

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-84399; File No. SR-C2-2018-021)

October 10, 2018

Self-Regulatory Organizations; Cboe C2 Exchange, Inc.; Notice of Filing of a Proposed Rule Change to Amend C2's Rulebook to Allow the Post Only Order Instruction on Complex Orders that Route to its Electronic Book

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 October 1, 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, II, and III 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 C2's rulebook to allow the Post Only order instruction on complex orders that route to its electronic book.

The text of the proposed rule change is available on the Exchange's website (<http://www.c2exchange.com/Legal/>), 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

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

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

C2 recently adopted the Post Only order instruction on simple orders that route to its electronic book (“Simple Book”),<sup>3</sup> and C2 now proposes to adopt the Post Only order instruction on complex orders that route to its electronic book (“COB”).

Background

Pursuant to C2 Rule 1.1, “[a] ‘Post Only’ order is an order the System ranks and executes pursuant to Rule 6.12, subjects to the Price Adjust process pursuant to Rule 6.12, or cancels or rejects (including if it is not subject to the Price Adjust process and locks or crosses a Protected Quotation of another exchange), as applicable (in accordance with User instructions), except the order may not remove liquidity from the [Simple] Book or route away to another Exchange.” In other words, if a Post Only order is entered into C2’s automated trading system (“System”), it will not execute against an order resting in the Simple Book or route to another exchange. The purpose of the Post Only order is to add liquidity to the Simple Book.

Because C2 has a maker-taker fee structure, pursuant to which an execution taking liquidity from the Simple Book is subject to a taker fee, the Post Only order instruction provides Trading Permit Holders (“TPHs” or “Users”) with the flexibility to avoid incurring a taker fee if the TPH’s intent is to submit an order to add liquidity to the Simple Book. Additionally, under C2’s maker-taker fee structure, if a TPH submits an order that adds liquidity to the Simple Book

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<sup>3</sup> See Securities Exchange Act Release No. 83214 (May 11, 2018), 83 FR 22796 (May 16, 2018) (SR-C2-2018-005).

(for both penny and non-penny classes of options), it receives a rebate in connection with the execution of that order. For example, a Public Customer order that adds liquidity to the Simple Book in a non-penny class receives a rebate of \$0.80, whereas a Public Customer order that removes liquidity from the Simple Book in a non-penny class incurs a fee of \$0.85. Similar rebates and fees are also applied to Professional Customers, Firms, and Broker/Dealers orders, among others.

### Complex Orders

C2 does not currently offer Post Only complex orders. Like in the Simple Book, execution of a complex order taking liquidity from the COB is subject to a taker fee and execution of an order adding liquidity is subject to a maker rebate. For example, a Public Customer order that adds liquidity to the COB in a non-penny class receives a rebate of \$0.75, whereas a Public Customer order that removes liquidity from the COB in a non-penny class incurs a fee of \$0.83. Unlike in the Simple Book, however, a TPH that intends to submit a complex order to add liquidity to the COB is not given the same flexibility to avoid incurring a taker fee. Accordingly, C2 is proposing to add Post Only to the permissible types of complex orders submitted to the Exchange in C2 Rule 6.13(b).

Proposed C2 Rule 6.13(b)(2) states that upon receipt of a Post Only complex order with any Time-in-Force, the System does not initiate a complex order auction (“COA”), and if a User marks the Post Only complex order to initiate a COA, the System cancels the order. Not permitting a Post Only complex order to COA is consistent with the purposes of a Post Only order, which as discussed above is to add liquidity to the COB. Proposed C2 Rule 6.13(g)(4) states that Post Only complex orders may not Leg into the Simple Book and proposed C2 Rule 6.13(h)(3) states that the System cancels or rejects a Post Only complex order if it locks or

crosses a resting complex order in the COB or the then-current opposite side synthetic best bid or offer (“SBBO”). For example, assume there are no orders for a specific strategy resting on the COB, the synthetic national best bid or offer (“SNBBO”) is \$3.00 by \$3.15, and the SBBO is \$2.95 by \$3.15. Assume next that Complex Order 1 enters the COB to sell 10 contracts of that strategy at \$3.14 and such order is posted to the COB. If Complex Order 2 then enters the COB to buy 10 contracts of that strategy at \$3.14, but Complex Order 2 also contains the Post Only instruction, Complex Order 2 is rejected since it locks the resting contra order. Similarly, assume there are no orders for a specific strategy resting on the COB, the SNBBO is \$3.00 by \$3.15, and the SBBO is \$2.95 by \$3.20. If a two-leg Complex Order with the Post Only instruction enters the COB to buy 10 contracts of that strategy at \$3.20, that Complex Order is rejected since it cannot leg in to the Simple Book and it locks the contra side SBBO. This proposed functionality is consistent with the purpose of the Post Only instruction and ensures a Post Only complex order will not remove liquidity from the Book. This is also consistent with the functionality and purpose of the Post Only order instruction on simple orders.

By adding the Post Only order instruction for complex orders, TPHs will be given the ability to exercise more control over the circumstances in which their complex orders are executed and be encouraged to add liquidity in the complex order market. Any additional liquidity will subsequently benefit all participants who trade complex orders on the Exchange.

## 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.<sup>4</sup> Specifically, the

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<sup>4</sup> 15 U.S.C. 78f(b).

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

Specifically, the Post Only order instruction on complex orders is designed to encourage market participants to add liquidity in the complex order market, which will benefit investors. By giving market participants the flexibility to manage their execution costs and the circumstances in which their complex orders are executed, the Exchange believes the proposed rule change would remove impediments to perfect the mechanism of a free and open market and a national market system and protect investors. The Exchange also believes that the proposed rule change will contribute to the protection of investors and the public interest by assuring compliance with rules related to locked and crossed markets.

Additionally, the Exchange notes that Post Only functionality is not new or unique functionality and is already available in a similar capacity. While the Post Only complex order type is not currently available in the market, C2 and other exchanges have implemented the Post Only simple order type, which functions in the same manner as the proposed Post Only complex

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

<sup>6</sup> Id.

order type. The purpose of a Post Only complex order is the same as the purpose of a Post Only simple order, given C2's maker-taker fee structure with respect to executions of complex orders.

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

C2 does not believe that the proposed rule change will impose any burden on intramarket or intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act. In particular, the Exchange believes the proposed rule change will not burden intramarket competition because the Post Only order instruction on complex orders will be available to all market participants. Additionally, use of the Post Only order instruction on complex orders is voluntary. The Exchange also believes the proposed rule change will not impose any burden on intermarket competition because this relates to an instruction on orders that are submitted to the Exchange and may only execute on the Exchange. Additionally, nothing prevents other options exchanges that offer complex orders from adopting a Post Only complex order type. The Exchange also believes the proposed rule change will promote competition, as the Exchange believes it will encourage the provision of additional liquidity in the complex order market, which benefits all market participants.

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

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the Exchange consents, the Commission will:

A. by order approve or disapprove such proposed rule change, or

B. institute proceedings to determine whether the proposed rule change should be 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-C2-2018-021 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-C2-2018-021. 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-C2-2018-021, 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>7</sup>

Eduardo A. Aleman  
Assistant Secretary

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<sup>7</sup> 17 CFR 200.30-3(a)(12).