

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-83225; File No. SR-C2-2018-009)

May 14, 2018

Self-Regulatory Organizations; Cboe C2 Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend Rule 6.11., Regarding the Opening Process for Index Options

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 9, 2018, 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

The Exchange proposes to amend the opening process with respect to index options. The text of the proposed rule change is provided below.

(additions are underlined; deletions are [bracketed])

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Cboe C2 Exchange, Inc.

Rules

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).

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Rule 6.11. Opening Process

(a) Opening Process.

(1) No change.

(2) *Opening Price.*

(A) Equity Options. The System determines a single price at which a particular equity option series will be opened (the “Opening Price”) within 30 seconds of the First Listing Market Transaction[or 9:30 a.m., as applicable]. If there are no contracts in a series that would execute at any price, the System opens the series for trading without determining an Opening Price. The Opening Price, if valid pursuant to subparagraph (3), of a series will be:

([A]i) if there is both an NBB and an NBO, the midpoint of the NBBO (if the midpoint is a half increment, the System rounds down to the nearest minimum increment) (the “NBBO Midpoint”);

([B]ii) if the NBBO Midpoint is not a valid price, the last disseminated transaction price in the series after 9:30 a.m. (the “Last Print”); or

([C]iii) if the NBBO Midpoint and the Last Print are not valid prices, the last disseminated transaction in the series from the previous trading day (the “Previous Close”).

If the NBBO Midpoint, Last Print, and Previous Close are not valid, the Exchange in its discretion may extend the Order Entry Period by up to 30 seconds or open the series for trading.

(B) Index Options. The System determines the Opening Price within 30 seconds of an away options exchange(s) disseminating a quote in a series. Following an away options exchange's dissemination of a quote in a series, if there are no contracts in a series that would execute at any price, the System opens the series for trading without determining an Opening Price. The Opening Price, if valid pursuant to subparagraph (3), of a series will be the NBBO Midpoint. If the NBBO Midpoint is not valid, the Exchange in its discretion may extend the Order Entry Period by up to 30 seconds or open the series for trading.

(3) *Validating the Opening Price.* For purposes of subparagraph (a)(2):

(A) the NBBO Midpoint and, for equity options, the Last Print[,] or the Previous Close₂ is a valid price if it is not outside the NBBO, and the price is no more than the following Minimum Amount away from the NBB or NBO for the series:

NBB	Minimum Amount
Below \$2.00	\$0.25
\$2.00 to \$5.00	\$0.40
Above \$5.00 to \$10.00	\$0.50
Above \$10.00 to \$20.00	\$0.80
Above \$20.00 to \$50.00	\$1.00
Above \$50.00 to \$100.00	\$1.50

Above \$100.00	\$2.00
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and

(B) for equity options, the Last Print or Previous Close is a valid price if there is no NBB and no NBO, or there is a NBB (NBO) and no NBO (NBB) and the price is equal to or greater (less) than the NBB (NBO).

(4) – (5) No change.

(b) – (d) 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 the Statutory Basis for, the Proposed Rule Change

1. Purpose

The proposed rule change amends the opening process with respect to index options. C2 intends to migrate its technology onto the same trading platform as one of its affiliated

exchanges, Cboe EDGX Exchange, Inc. (“EDGX”). C2 recently submitted a proposed rule change to, among other things, align certain system functionality with EDGX, including the opening process.⁵ Pursuant to the opening process in C2 Rule 6.11(a)(1), after a time period determined by the Exchange following the first transaction in the securities underlying the options on the primary market that is disseminated after 9:30 a.m. with respect to equity options, or following 9:30 a.m. with respect to index options, the related option series open automatically in a random order, staggered over regular intervals of time pursuant to subparagraphs (a)(2) through (5). Rule 6.11(a)(2) states the System determines a price at which a particular option series will be opened (the “Opening Price”) within 30 seconds of the applicable triggering event noted above. If there are no contracts in a series that would execute at any price, the System opens the series for trading without determining an Opening Price. The Opening Price, if valid, of a series will be:

- if there is both an NBB and an NBO, the midpoint of the NBBO (if the midpoint is a half increment, the System rounds down to the nearest minimum increment) (the “NBBO Midpoint”);
- if the NBBO Midpoint is not a valid price, the last disseminated transaction price in the series after 9:30 a.m. (the “Last Print”); or
- if the NBBO Midpoint and the Last Print are not valid prices, the last disseminated transaction in the series from the previous trading day (the “Previous Close”).

⁵ See SR-C2-2018-005 (April 27, 2018). That proposed rule change as filed for immediate effectiveness and a request for a waiver of the 30-day operative delay to permit effectiveness on May 14, 2018, the date on which the proposed C2 technology migration is currently expected to occur. The rule text and numbers in this filing reference the rule text and numbers in that filing.

If the NBBO Midpoint, Last Print, and Previous Close are not valid, the Exchange in its discretion may extend the order entry period by up to 30 seconds or open the series for trading (a “contingent opening”).

Pursuant to Rule 6.11(a)(3), the NBBO Midpoint, the Last Print, or the Previous Close is a valid price if it is no more than a specified minimum amount away from the national best bid or offer for the series. Additionally, the Last Print or Previous Close is a valid price if there is no NBB and no NBO, or if there is a NBB (NBO) and no NBO (NBB) and the price is equal to or greater (less) than the NBB (NBO). Under this Opening Process, if a series has not opened yet on another exchange on a trading (and thus there is no NBBO and no Last Print), if there is a Previous Close Price, it will be a valid price and will be the Opening Price. Additionally, if there are no crossed contracts in a series, the series opens immediately following the time period referenced above.

The Exchange proposes to modify this process with respect to index options. Pursuant to the proposed rule change, for index options, the System will determine the Opening Price within 30 seconds of an away options exchange(s) disseminating a quote in a series. Following an away options exchange’s dissemination of a quote in a series, if there are no contracts in a series that would execute at any price, the System opens the series for trading without determining an Opening Price. The Opening Price, if valid, of a series will be the NBBO Midpoint. If the NBBO Midpoint is not valid, the Exchange in its discretion may extend the order entry period by up to 30 seconds or open the series for trading. In other words, the proposed rule change provides that an index option series will not open (with or without a trade) until after the series is open on another exchange. To the extent the Exchange receives a quote from another Exchange within the time period referenced above, and there are contracts that may trade, the Opening Process will essentially be the same, and

a series will open with the NBBO Midpoint as an Opening Price (if valid). Additionally, the Exchange will continue to have the ability to use a contingent opening to open a series for trading if there is no valid Opening Price. The proposed rule change delays opening of a series on C2 in an index option series if there are no crossed contracts, and eliminates the possibility to open using the Last Print or Previous Close (as those will generally not be necessary if C2 waits for another exchange to open).

Currently, Russell 2000 Index (“RUT”) options is the only index option class trading on C2. RUT options also trade on Cboe Exchange, Inc. (“Cboe Options”), an affiliated exchange of C2. Under current C2 Rule 6.11, if a RUT series was open on Cboe Options, and if there are crossed orders on C2, the RUT series on C2 would open with an Opening Price equal to the NBBO Midpoint (if valid). If a RUT series was not yet open on C2 after 9:30 a.m., and there was a Previous Close for the series, the series would open on C2 with the Previous Close as the Opening Price. If there are no crossing orders on C2, a RUT series would open without an opening price, possibly before the RUT series was open on Cboe Options.

RUT options on Cboe Options generally open within 30 seconds after 9:30 a.m., and thus the Exchange expects RUT options on C2 following the technology migration to open for trading within 30 seconds (as set forth in the rule) at an Opening Price equal to the NBBO Midpoint if there are orders that can be crossed. However, it will be possible for a RUT series to open prior to the opening of that series on Cboe Options. The series on C2 would open without an Opening Price (if there are no crossed orders) or with an Opening Price equal to the Previous Close (if there are crossed orders) prior to the settlement value determination being completed on Cboe Options. If this were to occur, trading on C2 may then be occurring at very different prices than what is ultimately the opening trade price on Cboe Options. This is significant because, on

certain dates, Cboe Options uses prices of RUT options trading on Cboe Options to determine settlement values for volatility index derivatives.⁶ While trading in these options on volatility index derivative settlement days also generally opens within a few seconds after 9:30, there have been times when series being used to determine the settlement value took longer to open.

Trading on another Exchange while Cboe Options is not yet open may impact the volatility settlement value determination and disrupt trading of volatility index derivatives. The proposed rule change eliminates the possibility of RUT options on C2 automatically opening for trading prior to those options being open on Cboe Options and thus interfering with the calculation of volatility index derivative settlement values.

While options exchanges have varying opening processes, the opening process on Nasdaq BX, LLC (“BX”) is similar to the proposed rule change. Pursuant to BX Rule Section 8(b), if there is a possible trade on BX, a series will open with a valid width NBBO.⁷ This is similar to the proposed rule change, in that a valid NBBO Midpoint must be present for an index option series to open with a trade (which on C2 would only occur if another exchange was open for trading, because on C2, the NBBO that is used to determine the Opening Price is based on disseminated quotes of other exchanges and does not include orders and quotes on C2 prior to the opening of trading⁸). Additionally, if no trade is possible on BX, then BX will depend on one of the following to open: (1) a valid width NBBO, (2) a certain number of other options exchanges (as determined by BX) having disseminated a firm quote on OPRA, or (3) a certain period of time (as determined by the Exchange) has elapsed. As proposed, if no trade is possible, C2 will open an index option series

⁶ See Cboe Options Rule 6.2, Interpretation and Policy .01.

⁷ On BX, a valid width NBBO is defined as the combination of all away option market quotes and orders and quotes received on BX, within a specified bid/ask differential. See BX Rule Section 8(a)(6).

⁸ See C2 Rule 1.1 (definition of NBBO).

after another exchange as [sic] disseminated a quote, which is consistent with number (2) above (for example, under BX's rule, it could determine to open if one other options exchange was open).

While the proposed rule change does not explicitly provide for additional alternatives in the event no trade is possible, pursuant to Rule 6.11(c), C2 may adjust the timing of the Opening Process in a class if it believes it is necessary in the interests of a fair and orderly market.⁹ Therefore, like BX, C2 could open a series after a certain amount of time has passed if the series does not open on another exchange.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 Number (1) above would not apply because, as noted above, the NBBO on C2 prior to the opening of trading does not include orders and quotes on C2.

¹⁰ As stated in Rule 6.11(c), C2 makes and maintains records to document all determinations to deviate from the standard manner of the Opening Process, and periodically reviews these determinations for consistency with the interests of a fair and orderly market.

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 proposed rule change eliminates the possibility of RUT options on C2 automatically opening for trading prior to those options being open on Cboe Options and thus interfering with the calculation of volatility index derivative settlement values, which promotes just and equitable principles of trade and perfects the mechanism of a free and open market and national market system. As discussed above, under certain circumstances, the proposed rule change is expected to have a de minimis impact on the opening of index option series on C2 because, to the extent the Exchange receives a quote from another Exchange within the time period following 9:30 a.m., and there are contracts that may trade, the Opening Process will essentially be the same, and a series will open with the NBBO Midpoint as an Opening Price (if valid). Additionally, the Exchange will continue to have the ability to use a contingent opening to open a series for trading if there is no valid Opening Price. Therefore, if an index option series is not yet open on another exchange, C2 will still have the ability to open the series for trading. As discussed above, the proposed rule change is similar to the opening process of another options exchange, which also provides that opening for trading may be dependent on whether another options exchange is open.¹⁴

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 proposed rule change will apply in the same manner to all market participants that participate in the C2

¹³ Id.

¹⁴ See BX Rule Section 8(b).

Opening Process for index options. The Exchange believes it is appropriate to limit the proposed change to index options, because some, such as RUT, are used to determine the settlement value for volatility index derivatives. A similar process does not occur for equity options, and thus, the risk of opening trading in an equity option interfering with a settlement process on another exchange is not present. As discussed above, the proposed rule change is similar to the opening process of another options exchange, which also provides that opening for trading may be dependent on whether another options exchange is open.¹⁵

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)¹⁶ of the Act and Rule 19b-4(f)(6) thereunder.¹⁷

A proposed rule change filed pursuant to Rule 19b-4(f)(6) under the Act¹⁸ normally does not become operative for 30 days after the date of its filing. However, Rule 19b-4(f)(6)(iii)¹⁹

¹⁵ See BX Rule Section 8(b).

¹⁶ 15 U.S.C. 78s(b)(3)(A).

¹⁷ 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, 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. The Exchange has satisfied this requirement.

¹⁸ 17 CFR 240.19b-4(f)(6).

permits the Commission to 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 so that the proposal is operative on May 14, 2018, which is also the date the C2 technology migration is to occur.²⁰ The Exchange states that on May 16, 2018 Cboe Options will determine settlement values for certain volatility index derivatives by using the prices of RUT options trading on Cboe Options. According to the Exchange, waiver of the 30-day operative delay would avoid trading on C2 potentially interfering with the calculation of volatility index derivative settlement values by ensuring that on May 16, trading in RUT options on C2 will not begin before those options are open on Cboe Options. Accordingly, the Commission believes the waiver of the operative delay is consistent with the protection of investors and the public interest because it will avoid investor confusion that could result from C2 opening a dually and exclusively listed index option concurrently with, or prior to, Cboe Options, which could lead the two exchanges potentially to open at different prices given the material differences in their opening processes. The possibility for such divergence could be particularly confusing to investors on a volatility index settlement day, which will next occur on May 16. Therefore, the Commission hereby waives the operative delay and designates the proposal operative on May 14, 2018.²¹

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: (i) necessary or appropriate in the public interest; (ii) for the protection of investors; or

¹⁹ 17 CFR 240.19b-4(f)(6)(iii).

²⁰ See supra note 5.

²¹ 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).

(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 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-C2-2018-009 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-C2-2018-009. 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-C2-2018-009, 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.²²

Eduardo A. Aleman
Assistant Secretary

²² 17 CFR 200.30-3(a)(12).