

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-85191; File No. SR-C2-2018-022)

February 25, 2019

Self-Regulatory Organizations; Cboe C2 Exchange, Inc.; Order Approving a Proposed Rule Change to Provide for the Trading of Complex Reserve Orders

I. Introduction

On November 8, 2018, Cboe C2 Exchange, Inc. (“C2” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² a proposed rule change to provide for the trading of Complex Reserve Orders. The proposed rule change was published for comment in the Federal Register on November 27, 2018.³ On December 19, 2018, the Commission designated a longer period within which to approve the proposed rule change, disapprove the proposed rule change, or institute proceedings to determine whether to approve or disapprove the proposed rule change.⁴ The Commission has received no comment letters regarding the proposed rule change. This order approves the proposed rule change.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 84643 (November 21, 2018), 83 FR 60916 (“Notice”). In addition to the changes described herein, the proposal makes non-substantive changes to revise the heading of C2 Rule 6.13(g) and to add headings to C2 Rule 6.13(h)(1) and (2). See id. at nn. 10 and 13.

⁴ See Securities Exchange Act Release No. 84867, 83 FR 66811 (December 27, 2018). The Commission designated February 25, 2019, as the date by which the Commission shall approve the proposed rule change, disapprove the proposed rule change, or institute proceedings to determine whether to approve or disapprove the proposed rule change.

II. Description of the Proposed Rule Change

As described more fully in the Notice,⁵ C2 proposes to amend its rules to provide for the trading of Complex Reserve Orders. C2 notes that it currently offers Reserve Order functionality for simple orders.⁶ C2 states that Reserve Orders provide Users with additional flexibility to manage and display their orders and additional control over their executions on C2.⁷

A Complex Reserve Order is a complex limit order with both a portion of the quantity displayed (“Display Quantity”) and a reserve portion of the quantity (“Reserve Quantity”) not displayed.⁸ Both the Display Quantity and Reserve Quantity of the Complex Reserve Order are available for potential execution pursuant to C2 Rules 6.13(c)–(e).⁹ Displayed complex orders resting on the Complex Order Book (“COB”) have priority over non-displayed portions of Complex Reserve Orders resting on the COB.¹⁰ When entering a Complex Reserve Order, a User must instruct the Exchange as to the quantity of the Complex Reserve Order to be initially displayed by C2’s System (“Max Floor”).¹¹ If the Display Quantity of a Complex Reserve Order is fully

⁵ See note 3, *supra*.

⁶ See Notice, 83 FR at 60917, and C2 Rule 6.10.

⁷ See Notice, 83 FR at 60917-8.

⁸ See proposed C2 Rule 6.13(b)(6).

⁹ See id. Pursuant to C2 Rules 6.13(c)–(e), complex orders (including the Display and Reserve Quantities of Complex Reserve Orders) may execute during the Complex Order Book opening process, against incoming complex orders, against simple orders in the Simple Book (via Legging), or following a Complex Order Auction. Complex Reserve Orders will be COA-eligible, subject to a User’s instructions. See Notice, 83 FR at n.5.

¹⁰ See proposed C2 Rule 6.13(h)(4). The COB is the Exchange’s electronic book of complex orders. See C2 Rule 6.13

¹¹ See proposed C2 Rule 6.13(b)(6). The System is the automated trading system the Exchange uses for the trading of option contracts. See C2 Rule 100.

executed, the System will replenish the display quantity in accordance with the User's instruction.¹² If the remainder of a Complex Reserve Order is less than the replenishment amount, the System will display the entire remainder of the Complex Reserve Order.¹³ The System creates a new timestamp for both the Display Quantity and Reserve Quantity of the Complex Reserve Order each time it is replenished from reserve.¹⁴

The proposal addresses the participation of Complex Reserve Orders in the Complex Order Auction ("COA"). If a COA-eligible order is a Complex Reserve Order, the COA auction message will identify only the Display Quantity, although the entire quantity of the order (both the Display Quantity and Reserve Quantity) may execute following the COA pursuant to C2 Rule 6.13(d)(5).¹⁵ COA Responses may be larger than the COA-eligible order.¹⁶ The System caps the size of aggregated COA Responses for an Executing Firm ID ("EFID") at the size of the COA-eligible order (including Display Quantity and Reserve Quantity) if the COA-eligible order is a Complex

¹² The proposed rule provides two replenishment instructions. Under the Random Replenishment instruction, the System randomly replenishes the Display Quantity for the Complex Reserve Order with a number of contracts not outside a replenishment range, which equals the Max Floor plus and minus a replenishment value established by the User when entering a Complex Reserve Order with a Random Replenishment instruction. For any Complex Reserve Order for which a User does not select Random Replenishment, the System will replenish the Display Quantity of the Complex Reserve Order with the number of contracts equal to the Max Floor (or the entire remainder of the Complex Reserve Order if it is less than the replenishment amount). See proposed C2 Rule 6.13(b)(6).

¹³ See id.

¹⁴ See id.

¹⁵ See proposed C2 Rule 6.13(d)(1). C2 Rule 6.13(b)(2) states that buy (sell) complex orders with User instructions to (or which default to) initiate a COA that are priced higher (lower) than the SBB (SBO) and higher (lower) than the price of complex orders resting at the top of the COB are "COA-eligible orders," while buy (sell) complex orders with User instructions not to (or which default to not) initiate a COA, that are marked Post Only, or that are priced equal to or lower (higher) than the SBB (SBO) or equal to or lower (higher) than the price of complex orders resting at the top of the COB are "do-not-COA orders."

¹⁶ See proposed C2 Rule 6.13(d)(4)(B).

Reserve Order).¹⁷ At the conclusion of the COA, the System executes the COA-eligible order against contra side interest in price priority.¹⁸ At the same price, the COA-eligible order will execute first against orders and quotes in the Simple Book (both displayed and non-displayed orders) for the individual leg components of the complex order, and then against COA Responses and unrelated orders posted to the COB.¹⁹ A do-not-COA order²⁰ or an order resting on the COB that is eligible for execution will execute against contra side interest at the same price by trading with orders and quotes in the Simple Book (both displayed and non-displayed orders) for the individual leg components of the complex order before executing against complex orders resting on the COB at that price.²¹

III. Discussion and Commission Findings

After careful review, the Commission finds that the proposed rule change is consistent with the requirements of the Act,²² and the rules and regulations thereunder applicable to a national securities exchange.²³ In particular, the Commission finds that the proposed rule change is

¹⁷ See id.

¹⁸ See proposed C2 Rule 6.13(d)(5).

¹⁹ See proposed C2 Rule 6.13(d)(5)(A). The Simple Book is the electronic book of simple orders and quotes maintained by the System. See C2 Rule 100.

²⁰ See note 15, supra.

²¹ See proposed C2 Rule 6.13(e)(1). The entire quantity of a Complex Reserve Order (both the Display Quantity and Reserve Quantity) Legs into the Simple Book at the same time, and any quantity that does not execute pursuant to C2 Rule 6.13(d) or (e) after Legging will rest in the COB in accordance with the Complex Reserve Order instruction. See proposed C2 Rule 6.13(g)(5).

²² 15 U.S.C. 78f.

²³ In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

consistent with Section 6(b)(5) of the Act,²⁴ which requires, among other things, that the rules of a national securities exchange be designed 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 that the rules are not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The Commission believes that Complex Reserve Orders could provide market participants with greater flexibility and control over the trading of their complex orders and could allow them to provide additional liquidity to the market. The Commission notes that C2 currently offers Reserve Order functionality for simple orders.²⁵ Under the proposal, displayed complex orders resting on the COB will have priority over the non-displayed portions of Complex Reserve Orders resting on the COB.²⁶ As described above, the proposal further provides that complex orders will execute against displayed and non-displayed leg market interest before executing against complex order interest at the same price.²⁷ The Commission notes that complex orders on C2 currently execute against leg market interest (displayed first and then non-displayed) before executing against complex order interest.²⁸ While displayed interest ordinarily executes before non-displayed interest at the same price to encourage market participants to submit displayed interest, the Commission believes that executing non-displayed leg market interest before complex interest at the same price should facilitate interaction between the single leg and complex markets and provide all single leg

²⁴ 15 U.S.C. 78f(b)(5).

²⁵ See note 6, supra.

²⁶ See proposed C2 Rule 6.13(h)(4).

²⁷ See proposed C2 Rules 6.13(d)(5)(A)(i) and (e)(1) and notes 19-21, supra, and accompanying text.

²⁸ See C2 Rules 6.13(d)(5)(A) and (e).

interest at a given price, displayed and non-displayed, with an opportunity to participate in executions with complex orders.

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,²⁹ that the proposed rule change (SR-C2-2018-022) is approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.³⁰

Eduardo A. Aleman
Deputy Secretary

²⁹ 15 U.S.C. 78s(b)(2).

³⁰ 17 CFR 200.30-3(a)(12).