

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-84117; File No. SR-C2-2018-019)

September 13, 2018

Self-Regulatory Organizations; Cboe C2 Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to Expand the Types of Messages That Users May Submit into Bulk Order Ports

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 September 5, 2018, Cboe C2 Exchange, Inc. (“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 expand the types of messages that Users may submit into bulk order ports. The text of the proposed rule change is provided below.

(additions are underlined; deletions are [bracketed])

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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).

**Cboe C2 Exchange, Inc.**

**Rules**

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Rule 1.1. Definitions

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**Port**

The term “port” includes the following types of ports:

(a) – (b) No change.

(c) 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 auction responses or orders designated as Post Only Orders with a Time-in-Force of Day or GTD with an expiration time on that trading day.

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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

The proposed rule change expands the types of messages that Users may submit into bulk order ports. 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>5</sup> with a Time-in-Force of DAY<sup>6</sup> or GTD<sup>7</sup> with an expiration time on that trading day. Post Only Orders with a Time-in-Force of Day or GTD are orders that will be posted to and displayed by the Exchange, rather than removing liquidity or routing to another options exchange. The Exchange currently limits the use of bulk order ports to these orders to limit the use of these ports to liquidity provision. The primary purpose of bulk order ports is to encourage Users, and Market-Makers in particular, to quote on the Exchange. As a general matter, however, the overall purpose of bulk order ports is to allow Users to bundle multiple instructions in a single message and provide all Users (not just Market-Makers) with an efficient way to provide liquidity on the Exchange.

The proposed rule change permits Users to submit auction responses into bulk order ports, in addition to Post Only Orders with a Time-in-Force of Day or GTD with an expiration time on that trading day. The Exchange currently offers one auction mechanism, the Complex Order

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<sup>5</sup> A “Post Only” order is an order the System ranks and executes pursuant to Rule 6.12, subjects to the Price Adjust process pursuant to Rule 6.12, or cancels or rejects (including if it is not subject to the Price Adjust process and locks or cross a Protected Quotation of another exchange), as applicable (in accordance with User instructions), except the order may not remove liquidity from the Book or route away to another exchange. See Rule 1.1 (paragraph (h) of definition of Order Instruction).

<sup>6</sup> An order designated as “Day” means an order that, if not executed, expires at market close. See Rule 1.1 (definition of Time-in-Force).

<sup>7</sup> An order designated as “GTD” means an order that, if after entry into the System, is not fully executed, remains available for potential display or execution until a date and time specified by the entering User unless cancelled by the entering User. See Rule 1.1 (definition of Time-in-Force).

Auction (“COA”), which provides Users with additional execution opportunities and potential price improvement for their complex orders.<sup>8</sup> When the Exchange initiates a COA, it disseminates a message that contains the relevant information about the auction order.<sup>9</sup> The purpose of this message is to encourage Users to provide liquidity against which the auctioned order may trade. Users submit this liquidity in the form of auction responses. Like Post Only Orders with a Time-in-Force of Day or GTD with an expiration time on the applicable trading day, auction responses will not remove liquidity from the Exchange order book or route to another options exchange. Auction responses are similarly available for execution for a limited time period. Unexecuted auction responses are cancelled at the end of the auction, and thus do not last beyond the auction to which they were submitted.<sup>10</sup> Because the purpose of auction responses is to provide liquidity, which is the purpose of bulk order ports, the Exchange believes it is appropriate to permit Users to submit auction responses into bulk order ports.

Orders submitted to the Exchange through all ports are subject to various parameters, such as price reasonability checks and volume restrictions.<sup>11</sup> These parameters may be configured either by the Exchange or the Member. Orders are also subject to other validation checks and processes before execution, entry into the book, or cancellation. Examples of such validation checks include validating an order’s Capacity, Time-in-Force, Order Instructions, and routing options. While orders submitted through bulk order ports pass through these same validation checks and processes, they are not subject to parameters such as routing options and are restricted to one order instruction

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<sup>8</sup> See Rule 6.13(d). COA auctions eligible complex orders for execution and potential price improvement.

<sup>9</sup> See Rule 6.13(d)(1) (the Exchange initiates the COA process by sending a COA auction message).

<sup>10</sup> See Rule 6.13(d)(2)(C) and (4)(D).

<sup>11</sup> See, e.g., Rule 6.14 and technical specifications available at <http://markets.cboe.com/us/options/support/technical/>.

and two Time-in-Force options. As a result, the System can perform these validation checks with respect to orders submitted through bulk order ports in a more efficient manner.

Pursuant to Exchange technical specifications<sup>12</sup> and Fees Schedule,<sup>13</sup> the order messages per second that a User may submit through a non-bulk order port is smaller than the order messages per second that a User may submit through a bulk order port. The Exchange understands from certain Trading Permit Holders that they may restrict the number of auction response messages they submit to avoid having to obtain additional ports. The Exchange believes permitting Users to submit auction responses through bulk order ports will encourage Users to provide increased liquidity to auction mechanisms in a more cost-efficient manner. While bulk order ports have a higher monthly cost, the higher order message/second rate may ultimately be more cost-efficient than a User having to obtain multiple additional non-bulk ports to accommodate the submission of auction responses. Additionally, Users that have both bulk and non-bulk order ports would be able to increase their submission of auction responses without additional monthly fees.<sup>14</sup>

## 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>15</sup> Specifically, the

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<sup>12</sup> These technical specifications are available at <http://markets.cboe.com/us/options/support/technical/>.

<sup>13</sup> See C2 Fees Schedule, Logical Connectivity Fees, available at [http://markets.cboe.com/us/options/membership/fee\\_schedule/ctwo/](http://markets.cboe.com/us/options/membership/fee_schedule/ctwo/).

<sup>14</sup> The Exchange notes certain Market-Makers currently only have bulk order ports, and thus are unable to provide liquidity to auction mechanisms without obtaining additional non-bulk order ports.

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

Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>16</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>17</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 protects investors and the public interest because it provides all Users with an efficient process to enter and update auction responses. Like quoting, auction responses are a critical form of liquidity on the Exchange. Auction mechanisms and the execution and price improvement opportunities they provide are dependent on auction responses submitted during the auctions. Permitting Users to submit auction responses into bulk order ports is consistent with the purpose of these ports and have a similar purpose as the orders that Users are currently permitted to enter into bulk order ports. The Exchange believes the proposed rule change may encourage the provision of additional liquidity in auctions, which will provide additional execution and price improvement opportunities to auctioned orders, which ultimately benefit investors.

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

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<sup>16</sup> 15 U.S.C. 78f(b)(5).

<sup>17</sup> Id.

Exchange does not believe the proposed rule change will impose any burden on intramarket competition, as the use of bulk order ports and the proposed functionality is voluntary and available to all Users of the Exchange. Bulk order entry functionality is available to all Users of the Exchange, as is the proposed functionality to submit auction responses into bulk order ports. Users may already submit auction responses to the Exchange using other types of ports – the proposed rule change merely provides Users of the Exchange with an additional method to submit auction responses to the Exchange. The Exchange does not believe the proposed rule change will have any direct impact on intermarket competition, as the proposed rule change relates solely to the manner in which Users may submit auction responses into auctions occurring on the Exchange.

C. Self-Regulatory Organization’s Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

The Exchange neither solicited nor received comments on the proposed rule change.

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

Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A)(iii) of the Act<sup>18</sup> and subparagraph (f)(6) of Rule 19b-4 thereunder.<sup>19</sup>

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<sup>18</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

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

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 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-C2-2018-019 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-C2-2018-019. 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-C2-2018-019 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).