular market (i.e. the market for individual, or simple, orders). Because the execution of each leg of a complex order is contingent on the execution of the other legs, the execution of all the legs in the regular market is processed as a single transaction, not as a series of individual transactions.

For example, if market participants enter into the System individual orders to buy 25 contracts for the Jan 30 call, Jan 35 call, Jan 40 call and Jan 45 call in class ABC, the System

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<sup>11</sup> Rule 6.13(b)(1)(A) provides that complex orders in the complex order book ("COB") may execute against individual orders or quotes in the book provided the complex order can be executed in full (or a permissible ratio) by the orders and quotes in the book. Rule 6.13(c)(5)(A) provides that orders that are eligible for the complex order auction ("COA") may trade with individual orders and quotes in the book provided the COA-eligible order can be executed in full (or a permissible ratio) by the orders and quotes in the book. COA is an automated request for responses ("RFR") auction process. Upon initiation of a COA, the Exchange sends an RFR message to all Trading Permit Holders who have elected to receive RFR messages, which RFR message identifies the series, size and side of the market of the COA-eligible order and any contingencies. Eligible market participants may submit responses during a response time interval. At the conclusion of the response time interval, COA-eligible orders are allocated in accordance with Rule 6.13(c)(5), including against individual orders and quotes in the book.

processes each order as it is received and calculates the Market-Makers parameters in class ABC following the execution of each 25-contract call. However, if a market participant enters into the System a complex order to buy all four of these strikes in class ABC 25 times, which complex order executes against bids and offers for the individual series (i.e. legs into the market), the System will calculate the Market-Maker's parameters in class ABC following the execution of all 100 contracts. If the Market-Maker had set the same parameters in class ABC as discussed above (100-contract limit with five-second measurement interval) and had executed 95 contracts in class ABC within the previous three seconds, the amount by which the next transaction might exceed 100 is limited to the largest size of its quote in a single series of the class. In that example, since the largest size of the Market-Maker's quotes in any series was 25 contracts, the Market-Maker could not have exceeded the 100-contract limit by more than 20 contracts ( $95 + 25 = 120$ ). However, with respect to the complex order with four legs 25 times, the next transaction against the Market-Maker's quotes potentially could be as large as 100 contracts (depending upon whether there are other market participants at the same price), creating the potential in this example for the Market-Maker to exceed the 100-contract limit by 95 contracts ( $95 + 100 = 195$ ) instead of 20 contracts.

As this example demonstrates, legging of complex orders into the regular market presents higher risk to Market-Makers than executing their quotes against individual orders entered in multiple series of a class in the regular market, because it may result in Market-Makers exceeding their risk parameters by a greater number of contracts. This risk is directly proportional to the number of legs associated with a complex order. Market-Makers have expressed concerns to the Exchange regarding this risk.

As noted above, it is the legging of complex orders into the regular market that presents the potential risk to Market-Makers. Generally, a complex order has the potential to leg into the market when the complex order is marketable against leg quotes. For example, if the Exchange spread market of a complex order strategy is 1.00 – 1.20 and a complex order to buy or sell at \$1.10 is entered, the complex order would not execute against the legs of the regular market because the leg markets (which make-up the Exchange spread market) cannot satisfy the order. A complex order to buy at \$1.20 or higher or to sell at \$1.00 or lower (i.e., an order that is marketable against the Exchange spread market) would potentially be executable against the leg quotes.

To address this Market-Maker risk, the Exchange proposes to add subparagraph (2)(A)(ii) to Rule 6.13(c) to require certain orders with three or more legs to COA prior to entering the COB. But first, for clarity sake, the Exchange proposes to add subparagraph (2)(A)(i) to Rule 6.13(c) to provide that the System will initiate a COA upon receipt of a COA-eligible order (i.e., an order that meets the class, size, complex order type and complex order origin types parameters)<sup>12</sup> with two or more legs that is better than the same side of the Exchange spread market. The Exchange notes that subparagraph (2)(A)(i) is not a substantive change. Subparagraph (2)(A)(i) simply reorganizes the currently effective rule. Whereas today Rule 6.13(c)(2) states that the System will initiate a COA on receipt of a COA-eligible order, which currently means an order with two or more legs that meets the class, marketability, size, order type, and origin type parameters, proposed subparagraph (2)(A)(i) states that the System will initiate a COA on receipt of a COA-eligible order (which as proposed in subparagraph (c)(1)(B) will continue to include the class, size, order type, and origin type parameters but will no longer include the marketability parameter as it

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<sup>12</sup> See Rule 6.13(c)(1)(B).

will be hardcoded into subparagraph (c)(A)(i) with two or more legs<sup>13</sup> that is better than the same side of the Exchange spread market (which is the current setting for marketability). As noted, the purpose of subparagraph (2)(A)(i) is to provide clarity as it relates to additional subparagraph (2)(A)(ii), and the Exchange believes reorganizing current functionality into paragraph (2)(A)(i) will help bring clarity to subparagraph (2)(A)(ii).

Now, with regards to subparagraph (2)(A)(ii), the Exchange proposes to provide that the System will initiate a COA upon receipt of a complex order with three or more legs that meets the class, size, and complex order type parameters of subparagraph (c)(1)(B) and is marketable against the Exchange spread market. The purpose of proposed subparagraph (2)(A)(ii) of Rule 6.13(c) is simply to allow certain orders with three legs that will not COA under subparagraph (c)(2)(A)(i) to COA pursuant to subparagraph (c)(2)(A)(ii). In short, if an order with three or more legs does not COA pursuant to Rule 6.13(c)(2)(A)(i)—because it is not COA-eligible—it may still COA pursuant to Rule 6.13(c)(2)(A)(ii), as long as the order meets the class, size, complex order type parameters of subparagraph (c)(1)(B) and is marketable against the Exchange Spread market.

For example, complex orders identified as IOC are not currently COA-eligible under the current rule (and the Exchange has no plans at this time to make them COA-eligible pursuant to proposed subparagraph (2)(A)(i)). However, IOC orders that have a large number of legs that execute immediately against prices in the leg markets are an example of orders that cause the risk to Market-Makers described above. Also, such orders do not appear to have investment strategies similar to traditional complex orders but instead are specifically designed to

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<sup>13</sup> Including “two or more legs” in proposed subparagraph (A)(i) is actually superfluous language because the term “COA-eligible order” by definition must be a “complex order,” and a “complex order” by definition must have two or more legs. See Rule 6.13(c)(1)(B). A “complex order” is by definition two or more legs. See Rule 6.13 (a)(1).

circumvent QRM settings. Thus, proposed subparagraph (2)(A)(ii) will allow the Exchange to initiate a COA upon receipt of orders with three or more legs that meet the class, size, order type parameter (including IOCs) that are marketable against the Exchange spread market.

The proposed rule change will only impact a small percentage of complex orders that enter into the System, as a large percentage of complex orders entered into the System are only two legs. The Exchange also notes that complex orders with three or more legs will still have opportunities for execution through COA or on the COB if they do not execute at the end of the COA (including execution with the leg markets). Thus, the Exchange believes that requiring complex orders with three or more legs to COA prior to entering COB and legging into the regular market does not create any unusual circumstances for the System. The Exchange believes that the potential risk to Market-Makers in the regular market of allowing orders with three or more legs to directly enter COB and leg into the market far outweighs the potential benefit of continuing to allow COA to be voluntary for a limited number of orders.

The Exchange believes that requiring certain complex orders with three or more legs to COA prior to entering COB and legging into the market will discourage market participants from continuing to enter the complex orders that expose Market-Makers to the risk described above. The proposed rule change eliminates the possibility of immediate executions of those particular complex orders. Market participants may still enter those complex orders. However, if they do, those complex orders will COA, which COA will allow Market-Makers to become aware of those complex orders and have adequate opportunity to react accordingly, including to adjust their quotes to avoid circumvention of their QRM settings. If a Market-Maker receives an RFR for a COA for one of those complex orders in one of its appointed classes, and the Market-Maker believes the order may execute against its quotes and cause executions that significantly exceed

its contract limit in that class, the Market-Maker may adjust its quotes as it deems necessary to reduce its risk exposure prior to the complex order legging into the market and being presented to the Market-Maker for execution. The Exchange believes the proposed rule change will allow Market-Makers to better manage their risk in their appointments, as it will reduce the risk of those complex orders causing executions that significantly exceed Market-Makers' risk parameters. The Exchange believes this reduced risk will encourage Market-Makers to quote larger size, which will increase liquidity and enhance competition in those classes.

The Exchange notes that the proposed rule change does not impact the allocation of complex orders or relieve Market-Makers of their obligations to provide continuous electronic quotes under the Exchange Rules or to provide "firm" quotes pursuant to Rule 8.6 or Rule 602 of Regulation NMS.

#### Do Not COA

SR-C2-2015-025 provided, among other things, that rather than have Participants affirmatively request that their orders COA, incoming COA-eligible orders would COA by default.<sup>14</sup> Rule 6.13(c)(2) currently provides that Participants may request on an order-by-order basis that a COA-eligible order not COA (referred to as a "do-not-COA" request). The Exchange proposes to make conforming changes to the do-not-COA request to account for the amendment to Rule 6.13(c)(2)(A)(i) and (ii). The Exchange proposes to add Rule 6.13(c)(2)(B) to provide that notwithstanding subparagraph (c)(2)(A)(i), Trading Permit Holders may request on an order-by-order basis that an incoming COA-eligible order with two legs not COA. Proposed Rule 6.13(c)(2)(B) also provides that notwithstanding subparagraph (c)(2)(A)(ii), the System will reject back to a Trading Permit Holder any complex order described in that

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<sup>14</sup> See Securities Exchange Act Release No. 76621 (December 11, 2015), 80 FR 78793 (December 17, 2015).

subparagraph that includes a do-not-COA request. This will allow Participants the ability to request their orders not COA but also ensure that three-legged orders—which may cause the risk to Market-Makers described above—to be rejected. In either case, order entry firms are sophisticated market participants capable of managing their orders as they see fit.

The Exchange will announce the implementation date of the proposed rule change in a Regulatory Circular to be published no later than 90 days following the effective date. The implementation date will be no later than 180 days following the effective date.

## 2. Statutory Basis

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>15</sup> Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>16</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>17</sup> requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

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

<sup>16</sup> 15 U.S.C. 78f(b)(5).

<sup>17</sup> Id.

In particular, the Exchange believes the proposed rule change alleviate a potential risk to Market-Makers that arises through the use of QRM. Complex orders with three or more legs that meet the class, size, and order type (including IOCs) parameters of subparagraph (c)(1)(B) and that are marketable against the derived net market (which the Exchange has identified as potentially causing risk to Market-Makers) will initiate a COA, which helps promote just and equitable principles of trade by relieving risk to Market-Makers allowing them to more efficiently and effectively provide important liquidity. Orders that are designated as IOC and meet the class and size parameters of subparagraph (c)(1)(B), but that are not marketable against the derived net market, will be cancelled, which allows order entry firms to use their own sophisticated technology to manage their orders helping to remove impediments to and perfect the mechanism of a free and open market.

The Exchange also believes the proposed rule change to initiate a COA upon receipt of complex orders with three or more legs that meet the class, size, and order type (including IOCs) parameters of subparagraph (c)(1)(B) and that are marketable against the derived net market is consistent with the requirement that Market-Makers' quotes be firm under Rule 602 of Regulation NMS.<sup>18</sup> The proposed rule change does not relieve Market-Makers of their obligation to provide

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<sup>18</sup> Rule 602(b)(2) obligates a Market-Maker to execute any order to buy or sell a subject security presented to it by another broker or dealer or any other person belonging to a category of persons with whom the Market-Maker customarily deals, at a price at least as favorable to the buyer or sell as the Market-Maker's published bid or offer in any amount up to its published quotation size. Rule 602(b)(3) provides that no Market-Maker is obligated to execute a transaction for any subject security to purchase or sell that subject security in an amount greater than its revised quotation size if, prior to the presentation of an order for the purchase or sale of a subject security, the Market-Maker communicated to the Exchange a revised quotation size. Similarly, no Market-Maker is obligated to execute a transaction for any subject security if, before the order sought to be executed is presented, the Market-Maker has communicated to the Exchange a revised bid or offer. C2 Rule 8.6 imposes a similar obligation (Market-Maker bids and offers are firm for all orders under Rule 8.6 and SEC Rule 602 for the number contracts specified in the bid or

“firm” quotes. If a complex order with three or more legs goes through COA and then legs into the market for execution upon completion of the COA, at which point the complex order would execute against a Market-Maker’s quotes based on priority rules, the Market-Maker must execute its quotes against the order at its then-published bid or offer up to its published quote size, even if such execution would cause the Market-Maker to significantly exceed its risk parameters. However, prior to the end of COA (and thus prior to a complex order legging into the market), a Market-Maker may adjust its published quotes to manage its risk in a class as it deems necessary, including to prevent executions that would exceed its risk parameters. In this case, the firm quote rule does not obligate the Market-Maker to execute its quotes against the complex order at the quote price and size that was published when the order entered the System and initiated the COA. Rather, the Market-Maker’s firm quote obligation applies only to its disseminated quote at the time an order is presented to the Market-Maker for execution, which presentation does not occur until the System processes the order against the leg markets after completion of the COA.<sup>19</sup> Thus, the proposed rule change is consistent with the firm quote rule.

Additionally, the Exchange is removing flexibility with regards to the marketability parameter. Although the Exchange prefers flexibility, the Exchange does not foresee the need to

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offer).

<sup>19</sup> See Staff Legal Bulletin No. 16, *Transaction in Listed Options Under Exchange Act Rule 11Ac1-1*, U.S. Securities and Exchange Commission, Division of Market Regulation, January 20, 2004 (“Scenario 3: When an Order is “Presented” . . . If an individual market maker generates its own quotations . . . and exchange systems route incoming orders to the responsible broker-dealer with priority, when is an order presented to a responsible broker-dealer? **Response:** . . . . When each market maker is the responsible broker-dealer with respect to its own quote, an order is presented to it when received by the market maker from the exchange system.”). When a complex order is processing through COA, the order is still in the System and has not yet been presented to a broker or dealer (including a Market-Maker) for execution. Only after completion of the COA, when the System allocates the complex order for execution in accordance with priority rules, will that order be “presented” to the Market-Maker for firm quote purposes.

retain flexibility with regards to the marketability parameter and hardcoding the parameter may help avoid confusion with regards to the price at which a complex order will initiate a COA, which also helps to remove impediments to and perfect the mechanism of a free and open market.

Finally, the proposed rule change will allow Participants use their knowledge and experience to evaluate then-current market conditions and determine if they do not want to COA orders based on those conditions, which also removes impediments to and perfect the mechanism of a free and open market. This allows Participants to, for example, have two-legged orders routed to the COB for potential immediate execution or three-legged orders to be rejected if they do not want to have three-legged orders delayed by COA.

The Exchange notes that other than the fact the proposed rule text does not reference manual order handling or the Public Automated Routing (“PAR”) workstation (because C2 is entirely electronic) all of the proposed rule changes are based on and identical to CBOE Rule 6.53C(d)(i) – (ii).

B. Self-Regulatory Organization’s Statement on Burden on Competition

C2 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 because the proposed rule change is intended to reduce risk to Market-Makers that are quoting in the regular market. C2 believes that the proposed rule change will promote competition by encouraging Market-Makers to increase the size of and to more aggressively price their quotes, which will increase liquidity on the Exchange. To the extent that the rule change makes C2 a more attractive marketplace, market participants are free to become Trading Permit Holders on C2 and other exchanges are free to amend their rules in a similar manner. Furthermore, the Exchange also does not believe that the hardcoding of the price at which a complex order may

initiate a COA instead of the Exchange having the flexibility to modify the price parameter will impose a burden on competition as the hardcoded parameter will apply equally to all participants. Finally, the Exchange does not believe allowing Participants to determine not to have their orders COA will impose a burden on competition as it will also apply equally to all participants and allow Participants to use their knowledge and experience executing orders to determine whether they want an order to COA. The Exchange notes that other than the fact the proposed rule text does not reference manual order handling or the Public Automated Routing (“PAR”) workstation (because C2 is entirely electronic) all of the proposed rule changes are based on and identical to CBOE Rule 6.53C(d)(i) – (ii).

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) of the Act<sup>20</sup> and Rule 19b-4(f)(6) thereunder.<sup>21</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

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<sup>20</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>21</sup> 17 CFR 240.19b-4(f)(6). As required under Rule 19b-4(f)(6)(iii), the Exchange provided the Commission with written notice of its intent to file the proposed rule change, along with a brief description and the 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.

action is: (i) necessary or appropriate in the public interest; (ii) for the protection of investors; or (iii) 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 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](mailto:rule-comments@sec.gov). Please include File Number SR-C2-2017-016 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 SR-C2-2017-016. 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; 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-C2-2017-016 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.<sup>22</sup>

Eduardo A. Aleman  
Assistant Secretary

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<sup>22</sup> 17 CFR 200.30-3(a)(12).