

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-89828; File No. SR-C2-2020-013)

September 11, 2020

Self-Regulatory Organizations; Cboe C2 Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to Amend its Fees Schedule

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on September 1, 2020 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”) is filing with the Securities and Exchange Commission (“Cboe Commission”) a proposed rule change to amend the Fees Schedule. 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://markets.cboe.com/us/options/regulation/rule_filings/ctwo/), 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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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

The Exchange proposes to amend its Fee Schedule to amend certain standard transaction fees for SPY transactions. Specifically, the Exchange proposes to (1) amend the transaction fee for public customer SPY orders that remove liquidity, (2) amend the rebate for C2 market-maker SPY orders that add liquidity, (3) amend the rebate for non-customer, non-market-maker SPY orders that add liquidity and (4) adopt an enhanced rebate for C2 market-maker SPY orders that are NBBO Joiners or NBBO Setters. The proposed changes will be effective September 1, 2020.

The Exchange first notes that it operates in a highly competitive market in which market participants can readily direct order flow to competing venues if they deem fee levels at a particular venue to be excessive or incentives to be insufficient. More specifically, the Exchange is only one of 16 options venues to which market participants may direct their order flow. Based on publicly available information, no single options exchange has more than 16% of the market share and currently the Exchange represents approximately 3% of the market share.³ Thus, in such a low-concentrated and highly competitive market, no single options exchange, including the Exchange, possesses significant pricing power in the execution of option order flow. The Exchange believes that the ever-shifting market share among the exchanges from month to month demonstrates that market participants can shift order flow or discontinue to reduce use of

³ See Cboe Global Markets U.S. Options Market Volume Summary by Month (August 31, 2020), available at https://markets.cboe.com/us/options/market_statistics/.

certain categories of products, in response to fee changes. Accordingly, competitive forces constrain the Exchange's transaction fees, and market participants can readily trade on competing venues if they deem pricing levels at those other venues to be more favorable.

First, the exchange proposes to amend the transaction fee for public customer SPY orders that remove liquidity. Currently, public customer orders in all equity, multiply-listed index, ETF and ETN options classes, including SPY, that remove liquidity are assessed a standard transaction fee of \$0.43 per contract and yield fee code "PC". The Exchange proposes to reduce the fee assessed for public customer SPY orders that remove liquidity to \$0.39 per contract and adopt new fee code "SC" for such orders (and remove SPY orders from fee code "PC").

The Exchange next proposes to amend the rebate for C2 market-maker SPY orders that add liquidity. Currently, C2 market-makers orders in all equity, multiply-listed index, ETF and ETN options classes, including SPY, that add liquidity are provided a rebate of \$0.41 per contract and yield fee code "PM". The Exchange proposes to reduce the rebate provided for market-maker SPY orders that add liquidity to \$0.26 per contract per contract and adopt new fee code "SM" for such orders (and remove SPY orders from fee code "PM").

The Exchange also proposes to amend the rebate for non-market-maker, non-customer SPY orders that add liquidity. Currently, non-market-maker, non-customer orders (i.e., Professional Customer, Firm, Broker/Dealer, non-C2 Market-Maker, JBO, etc.) in all equity, multiply-listed index, ETF and ETN options classes, including SPY, that add liquidity are provided a rebate of \$0.36 per contract and yield fee code "PN". The Exchange proposes to reduce the rebate provided for non-market-maker, non-customer SPY orders that add liquidity to \$0.20 per contract per contract and adopt new fee code "SN" for such orders (and remove SPY orders from fee code "PN").

The Exchange also proposes to adopt a new rebate of \$0.31 per contract for C2 market-maker SPY orders that are a National Best Bid or Offer (“NBBO”) Joiner or NBBO Setter and adopt new fee code “SL” for such orders. Particularly, to qualify as a NBBO Joiner, a C2 market-maker order must improve the C2 Best Bid or Offer (“BBO”) and result in C2 joining an existing NBBO. Only the first order received that results in C2 BBO joining the NBBO at a new price level will qualify for the enhanced rebate. If C2 is at the NBBO, the order will not qualify. Alternatively, C2 market-makers may receive the enhanced rebate if they are a NBBO Setter. To qualify as a NBBO Setter and receive the enhanced rebate, a C2 market-maker order must set the NBBO. The Exchange believes the proposed enhanced rebate for C2 market-makers that are NBBO Joiners or Setters will incentivize liquidity providers to provide more aggressively priced liquidity in SPY options.

The Exchange lastly proposes to adopt a new table in the Fees Schedule to set forth SPY-specific pricing, similar to pricing tables adopted for RUT and DJX. The Exchange also proposes to clarify that the first transaction fee table does not apply to SPY or DJX⁴. The Exchange notes that transaction fees and rebates that apply to (1) public customer SPY orders that add liquidity, (2) C2 market-maker SPY orders that remove liquidity, (3) non-market-maker, non-customer SPY orders that remove liquidity, (4) SPY orders that trade at the open and (5) resting SPY orders that trades with resting complex orders are not changing, nor are the associated fee codes. Rather the Exchange is just copying those current fee codes and rates into the new SPY pricing table to make the Fees Schedule easy to follow.

⁴ The Exchange notes that when it adopted the DJX pricing table, it inadvertently omitted adding DJX to the list of excepted products for the rates provided in the standard transaction fee table. See Securities Exchange Release No. 85855 (May 14, 2019) 84 FR 22916 (May 20, 2019) (SR-C2-2019-010).

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with the objectives of Section 6 of the Act,⁵ in general, and furthers the objectives of Section 6(b)(4),⁶ in particular, as it is designed to provide for the equitable allocation of reasonable dues, fees and other charges among its Members and issuers and other persons using its facilities. The Exchange also believes that the proposed rule change is consistent with the objectives of Section 6(b)(5)⁷ 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, and, particularly, is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

As described above, the Exchange operates in a highly competitive market in which market participants can readily direct order flow to competing venues if they deem fee levels at a particular venue to be excessive or incentives to be insufficient. In particular, the proposed changes to Exchange execution fees and rebates for certain SPY orders are intended to attract order flow to the Exchange by continuing to offer competitive pricing while also creating additional incentives to providing aggressively priced displayed liquidity, which the Exchange believes would enhance market quality to the benefit of all market participants.

⁵ 15 U.S.C. 78f.

⁶ 15 U.S.C. 78f(b)(4).

⁷ 15 U.S.C. 78f.(b)(5).

The Exchange believes its proposed changes are reasonable as they are competitive and in line with SPY-specific pricing at other exchanges.⁸ The Exchange believes it's reasonable to reduce the transaction fee for public customer SPY orders that remove liquidity because market participants will be subject to lower fees for such orders. The Exchange believes the proposed amendment will also encourage market participants to increase retail SPY order flow to the Exchange. The Exchange believes it's reasonable to reduce the rebates for both C2 market-maker and non-market-maker, non-customer SPY orders that add liquidity because such market participants will still receive rebates for such orders, albeit at a lower amount. Additionally, market-makers that are NBBO Joiners or Setters would be eligible to receive an enhanced rebate. The Exchange believes that the proposed NBBO Joiner and Setter rebates are reasonable as C2 market-makers would be eligible to receive enhanced rebates for orders that add liquidity in return for improving the C2 BBO resulting in C2 joining an existing NBBO or setting a new NBBO. The Exchange believes the proposed new rebate will incentivize the entry on the Exchange by C2 market-makers of more aggressive SPY orders that will maintain tight spreads, benefitting both Trading Permit Holders and public investors.

The Exchange also believes it is reasonable, equitable and not unfairly discriminatory to adopt SPY-specific pricing as the Exchange already maintains product-specific pricing for other products, such as RUT and DJX.⁹ Additionally, as noted above, other exchanges similarly provide for SPY-specific pricing.¹⁰ The Exchange also believes that it is equitable and not

⁸ See e.g., MIAX Pearl Fee Schedule, Section 1 Transaction Rebates/Fees, which provides for a fee of \$0.46 per contract for priority customer SPY orders that remove liquidity. See also Nasdaq ISE Pricing Schedule, Section 3, Footnote 5, which provides for tiered rebates for market-maker SPY orders that add liquidity between \$0.05-\$0.26 per contract.

⁹ See Cboe C2 Options Exchange Fees Schedule, Transaction Fees.

¹⁰ See e.g., MIAX Pearl Fee Schedule, Section 1 Transaction Rebates/Fees, which provides for a fee of \$0.46 per contract for priority customer SPY orders that remove liquidity. See

unfairly discriminatory to assess a lower fee for public customer SPY orders as compared to other market participants because customer order flow enhances liquidity on the Exchange for the benefit of all market participants. Specifically, customer liquidity benefits all market participants by providing more trading opportunities, which attracts Market-Makers. An increase in the activity of these market participants in turn facilitates tighter spreads, which may cause an additional corresponding increase in order flow from other market participants. Moreover, the options industry has a long history of providing preferential pricing to customers, and the Exchange's current Fee Schedule currently does so in many places, as do the fees structures of multiple other exchanges.¹¹ The Exchange notes that the proposed fee change will be applied equally to all public customers.

Additionally, the Exchange believes that it is equitable and not unfairly discriminatory to assess higher rebates to market-makers that add liquidity as compared to other market participants, other than customers, because market-makers, unlike other market participants, take on a number of obligations, including quoting obligations, which other market participants do not have. Further, these rebates are intended to incent market-makers to quote and trade more on C2 Options, thereby providing more trading opportunities for all market participants. The Exchange notes that the proposed changes to C2 market-maker rebates for SPY options will be applied equally to all C2 market-makers. Similarly, the Exchange believes it's equitable and not unfairly discriminatory to provide C2 market-makers that are NBBO Joiners or Setters an enhanced rebate because such market participants are providing more aggressively priced

also Nasdaq ISE Pricing Schedule, Section 3, Footnote 5, which provides for tiered rebates for market-maker SPY orders that add liquidity between \$0.05-\$0.26 per contract.

¹¹ See Cboe C2 Options Exchange Fees Schedule, Transaction Fees. See also BZX Options Fee Schedule, Fee Codes and Associated Fees.

liquidity in SPY options. Additionally, increased add volume order flow, particularly by liquidity providers, contributes to a deeper, more liquid market, which, in turn, provides for increased execution opportunities and thus overall enhanced price discovery and price improvement opportunities on the Exchange. As such, this benefits all market participants by contributing towards a robust and well-balanced market ecosystem, offering additional flexibility for all investors to enjoy cost savings, supporting the quality of price discovery, promoting market transparency and improving investor protection. The Exchange believes the proposed change to the rebate for non-market-maker, non-customer SPY orders is also equitable and not unfairly discriminatory because it will be applied equally to all non-market-makers, non-customers.

Finally, the Exchange believes that the proposal to adopt a pricing table specific to SPY executions will further simplify the fee schedule and alleviate potential confusion in light of the proposed changes, thereby removing impediments to, and perfecting the mechanism of a free and open market and a national market system, and, in general, protecting investors and the public interest.

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 intramarket or intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act. Rather, as discussed above, the Exchange believes that the proposed change would encourage the submission of additional liquidity in SPY to a public exchange, thereby promoting market depth, price discovery and transparency and enhancing order execution opportunities for all Trading Permit Holders. As a result, the Exchange believes that the proposed change furthers the Commission's goal in adopting Regulation NMS of fostering

competition among orders, which promotes “more efficient pricing of individual stocks for all types of orders, large and small.”

The Exchange believes the proposed rule change does not impose any burden on intramarket competition that is not necessary or appropriate in furtherance of the purposes of the Act. Particularly, the proposed change applies to all similarly situated Trading Permit Holders equally. Overall, the proposed change is designed to attract additional SPY public customer orders that remove liquidity and SPY market-maker and non-market-maker, non-customer orders that add liquidity to the Exchange. The Exchange believes that the new C2 market-maker rebate for SPY orders that are NBBO Joiners or Setters would incentivize entry on the Exchange of more aggressive SPY orders that will maintain tight spreads, benefitting both Trading Permit Holders and public investors criteria and, as a result, provide for deeper levels of liquidity, increasing trading opportunities for other market participants, thus signaling further trading activity, ultimately incentivizing more overall order flow and improving price transparency on the Exchange.

Next, the Exchange believes the proposed rule change does not impose any burden on intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act. As previously discussed, the Exchange operates in a highly competitive market. Members have numerous alternative venues that they may participate on and direct their order flow, including 15 other options exchanges and off-exchange venues. Additionally, the Exchange represents a small percentage of the overall market. Based on publicly available information, no single options exchange has more than 16% of the market share. Therefore, no exchange possesses significant pricing power in the execution of option order flow. Indeed, participants can readily choose to send their orders to other exchange and off-exchange venues if they deem

fee levels at those other venues to be more favorable. Moreover, the Commission has repeatedly expressed its preference for competition over regulatory intervention in determining prices, products, and services in the securities markets. Specifically, in Regulation NMS, the Commission highlighted the importance of market forces in determining prices and SRO revenues and, also, recognized that current regulation of the market system “has been remarkably successful in promoting market competition in its broader forms that are most important to investors and listed companies.” The fact that this market is competitive has also long been recognized by the courts. In *NetCoalition v. Securities and Exchange Commission*, the D.C. Circuit stated as follows: “[n]o one disputes that competition for order flow is ‘fierce.’ ... As the SEC explained, ‘[i]n the U.S. national market system, buyers and sellers of securities, and the broker-dealers that act as their order-routing agents, have a wide range of choices of where to route orders for execution’; [and] ‘no exchange can afford to take its market share percentages for granted’ because ‘no exchange possesses a monopoly, regulatory or otherwise, in the execution of order flow from broker dealers’....”. Accordingly, the Exchange does not believe its proposed fee change imposes any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A) of the Act¹² and paragraph (f) of Rule 19b-4¹³ thereunder. At any time within 60 days of the filing of

¹² 15 U.S.C. 78s(b)(3)(A).

¹³ 17 CFR 240.19b-4(f).

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 will institute proceedings to determine whether the proposed rule change should be approved or disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act.

Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>);
- or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-C2-2020-013 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-C2-2020-013. 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-C2-2020-013 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.¹⁴

J. Matthew DeLesDernier
Assistant Secretary

¹⁴ 17 CFR 200.30-3(a)(12).