

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-85698; File No. SR-C2-2019-007)

April 22, 2019

Self-Regulatory Organizations; Cboe C2 Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend its Continuous Quoting Obligations for Market-Makers

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 April 8, 2019, Cboe C2 Exchange, Inc. (“Exchange” or “C2”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. The Exchange filed the proposed rule change pursuant to Section 19(b)(3)(A)(iii) of the Act³ and Rule 19b-4(f)(6) thereunder.⁴ The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

Cboe C2 Exchange, Inc. (the “Exchange” or “C2”) proposes to amend its continuous quoting obligations for Market-Makers. 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.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A)(iii).

⁴ 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

The Exchange proposes to change to its current continuous quoting requirement for Market-Makers under Rule 8.6(d) (Market-Maker Quotes). This proposed rule change to the continuous quoting requirement is based on existing Nasdaq PHLX LLC (“Phlx”), Nasdaq ISE, LLC (“ISE”), Nasdaq MRX, LLC (“MRX”) and Nasdaq GEMX, LLC (“GEMX”) rules⁵ previously filed with the Commission. The proposed rule change also intends to harmonize quoting requirements across C2 and its affiliated exchanges, Cboe BZX Exchange, Inc. (“BZX Options”) and Cboe EDGX Exchange, Inc. (“EDGX Options”).⁶ Overall, the Exchange believes that having substantially the same Market-Maker continuous quoting requirements across its affiliated exchanges and other exchanges will reduce the compliance burden and confusion for Market-Makers that are members of multiple exchanges industry-wide. The Exchange also proposes to make non-substantive changes to Rule 8.2, amending an inadvertent error to an

⁵ See Phlx Rule 1081(c); ISE Rule 804(e); MRX Rule 804(e); and GEMX Rule 804(e). See also Securities Exchange Act Release No. 83209 (May 10, 2018), 83 FR 22717 (May 16, 2018) (SR-Phlx-2018-22) (Order Granting Approval of Proposed Rule Change to Amend Phlx’s Quoting Requirements, Among Other Changes) (SR-Phlx-2018-22).

⁶ The Exchange notes that BZX Options and EDGX Options are simultaneously proposing the same continuous quoting requirements.

inaccurate cross-reference and deleting an obsolete provision that is no longer relevant to the Exchange rules and User functionality.

Specifically, the Exchange proposes to amend a Market-Maker's continuous quoting obligations under Rule 8.6(d) based on existing Phlx, ISE, MRX and GEMX rules, previously filed with the Commission. The proposed amendments to Rule 8.2(d) are substantially similar to the continuous quoting requirement provisions on other exchanges.⁷ Current Rule 8.6(d) provides that a Market-Maker must enter continuous bids and offers in series in its appointed classes on a daily basis in 60% of the series of each appointed class for 90% of the trading day. The proposed rule change to Rule 8.6(d) requires a Market-Maker to continuously enter bids and offers in series in its appointed classes (pursuant to Rule 8.6(b)) in 60% of the cumulative number of seconds, or such higher percentage as the Exchange may announce in advance, for which that Market-Maker's appointed classes are open, excluding any adjusted series, any intra-day add-on series on the day during which such series are added for trading, any Quarterly Option Series and any series with an expiration of greater than 270 days. Additionally, the proposed change amends current subparagraph (d)(2) to provide for the way in which the Exchange calculates this requirement and is explicit in stating that quoting is not required in every appointed class. An example of the proposed calculation is presented below:

Market-Maker A ("Firm A")⁸ has selected an appointment to quote option class U, in which options U1, U2, U3, U4, and U5 are open for trading.

Firm A also has selected appointments in options classes V and W.

⁷ See supra note 5.

⁸ The Exchange notes that a Market-Maker may use multiple Executing Firm IDs ("EFIDs") to submit quotes in a class. The quoting time from all of a Market-Maker EFIDs' will be considered together when determining compliance with this obligation.

Option U1 opened at 09:30:00⁹ and closed at 16:00:00

Firm A quoted U1 at 09:35:30 @ 13.00(10)-15.00(10)

Firm A updated quote in U1 at 09:50:31 @ 10.00(10)-15.00(20)

Firm A purged quote at 15:55:40

Total quoted time for U1 is: 15:55:40-09:35:30 = (15-9)*3600 + (55-35)*60 + (40-30) =
22810 (seconds)

Total available quote time for U1 is: 16:00:00-09:30:00 = (16-9)*3600 + (60-30)*60 +
(00-00) = 270000 (seconds)

Option U2 opened at 09:30:00 and closed at 16:00:00

Firm A quoted U2 at 10:05:30 @ 13.00(10)-15.00(10)

Firm A updated quote in U2 at 11:00:01 @ 11.00(10)-16.00(20)

Firm A purged quote at 15:05:40

Total quoted time for U2 is: 15:05:40-10:05:30 = (15-10)*3600 + (65-05)*60 + (40-30)=
21610 (seconds)

Total available quote time for U2 is: 16:00:00-09:30:00 = (16-9)*3600 + (60-30)*60 +
(00-00) = 270000 (seconds)

Option U3 opened at 09:30:00 and closed at 16:15:00

⁹ All times in example calculation in Eastern Time.

Firm A quoted U3 at 11:10:21 @21.00(10)-24.00(20)

Firm A purged quote at 15:15:05

Total quoted time for U3 is: 15:15:05-11:10:21 = (15-11)*3600 + (75-10)*60 + (65-21) =
18344 (seconds)

Total available quote time for U3 is: 16:01:20-09:40:02 = (16-9)*3600 + (75-30)*60 +
(00-00) = 27900 (seconds)

Option U4 opened at 9:30:00 and closed at 16:00:00

Firm A quoted U4 at 09:34:29 @35.00(10)-37.00(10)

Firm A updated quote in U4 at 10:30:21 @31.00(10)-37.00(20)

Firm A purged quote in U4 at 15:59:34

Total quoted time for U4 is: 15:59:34-09:34:29 = (15-09)*3600 + (59-34)*60 + (34-29) =
23105 (seconds)

Total available quote time is: 16:00:00-09:30:00 = (16-9)*3600 + (60-30)*60 + (00-0) =
27000 (seconds)

Option U5 opened at 9:30:00 and closed at 16:00:00

Firm A did not quote U5 thus, the total quoted time for U5 will be: 0 (seconds)

Total available quote time is: 16:00:00-09:30:00 = (16-9)*3600 + (60-30)*60 + (00-00) =
27000 (seconds)

Total time Firm A quoted class U: $22810 + 21610 + 18344 + 23105 + 0 = 85869$

(seconds)

Total eligible quoting time for Firm A on class U: $27000 + 27000 + 27900 + 27000 + 27000 = 135900$ (seconds)

Similarly assume:

Total time for Firm A quoted class V: 80983(seconds)

Total eligible quoting time for Firm A on class V: 84515 (seconds)

Total time for Firm A quoted class W: 0(seconds)

Total eligible quoting time for Firm A on underlying W: 46513 (seconds)

Then the total quoting percentage for Firm A is: $(85869 + 80983 + 0) / (135900 + 84515 + 46513) = 156852/266928 = 62.5\%$

As stated, the current rule requires a Market-Maker to quote 60% of the series in which it is registered for 90% of each trading day. By comparison, the proposed rule change permits a Market-Maker to quote any percentage of appointed classes so long as the Market-Maker meets the requirement that it enters quotes aggregating 60% of the cumulative seconds across the total seconds that its appointment classes are open for trading. The proposed rule explicitly provides that a Market-Maker does not necessarily have to quote every appointed class. The Exchange believes the proposed rule better accommodates the occasional issues that may arise in a particular class, whether technical or manual. For example, an issue may arise on the Market-Maker's side in which there is a glitch in its systems or a manual computing error that

temporarily disrupts quoting ability. The Exchange notes that the existing requirement may at times discourage liquidity in particular classes because a Market-Maker is forced to focus on a momentary technical lapse in order to meet the higher current thresholds, rather than using the appropriate resources to focus on the classes that need and consume additional liquidity. The proposed rule also adds language that the Exchange may announce in advance a higher percentage than the proposed 60% of the cumulative number of seconds requirement, which the Exchange believes may be appropriate on occasions when doing so would be in the interest of a fair and orderly market. This discretion is the same in the corresponding rules of Phlx, ISE, MRX, and GEMX¹⁰, as well as within the continuous quoting requirements of the Exchanges' affiliated exchanges, BZX Options and EDGX Options. The proposed rule change also moves the series excluded from a Market-Maker's quoting requirement to Rule 8.6(d) and deletes this same language that is currently in subparagraph (d)(3). The proposed change also amends the current quoting exclusion of any series with an expiration of nine months or greater to an expiration of greater than 270 days. The Exchange notes that Market-Makers generally already monitor expirations by a defined count of 270 days, as opposed to a nine month count in which the number of days continuously varies. Therefore, this proposed change intends to align the Exchange's rules with current industry practice.¹¹ The proposed rule change also amends the current quoting exclusions to include Quarterly Option series. C2 may list and trade Quarterly Options Series pursuant to Rule 5.5(e) and this exclusion is consistent with corresponding Rule 22.6 (Market Maker Quotations) of the Exchange's affiliated exchanges, BZX Options and

¹⁰ See supra note 5.

¹¹ The Exchange notes that EDGX Options and BZX Options are simultaneously proposing to amend their corresponding rules to exclude any series with an expiration of 270 days or greater.

EDGX Options,¹² as well as the corresponding rules of Phlx, ISE, MRX, and GEMX.¹³

Additionally, the proposed rule change amends the reference to the quoting standard in subparagraph (d)(1) to 60%.

As stated, the Exchange amends its continuous quoting requirements to be substantially similar to the requirements under other exchanges' rules.¹⁴ The Exchange believes that proposed amendments to its quoting requirements are reasonable because these requirements are already in place on other options exchanges.¹⁵ The Exchange notes that the proposed change to continuous quoting requirements creates a clear, affirmative Market-Maker obligation to hold themselves out as willing to buy and sell securities for their own account on a continuous basis, which justifies favorable Market-Maker treatment and will continue to provide customer trading interest a net benefit. The Exchange further believes having consistent with other exchanges¹⁶ will simplify the regulatory requirements for its Trading Permit Holders ("TPHs") that are active across multiple exchanges.

Additionally, the Exchange proposes to make non-substantive changes to Rule 8.2. First, the Exchange proposes to amend an inadvertent mistake regarding a cross reference within Rule

¹² See Securities Exchange Act Release No. 71129 (December 18, 2013), 78 FR 77736 (December 18, 2013) (Notice of Filing and Immediate Effectiveness of a Proposed Rule Change To Modify BATS Options Market Maker Continuous Quoting Obligation Rules) (SR-BATS-2013-062), which adopted exclusions, including Quarterly Options series, to Market Maker's quoting obligations and noted that such exclusions were "consistent with the rules of several other options exchanges" and "did not diminish the quoting obligation". The Exchange also notes that these exclusions were adopted on EDGX Options when that exchange was established.

¹³ See supra note 5.

¹⁴ See supra note 5.

¹⁵ See supra note 6. The same quoting requirements will be incorporated into EDGX Options and BZX Options rules.

¹⁶ Id.

8.2(d). Currently, Rule 8.2 states that the Exchange may limit the number of appointments a Market-Maker may have, or the number of Market-Makers that may have appointments in a class, pursuant to Rule 8.1(b). The Exchange notes, however, that Rule 8.1(c), in fact, is the appropriate provision that allows the Exchange to limit the number of appointments. The Exchange believes this change is necessary to correct an inadvertent error in its rule and provide clarity for TPHs. Furthermore, the Exchange proposes to delete Rule 8.2(c), which currently states that a Market-Maker's appointment in a class confers the right of the Market-Maker to quote (using order functionality) in that class. The Exchange notes that it recently discontinued this order functionality and implemented "bulk messaging" quoting functionality that is available to all Users, including Market-Makers.¹⁷ As a result, there is no longer a specific quote functionality available only to Market-Makers, therefore the Exchange believes this provision is no longer necessary. This is also consistent with the rule of its affiliated exchanges, BZX Options and EDGX Options. In line with this proposed deletion, the Exchange changes current Rule 8.2(d) to proposed Rule 8.2(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.¹⁸ Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)¹⁹ requirements

¹⁷ See Securities Exchange Act Release No. 85038 (February 1, 2019), 84 FR 2598 (February 7, 2019) (Notice of Filing and Immediate Effectiveness of a Proposed Rule Change To Discontinue Bulk Order Functionality and Implement Bulk Message Functionality) (SR-C2-2018-025). C2 Rule 1.1.

¹⁸ 15 U.S.C. 78f(b).

¹⁹ 15 U.S.C. 78f(b)(5).

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)²⁰ 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 to amend Market-Makers' continuous quoting obligations will remove impediments to and perfect the mechanism of a free and open market and a national market system. The proposed rule change to a Market-Maker's continuous quoting obligations seeks to conform the quoting obligations to that of the rules of other exchanges.²¹ The Exchange currently requires a Market-Maker to quote in at least 60% the options series in which the Market-Maker is registered during 90% of the trading day. The Exchange believes that applying a Market-Maker's cumulative quoting time to the Market-Maker's aggregate appointed classes to meet a threshold of 60% of the cumulative seconds its appointed classes are open for trading (like that of the current requirements on other exchanges) is less stringent than the Exchange's current requirement because of the lower quoting time threshold and because the proposed requirement does not consider a percentage of its appointed classes, so long as the overall 60% time requirement is met. Further, the Exchange notes that the current continuous quoting requirement potentially discourages liquidity at times when a Market-Maker is forced to focus on making up for a momentary lapse in a particular class rather than

²⁰ Id.

²¹ See supra note 5.

allocating appropriate resources to focus on the classes that need and consume additional liquidity, and then allowing a Market-Maker to continue quoting in the class that experienced a lapse after correcting the applicable issue.²² The Exchange believes that this rule change better accommodates these occasional lapses, whether technical or manual, and enables a Market-Maker to provide appropriate liquidity commensurate with the needs of its appointed classes. Moreover, the Exchange believes that it can better attract Market-Makers, add liquidity, and grow its market to the benefit of all investors, if its quoting obligation is more in line with that of other exchanges. The proposed rule change supports the quality of the Exchange's market by helping to ensure that Market-Makers will continue to be obligated to quote in a percentage of their appointed classes. Ultimately, the benefit the proposed rule change confers upon Market-Makers is offset by the continued responsibilities to provide significant liquidity to its appointed classes to the benefit of all market participants. The Exchange believes that the proposed change to continuous quoting requirements creates a clear, affirmative Market-Maker obligation to hold themselves out as willing to buy and sell securities for their own account on a continuous basis, which justifies favorable Market-Maker treatment and will continue to provide customer trading interest a net benefit. The Exchange further notes that the proposed rule text is consistent with the Act because the quoting obligations are substantially the same as quoting obligations on Phlx, ISE, MRX, and GEMX today, previously filed with the Commission.²³ Additionally, the Exchange notes that the proposed rule change including Quarterly Option series among the series excluded from quoting obligations is intended to harmonizing series excluded across the

²² See also Exchange Rule 8.6(d)(1). The Exchange already accounts for technical failure or limitation due to the automated trading system the Exchange uses for the trading of option contracts ("System").

²³ See supra note 5.

Exchange and its affiliated exchanges,²⁴ as well as other exchanges,²⁵ which will provide clarity for Market-Makers participating across multiple exchanges. Furthermore, the Exchange believes the proposed rule change excluding any series with an expiration greater than 270 days, as opposed to nine months or greater, from a Market-Maker's quoting obligations is in line with the way in which Market-Makers currently monitor expiration. As a result, the Exchange believes that this change will foster cooperation and coordination with persons engaged in regulating securities, as well as facilitating transactions in securities. The proposed change will reduce confusion by codifying an industry practice already in place and harmonizing expiration time across the Exchange and its affiliated exchanges.²⁶ The Exchange also notes that the proposed changes are reasonable and do not affect investor protection because the proposed changes do not present any novel or unique issues, as they have either been previously filed with the Commission or are codifying an industry practice currently in place.

Moreover, the Exchange believes that the amendment to the cross-reference in current Rule 8.2(d) (proposed Rule 8.2(c)) corrects an inadvertent cross-reference error and that the proposed deletion of Rule 8.2(c) updates its rules to reflect the recent discontinuation of the order functionality referenced in Rule 8.2(c) and implementation of bulk messaging functionality, which allows all Users, including Market-Makers, to enter quotes. As a result, these changes provide clarity and reduce confusion for investors.

Additionally, the Exchange believes the proposed rule change is consistent with Section 6(b)(1) of the Act,²⁷ which provides that the Exchange be organized and have the capacity to be

²⁴ See BZX Options Rule 22.6 and EDGX Options Rule 22.6.

²⁵ See supra note 5.

²⁶ See supra note 9.

²⁷ 15 U.S.C. 78f(b)(1).

able to carry out the purposes of the Act and to enforce compliance by the Exchange's TPHs and persons associated with its TPHs with the Act, the rules and regulations thereunder, and the rules of the Exchange. The Exchange notes that the proposed rule change to a Market-Maker's continuous quoting requirements will serve to harmonize the quoting requirement for Market-Makers across its affiliated exchanges, EDGX Options and BZX Options that are also proposing substantially the same requirements. The Exchange thus believes these proposed changes create uniformity, which allows for the Exchange to organize across affiliated exchanges and to more easily enforce compliance by participants on multiple affiliated exchanges.

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 believes that the proposed rule change to a Market-Maker's continuous quoting requirements under Rule 8.6 does not affect intramarket competition. The proposed applies an affirmative obligation to all Market-Makers to hold themselves out as continuously willing to buy and sell options for their own account, justifying favorable treatment and benefitting the trading interest of all customers. The Exchange believes that the proposed change to continuous quoting requirements does not affect intermarket competition, as this proposal is based on other exchanges' rules previously filed with the Commission.²⁸ The Exchange also notes that to the degree that other exchanges have varying continuous quoting obligations for Market-Makers, market participants on other exchanges are welcome to become Market-Makers on C2 if they determine that this proposed rule change has made market making on C2 more attractive or favorable. Finally, the Exchange believes that the proposed rule change will relieve any burden

²⁸ See supra note 5.

on market participants because it serves to provide Market-Makers with affirmative quoting requirements that ensure each appointed class will receive appropriate liquidity to the benefit of all market participants who interact with that liquidity.

Additionally, the proposed rule change to amend Rule 8.2 does not address competitive issues, but rather, as discussed above, is merely intended to correct an inadvertent uses of an inaccurate cross-reference, as well as delete an obsolete provision, which will alleviate potential confusion.

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:

- A. significantly affect the protection of investors or the public interest;
- B. impose any significant burden on competition; and
- C. become operative for 30 days from the date on which it was filed, or such shorter

time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act²⁹ and Rule 19b-4(f)(6)³⁰ 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 Commission will institute proceedings to determine whether the proposed rule change should be approved or disapproved.

²⁹ 15 U.S.C. 78s(b)(3)(A).

³⁰ 17 CFR 240.19b-4(f)(6).

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-C2-2019-007 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-C2-2019-007. 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-C2-2019-007 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.³¹

Eduardo A. Aleman
Deputy Secretary

³¹ 17 CFR 200.30-3(a)(12).