OMB APPROVAL
OMB Number: 3235-0045 Estimated average burden hours per response............38

Required fields are shown with yellow backgrounds and asterisks.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Form 19b-4

File No.* SR - 2018 - * 024
Amendment No. (req. for Amendments *)

Filing by Cboe C2 Exchange, Inc.

Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial *	Amendment *	Withdrawal	Section 19(b)(2) *	Section 19(b)(3)(A) *	Section 19(b)(3)(B) *
☑	☐	☐	☐	☑	☐

Rule

☐ 19b-4(f)(1)	☐ 19b-4(f)(4)
☐ 19b-4(f)(2)	☐ 19b-4(f)(5)
☐ 19b-4(f)(3)	☑ 19b-4(f)(6)

Pilot ☐

Extension of Time Period for Commission Action * ☐

Date Expires *

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010

Section 806(e)(1) * ☐

Section 806(e)(2) * ☐

Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934

Section 3C(b)(2) * ☐

Exhibit 2 Sent As Paper Document ☐

Exhibit 3 Sent As Paper Document ☐

Description

Provide a brief description of the action (limit 250 characters, required when Initial is checked *).

The Exchange proposes to amend its provision related to its Risk Monitor Mechanism.

Contact Information

Provide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the action.

First Name *	Corinne	Last Name *	Klott
Title *	Assistant General Counsel		
E-mail *	cklott@cboe.com		
Telephone *	(312) 786-7793	Fax	

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

Date 11/29/2018

By Corinne Klott

(Name *)

(Title *)

Assistant General Counsel

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

kmurray@cboe.com

Required fields are shown with yellow backgrounds and asterisks.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFS website.

Form 19b-4 Information * Add Remove View	The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.
Exhibit 1 - Notice of Proposed Rule Change * Add Remove View	The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)
Exhibit 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies * Add Remove View	The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change, security-based swap submission, or advance notice being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)
Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications Add Remove View Exhibit Sent As Paper Document ☐	Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.
Exhibit 3 - Form, Report, or Questionnaire Add Remove View Exhibit Sent As Paper Document ☐	Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.
Exhibit 4 - Marked Copies Add Remove View	The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.
Exhibit 5 - Proposed Rule Text Add Remove View	The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.
Partial Amendment Add Remove View	If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

Item 1. <u>Text of the Proposed Rule Change</u>

(a) Cboe C2 Exchange, Inc. (the "Exchange" or "C2") proposes to amend its provision related to its Risk Monitor Mechanism. The text of the proposed rule change is provided in Exhibit 5.

(b) Not applicable.

(c) Not applicable.

Item 2. <u>Procedures of the Self-Regulatory Organization</u>

(a) The Exchange's President (or designee) pursuant to delegated authority approved the proposed rule change on November 8, 2018.

(b) Please refer questions and comments on the proposed rule change to Pat Sexton, Executive Vice President, General Counsel, and Corporate Secretary, (312) 786-7467, or Corinne Klott, (312) 786-7793, Cboe Exchange, Inc., 400 South LaSalle, Chicago, Illinois 60605.

Item 3. <u>Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change</u>

(a) <u>Purpose</u>

The Exchange proposes to amend Rule 6.14 which governs, among other things, the Risk Monitor Mechanism.

<u>Background</u>

By way of background, the Risk Monitor Mechanism providers Users[1] with the ability to manage their order and execution risk. Each User may establish limits for various parameters in the Exchange's counting program. The system counts each of the

---

1 The term "User" means any Trading Permit Holder or Sponsored User who is authorized to obtain access to the System pursuant to Rule 6.8. As discussed below, the Exchange is proposing to replace references to "User" in Rule 6.14(c)(5) with "TPH".

following within a class ("class limit") and across all classes for an EFID[2] ("firm limit") over a User-established time period ("interval") on a rolling basis up to five minutes (except as set forth in Rule 6.14(c)(5)(A)(iv)) and on an absolute basis for a trading day ("absolute limits"): (i) number of contracts executed ("volume"); (ii) notional value of executions ("notional"); (iii) number of executions ("count"); and (iv) number of contracts executed as a percentage of number of contracts outstanding within an Exchange-designated time period or during the trading day, as applicable ("percentage")[3] (collectively, "risk parameters"). Additionally, when the system determines a risk parameter exceeds a User's class limit within the interval or the absolute limit for the class, the Risk Monitor Mechanism cancels or rejects such User's orders or quotes in all series of the class and cancels or rejects any additional orders or quotes from the User in the class until the counting program resets. Similarly, when the system determines a risk parameter exceeds a User's firm limit within the interval or the absolute limit for the firm, the Risk Monitor Mechanism cancels or rejects such User's orders or quotes in all classes and cancels or rejects any additional orders or quotes from the User in all classes until the counting program resets.

Proposed Rule Change

2 The term "EFID" means an Executing Firm ID. The Exchange assigns an EFID to a Trading Permit Holder, which the System uses to identify the Trading Permit Holder and clearing number for the execution of orders and quotes submitted to the System with that EFID. See C2 Rule 6.8(b).

3 The system determines the percentage by calculating the percentage of a TPH's outstanding contracts that executed on each side of the market during the time period or trading day, as applicable, and then summing the series percentages on each side in the underlying.

The Exchange proposes to amend Rule 6.14 to (i) make clarifying and miscellaneous non-substantive changes, (ii) provide the ability for Users to establish limits for a group of EFIDs, and (iii) adopt a new risk parameter.

Clarifying and Miscellaneous Changes

First, the Exchange proposes to eliminate the term "User" in Rule 6.14(c)(5) and replace it with the term "TPH" (which stands for Trading Permit Holder).[4] The Exchange notes that the definition of User is broader than TPH, as it specifically captures Sponsored Users. The Exchange believes "TPH" is the more appropriate term to use with respect to the Risk Monitor Mechanism as the rule describes how the functionality works with respect to TPHs, and not necessarily Sponsored Users. The Exchange notes that it currently does not have any Sponsored Users, and to the extent it expects to have any in the future, it will revise the rule as needed to incorporate how the Risk Monitor Mechanism would function with respect to Sponsored Participants. The Exchange notes that "User" will be referred to herein as "TPH".

Next, the Exchange proposes to eliminate the term "class" and replace it with "underlying". Specifically, the Exchange notes that the Risk Monitor Mechanism is configured to count the risk parameters across underlying securities or indexes. As an example, any option related to Apple (AAPL), would be considered to have the same underlying. Accordingly, if a corporate action resulted in AAPL1, AAPL and APPL1 one would be considered to share the same underlying symbol AAPL. Only a single symbol-level rule for underlying AAPL would be configurable by the Risk Monitor Mechanism.

---

4 See Exchange Rule 1.1 ("Trading Permit Holder" or "TPH"). The term "Trading Permit Holder" or "TPH" mean an Exchange-recognized holder of a Trading Permit. A Trading Permit Holder is deemed a "member" under the Exchange Act.

The Exchange notes that the term "underlying" is also utilized in the Exchange's technical specification documents. The Exchange therefore believes underlying is a more accurate term to use.

The Exchange also proposes to eliminate the requirement that the "interval" time periods be on a rolling basis up to five minutes. The Exchange notes that its system is not configured to limit intervals to 5 minutes and as such believes the proposal to eliminate the language will alleviate confusion and more accurately reflect current functionality.

The Exchange also proposes to clarify and codify what were to occur in the event a TPH does not reactivate its ability to send quotes or orders after its configured risk parameter limits have been reached. Currently, subparagraph (c)(5)(D) of Rule 6.14 governs how the counting program is reset. In the event an underlying limit, EFID limit or EFID Group limit (as proposed), is exceeded, the rules provide that the System will not accept new orders or quotes from that TPH (in a underlying, from an EFID, or EFID Group, as applicable) until the TPH instructs the System or Exchange, as applicable, to reset the counting program. The Exchange proposes to add new subparagraph (c)(5)(D)(v) to explicitly provide that if the Exchange cancels all of a TPH's quotes and orders resting in the Book, and the TPH does not reactivate its ability to send quotes or orders, the block will be in effect only for the trading day that the TPH reached its underlying, EFID and/or EFID Group limit. The Exchange notes this is not a substantive change, but rather current practice, and that its affiliated Exchange, Cboe Options, includes similar language in its rules.[5] The Exchange believes adding this provision to the

[5] See Cboe Options Rule 8.18.

rules provides further transparency in its rules and reduces potential confusion as to what would happen in the situation where a TPH fails to reset the counting program.

The Exchange also proposes to add language regarding resets from its affiliated Exchanges' rules governing their Risk Monitor Mechanism functionality, which is substantively the same as the Risk Monitor Mechanism functionality on C2. Particularly, Cboe EDGX and Cboe BZX Rule 21.16(d) currently provides that the System will reset the counting period for absolute limits when a TPH refreshes its risk limit thresholds and the System will reset the counting program and commence a new interval time period when (i) a previous interval time period has expired and a transaction occurs in any series of a underlying or (ii) a TPH refreshes its risk limit thresholds prior to the expiration of the interval time period. The Exchange proposes to add this language under subparagraph (D)(vi) of C2 Rule 6.14(c)(5) ("Counting Program Reset"), which provision would govern "other resets" (i.e., resets that are not a result from a limit being reached). The Exchange believes adding this provision to C2's rules provides transparency in the rules that TPH's may refresh their limits for both absolute and interval time periods (which results in a "reset of the counting program") and also clarifies that the interval time periods are reset after the prior interval time period ended and a transaction in a series of a underlying occurred. The Exchange notes this is not a substantive change, but rather current practice. The Exchange believes adding this provision to the rules provides further transparency in its rules and reduces potential confusion as to whether a TPH can refresh its limits and when interval time periods commence.

The Exchange also proposes to include language from BZX and EDGX Rule 21.16(e) that provides that a TPH may engage the Risk Monitor Mechanism to cancel resting bids and offers, as well as subsequent orders as set forth in Rule 6.14(c)(7), which adds transparency in the rules that the Risk Monitor Mechanism may be utilized in this context. The Exchange notes this is not a substantive change, but rather current practice.

The Exchange also proposes other non-substantive clarifying changes. For example, the Exchange proposes to replace references to "firm limit" with "EFID limit"; clarify that resets will occur when limits are reached, instead of "exceeded"; and replace certain references to "User" with "EFID". The Exchange notes that the proposed changes do not reflect a change in practice, but rather are intended to adopt language the Exchange believes is more accurate and would be less confusing to investors.

EFID Groups

The Exchange next proposes to provide in the rules that in addition to underlying limits and EFID limits, the System will be able to count each of the risk parameters across all underlyings for a group of EFIDs ("EFID Group")("EFID Group limit").[6] Similar to when a underlying limit or EFID limit are reached, when a TPH's EFID Group(s) limit is reached, the Risk Monitor Mechanism will cancel or reject such TPH's orders or quotes in all underlyings and cancel or reject any additional orders or quotes from any EFID within the EFID Group(s) in all underlyings until the counting program resets. The System will not accept new orders or quotes from any EFID within an EFID Group after an EFID Group limit is reached until the TPH manually notifies the Trade Desk to reset the counting program for the EFID Group, unless the TPH instructs the Exchange to permit it to reset the counting program by submitting an electronic message

---

6 An EFID may not belong to more than one EFID Group. The Exchange notes that the Users determine how many, if any, EFID Groups to establish and determine which EFIDs belong to a particular EFID Group, if any.

to the System. The Exchange believes each TPH is in the best position to determine risk settings appropriate for its firm based on its trading activity and business needs and that it may be based on a single EFID or EFID Group(s). The Exchange notes that its affiliate Exchange, Cboe Exchange, Inc. ("Cboe Options") similarly allows its members to set similar risk parameters at the acronym-level (which is similar to an EFID) or firm level (similar to an EFID Group).[7]

New Risk Parameter

The Exchange lastly proposes to adopt a new risk parameter. Specifically, under the proposed functionality, a TPH may specify a maximum number of times that the risk parameters (*i.e.*, volume, notional, count and/or percentage) are reached over a specified interval or absolute period ("risk trips"). When a risk trip limit has been reached, the Risk Monitor Mechanism will cancel or reject a TPH's orders or quotes pursuant to subparagraph (c)(5)(B) of Rule 6.14. The Exchange notes that a similar risk parameter (i.e., a parameter based on the number of risk "incidents" that occur over a specified time) is available on its affiliate Exchange, Cboe Options.[8] The Exchange believes the proposed changes to its Risk Monitor Mechanism rule sufficiently allows TPHs to adjust and adopt parameter inputs in accordance with their business models and risk management needs.

(b) 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

---

7 See Cboe Options Rule 8.18.

8 See Cboe Options Rule 8.18, which provides that a Hybrid Market Maker or a TPH Organization may specify a maximum number of Quote Risk Monitor Mechanism ("QRM") QRM Incidents on an Exchange-wide basis.

the Exchange and, in particular, the requirements of Section 6(b) of the Act.[9] Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)[10] 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)[11] requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

First, the Exchange believes its changes to codify existing functionality alleviates potential confusion, provides transparency in the rules and makes the rules easier to read. For example, the proposal to remove the reference to the requirement that the interval time periods be on a rolling basis up to five minutes alleviates confusion as the system is in fact not configured to have a five minute limit. Providing language regarding (i) a TPH's failure to reset or initiate a reset of the counting program, (ii) other resets due to a TPH's refresh of its limits or a new interval time period commencing and (iii) the use of the Risk Monitor Mechanism with respect to C2 Rule 6.14(c)(7), provides transparency in the rules as to what occurs in those situations, harmonizes rule language with that of the Exchange's affiliated Exchanges, and reduces potential confusion. The alleviation of

---

[9] 15 U.S.C. 78f(b).

[10] 15 U.S.C. 78f(b)(5).

[11] Id.

confusion removes impediments to, and perfects the mechanism of, a free and open market and a national market system, and, in general, protects investors and the public interest. Similarly, the Exchange believes using the term "underlying" instead of "class" and "TPH" instead of "User" alleviates potential confusion as the proposed terms more accurately reflect how the Risk Monitor Mechanism operates.

The Exchange believes providing TPHs the ability to configure certain risk parameters across underlyings for an EFID Group is also appropriate because it permits a TPH to protect itself from inadvertent exposure to excessive risk on an additional level (i.e., on an EFID group-level, not just underlying- or EFID-level). Reducing such risk will enable TPHs to enter quotes and orders with protection against inadvertent exposure to excessive risk, which in turn will benefit investors through increased liquidity for the execution of their orders. Such increased liquidity benefits investors because they may receive better prices and because it may lower volatility in the options market. The Exchange also believes each TPH is in the best position to determine risk settings appropriate for its firm based on its trading activity and business needs and that that may be based on an EFID Group(s). Additionally, as discussed above, Cboe Options similarly allows its TPHs to set risk parameters at the acronym-level (which is similar to an EFID) or firm-level (similar to an EFID Group).[12]

Lastly, the Exchange believes the proposal to adopt the new risk parameter based on number of times a risk parameter or group of risk parameters are reached will provide TPHs with an additional tool for managing risks. Furthermore, as noted above, the

---

[12] See Cboe Options Rule 8.18.

Exchange's affiliated exchange offers similar functionality.[13] Overall, the proposed rule change provides TPHs more protections that reduce the risks from potential system errors and market events. As a result, the proposed changes, including the new risk parameter for the Risk Monitor Mechanism, have the potential to promote just and equitable principles of trade. Additionally, the proposed changes apply to all TPHs.

Item 4. 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. Rather, the Exchange believes that the proposed changes with respect to its Risk Monitor Mechanism help promote fair and orderly markets and provide clarity and transparency the Rule. For example, the proposed rule change adds an additional risk control parameter and flexibility to help further prevent potentially erroneous executions, which benefits all market participants. The proposed changes apply uniformly to all TPHs and the Exchange notes that the proposed changes apply to all quotes and orders in the same manner. Additionally, the Exchange does not believe that the proposed rule change will impose any burden on intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act because the proposed enhancements apply only to trading on the Exchange. Additionally, the Exchange notes that it is voluntary for the TPHs to determine whether to make use of the new enhancements of the Risk Monitor Mechanism. To the extent that the proposed changes may make the Exchange a more attractive trading venue for market participants on other exchanges, such market participants may elect to become Exchange market participants.

---

[13] See Cboe Options Rule 8.18.

Item 5. **<u>Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others</u>**

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

Item 6. **<u>Extension of Time Period for Commission Action</u>**

Not applicable.

Item 7. **<u>Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2) or Section 19(b)(7)(D)</u>**

(a) The proposed rule change is filed for immediate effectiveness pursuant to Section 19(b)(3)(A) of Act[14] and Rule 19b-4(f)(6)[15] thereunder.

(b) The Exchange designates that the proposed rule change effects a change that (i) does not significantly affect the protection of investors or the public interest; (ii) does not impose any significant burden on competition; and (iii) by its terms, does not become operative for 30 days after the date of the filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest. Additionally, the Exchange has given 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 believes that the proposed rule change is non-controversial and would not significantly affect the protection of investors or the public interest because the proposal raises no novel issues, and serves only to enhance functionality already

---

[14] 15 U.S.C. 78s(b)(3)(A).

[15] 17 CFR 240.19b-4(f)(6).

available on the Exchange. Moreover, the Exchange believes that the proposal is consistent with the protection of investors and the public interests because it will permit dealers to better manage potential risks of multiple executions that, in today's highly automated and electronic trading environment, can occur simultaneously across multiple series and multiple underlyings. Additionally, the Exchange believes that the proposed changes to the existing Risk Monitor Mechanism would not impose any significant burden on competition, but would instead promote just and equitable principles of trade on the Exchange. In addition, the Exchange believes that the proposed changes would not impose any significant burden on competition because it would provide additional protections from erroneous executions.

For the foregoing reasons, this rule filing qualifies as a "non-controversial" rule change under Rule 19b-4(f)(6), which renders the proposed rule change effective upon filing with the Commission. At any time within 60 days of the filing of this 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. The Exchange respectfully requests that the Commission the 30-day operative delay period after which a proposed rule change under Rule 19b-4(f)(6) becomes effective. The Exchange notes that the proposed enhanced functionality to the Risk Monitor Mechanism will be available starting November 29, 2018. Waiver of the operative delay would allow the proposed flexibility and functionality, which the Exchange believes would better allow its TPH to manage potential risks, to be implemented as soon as it's available. The Exchange notes it has issued regular updates to its TPHs regarding the proposed enhancements, as well as its anticipated timeline so that TPHs were able make any requisite system changes. Specifications that include the new Risk Monitor Mechanism enhancements are also available on the Exchange's website, and are updated as necessary.

(c) Not applicable.

(d) Not applicable.

Item 8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission

The proposed rule change adopts similar functionality provided for under Cboe Options Rule 8.18. For example, Cboe Options allows its members to set similar risk parameters at the acronym-level (which is similar to an EFID) or firm level (similar to an EFID Group) and also has a parameter based on the number of risk "incidents" that occur over a specified time).

Item 9. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act

Not applicable.

Item 10. Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act

Not applicable.

Item 11. Exhibits

Exhibit 1. Completed Notice of Proposed Rule Change for publication in the Federal Register.

Exhibit 5. Proposed rule text.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34- ; File No. SR-C2-2018-024]

[Insert date]

Self-Regulatory Organizations; Cboe C2 Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to Amend its Provision Related to its Risk Monitor Mechanism

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"),[1] and Rule 19b-4 thereunder,[2] notice is hereby given that on [insert date], 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 Exchange filed the proposal as a "non-controversial" proposed rule change pursuant to Section 19(b)(3)(A)(iii) of the Act[3] 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 provision related to its Risk Monitor Mechanism. The text of the proposed rule change is provided in Exhibit 5.

---

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).

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 Exchange proposes to amend Rule 6.14 which governs, among other things, the Risk Monitor Mechanism.

Background

By way of background, the Risk Monitor Mechanism providers Users[5] with the ability to manage their order and execution risk. Each User may establish limits for various parameters in the Exchange's counting program. The system counts each of the following within a class ("class limit") and across all classes for an EFID[6] ("firm limit")

---

5 The term "User" means any Trading Permit Holder or Sponsored User who is authorized to obtain access to the System pursuant to Rule 6.8. As discussed below, the Exchange is proposing to replace references to "User" in Rule 6.14(c)(5) with "TPH".

6 The term "EFID" means an Executing Firm ID. The Exchange assigns an EFID to a Trading Permit Holder, which the System uses to identify the Trading Permit Holder and clearing number for the execution of orders and quotes submitted to

over a User-established time period ("interval") on a rolling basis up to five minutes (except as set forth in Rule 6.14(c)(5)(A)(iv)) and on an absolute basis for a trading day ("absolute limits"): (i) number of contracts executed ("volume"); (ii) notional value of executions ("notional"); (iii) number of executions ("count"); and (iv) number of contracts executed as a percentage of number of contracts outstanding within an Exchange-designated time period or during the trading day, as applicable ("percentage")[7] (collectively, "risk parameters"). Additionally, when the system determines a risk parameter exceeds a User's class limit within the interval or the absolute limit for the class, the Risk Monitor Mechanism cancels or rejects such User's orders or quotes in all series of the class and cancels or rejects any additional orders or quotes from the User in the class until the counting program resets. Similarly, when the system determines a risk parameter exceeds a User's firm limit within the interval or the absolute limit for the firm, the Risk Monitor Mechanism cancels or rejects such User's orders or quotes in all classes and cancels or rejects any additional orders or quotes from the User in all classes until the counting program resets.

Proposed Rule Change

The Exchange proposes to amend Rule 6.14 to (i) make clarifying and miscellaneous non-substantive changes, (ii) provide the ability for Users to establish limits for a group of EFIDs, and (iii) adopt a new risk parameter.

Clarifying and Miscellaneous Changes

---

the System with that EFID. See C2 Rule 6.8(b).

7 The system determines the percentage by calculating the percentage of a TPH's outstanding contracts that executed on each side of the market during the time period or trading day, as applicable, and then summing the series percentages on each side in the underlying.

First, the Exchange proposes to eliminate the term "User" in Rule 6.14(c)(5) and replace it with the term "TPH" (which stands for Trading Permit Holder).[8] The Exchange notes that the definition of User is broader than TPH, as it specifically captures Sponsored Users. The Exchange believes "TPH" is the more appropriate term to use with respect to the Risk Monitor Mechanism as the rule describes how the functionality works with respect to TPHs, and not necessarily Sponsored Users. The Exchange notes that it currently does not have any Sponsored Users, and to the extent it expects to have any in the future, it will revise the rule as needed to incorporate how the Risk Monitor Mechanism would function with respect to Sponsored Participants. The Exchange notes that "User" will be referred to herein as "TPH".

Next, the Exchange proposes to eliminate the term "class" and replace it with "underlying". Specifically, the Exchange notes that the Risk Monitor Mechanism is configured to count the risk parameters across underlying securities or indexes. As an example, any option related to Apple (AAPL), would be considered to have the same underlying. Accordingly, if a corporate action resulted in AAPL1, AAPL and APPL1 one would be considered to share the same underlying symbol AAPL. Only a single symbol-level rule for underlying AAPL would be configurable by the Risk Monitor Mechanism. The Exchange notes that the term "underlying" is also utilized in the Exchange's technical specification documents. The Exchange therefore believes underlying is a more accurate term to use.

---

8 See Exchange Rule 1.1 ("Trading Permit Holder" or "TPH"). The term "Trading Permit Holder" or "TPH" mean an Exchange-recognized holder of a Trading Permit. A Trading Permit Holder is deemed a "member" under the Exchange Act.

The Exchange also proposes to eliminate the requirement that the "interval" time periods be on a rolling basis up to five minutes. The Exchange notes that its system is not configured to limit intervals to 5 minutes and as such believes the proposal to eliminate the language will alleviate confusion and more accurately reflect current functionality.

The Exchange also proposes to clarify and codify what were to occur in the event a TPH does not reactivate its ability to send quotes or orders after its configured risk parameter limits have been reached. Currently, subparagraph (c)(5)(D) of Rule 6.14 governs how the counting program is reset. In the event an underlying limit, EFID limit or EFID Group limit (as proposed), is exceeded, the rules provide that the System will not accept new orders or quotes from that TPH (in a underlying, from an EFID, or EFID Group, as applicable) until the TPH instructs the System or Exchange, as applicable, to reset the counting program. The Exchange proposes to add new subparagraph (c)(5)(D)(v) to explicitly provide that if the Exchange cancels all of a TPH's quotes and orders resting in the Book, and the TPH does not reactivate its ability to send quotes or orders, the block will be in effect only for the trading day that the TPH reached its underlying, EFID and/or EFID Group limit. The Exchange notes this is not a substantive change, but rather current practice, and that its affiliated Exchange, Cboe Options, includes similar language in its rules.[9] The Exchange believes adding this provision to the rules provides further transparency in its rules and reduces potential confusion as to what would happen in the situation where a TPH fails to reset the counting program.

The Exchange also proposes to add language regarding resets from its affiliated Exchanges' rules governing their Risk Monitor Mechanism functionality, which is

9 See Cboe Options Rule 8.18.

substantively the same as the Risk Monitor Mechanism functionality on C2. Particularly, Cboe EDGX and Cboe BZX Rule 21.16(d) currently provides that the System will reset the counting period for absolute limits when a TPH refreshes its risk limit thresholds and the System will reset the counting program and commence a new interval time period when (i) a previous interval time period has expired and a transaction occurs in any series of a underlying or (ii) a TPH refreshes its risk limit thresholds prior to the expiration of the interval time period. The Exchange proposes to add this language under subparagraph (D)(vi) of C2 Rule 6.14(c)(5) ("Counting Program Reset"), which provision would govern "other resets" (i.e., resets that are not a result from a limit being reached). The Exchange believes adding this provision to C2's rules provides transparency in the rules that TPH's may refresh their limits for both absolute and interval time periods (which results in a "reset of the counting program") and also clarifies that the interval time periods are reset after the prior interval time period ended and a transaction in a series of a underlying occurred. The Exchange notes this is not a substantive change, but rather current practice. The Exchange believes adding this provision to the rules provides further transparency in its rules and reduces potential confusion as to whether a TPH can refresh its limits and when interval time periods commence.

The Exchange also proposes to include language from BZX and EDGX Rule 21.16(e) that provides that a TPH may engage the Risk Monitor Mechanism to cancel resting bids and offers, as well as subsequent orders as set forth in Rule 6.14(c)(7), which adds transparency in the rules that the Risk Monitor Mechanism may be utilized in this context. The Exchange notes this is not a substantive change, but rather current practice.

The Exchange also proposes other non-substantive clarifying changes. For example, the Exchange proposes to replace references to “firm limit” with “EFID limit”; clarify that resets will occur when limits are reached, instead of “exceeded”; and replace certain references to “User” with “EFID”. The Exchange notes that the proposed changes do not reflect a change in practice, but rather are intended to adopt language the Exchange believes is more accurate and would be less confusing to investors.

EFID Groups

The Exchange next proposes to provide in the rules that in addition to underlying limits and EFID limits, the System will be able to count each of the risk parameters across all underlyings for a group of EFIDs (“EFID Group”)(“EFID Group limit”).[10] Similar to when a underlying limit or EFID limit are reached, when a TPH’s EFID Group(s) limit is reached, the Risk Monitor Mechanism will cancel or reject such TPH’s orders or quotes in all underlyings and cancel or reject any additional orders or quotes from any EFID within the EFID Group(s) in all underlyings until the counting program resets. The System will not accept new orders or quotes from any EFID within an EFID Group after an EFID Group limit is reached until the TPH manually notifies the Trade Desk to reset the counting program for the EFID Group, unless the TPH instructs the Exchange to permit it to reset the counting program by submitting an electronic message to the System. The Exchange believes each TPH is in the best position to determine risk settings appropriate for its firm based on its trading activity and business needs and that it may be based on a single EFID or EFID Group(s). The Exchange notes that its affiliate

[10] An EFID may not belong to more than one EFID Group. The Exchange notes that the Users determine how many, if any, EFID Groups to establish and determine which EFIDs belong to a particular EFID Group, if any.

Exchange, Cboe Exchange, Inc. ("Cboe Options") similarly allows its members to set similar risk parameters at the acronym-level (which is similar to an EFID) or firm level (similar to an EFID Group).[11]

New Risk Parameter

The Exchange lastly proposes to adopt a new risk parameter. Specifically, under the proposed functionality, a TPH may specify a maximum number of times that the risk parameters (*i.e.*, volume, notional, count and/or percentage) are reached over a specified interval or absolute period ("risk trips"). When a risk trip limit has been reached, the Risk Monitor Mechanism will cancel or reject a TPH's orders or quotes pursuant to subparagraph (c)(5)(B) of Rule 6.14. The Exchange notes that a similar risk parameter (i.e., a parameter based on the number of risk "incidents" that occur over a specified time) is available on its affiliate Exchange, Cboe Options.[12] The Exchange believes the proposed changes to its Risk Monitor Mechanism rule sufficiently allows TPHs to adjust and adopt parameter inputs in accordance with their business models and risk management needs.

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.[13]

---

11 See Cboe Options Rule 8.18.

12 See Cboe Options Rule 8.18, which provides that a Hybrid Market Maker or a TPH Organization may specify a maximum number of Quote Risk Monitor Mechanism ("QRM") QRM Incidents on an Exchange-wide basis.

13 15 U.S.C. 78f(b).

Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)[14] 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)[15] requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

First, the Exchange believes its changes to codify existing functionality alleviates potential confusion, provides transparency in the rules and makes the rules easier to read. For example, the proposal to remove the reference to the requirement that the interval time periods be on a rolling basis up to five minutes alleviates confusion as the system is in fact not configured to have a five minute limit. Providing language regarding (i) a TPH's failure to reset or initiate a reset of the counting program, (ii) other resets due to a TPH's refresh of its limits or a new interval time period commencing and (iii) the use of the Risk Monitor Mechanism with respect to C2 Rule 6.14(c)(7), provides transparency in the rules as to what occurs in those situations, harmonizes rule language with that of the Exchange's affiliated Exchanges, and reduces potential confusion. The alleviation of confusion removes impediments to, and perfects the mechanism of, a free and open

---

[14] 15 U.S.C. 78f(b)(5).

[15] Id.

market and a national market system, and, in general, protects investors and the public interest. Similarly, the Exchange believes using the term "underlying" instead of "class" and "TPH" instead of "User" alleviates potential confusion as the proposed terms more accurately reflect how the Risk Monitor Mechanism operates.

The Exchange believes providing TPHs the ability to configure certain risk parameters across underlyings for an EFID Group is also appropriate because it permits a TPH to protect itself from inadvertent exposure to excessive risk on an additional level (i.e., on an EFID group-level, not just underlying- or EFID-level). Reducing such risk will enable TPHs to enter quotes and orders with protection against inadvertent exposure to excessive risk, which in turn will benefit investors through increased liquidity for the execution of their orders. Such increased liquidity benefits investors because they may receive better prices and because it may lower volatility in the options market. The Exchange also believes each TPH is in the best position to determine risk settings appropriate for its firm based on its trading activity and business needs and that that may be based on an EFID Group(s). Additionally, as discussed above, Cboe Options similarly allows its TPHs to set risk parameters at the acronym-level (which is similar to an EFID) or firm-level (similar to an EFID Group).[16]

Lastly, the Exchange believes the proposal to adopt the new risk parameter based on number of times a risk parameter or group of risk parameters are reached will provide TPHs with an additional tool for managing risks. Furthermore, as noted above, the Exchange's affiliated exchange offers similar functionality.[17] Overall, the proposed rule

---

16 See Cboe Options Rule 8.18.

17 See Cboe Options Rule 8.18.

change provides TPHs more protections that reduce the risks from potential system errors and market events. As a result, the proposed changes, including the new risk parameter for the Risk Monitor Mechanism, have the potential to promote just and equitable principles of trade. Additionally, the proposed changes apply to all TPHs.

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. Rather, the Exchange believes that the proposed changes with respect to its Risk Monitor Mechanism help promote fair and orderly markets and provide clarity and transparency the Rule. For example, the proposed rule change adds an additional risk control parameter and flexibility to help further prevent potentially erroneous executions, which benefits all market participants. The proposed changes apply uniformly to all TPHs and the Exchange notes that the proposed changes apply to all quotes and orders in the same manner. Additionally, the Exchange does not believe that the proposed rule change will impose any burden on intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act because the proposed enhancements apply only to trading on the Exchange. Additionally, the Exchange notes that it is voluntary for the TPHs to determine whether to make use of the new enhancements of the Risk Monitor Mechanism. To the extent that the proposed changes may make the Exchange a more attractive trading venue for market participants on other exchanges, such market participants may elect to become Exchange market participants.

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 Act[18] and Rule 19b-4(f)(6)[19] 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.

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:

---

[18] 15 U.S.C. 78s(b)(3)(A).

[19] 17 CFR 240.19b-4(f)(6).

<u>Electronic comments:</u>

- Use the Commission's Internet comment form (http://www.sec.gov/rules/sro.shtml); or
- Send an e-mail to rule-comments@sec.gov. <u>Please include File Number SR-C2-2018-024 on the subject line.</u>

<u>Paper comments</u>:

- 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-C2-2018-024. 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, D.C. 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; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-C2-2018-024 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.[20]

Secretary

[20] 17 CFR 200.30-3(a)(12).

EXHIBIT 5

(additions are underlined; deletions are [bracketed])

* * * * *

Rules of Cboe C2 Exchange, Inc.

* * * * *

Rule 6.14. Order and Quote Price Protection Mechanisms and Risk Controls

The System's acceptance and execution of orders and quotes pursuant to the Rules, including Rules 6.11 through 6.13, are subject to the following price protection mechanisms and risk controls, as applicable.

* * * * *

(c) *All Orders.*

* * * * *

(5) *Risk Monitor Mechanism.* If a [User] TPH enables this functionality:

(A) Each [User] TPH may establish limits for the following parameters in the Exchange's counting program. The System counts each of the following within [class] an underlying for an EFID ("[class] underlying limit"), [and] across all [classes] underlyings for an EFID ("[firm] EFID limit"), and/or across all underlyings for a group of EFIDs ("EFID Group") ("EFID Group limit"), over a [User] TPH-established time period ("interval") [on a rolling basis up to five minutes (except as set forth in subparagraph (iv) below)] and on an absolute basis for a trading day ("absolute limits"):

(i) number of contracts executed ("volume");

(ii) notional value of executions ("notional");

(iii) number of executions ("count"); [and]

(iv) number of contracts executed as a percentage of number of contracts outstanding within an Exchange-designated time period or during the trading day, as applicable ("percentage"), which the System determines by calculating the percentage of a [User's] TPH's outstanding contracts that executed on each side of the market during the time period or trading day, as applicable, and then summing the series percentages on each side in the [class] underlying[.]; and

(v) number of times the limits established by the parameters under (A)(i)-(iv) above are reached ("risk trips").

(B) When the System determines that the volume, notional, count, [or] percentage, or risk trips [exceeds] limits have been reached:

(i) a [User's] TPH's [class] underlying limit within the interval or the absolute limit for the [class] underlying, the Risk Monitor Mechanism cancels or rejects such [User's] TPH's orders or quotes in all series of the [class] underlying and cancels or rejects any additional orders or quotes from the [User] TPH in the [class] underlying until the counting program resets (as described below).

(ii) a [User's] TPH's [firm] EFID limit within the interval or the absolute limit for the [firm] EFID, the Risk Monitor Mechanism cancels or rejects such [User's] TPH's orders or quotes in all [classes] underlyings and cancels or rejects any additional orders or quotes from the [User] EFID in all [classes] underlyings until the counting program resets (as described below).

(iii) a TPH's EFID Group limit within the interval or the absolute limit for the EFID Group, the Risk Monitor Mechanism cancels or rejects such TPH's orders or quotes in all underlyings and cancels or rejects any additional orders or quotes from any EFID within the EFID Group in all underlyings until the counting program resets (as described below).

The Risk Monitor Mechanism will also attempt to cancel or reject any orders routed away to other exchanges.

(C) The System will execute any marketable orders or quotes that are executable against a [User's] TPH's order or quote and received prior to the time the Risk Monitor Mechanism is triggered at the price up to the size of the [User's] TPH's order or quote, even if such execution results in executions in excess of the [User's] TPH's parameters.

(D) *Counting Program Reset.*

(i) [*Class*] *Underlying Limit.* The System will not accept new orders or quotes from a [User] TPH after an [class] underlying limit is reached until the [User] TPH submits an electronic instruction System to reset the counting program for the [class] underlying.

(ii) [*Firm]* *EFID* *Limit [Exceeded]*. The System will not accept new orders or quotes from [a User] the EFID after [a] its EFID [firm] limit is reached until the [User] TPH manually notifies the Trade Desk to reset the counting program for the [firm] EFID, unless the [User] TPH instructs the Exchange to permit it to reset the counting program by submitting an electronic message to the System.

(iii) *EFID Group Limit*. The System will not accept new orders or quotes from any EFID within the EFID Group after an EFID Group limit is reached until the TPH manually notifies the Trade Desk to reset the counting program for the EFID Group, unless the TPH instructs the Exchange to permit it to reset the counting program by submitting an electronic message to the System.

(i[ii]v) *Reset Limit*. The Exchange may restrict the number of [User] TPH underlying [class], EFID and EFID Group [and firm] resets per second.

(v) *Failure to reset*. If the Exchange cancels all of a TPH's quotes and orders resting in the Book, and the TPH does not reactivate its ability to send quotes or orders, the block will be in effect only for the trading day that the TPH reached its underlying, EFID and/or EFID Group limit.

(vi) *Other Resets*. The System will reset the counting period for absolute limits when a TPH refreshes its risk limit thresholds. The System will reset the counting program and commence a new interval time period when (i) a previous interval time period has expired and a transaction occurs in any series of an underlying or (ii) a TPH refreshes its risk limit thresholds prior to the expiration of the specified time period.

(E) *Complex Orders*. The System counts individual trades executed as part of a complex order (or COA response) when determining whether the volume, notional, [or] count, or risk trips limit has been reached. The System counts the percentage executed of a complex order (or COA response) when determining whether the percentage limit has been reached.

(F) A TPH may also engage the Risk Monitor Mechanism to cancel resting bids and offers, as well as subsequent orders as set forth in Rule 6.14(c)(7).

* * * * *