

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-85038; File No. SR-C2-2018-025)

February 1, 2019

Self-Regulatory Organizations; Cboe C2 Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Discontinue Bulk Order Functionality and Implement Bulk Message Functionality

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on December 19, 2018, Cboe C2 Exchange, Inc. (the “Exchange” or “C2”) filed with the Securities and Exchange Commission (“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 discontinue bulk order functionality and implement bulk message functionality, and make other nonsubstantive changes. The text of the proposed rule change is provided in Exhibit 5.

The text of the proposed rule change is also available on the Exchange’s website (<http://www.cboe.com/AboutCBOE/CBOELegalRegulatoryHome.aspx>), at the Exchange’s Office of the Secretary, and at the Commission’s Public Reference Room.

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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).

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. ("Cboe Global"), which is also the parent company of Cboe Exchange, Inc. ("Cboe Options"), acquired Cboe EDGX Exchange, Inc. ("EDGX"), Cboe EDGA Exchange, Inc. ("EDGA"), 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. Cboe Options intends to migrate its technology to the same trading platform used by the Exchange, C2, and EDGX Options in the fourth quarter of 2019. The proposal set forth below is 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.

Cboe Options currently offers quoting functionality to Market-Makers, which permits Market-Makers to update their electronic quotes in block quantities.<sup>5</sup> Quotes on Cboe Options do not route to other exchanges,<sup>6</sup> and Market-Makers generally enter new quotes at the beginning of the trading day based on-then current market conditions.<sup>7</sup> The Exchange currently offers bulk order functionality, which is intended to provide Users, and Market-Makers in particular, with a way to submit orders that simulate quoting functionality.<sup>8</sup> However, while bulk order functionality simulates quoting functionality, bulk order functionality provides Users with a less efficient way to update multiple bids and offers. To update multiple bids and offers, a User must submit multiple messages at the same time, compared to quoting functionality, which generally permits a market participant to update multiple bids and offers in a single quote message. Specifically, a bulk order port is a dedicated logical port that provides Users with the ability to submit single and bulk order messages to enter, modify, or cancel orders designated as Post Only Orders<sup>9</sup> with a Time-in-Force

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<sup>5</sup> See Cboe Options Rule 1.1(ppp).

<sup>6</sup> See Cboe Options Rule 6.14B (which describes how the Exchange routes orders (specifically intermarket sweep orders) but not quotes route to other exchanges); see also Nyse Arca, LLC (“Arca”) Rule 6.37-O(a)(3)(D) (which states quotes do not route).

<sup>7</sup> The Exchange understands this is common practice by Market-Makers throughout the industry, and is consistent with Cboe Options functionality, which cancels all unexecuted resting Market-Maker quotes at the close of each trading day. Additionally, it is consistent with Market-Makers’ obligation to update market quotations in response to changed market conditions. See Rule 8.5(a)(4); see also Cboe Options Rule 8.7(b)(iii).

<sup>8</sup> See Securities Exchange Act Release No. 83214 (May 11, 2018), 83 FR 22796 (May 16, 2018) (SR-C2-2018-005). Prior to the migration of the C2 trading platform to the same technology platform as EDGX and BZX, C2 quoting functionality (substantially similar to the quoting functionality being proposed in this rule filing) was limited to Market-Makers.

<sup>9</sup> See current Rule 1.1 (definition of Order Instructions) and proposed Rule 6.10(c) for the definition of “Post Only.” The proposed rule change moves the definitions of order types, Order Instructions, and Times-in-Force to Rule 6.10(b), (c), and (d), respectively.

of Day<sup>10</sup> or Good-til-Date (“GTD”)<sup>11</sup> with an expiration time on that trading day.<sup>12</sup> Like quotes, bulk order messages do not route to other exchanges because they include a Post Only instruction.<sup>13</sup> Use of the Day or GTD Time-in-Force is consistent with Market-Maker’s entry of new quotes at the beginning of each trading day.<sup>14</sup> Unlike current Cboe Options quoting functionality, bulk order ports on the Exchange are available to all Users, not just Market-Makers. The Exchange makes bulk order ports available to all Users to encourage them to provide liquidity to the Exchange’s market.

The Exchange proposes to replace bulk order message functionality with bulk message functionality substantially similar to the quoting functionality available on Cboe Options. The proposed bulk message functionality is similar to but more efficient than currently available bulk order functionality.<sup>15</sup> A “bulk port” is a dedicated logical port that, as proposed, would provide Users with the ability to submit:

(1) bulk messages,<sup>16</sup> subject to the following:

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<sup>10</sup> See current Rule 1.1 and proposed Rule 6.10(d) for the definition of the Time-in-Force of “Day.”

<sup>11</sup> See current Rule 1.1 and proposed Rule 6.10(d) for the definition of the Time-in-Force of “GTD.”

<sup>12</sup> See current Rule 1.1 for the current definition of “bulk order ports.” Pursuant to current Rule 1.1, Users may submit auction responses through bulk order ports, and will continue to be able to submit auction response through bulk ports. The proposed rule change moves the definition of port to Rule 6.8(c).

<sup>13</sup> See current Rule 1.1 (definition of Order Instructions) and proposed Rule 6.10(c), which provides that an order with a Post Only instruction may not route away to another exchange.

<sup>14</sup> See *supra* note 7.

<sup>15</sup> See *supra* note 8 (the Exchange adopted bulk order functionality to simulate quoting functionality).

<sup>16</sup> Proposed Rule 1.1 defines a bulk message as a bid or offer included in a single electronic message a User submits to the Exchange in which the User may enter, modify, or cancel up to an Exchange-specified number of bids and offers. Pursuant to Rule 1.2, the

- (a) a bulk message has a Time-in-Force of Day;
- (b) a Market-Maker with an appointment in a class may designate a bulk message for that class as Post Only or Book Only (which Post Only or Book Only designation, as applicable, applies to all bulk message bids and offers within a single message)<sup>17</sup>, and other Users must designate a bulk message for that class as Post Only; and
- (c) a User may establish a default Match Trade Prevention (“MTP”) Modifier of MTP Cancel Newest (“MCN”), MTP Cancel Oldest (“MCO”), or MTP Cancel Both (“MCB”), and a default value of Attributable or Non-Attributable, for a bulk port, each of which applies to all bulk messages submitted to the Exchange through that bulk port;

(2) single orders in the same manner as Users may submit orders to the Exchange through any other type of port,<sup>18</sup> including designated with any Order Instruction and any Time-in-

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Exchange will announce this number via Exchange notice or publicly available technical specifications. This is similar to Cboe Options Rule 1.1(ppp), which provides that electronic quotes may be updated in block quantities. The limit on bids and offers per message is a reasonable measure for the Exchange to use to manage message traffic and activity to protect the integrity of the System. Proposed Rule 1.1 also states that a User may submit a bulk message through a bulk port as set forth in proposed Rule 6.8(c)(3), and that the System handles a bulk messages in the same manner as it handles an order or quote, unless the Rules specify otherwise. In other words, a bulk message will be treated as an order (or quote if submitted by a Market-Maker) pursuant to the Rules, including with respect to priority and allocation. The proposed rule change identifies the rule provisions pursuant to which bulk messages will be handled in a different manner.

<sup>17</sup> In other words, a Market-Maker cannot designate one bulk message bid within a single message as Post Only and designate another bulk message bid within the same message as Book Only.

<sup>18</sup> The proposed rule change also specifies that, subject to the restrictions in the proposed rule, Users may submit single orders through bulk ports in the same manner as they may submit single orders through any other type port, which is consistent with how Users may submit single orders to the Exchange through bulk order ports today.

Force in Rule 6.10(c) and (d),<sup>19</sup> respectively, except a Market-Maker with an appointment in a class may designate an order for that class submitted through a bulk port as Post Only or Book Only, and other Users must designate a bulk message for that class submitted through a bulk port as Post Only; and

(3) auction responses (using auction response messages) in the same manner as Users may submit auction responses to the Exchange through any other type of port.<sup>20</sup>

Proposed Rule 6.8(c)(3)(A)(i) states that bulk messages have a Time-in-Force of Day. As discussed above, this is consistent with current Cboe Options quoting functionality, which cancels all resting quotes at the close of the trading day. This is also consistent with a Market-Maker's obligation to update its quotations in response to changed market conditions in its appointed classes.<sup>21</sup> Unlike current bulk orders, the GTD Time-in-Force with an expiration time on that trading day will not be available for bulk messages. Users will continue to have the ability to manually cancel bulk messages at any time during the trading day, they will just not be able to have bulk messages automatically cancel at a specific time on that trading day. Additionally, Users may apply the GTD Order Instruction to orders submitted through a bulk port (as further discussed below) or other type of port.

Unlike Cboe Options quoting functionality, which is only available to Cboe Options market-makers, the proposed bulk messages will be available to all Users (as bulk orders are today). While all Users will be able to use bulk messages (and may currently use bulk orders), the primary purpose

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<sup>19</sup> The proposed rule change moves the definitions of Order Instructions and Times-in-Force from Rule 1.1 to Rule 6.10.

<sup>20</sup> See proposed Rule 6.8(c)(3)(C). The proposed rule change has no impact on the ability of Users to submit auction responses through bulk ports, and clarifies that Users may submit auction responses through bulk ports in the same manner as they may submit auction responses through any other type of port.

<sup>21</sup> See Rule 8.5(a)(3).

of bulk orders and the proposed bulk messages has always been to encourage market-maker quoting on exchanges.<sup>22</sup> The proposed rule change provides that a Market-Maker with an appointment in a class may designate a bulk message for that class as “Post Only” or “Book Only.” This will provide Exchange Market-Makers with functionality substantially similar to Cboe Options quoting functionality currently available to Cboe Options market-makers, which permits Market-Makers’ incoming quotes to execute against resting orders and quotes, except against the resting quote of another Market-Maker (see discussion below).<sup>23</sup> The Exchange believes permitting Market-Makers to use bulk messages to remove liquidity from the Book (if they so elect) will put Exchange Market-Makers on an even playing field as market-makers on other exchanges that offer quoting functionality. Additionally, Market-Makers are subject to various obligations, including obligations to provide two-sided quotes, to provide continuous quotes, and to trade at least 75% of its contracts each quarter in appointed classes. The Exchange believes providing Market-Makers with flexibility to use the Post Only or Book Only instruction with respect to bulk messages will provide Market-Makers with additional tools to meet their obligations in a manner they deem appropriate. The Exchange further believes this may encourage liquidity providers to register as Market-Makers. The proposed rule change provides that other Users (i.e., non-Market-Makers or Market-Makers without an appointment in a class) must designate a quote for that class as “Post Only.” This is consistent with current bulk orders available to these Users, and will continue to provide Users with flexibility to avoid incurring a take fee if their intent is to add liquidity to the Book. The Exchange notes these Users may apply the Book Only instruction to orders submitted to the Exchange through

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<sup>22</sup> See supra notes 8 and 15.

<sup>23</sup> Incoming market-maker quotes on some options exchanges may execute against interest resting in the book (see, e.g., Arca Rule 6.37A-O(a)(3)), while on other options exchanges they may not (see, e.g., Box Options Exchange, LLC (“BOX”) Rule 8050, IM-8050-3).

other ports. The proposed rule change also amends Rule 6.15 to make clear that bulk messages (like current bulk orders) are not eligible for routing (which is consistent with the Order Instructions of Post Only and Book Only, which do not route to other options markets).<sup>24</sup>

The proposed rule change also permits Users to establish a default MTP Modifier of MCN, MCO, or MCB that would apply to all bulk messages submitted through a bulk port. Cboe Options currently offers a Market-Maker Trade Prevention Order, which would be cancelled if it would trade against a resting quote or order for the same Market-Maker, and also cancel the resting order or quote.<sup>25</sup> This is equivalent to the MCB Modifier (except the MCB Modifier may be used by all Users rather than just Market-Makers). The proposed rule change provides Users with the ability to apply same trade prevention designation that is available for quotes on Cboe Options to bulk messages (MCB), as well as two additional MTP options (MCN and MCO) (the Exchange notes there is currently no trade prevention functionality equivalent to MCN or MCO available on Cboe Options for quotes). Allowing three MTP designations for bulk messages will provide Users with additional control over the circumstances in which their bulk messages (and resting orders (including bulk messages)) will interact with each other. The Exchange does not believe there is demand by Users for the MDC and MCS modifies (which are available on the Exchange for orders) for bulk messages (the Exchange notes there is currently no trade prevention functionality equivalent to MDC or MCS available on Cboe Options for quotes). The Exchange notes all Users may continue to apply all MTP Modifiers to orders submitted through a bulk port (as further discussed below) or any other type of port.

Generally, the System will handle bulk messages in the same manner as it handles orders with the same Order Instructions and Times-in-Force that will be available for bulk messages,

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<sup>24</sup> See also Cboe Options Rule 6.14B; and Arca Rule 6.37A-O(a)(3)(D).

<sup>25</sup> See Cboe Options Rule 6.53(v).

including prioritizing, displaying, and executing them pursuant to Rule 6.12. Proposed Rule 6.12(c)(6) adds detail regarding how the System will handle bulk messages and orders submitted through bulk ports. Specifically, proposed subparagraph (c)(6)(A) states the System will cancel or reject a Post Only bulk message bid (offer) with a price that locks or crosses the Exchange best offer (bid) or the ABO (ABB).<sup>26</sup> This is consistent with how the System would handle a Post Only order not subject to the Price Adjust process.<sup>27</sup> Pursuant to the Post Only instruction, an order (or bulk message as proposed) may not remove liquidity from the Book or route away to another Exchange. If a Post Only bulk message locked or crossed the best contra-side interest on the Exchange, the System would cancel it to prevent execution of the bulk message against the interest on the Exchange in accordance with the User's instructions and to prevent the Exchange from displaying a locked or crossed market.<sup>28</sup> Similarly, if a Post Only bulk message locked or crossed an away market, the System would cancel it since it cannot route in accordance with the User's instructions and to prevent the Exchange's dissemination of a locked or crossed market.<sup>29</sup>

Similarly, proposed subparagraph (c)(6)(B) states the System will execute a Book Only bulk message bid (offer) that locks or crosses the ABO (ABB) against offers (bids) resting in the Book at

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<sup>26</sup> The ABBO means the best bid (offer) disseminated by other exchanges.

<sup>27</sup> See Rule 6.12(b). Pursuant to the Price Adjust process, the System ranks and displays a buy (sell) order that, at the time of entry, would lock a Protected Quotation of the Exchange or another Exchange at one minimum price increment below (above) the current NBO (NBB). The System executes a Book Only order against orders and quotes and cancels any unexecuted portion if displaying the order on the Book would create a violation of Rule 6.82, and the System rejects a Post Only order that locks or crosses the opposite side Exchange best bid or offer ("BBO") or if displaying the order on the Book would create a violation of Rule 6.82). Bulk messages will not be eligible for the Price Adjust process, and thus will be handled similar to an order not subject to the Price Adjust process. See proposed Rules 6.10(c) and 6.12(b) (which clarify that the Price Adjust Process will not apply to bulk messages).

<sup>28</sup> See Chapter XXVII of the Rules; see also Options Order Protection and Locked/Crossed Market Plan (the "Linkage Plan").

<sup>29</sup> See id.

prices the same as or better than the ABO (ABB) and then cancels the unexecuted portion. This is consistent with how the System would handle a Book Only order not subject to the Price Adjust process. Pursuant to the Book Only instruction, an order (or bulk message as proposed) may not route away to another Exchange. If a Book Only bulk message locked or crossed an away market, the System would execute it to the extent it could against contra-side interest on the Exchange and then cancel it since it cannot route in accordance with the User's instructions and to prevent the Exchange's dissemination of a locked or crossed market.<sup>30</sup> In addition to being similar to current Exchange Rules regarding the handling of Post Only and Book Only Orders not subject to the Price Adjust process, the Exchange notes that proposed subparagraphs (c)(6)(A) and (B) are substantially the same as another exchange's handling rules applicable to quotes.<sup>31</sup>

Proposed subparagraph (c)(6)(C) states the System will cancel or reject a Book Only bulk message bid (offer) or order bid (offer) (or unexecuted portion) submitted by a Market-Maker with an appointment in the class through a bulk port if it would execute against a resting offer (bid) with a Capacity of M (Market-Maker). The options market is driven by Market-Maker quotes, and thus Market-Maker quotes are critical to provide liquidity to the market and contribute to price discovery for investors. The Exchange expects Market-Makers regularly to use bulk messages to input and update prices on multiple series of options at the same time. Market-Maker quotes are generally based on pricing models that rely on various factors, including the price of the underlying security

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<sup>30</sup> See id.

<sup>31</sup> See Cboe Options Rule 6.14(b) (if Cboe Options is not at the NBBO, the System rejects a quote back to a Market-Maker if the quote locks or crosses the NBBO, which is the ABBO) and (c) (if the Cboe Options System accepts a quote that locks or crosses the NBBO, it executes the quote against quotes and orders in the Cboe Options Book at the price(s) that is the same or better than the best price disseminated by an away exchange(s) up to the size available on the Exchange and cancels the remaining size if the quote's price locks or crosses the ABBO or books any remaining size); see also Rule 6.37A-O(a)(3).

and that security's volatility. As these variables change, a Market-Maker's pricing model automatically will enter updates to its bids and offers with bulk messages for some or all of an option's series. Because Market-Makers may update bids and offers using bulk messages in multiple series at the same time, there can be a multitude of instances in which their bids and offers inadvertently interact with each other, which can lead to significant risk and exposure. This may occur, for example, when one Market-Maker's price update system is faster than systems used by other Market-Makers. In this respect, a Market-Maker's system that updates options prices microseconds faster than another Market-Maker's system may lock or cross its bids (offers) against the other Market-Maker's offers (bids) every time its bid (offer) adjusts to the offer (bid) of the second Market-Maker even if the second Market-Maker's system was also in the process of updating that offer (bid). For example, assume Market-Makers A and B are both quoting \$1.10 – 1.20 when the underlying moves, causing both each Market-Maker's system to update its quotes to \$1.20 – 1.30. By being microseconds faster, Market-Maker A's system will send a bid of \$1.20, which locks Market-Maker B's offer prior to Market-Maker B's offer updating, even though its system was also in the process of updating its offer. This could happen contemporaneously in a large number of series within the class, such that instead of locking one quote, Market-Maker A may lock 20 of Market-Maker B's quotes. This may expose each Market-Maker to significant risk due to these unintended executions.

The proposed rule change will protect Market-Makers from executions that occur due to technology disparities rather than the intention of Market-Makers to trade with one another at a particular price. As a result, Market-Maker quotes will continue to provide liquidity on the Book. This proposed functionality is similar to the quote-lock functionality available on Cboe Options.<sup>32</sup>

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<sup>32</sup> See Cboe Options Rule 6.45(c).

While that functionality permits locked quotes to execute against each other after a specified amount of time, it also provides market-makers with an opportunity to update their resting quotes, which would prevent execution of an incoming market-maker quote against a resting market-maker quote. As proposed, a Market-Maker bulk message (or order) will be rejected if it would execute against resting Market-Maker interest. The Market-Maker may resubmit its bulk message (or order) after being rejected, which would be able to rest in the Book if the Market-Maker repriced its resting bid or offer in the interim. Additionally, a Market-Maker may interact with resting Market-Maker interest by submitting an order to the Exchange through a different type of port.

Proposed Rule 6.9(a) provides that a User may only enter one bid and one offer for a series per EFID<sup>33</sup> per bulk port. The Exchange believes this will encourage Users to submit their best bids and offers in series, and thus provide displayed liquidity to the market and contribute to public price discovery. Note firms may have multiple EFIDs and multiple bulk ports, and thus will have the ability through separate ports or EFIDs to submit additional bids and offers using bulk messages in the same series if they choose. This provision is consistent with the rule interpretation of another exchange.<sup>34</sup>

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<sup>33</sup> An “EFID” is an Executing Firm ID. See Rule 1.1.

<sup>34</sup> See Cboe Options Regulatory Circular RG18-008 (March 6, 2018), which provides that each market-maker acronym may only have one quote (which is considered to be a two-sided quote) in each series at a time. An EFID is comparable to an acronym. Under Cboe Options rules, the term Market-Maker generally refers to an individual (and thus a person with a specific acronym), except as otherwise provided in the Rules. See, e.g., Cboe Options Rule 8.7(d)(ii)(B) (which provides that market-maker continuous electronic quoting obligations may be satisfied by market-makers either individually or collectively with market-makers of the same TPH organization). The interpretation in the circular referenced above is consistent with this term and a Market-Maker’s obligations set forth in Rule 8.7 (e.g. market-Makers must contribute to the maintenance of a fair and orderly market, including by competing to improve markets, update quotes in response to changed market conditions, and price options contracts fairly).

In addition to permitting Users to submit bulk orders (which functionality the Exchange will discontinue and replace with bulk message functionality), current bulk order ports permit Users to submit single orders to the Exchange. To encourage Users that may not have quoting systems to provide liquidity to the Exchange, the proposed rule change will permit Users to continue to submit single orders to the Exchange through these ports, which are proposed to be renamed as bulk ports. Proposed Rule 6.8(c)(3)(B) will permit Users to designate these orders with any Order Instruction and any Time-in-Force in proposed Rule 6.10(c) and (d), respectively, subject to the Book Only and Post Only restrictions described above for Market-Makers with appointments in a class and other Users. This will provide Users with additional functionality that is available for single orders submitted through bulk ports today, and allow their liquidity to rest on the Exchange for multiple trading days, if Users so choose. This will also provide Users with additional control over the orders they use to provide liquidity to the Exchange through bulk ports. Additionally, proposed Rule 6.12(c)(6)(A) imposes the same prohibition on Market-Maker orders submitted through bulk ports from removing resting Market-Maker interest that applies to bulk messages, as described above. The Exchange believes it is appropriate for orders submitted through bulk ports be subject to the same restrictions on adding and removing liquidity as bulk messages submitted through bulk ports, so that orders submitted through bulk ports do not have an advantage over bulk messages, and vice versa.

While liquidity providers are most commonly registered market-makers, other professional traders also provide liquidity to the options market, which contributes to price discovery. As a result, unlike other exchanges that restrict quoting functionality to market-makers, the Exchange believes it is appropriate to make bulk messages available to all Users to encourage them to provide liquidity, which is critical to the Exchange's market. Additionally, permitting orders to be

submitted through bulk ports will continue to provide all liquidity providers with this functionality that is available today, as well as additional flexibility with respect to this functionality they may use to provide liquidity to the Exchange.

The proposed rule change adds a price protection mechanism for bulk messages that is similar to the fat finger check the Exchange currently provides for orders.<sup>35</sup> Proposed Rule 6.14(a)(5) states the System cancels or rejects any bulk message bid (offer) above (below) the NBO (NBB) by more than a specified amount determined by the Exchange. This is similar to the fat finger check currently applicable to limit orders.<sup>36</sup> Quotes that cross the NBBO by more than a specified amount are rejected as presumptively erroneous. This proposed check will not apply to bulk messages submitted prior to the conclusion of the Opening Process or when no NBBO is available. The Exchange believes it is appropriate to have the ability to not apply this check during the pre-open or opening rotation so that the check does not impact the determination of the opening price. The Exchange also believes it is appropriate to not apply this check when there is no NBBO, as the Exchange believes that is the most reliable measure against which to compare the price of the bulk message to determine its reasonability. The proposed change is similar to a quote price protection mechanism available at other options exchanges.<sup>37</sup>

Proposed Rule 6.14(c)(6)(B) states if, pursuant to the Rules, the System cancels or rejects a bulk message bid (offer) to update a resting bulk message bid (offer) submitted for the same EFID and bulk port, the System also cancels the resting bulk message bid (offer). The Exchange currently

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<sup>35</sup> The proposed rule change also amends Rule 6.14(a) and (c) (and the introductory language to that rule) to make clear which price protections and risk controls in those paragraphs will not apply to bulk messages.

<sup>36</sup> See Rule 6.14(c)(1). Orders submitted through bulk ports will be subject to the current order price protection mechanisms, such as limit fat finger check in Rule 6.14.

<sup>37</sup> See, e.g., Cboe Options Rule 6.14(a) and (b); Arca Rule 6.37A-O(a)(3).

offers Users similar functionality for orders and quotes (as currently defined as bids and offers from Market-Makers), which is optional.<sup>38</sup> Pursuant to the proposed rule change, the System will always apply this protection to bulk messages. The Exchange believes this will operate as an additional safeguard that causes liquidity providers to re-evaluate their bids and offers in a series before attempting to update them again. Additionally, when a User submits a new bulk message, it is implicitly instructing the Exchange to cancel any resting bulk message in the same series. Thus, even if the new bulk message is rejected as a result of this proposed check, the implicit instruction to cancel the resting bulk message remains valid nonetheless. The proposed rule change is substantially similar to a risk control applicable to quotes available at another options exchange.<sup>39</sup>

The proposed rule change amends proposed Rules 6.10(c) and (d) to provide that eligible Order Instructions and Times-in-Force, respectively, are subject to the proposed restrictions in Rule 6.8(c) with respect to orders and bulk messages submitted through bulk ports, and clarify which Order Instructions, and Times-in-Force are available and not available for bulk messages, as described above. The proposed rule change also amends the definitions of order types, Order Instructions, and Times-in-Force in Rule 6.10(b), (c), and (d), respectively, in accordance with proposed Rule 6.8(c)(3). Additionally, Rule 6.13 to make clear that Users may not submit complex orders through bulk ports.<sup>40</sup>

The proposed rule change also makes nonsubstantive changes to move the definitions of order types, Order Instructions, and Times-in-Force (as amended to accommodate bulk messages as discussed above) to Rule 6.10 and add cross-references to that Rule in the definitions of those

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<sup>38</sup> See current Rule 6.14(c)(6) and proposed Rule 6.14(c)(6)(A).

<sup>39</sup> See, e.g., Cboe Options Rule 6.14(b); Arca Rule 6.37A-O(a)(3)(C).

<sup>40</sup> The Exchange notes that Market-Makers are not required to quote on the COB, and that complex quoting functionality is not currently available on Cboe Options.

terms in Rule 1.1. The proposed rule change also moves the definitions of physical port and logical port (and the proposed definition of bulk port) to Rule 6.8(c).

## 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>41</sup> Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>42</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>43</sup> 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 will remove impediments to and perfect the mechanism of a free and open market because it provides Users, including Market-Makers and other liquidity providers, with enhanced functionality to allow them to provide liquidity to the market and update bids and offers in response to changed market conditions. While current bulk orders simulate quotes, Users must submit multiple messages in bulk to update bids and offers in multiple series. The proposed bulk messages will permit Users to update multiple bids and

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<sup>41</sup> 15 U.S.C. 78f(b).

<sup>42</sup> 15 U.S.C. 78f(b)(5).

<sup>43</sup> Id.

offers in block quantities in a single message, which will permit them to update bids and offers (for example, in response to changing market conditions) in a more efficient manner. The proposed ability to update bids and offers in block quantities is similar to that available on another options exchange.<sup>44</sup>

With respect to all Users, the proposed bulk messages are substantially similar to the current bulk orders available through bulk order ports – Users will be able to submit bulk messages that are Day and Post Only. However, the proposed rule change will permit them to do so in a single bulk message rather than in multiple messages. While the use of the GTD Time-in-Force will not be permitted for bulk messages as it currently is for bulk orders, Users may achieve the same result as GTD for their bulk messages by manually cancelling a bulk message at a specified time during the trading day – the proposed rule change merely does not provide a means for automatic cancellation of bulk messages at a specific time during the trading day. Additionally, Users may continue to apply GTD to orders submitted to the Exchange through bulk ports and other ports.

The Exchange believes the proposed rule change will permit liquidity providers to more efficiently update their resting bids and offers, which may help them manage their risk exposure when, for example, updating their bids and offers in response to changing market conditions. The Exchange believes this will continue to encourage all Users to provide liquidity on the Exchange and avoid incurring a taker fee if their intent is to submit bids and offers to add liquidity to the Book. As a result, this may increase liquidity, resulting in more trading opportunities and tighter spreads, which benefits all investors. The Exchange notes the proposed rule change provides Users with additional flexibility by permitting certain MTP Modifiers to be

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<sup>44</sup> See Cboe Options Rule 1.1(ppp), which provides that electronic quotes may be updated in block quantities.

applied to bulk messages to prevent their orders and bulk messages from trading against each other. The MTP Modifiers not available for bulk messages will continue to be available for Users on orders submitted through bulk ports and other ports. Unlike other options exchanges that limit the use of quoting functionality to market-makers, the proposed rule change will permit all Users to submit bulk messages. Additionally, the proposed rule change to permit Users to continue to submit orders (subject to restrictions on the Post Only and Book Only instructions, as discussed above) through bulk ports will encourage Users that may not have quoting systems to provide liquidity to the Exchange by submitting single orders through bulk ports. This is also consistent with current bulk orders, which permits Users to submit both single and bulk orders through bulk order ports.

The proposed rule change further removes impediments to and perfects the mechanism of a free and open market and a national market system by providing appointed Market-Makers with the ability to submit Book Only bulk messages, because it will align functionality available to appointed Market-Makers on the Exchange with the quoting functionality available to market-makers on other options exchanges, including Cboe Options, which permit quotes to both add and remove liquidity.<sup>45</sup> Market-Makers are critical to providing liquidity and price discovery on the Exchange, and are subject to various obligations, as discussed above. The Exchange notes all other Users may continue to use the Book Only instruction (or other instructions that permit execution against resting orders on the Book) on orders submitted through other ports, as they may do today. The Exchange believes providing Market-Makers with flexibility to use the Post Only or Book Only instruction with respect to bulk messages will provide them with additional tools to meet their obligations in a manner they deem appropriate and is reasonable given the

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<sup>45</sup> Other options exchanges only permit market-makers to submit quotes. See, e.g., Cboe Options Rules 1.1(ppp) and 8.3(c); Arca Rule 6.37A-O(a)(1).

critical role Market-Makers play in the options market. The Exchange believes this may also encourage liquidity providers to register as Market-Makers.

The proposed rule change provides Market-Makers with a combination of functionality available to market-makers on other exchanges, as some exchanges permit market-makers to remove liquidity and others only permit market-makers to post liquidity using quotes.<sup>46</sup> As a result, the Exchange believes the proposed rule change will provide Market-Makers with greater control over their interactions with contra-side liquidity and would increase opportunities for such interaction. The Exchange believes this will provide Market-Makers with a greater level of determinism, in terms of managing their exposure, which may encourage them to be more aggressive when providing liquidity. The Exchange believes this may result in more trading opportunities and tighter spreads, which contributes to price discovery. Ultimately, this may improve overall market quality and enhance competition on the Exchange, which benefits all investors.

Similarly, the proposed rule change to prevent Market-Maker bulk messages from removing Market-Maker orders or bulk messages resting on the Book removes impediments to and perfects the mechanism of a national market system by eliminating trades that may be unintended (potentially the result of technological disparities between Market-Makers) and thus not beneficial to customers, and that may impede certain liquidity providers' ability to competitively price their bids and offers. The Exchange believes the proposed rule change will increase availability of liquidity in the market and will enhance competition, because Market-Makers will be better able to quote aggressively with fewer concerns over technological

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<sup>46</sup> See id. and Box Options Exchange, LLC (“BOX”) Rule 8050, IM-8050-3.

disparities in their quoting systems, which ultimately benefits all investors. The Exchange notes this proposed rule change is similar to functionality available on another options exchange.<sup>47</sup>

The proposed handling of bulk messages to prevent the display of a locked or crossed market will perfect the mechanism of a free and open market and national market system, as it is consistent with the Linkage Plan and the Exchange's handling of orders with similar instructions. This proposed handling of bulk messages is also consistent with handling of quotes on other options exchanges.<sup>48</sup> The proposed risk controls and price protection mechanisms that will apply to bulk messages promote just and equitable principles of trade and will protect investors by mitigating potential risks associated with Users submitting bulk messages at clearly unintended prices and trading at extreme and potentially erroneous prices. Additionally, the proposed rule change to cancel a User's resting bulk message when the System rejects a bulk message intended to update that resting bulk message provides Users with an additional safeguard that causes Users to reevaluate their bids and offers in the series before attempting to update them again. Additionally, when a User submits a new bulk message, it is implicitly instructing the Exchange to cancel any resting bulk message. Thus, even if the new bulk message is rejected, the Market-Maker's implicit instruction to cancel the resting bulk message remains valid nonetheless.

The options markets are quote driven markets and thus dependent on liquidity providers, which are most commonly registered market-makers but also other professional traders, for liquidity and price discovery. The Exchange believes the proposed enhanced functionality, including the additional flexibility for Market-Makers to manage their risk exposure and provide additional control over interactions with contra-side liquidity, for these liquidity providers to more efficiently enter and update bids and offers. This may encourage the provision of more

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<sup>47</sup> See Cboe Options Rule 6.45(c).

<sup>48</sup> See Cboe Options Rule 6.14(b) and (c); see also Rule 6.37A-O(a)(3).

aggressive liquidity, which may result in more trading opportunities and tighter spreads, which contributes to price discovery. This may improve overall market quality and enhance competition on the Exchange, which benefits all investors.

The proposed rule change is generally intended to align system functionality currently offered by the Exchange with Cboe Options functionality in order to provide a consistent technology offering for the Cboe Affiliated Exchanges. A consistent technology offering, in turn, will simplify the technology implementation, changes, and maintenance by Users of the Exchange that are also participants on Cboe Affiliated Exchanges. The proposed rule change would also provide Users with access to functionality that is generally available on markets other than the Cboe Affiliated Exchanges, which may result in the efficient execution of quotes and orders and provide Users with additional flexibility and increased functionality on the Exchange's System.

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. As such, the proposed rule change would foster cooperation and coordination with persons engaged in facilitating 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 change will impose any burden on intramarket competition that is not necessary or appropriate in furtherance of the purposes of the Act, as the proposed bulk messages, like the current bulk orders, are optional for all Users. While only

Market-Makers may submit Book Only bulk messages, the Exchange believes this is appropriate given the various obligations Market-Makers must satisfy under the Rules and the unique and critical role Market-Makers play in the options market, as discussed above. The Exchange believes providing Market-Makers with flexibility to use the Post Only or Book Only instruction with respect to bulk messages will provide Market-Makers with additional tools to meet their obligations in a manner they deem appropriate. The Exchange believes the proposed functionality for Market-Makers adds value to market-making on the Exchange and provides them with greater control over how their quotes interact with contra-side liquidity both on the Exchange. The Exchange notes all other Users may continue to use the Book Only instruction on orders submitted to the Exchange through other types of ports. The Post Only instruction for bulk messages will be available to all Users, and is substantially similar to the bulk orders currently available to all Users. Additionally, all Users may submit single orders with all other Times-in-Force and Order Instructions (subject to the same Post Only and Book Only restrictions applicable to bulk messages) not available for bulk messages through bulk ports, which may encourage Users that may not have quoting systems to provide liquidity to the Exchange.

The proposed rule change to prevent Market-Maker bulk message executions against other resting Market-Maker interest is intended to protect Market-Makers from executions due to technology disparities rather than the intention of Market-Makers to trade with one another at that price. The Exchange believes this functionality and protection for Market-Makers may encourage Market-Makers to quote tighter and deeper markets, which will increase liquidity and enhance competition. The proposed price protection mechanisms and risk controls applicable to bulk messages will apply in the same manner to all bulk messages submitted by market participants. The Exchange believes this protection for bulk messages provides liquidity

providers with additional protection from anomalous or erroneous executions. Generally, once bulk messages are resting on the Book, the System will handle them no differently than resting orders – this includes how the System prioritizes orders and quotes when executing them against incoming orders or quotes. Bulk messages that are available to all Users will work in the same manner for all Users, and the additional bulk message functionality available to appointed Market-Makers will work in the same manner for all such Market-Makers. The Exchange believes it is reasonable to provide additional functionality to Market-Makers given their unique and critical role in the options market and the various obligations that Market-Makers must satisfy.

The Exchange does not believe the propose rule change will impose any burden on intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act, because it will provide Market-Makers with bulk message functionality that is similar to that quoting available to market-makers on other options exchanges. The Exchange believes the proposed functionality will permit the Exchange to operate on an even playing field relative to other exchanges that have similar functionality. As discussed above, the options markets are quote driven markets and thus dependent on liquidity providers, which are most commonly registered market-makers but also other professional traders, for liquidity and price discovery. The Exchange believes the proposed enhanced functionality, including the additional flexibility for Market-Makers to manage their risk exposure and provide additional control over interactions with contra-side liquidity, for these liquidity providers to more efficiently enter and update bids and offers. This may encourage the provision of more aggressive liquidity, which may result in more trading opportunities and tighter spreads, which contributes to price discovery. This may

improve overall market quality and enhance competition on the Exchange, which benefits all investors.

The Exchange reiterates that the proposed rule change is being proposed in the context of the technology integration of the Cboe Affiliated Exchanges. Thus, the Exchange believes this proposed rule change permits fair competition among national securities exchanges. In addition, the Exchange believes the proposed rule change will benefit Exchange participants in that it will provide a consistent technology offering for Users by the Cboe Affiliated Exchanges.

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 after the date of the filing, or such shorter time as the Commission may designate, it has become effective pursuant to 19(b)(3)(A) of the Act<sup>49</sup> and Rule 19b-4(f)(6)<sup>50</sup> thereunder.

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

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<sup>49</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>50</sup> 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

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](mailto:rule-comments@sec.gov). Please include File Number SR-C2-2018-025 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-C2-2018-025. 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-C2-2018-025 and should be submitted on or before [insert date 15 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>51</sup>

Eduardo A. Aleman  
Deputy Secretary

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<sup>51</sup> 17 CFR 200.30-3(a)(12).