

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-84637; File No. SR-C2-2018-023)

November 20, 2018

Self-Regulatory Organizations; Cboe C2 Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to Amend its Rules Regarding How the System Handles Market Orders in Series With No Bid or No Offer

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 November 6, 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 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

Cboe C2 Exchange, Inc. (the “Exchange” or “C2”) proposes to amend its Rules regarding how the System handles market orders in series with no bid or no offer.

(additions are underlined; deletions are [bracketed])

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Rules of Cboe C2 Exchange, Inc.

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Rule 6.14. Order and Quote Price Protection Mechanisms and Risk Controls

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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)(iii).

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

The System's acceptance and execution of orders and quotes pursuant to the Rules, including Rules 6.11 through 6.13, are subject to the following price protection mechanisms and risk controls, as applicable.

(a) Simple Orders.

(1) Market Orders in No-Bid (Offer) Series. [If a User submits a sell (buy) market order to the System after a series is open when there is no NBB (NBO), the System cancels or rejects the market order.]

(A) If the System receives a sell market order in a series after it is open for trading with an NBB of zero:

(i) if the NBO in the series is less than or equal to \$0.50, then the System converts the market order to a limit order with a limit price equal to the minimum trading increment applicable to the series and enters the order into the Book with a timestamp based on the time it enters the Book. If the order has a Time-in-Force of GTC or GTD that expires on a subsequent day, the order remains on the Book as a limit order until it executes, expires, or the User cancels it.

(ii) if the NBO in the series is greater than \$0.50, then the System cancels or rejects the market order.

(B) If the System receives a buy market order in a series after it is open for trading with an NBO of zero, the System cancels or rejects the market order.

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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

In 2016, the Exchange’s parent company, Cboe Global Markets, Inc. (formerly named CBOE Holdings, Inc.) (“Cboe Global”), which is also the parent company of Cboe Exchange, Inc. (“Cboe Options”) and Cboe C2 Exchange, Inc., acquired the Cboe EDGA Exchange, Inc. (“EDGA”), Cboe EDGX Exchange, Inc. (“EDGX or EDGX Options”), Cboe BZX Exchange, Inc. (“BZX” or “BZX Options”), and Cboe BYX Exchange, Inc. (“BYX” and, together with C2, Cboe Options, EDGX, EDGA, and BZX, the “Cboe Affiliated Exchanges”). The Cboe Affiliated Exchanges are working to align certain system functionality, retaining only intended differences between the Cboe Affiliated Exchanges, in the context of a technology migration. Thus, the proposals set forth below are intended to add certain functionality to the Exchange’s System that is more similar to functionality offered by Cboe Options in order to ultimately provide a consistent technology offering for market participants who interact with the Cboe Affiliated Exchanges. Although the Exchange intentionally offers certain features that differ from those offered by its affiliates and will continue to do so, the Exchange believes that offering similar functionality to the extent practicable will reduce potential confusion for Users.

The Exchange proposes to amend its Rules regarding how the System handles a sell market order when there is no bid against which the order may execute. A market order is an order to buy or sell at the best price available at the time of execution.<sup>5</sup> Currently, pursuant to Rule 6.14(a)(1), if a User submits a sell market order to the System after a series is open when there is no national best bid (“NBB”), the System cancels or rejects the market order.<sup>6</sup> The

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<sup>5</sup> See Rule 1.1, definition of order.

<sup>6</sup> Current Rule 6.14(a)(1) also provides that if a User submits a buy market order to the

Exchange proposes to amend how the System handles sell market orders submitted in a series with no bid. Specifically, if the System receives a market order to sell in an option series with an NBB of zero:

(1) if the NBO in the series is less than or equal to \$0.50, then the System converts the market order to a limit order with a limit price equal to the minimum trading increment applicable to the series and enters the order into the Book with a timestamp based on the time it enters the Book. If the order has a Time-in-Force of GTC or GTD that expires on a subsequent day, the order remains on the Book as a Limit Order until it executes, expires, or the User cancels it.

(2) if the NBO in the series is greater than \$0.50, then the System cancels the market order.<sup>7</sup>

The proposed rule change serves as a protection feature for investors in certain situations, such as when a series is no-bid because the last bid traded just prior to entry of the sell market order. The purpose of this threshold is to limit the automatic booking of market orders to sell at minimum increments to only those for true zero-bid options, as options in no-bid series with an offer of greater than \$0.50 are less likely to be worthless.

For example, if the System receives a sell market order in a no-bid series with a minimum increment of \$0.01 and the NBO is \$0.01, the System will convert the order to a limit order with a price of \$0.01 and enter it on the Book. Because the order will have a timestamp based on that time of Book entry, it will have priority behind any other limit orders to sell at

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System after a series is open when there is no national best offer (“NBO”), the System cancels or rejects the market order. The proposed rule change does not modify this handling, and moves this provision (with nonsubstantive changes) to proposed Rule 6.14(a)(1)(B).

<sup>7</sup> See proposed Rule 6.14(a)(1).

\$0.01 that were already resting on the Book. At that point, even if the series is no-bid because, for example, the last bid just traded and the limit order trades at \$0.01, the next bid entered after the trade would not be higher than \$0.01. If the order has a Time-in-Force of GTC or GTD that expires on a subsequent day, the order remains on the Book as a Limit Order until it executes, expires, or the User cancels it.<sup>8</sup>

However, if the System receives a sell market order in a no-bid series with a minimum increment of \$0.01 and the NBO is \$1.20 (because, for example, the last bid of \$1.00 just traded and a new bid has not yet populated the disseminated quote), the System will cancel or reject the order. Cancellation prevents an anomalous execution price, since the next bid entered in that series is likely to be much higher than \$0.01. It would be unfair to the User to let his market order trade as a limit order for \$0.01 because, for example, the firm submitted the order during the brief time when there were no disseminated bids in a series trading significantly higher than the minimum increment.

The Exchange believes the threshold of \$0.50 is reasonable. The Exchange notes that this threshold is the same as the threshold in the Cboe Options rule,<sup>9</sup> and is less than the current width for the market order NBBO width protection, pursuant to which the System will reject or cancel back to the User a market order submitted to the System when the NBBO width is greater than 100% of the midpoint of the NBBO, subject to a \$5 minimum and \$10 maximum.<sup>10</sup>

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<sup>8</sup> This functionality is consistent with the purpose of a GTC or GTD that expires on a subsequent trading day, which is to remain on the Book and available for execution until the User cancels it or until the time specified by the User. The Exchange notes that market orders with any other Time-in-Force would no longer be on the Book if they did not execute during the trading day.

<sup>9</sup> See Cboe Options Rule 6.13(b)(vi).

<sup>10</sup> See Rule 21.17(a); see also Exchange Notice, BZX and EDGX Options Exchanges Feature Pack 2 – Update (December 14, 2017), available at [http://markets.cboe.com/resources/release\\_notes/2017/Update-2-Cboe-BZX-and-EDGX-](http://markets.cboe.com/resources/release_notes/2017/Update-2-Cboe-BZX-and-EDGX-)

Notwithstanding this provision, the proposed rule change would allow for the potential execution of sell market orders in no-bid series with offers less than or equal to \$0.50. If the threshold in the proposed rule change was higher, there would be increased risk of having a market order trade a minimum increment in a series that is not truly no-bid. The proposed rule change is substantially the same as Cboe Options Rule 6.13(b)(vi).

## 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>11</sup> Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>12</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

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[Options-Exchanges-Feature-Pack-2.pdf](#), for current settings. Pursuant to this protection, if the NBBO for a series was \$0.00 – \$0.50, the width of the NBBO (0.50) is greater than 100% of the midpoint (0.25); however, pursuant to the minimum, a market order would be accepted pursuant to this protection because the width is less than the 5.00 minimum. The proposed rule change provides additional price protection for market orders in no-bid series.

<sup>11</sup> 15 U.S.C. 78f(b).

<sup>12</sup> 15 U.S.C. 78f(b)(5).

is consistent with the Section 6(b)(5)<sup>13</sup> 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 regarding the handling of sell Market Orders in no-bid series assists with the maintenance of fair and orderly markets and protects investors and the public interest, because it provides for automated handling of orders in series that are likely truly no-bid, ultimately resulting in more efficient executions of these orders. Additionally, the proposed rule change prevents executions of sell market orders in no-bid series with higher offers at potentially extreme prices in series that are not truly no-bid. The Exchange believes this threshold appropriately reflects the interests of investors, as options in no-bid series with offers higher than \$0.50 are less likely to be worthless than no-bid series with offers no higher than \$0.50, and cancelling the orders will prevent execution of these orders at unfavorable prices. The Exchange also believes the \$0.50 threshold promotes fair and orderly markets, because sell market orders in no-bid series with offers of \$0.50 or less are likely to be individuals seeking to close out a worthless position, for which the proposed automatic handling is appropriate. The proposed change is also substantially the same as Cboe Options Rule 6.13(b)(vi).

When Cboe Options migrates to the same technology as that of the Exchange and other Cboe Affiliated Exchanges, Users of the Exchange and other Cboe Affiliated Exchanges will have access to similar functionality on all Cboe Affiliated Exchanges and similar language can be incorporated into the rules of all Cboe Affiliated Exchanges. As such, the proposed rule change would foster cooperation and coordination with persons engaged in facilitating

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<sup>13</sup>

Id.

transactions in securities and would remove impediments to and perfect the mechanism of a free and open market and a national market system.

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 changes will impose any burden on intramarket competition, because it will apply in the same manner to all sell market orders submitted in no-offer or no-bid series, respectively. Additionally, the proposed rule change has no impact on sell market orders submitted in no-bid series with an offer of more than \$0.50, which orders will continue to be handled in the same manner as they are today (i.e. they will be cancelled or rejected). The Exchange does not believe the proposed rule change will impose any burden on intermarket competition, as it will provide sell market orders in true no-bid series with additional execution opportunities (either on the Exchange or at away markets pursuant to linkage rules) while providing an additional protection measure for sell market orders in no-bid series that may not be truly no-bid. The Exchange believes this price protection will allow Trading Permit Holders to submit sell market orders with reduced fear of inadvertent exposure to excessive risk, which will benefit investors through increased liquidity for the execution of their orders.

The proposed rule change is substantially the same as Cboe Options Rule 6.13(b)(vi).<sup>14</sup>

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.

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<sup>14</sup> The Exchange notes other options exchanges have similar rules that convert sell market orders in no-bid series to limit orders with a price of a minimum increment if the offer in the series is below a certain threshold (the thresholds differ in those rules). See, e.g., Miami International Securities Exchange, LLC ("MIAX") Rule 519(a)(1); and NASDAQ ISE, LLC ("ISE") Rule 713(b).

### III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Because the 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>15</sup> and Rule 19b-4(f)(6) thereunder.<sup>16</sup>

A proposed rule change filed under Rule 19b-4(f)(6)<sup>17</sup> normally does not become operative prior to 30 days after the date of the filing. However, Rule 19b-4(f)(6)(iii)<sup>18</sup> 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 proposed rule change may become effective and operative on November 29, 2018. The Exchange states that waiver of the operative delay will provide Users with additional flexibility to manage and display their orders and provide additional control over their executions on the Exchange as soon as possible. The Exchange further states that waiver of the operative delay will allow the Exchange to continue to strive towards a complete technology integration of the Cboe Affiliated Exchanges, with gradual roll-outs of new functionality to ensure the stability of the System. The Exchange notes that the proposed rule change is generally intended to codify and to add certain system functionality to the Exchange's System in

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

<sup>16</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.

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

<sup>18</sup> 17 CFR 240.19b-4(f)(6)(iii).

order to provide a consistent technology offering for the Cboe Affiliated Exchanges. The Exchange further notes that a consistent technology offering will simplify the technology implementation changes and maintenance by Trading Permit Holders of the Exchange that are also participants on Cboe Affiliated Exchanges. The Commission believes that waiver of the 30-day operative delay is consistent with the protection of investors and the public interest. Therefore, the Commission hereby waives the 30-day operative delay and designates the proposed rule change as operative on November 29, 2018.<sup>19</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 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 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

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<sup>19</sup> 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).

- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-C2-2018-023 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-C2-2018-023. 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. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. All submissions should refer to File Number SR-C2-

2018-023 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>20</sup>

Eduardo A. Aleman  
Assistant Secretary

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<sup>20</sup> 17 CFR 200.30-3(a)(12).