

## OMB APPROVAL

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Required fields are shown with yellow backgrounds and asterisks.

Page 1 of \* 30

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

File No.\* SR - 2019 - \* 012

Amendment No. (req. for Amendments \*)

Filing by Cboe C2 Exchange, Inc.

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

Initial * <input checked="" type="checkbox"/>	Amendment * <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input type="checkbox"/>	Section 19(b)(3)(A) * <input checked="" type="checkbox"/>	Section 19(b)(3)(B) * <input type="checkbox"/>
			Rule		
Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input checked="" type="checkbox"/> 19b-4(f)(6)	

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

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

Section 806(e)(1) \*

☐

Section 806(e)(2) \*

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Section 3C(b)(2) \*

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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 update its Price Adjust process to allow for the process to apply to bulk messages.

### 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 \* Rebecca Last Name \* Tenuta  
 Title \* Counsel  
 E-mail \* rtenuta@cboe.com  
 Telephone \* (312) 786-7068 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.

(Title \*)

Date 05/23/2019

By Rebecca Tenuta

(Name \*)

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.

rtenuta@cboe.com

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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

**Form 19b-4 Information \***

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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 \***

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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 \***

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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**

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Exhibit Sent As Paper Document

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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**

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Exhibit Sent As Paper Document

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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**

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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**

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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**

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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.        Text of the Proposed Rule Change**

(a)        Cboe C2 Exchange, Inc. (the “Exchange” or “C2”) proposes to update its Price Adjust process to allow for the process to apply to bulk messages. The text of the proposed rule change is provided in Exhibit 5.

(b)        Not applicable.

(c)        Not applicable.

**Item 2.        Procedures of the Self-Regulatory Organization**

(a)        The Exchange’s President (or designee) pursuant to delegated authority approved the proposed rule change on April 18, 2019. The Exchange intends to implement the proposed rule change on or about July 8, 2019.

(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 Rebecca Tenuta, (312) 786-7068, Cboe C2 Exchange, Inc., 400 South LaSalle, Chicago, Illinois 60605.

**Item 3.        Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change**

(a)        Purpose

The Exchange proposes to amend its rules to allow for the Price Adjust process to apply to bulk messages and make corresponding changes where applicable. The Exchange is proposing these amendments in order to provide Options Members that submit bulk messages with functionality that is currently available to them for orders.

In February 2019, the Exchange adopted bulk messaging functionality, in which a User may enter, modify or cancel up to an Exchange-specified number of bids and offers. A

User may submit a bulk message through a bulk port.<sup>1</sup> The System<sup>2</sup> handles bulk messages in the same manner as it handles an order, or quote if submitted by a Market-Maker, unless the Rules specify otherwise. Currently, Rule 6.10 allows a User to designate an order to be subject to the Price Adjust process pursuant to Rule 6.12.<sup>3</sup> Pursuant to current Rule 6.12(b), the System ranks and displays a buy (sell) order that, at the time of entry, would lock or cross a Protected Quotation of the Exchange or another exchange at one minimum price increment below (above) the current National Best Offer (“NBO”) or National Best Bid (“NBB”), as applicable. The Price Adjust process applies to orders (subject to the User’s instructions or the Rules) that do not execute upon entry and go to rest in the C2 Book (for example, because an order is not marketable upon entry, is not eligible to route, etc.). It ensures these orders rest at executable prices in accordance with linkage rules.<sup>4</sup> Current Rules 6.10(c) and 6.12(b) state that the Price Adjust process does not apply to bulk messages.<sup>5</sup>

Current Rule 6.10(c) also provides for a Cancel Back order, in which a User may designate an order not to be subject to the Price Adjust process and the System cancels or rejects such order if displaying the order on the C2 Book would create a violation of Rule 6.82 (Locked and Crossed Markets), or if the order cannot otherwise be executed or

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<sup>1</sup> See Rule 6.8(c)(3)

<sup>2</sup> The “System” is the automated trading system the Exchange uses for the trading of option contracts. See Rule 1.1.

<sup>3</sup> An order that is not designated as Cancel Back is also subject to the Price Adjust process (*i.e.*, orders default to be subject to the Price Adjust process).

<sup>4</sup> See Section E of Chapter VI of the Rules. See also Options Order Protection and Locked/Crossed Market Plan (the “Linkage Plan”).

<sup>5</sup> Specifically, the multiple bids (offers) submitted through a bulk message. Therefore, as proposed, a Price Adjust or Cancel Back designation, as applicable, applies to all bulk message bids and offers within a single message.

displayed in the C2 Book at its limit price. The System executes a Book Only – Cancel Back order marketable against resting orders, and cancels or rejects a Post Only – Cancel Back order that locks or crosses the opposite side of the BBO.

Furthermore, current Rule 6.12(c) provides for additional System order handling provisions regarding bulk messages submitted through bulk quoting ports. Specifically, Rule 6.12(c)(6)(A) provides that the System will cancel or reject a Post Only bulk message bid (offer) with a price that locks or crosses the Exchange best offer (bid) or ABO (ABB).<sup>6</sup> The Exchange notes that bulk messages that include a Post Only instruction do not remove liquidity from the Exchange or route away to other exchanges.<sup>7</sup> Current Rule 6.12(c)(6)(A) is consistent with how the System handles a Post Only – Cancel Back order.<sup>8</sup> Additionally, current Rule 6.12(c)(6)(B) provides that the System cancels or rejects a Book Only bulk message bid (offer) that locks or crosses the ABO (ABB) against offers (bids) resting in the C2 Book at prices the same as or better than the ABO (ABO) and then cancels the unexecuted portion of that bid (offer). Book Only orders do not route away to other exchanges.<sup>9</sup> Current Rule 6.12(c)(6)(B) is consistent with how the System handles Book

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<sup>6</sup> The ABBO means the best bid (offer) disseminated by other exchanges.

<sup>7</sup> See Rule 6.10, which defines a “Post Only” order as an order the System ranks and executes pursuant to Rule 6.12, subjects to the Price Adjust process pursuant to Rule 6.12, or cancels or rejects (including if it is not subject to the Price Adjust process and locks or crosses a Protected Quotation of another exchange), as applicable (in accordance with User instructions), except the order may not remove liquidity from the Book or route away to another Exchange. Users may designate bulk messages as Post Only as set forth in Rule 6.8(c).

<sup>8</sup> See supra note 4.

<sup>9</sup> See Rule 6.10, which defines a “Book Only” order as an order the System ranks and executes pursuant to Rule 6.12, subjects to the Price Adjust process pursuant to Rule 6.12, or cancels, as applicable (in accordance with User instructions), without routing away to another exchange. Users may designate bulk messages as Book Only as set forth in Rule 6.8(c).

Only – Cancel Back orders.<sup>10</sup> The Exchange also notes that pursuant to Rule 6.8(c), a Market-Maker with an appointment in a class may designate a bulk message for that class as Post Only or Book Only, and other Users (i.e., non-Market-Makers or Market-Makers without an appointment in a class) must designate a bulk message for that class as Post Only.<sup>11</sup>

The Exchange now proposes to amend Rule 6.10(c) and Rule 6.12(b) to permit Users to designate bulk messages to be subject to the Price Adjust process, and permit Users to opt-out of such process for bulk messages by designating bulk messages as Cancel Back. The Price Adjust and Cancel Back designations, as applicable, will apply to all bulk message bids and offers within a single message. The Exchange notes that Users have noted the regularity with which their bulk messages are rejected because Price Adjust does not apply to them. As a result, some Users find this inefficient when submitting bulk messages. The Exchange believes that allowing bulk messages to be subject to the Price Adjust process will provide market participants with additional opportunities for execution and price improvement, as well as additional flexibility and control over their submission of bulk messages. If a User does not want a bulk message to be subject to the Price Adjust process, it may designate the bulk message as Cancel Back, as noted above. A Cancel Back bulk message will be handled in the same manner as a bulk message is handled today.<sup>12</sup>

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<sup>10</sup> See supra note 4.

<sup>11</sup> Pursuant to the current Rules, a bulk message must be designated as Post Only or Book Only. Additionally, because bulk messages must include bids and offers, and may not be market orders, all bulk messages are limit orders. See Rules 1.1 and 6.10(b).

<sup>12</sup> The Exchange also proposes to make a non-substantive change to Rule 6.12(b) to amend the capitalization of “exchange” in the phrase “or another exchange”, which is consistent with the format of this phrase throughout the Rules.

As proposed, all bulk messages would now be subject to the Price Adjust process if it locks or crosses the BBO or ABBO and rest in the C2 Book pursuant to the process, thus avoiding display of a locked or crossed market in accordance with the linkage rules.<sup>13</sup> Therefore, the Exchange now proposes to remove Rules 6.12(c)(6)(A) and 6.12(c)(6)(B) (and amend the subsequent lettering as a result) because Post Only and Bulk Only bulk messages will now be included in the Price Adjust process, the handling of which would now be consistent with the current order handling of Post Only and Book Only orders under the Price Adjust process.<sup>14</sup> The Exchange also notes that all bulk messages not subject to the Price Adjust process (because the User has designated a bulk message as Cancel Back) would be handled in the same manner as the proposed deleted subparagraphs (c)(6)(A) and (c)(6)(B) pursuant to the Cancel Back instruction under Rule 6.10(c).

The Exchange notes that allowing bulk messages to be subject to a repricing process is consistent with the handling of similar order (and quote) types on other exchanges.<sup>15</sup> A similar repricing (display-price sliding) process for bulk messages currently exists under Rule 21.1(h)(1) of the Exchange's affiliated exchange, Cboe BZX Exchange, Inc. ("BZX Options"). The Exchange also notes that other exchanges subject orders (quotes) similar to Post Only and Book Only bulk messages to a repricing process like the Price Adjust process. For example, NYSE Arca, Inc. ("Arca") recently adopted order types called the Market Maker Add Liquidity Only quotation ("MMALO"), which like a Post Only instruction may not remove liquidity from the Exchange, and the Market Maker Repricing

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<sup>13</sup> See supra note 4.

<sup>14</sup> See supra notes 7 and 9.

<sup>15</sup> See Securities Exchange Act Release No. 84737 (December 6, 2018), 83 FR 63919 (December 12, 2018) (SR-NYSEArca-2018-74) (order approving the proposed order types). See also BZX Options Rule 21.1(h)(1).

quotation (“MMRP”).<sup>16</sup> Pursuant to Arca’s repricing process, if these quotes would not be able to trade upon entry (for example, because the MMALO would take liquidity or display at a price that locks or crosses any interest on the Exchange or the NBBO), it would be displayed at one minimum price variation below (above) such sell (buy) interest.

(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 the Exchange and, in particular, the requirements of Section 6(b) of the Act.<sup>17</sup> Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>18</sup> requirements that the rules of an exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest. Additionally, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>19</sup> requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

In particular, the Exchange believes that the proposed rule change subjecting bulk messages to the Price Adjust process will remove impediments to and perfect the

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<sup>16</sup> See Arca Rule 6.37A-O(a)(3)(A) and Rule 6.37A-O(a)(3)(C).

<sup>17</sup> 15 U.S.C. 78f(b).

<sup>18</sup> 15 U.S.C. 78f(b)(5).

<sup>19</sup> Id.



mechanism of a free and open market because it provides Users with the flexibility to apply to bulk messages the same functionality they may apply to their orders. The Exchange believes that repricing bulk messages for Users (that do not opt out of the Price Adjust process), as opposed to automatically rejecting messages that lock or cross protected quotes when posted to the C2 Book, will permit Users to use bulk messages to respond to continuously changing market conditions in a more efficient manner, as well as provide additional opportunity for execution and price improvement. The proposed repricing of bulk messages prevents the display of a locked or crossed market and is consistent with the Linkage Plan,<sup>20</sup> thereby perfecting the mechanism of a free and open market and national market system and protecting investors.

The Exchange also believes that by providing Users with the ability to designate bulk messages as subject to the Price Adjust process instead of cancelling or rejecting these messages under certain circumstances, will give Users greater flexibility and control over the circumstances under which their orders are able to interact with contra side-interest on the Exchange. The Exchange believes this may increase the opportunities for execution at multiple price points and encourage the provision of more liquidity to the market, and therefore believes that it is reasonably designed to facilitate the mechanism of price discovery.

The Exchange notes that the options markets are quote driven markets and thus dependent on liquidity providers, which are most commonly registered market-makers but also other Users, such as professional traders, for liquidity and price discovery. The Exchange believes that subjecting bulk messages to the Price Adjust process will provide

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<sup>20</sup> See supra note 4.

liquidity providers with greater flexibility with respect to their submission of bulk messages, the primary purpose of which is to provide liquidity to the market. The Exchange believes that the reduction in the number of rejected bulk messages will promote efficacy in bulk messaging and may encourage the provision of more liquidity. This may result in more trading opportunities and tighter spreads and contribute to price discovery. As a result, this proposed change intends to improve overall market quality and enhance competition on the Exchange to the benefit of all investors.<sup>21</sup>

**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. The Exchange does not believe the proposed rule change will impose any burden on intramarket competition that is not necessary or appropriate in furtherance of the purposes of the Act, as the proposed application of the Price Adjust and the Cancel Back process to bulk messages will be available to all applicable Users (e.g. Market-Makers may submit Book Only bulk messages, therefore, the option to apply the Price Adjust or Cancel Back process to Book Only bulk messages is available to all Market-Makers). While bulk messages will by default be subject to the Price Adjust process, all Users may apply the Cancel Back instruction to bulk messages in order to opt out of that process for its bulk messages (and continue to have their bulk messages be handled in the same manner as they are today). The Exchange also notes that the Price Adjust and Cancel Back instructions are already available to all Users for orders, including Post Only

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<sup>21</sup> The Exchange also believes that its proposed change to amend the capitalization of “exchange” when referring to “another exchange” in Rule 6.12(b) is a clarifying change that will alleviate potential investor confusion because it is consistent with the format of this phrase throughout the Rules. See supra note 10.

and Book Only orders, and will apply to bulk messages in the same manner as they apply to orders.

The Exchange does not believe 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 it will provide Users with bulk message repricing functionality that is similar to other order and quote repricing available on other options exchanges. The Exchange believes the proposed functionality will permit the Exchange to operate on an even playing field relative to other exchanges that have similar functionality.

As discussed above, the options markets are quote driven markets and thus dependent on various Users as liquidity providers and for price discovery. The Exchange believes the proposed amendment to subject bulk messages to the Price Adjust process will provide liquidity providers with additional flexibility and control over interactions of their bulk messages with contra-side liquidity, as well as additional opportunity for execution at multiple price points and price improvement. This may encourage the provision of more liquidity, which may result in more trading opportunities and tighter spreads, and contribute to price discovery. This may improve overall market quality and enhance competition on the Exchange, to the benefit of all investors.

**Item 5. 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.

**Item 6. Extension of Time Period for Commission Action**

Not applicable.

**Item 7. 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)**

(a) The proposed rule change is filed for immediate effectiveness pursuant to Section 19(b)(3)(A) of Act<sup>22</sup> and Rule 19b-4(f)(6)<sup>23</sup> 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 proposed rule change to apply the Exchange's Price Adjust process to bulk messages will not significantly affect the protection of investors or the public interest, because, rather than rejecting a bulk message that locks or crosses a Protected Quotation of the Exchange or another exchange, it will allow a bulk message to rest on the C2 Book at a price that is one minimum price increment below (above) the current NBO (NBB) in accordance with the linkage rules. Therefore, Users will have additional opportunity for more efficient order execution at multiple price points and price improvements. This will encourage Users to provide more liquidity, which in turn provides more trading opportunities and tighter spreads. This contributes to price discovery for the benefit of all

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<sup>22</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>23</sup> 17 CFR 240.19b-4(f)(6).

investors. The Exchange notes that the proposed application of the Price Adjust process to bulk messages will not significantly affect investors because it is already in place for orders, including those with Post Only and Book Only instructions. The change will better align the System functionality applicable to bulk messages and orders, to the benefit of all Users.

The Exchange does not believe that the proposed rule change will impose any significant burden on intramarket competition. As stated, all Users will have the option to subject bulk messages to the Price Adjust process or designate bulk messages as Cancel Back orders (and continue to have their bulk messages be handled in the same manner as they are today). The Exchange also notes that Price Adjust and Cancel Back instructions are already available to Users for their orders, and will apply to bulk messages in the same manner as they currently apply to orders. Furthermore, the Exchange does not believe that the proposed rule change will impose any significant burden on intermarket competition because similar functionality for quotes is available on other exchanges.<sup>24</sup> The Exchange believes that allowing Users to elect their bulk messages to be subject to the Price Adjust and Cancel Back processes will permit the Exchange to operate on an even playing field relative to other exchanges that have similar functionality.

As noted above, the Exchange believes subjecting bulk messages to the Price Adjust process will provide liquidity providers with additional flexibility and control over interactions of their bulk messages with contra-side liquidity, as well as additional opportunity for execution at multiple price points and price improvement. This may encourage the provision of more liquidity, which may result in more trading opportunities

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<sup>24</sup> See BZX Options Rule 21.1(h)(1). See also supra notes 15 and 16.

and tighter spreads, and contribute to price discovery. In turn, this may improve overall market quality and enhance competition on the Exchange, to the benefit of all investors.

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.

(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 is similar to the display-price sliding process on BZX Options that applies to bulk messages and Arca’s repricing process applicable to certain Market Maker quotations. The display-price sliding process for bulk messages on BZX Options and the MMALO and MMRP quotation types on Arca permit orders to be ranked at an undisplayed price at which it is eligible for execution (i.e. a working order) and displayed at a price one minimum increment away from the best displayed price in the market, in accordance with linkage rules.<sup>25</sup> Unlike these processes on other exchanges, a bulk message will be ranked and displayed at the same price one minimum increment away from the best displayed price in the market. While there are several differences

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<sup>25</sup> See BZX Options Rule 21.1(h)(1). See also supra notes 15 and 16.

between the Price Adjust process, as proposed, for bulk messages, the BZX Options display-price sliding process, and the Arca repricing process for certain Market Maker quotations, the proposed rule change will permit (as the BZX and Arca processes also permit) a bulk message that locks or crosses a Protected Quotation to enter the C2 Book and be available for execution at a price that is one minimum price increment below (above) the NBO (NBB), rather than be rejected.

**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-C2-2019-012]

[Insert date]

Self-Regulatory Organizations; Cboe C2 Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to Update its Price Adjust Process to Allow for the Process to Apply to Bulk Messages

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> 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<sup>3</sup> and Rule 19b-4(f)(6) thereunder.<sup>4</sup> The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

Cboe C2 Exchange, Inc. (the “Exchange” or “C2”) proposes to update its Price Adjust process to allow for the process to apply to bulk messages. The text of the proposed rule change is provided in Exhibit 5.

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

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

<sup>4</sup> 17 CFR 240.19b-4(f)(6).



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/](http://markets.cboe.com/us/options/regulation/rule_filings/ctwo/)), at the Exchange's Office of the Secretary, and at the Commission's Public Reference Room.

**II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change**

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

**A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change**

**1. Purpose**

The Exchange proposes to amend its rules to allow for the Price Adjust process to apply to bulk messages and make corresponding changes where applicable. The Exchange is proposing these amendments in order to provide Options Members that submit bulk messages with functionality that is currently available to them for orders.

In February 2019, the Exchange adopted bulk messaging functionality, in which a User may enter, modify or cancel up to an Exchange-specified number of bids and offers. A User may submit a bulk message through a bulk port.<sup>5</sup> The System<sup>6</sup> handles bulk messages in the same manner as it handles an order, or quote if submitted by a Market-Maker, unless the Rules specify otherwise. Currently, Rule 6.10 allows a User to designate an order to be

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<sup>5</sup> See Rule 6.8(c)(3)

<sup>6</sup> The "System" is the automated trading system the Exchange uses for the trading of option contracts. See Rule 1.1.

subject to the Price Adjust process pursuant to Rule 6.12.<sup>7</sup> Pursuant to current Rule 6.12(b), the System ranks and displays a buy (sell) order that, at the time of entry, would lock or cross a Protected Quotation of the Exchange or another exchange at one minimum price increment below (above) the current National Best Offer (“NBO”) or National Best Bid (“NBB”), as applicable. The Price Adjust process applies to orders (subject to the User’s instructions or the Rules) that do not execute upon entry and go to rest in the C2 Book (for example, because an order is not marketable upon entry, is not eligible to route, etc.). It ensures these orders rest at executable prices in accordance with linkage rules.<sup>8</sup> Current Rules 6.10(c) and 6.12(b) state that the Price Adjust process does not apply to bulk messages.<sup>9</sup>

Current Rule 6.10(c) also provides for a Cancel Back order, in which a User may designate an order not to be subject to the Price Adjust process and the System cancels or rejects such order if displaying the order on the C2 Book would create a violation of Rule 6.82 (Locked and Crossed Markets), or if the order cannot otherwise be executed or displayed in the C2 Book at its limit price. The System executes a Book Only – Cancel Back order marketable against resting orders, and cancels or rejects a Post Only – Cancel Back order that locks or crosses the opposite side of the BBO.

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<sup>7</sup> An order that is not designated as Cancel Back is also subject to the Price Adjust process (*i.e.*, orders default to be subject to the Price Adjust process).

<sup>8</sup> See Section E of Chapter VI of the Rules. See also Options Order Protection and Locked/Crossed Market Plan (the “Linkage Plan”).

<sup>9</sup> Specifically, the multiple bids (offers) submitted through a bulk message. Therefore, as proposed, a Price Adjust or Cancel Back designation, as applicable, applies to all bulk message bids and offers within a single message.

Furthermore, current Rule 6.12(c) provides for additional System order handling provisions regarding bulk messages submitted through bulk quoting ports. Specifically, Rule 6.12(c)(6)(A) provides that the System will cancel or reject a Post Only bulk message bid (offer) with a price that locks or crosses the Exchange best offer (bid) or ABO (ABB).<sup>10</sup> The Exchange notes that bulk messages that include a Post Only instruction do not remove liquidity from the Exchange or route away to other exchanges.<sup>11</sup> Current Rule 6.12(c)(6)(A) is consistent with how the System handles a Post Only – Cancel Back order.<sup>12</sup> Additionally, current Rule 6.12(c)(6)(B) provides that the System cancels or rejects a Book Only bulk message bid (offer) that locks or crosses the ABO (ABB) against offers (bids) resting in the C2 Book at prices the same as or better than the ABO (ABO) and then cancels the unexecuted portion of that bid (offer). Book Only orders do not route away to other exchanges.<sup>13</sup> Current Rule 6.12(c)(6)(B) is consistent with how the System handles Book Only – Cancel Back orders.<sup>14</sup> The Exchange also notes that pursuant to Rule 6.8(c), a Market-Maker with an appointment in a class may designate a bulk message for that class as

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<sup>10</sup> The ABBO means the best bid (offer) disseminated by other exchanges.

<sup>11</sup> See Rule 6.10, which defines a “Post Only” order as an order the System ranks and executes pursuant to Rule 6.12, subjects to the Price Adjust process pursuant to Rule 6.12, or cancels or rejects (including if it is not subject to the Price Adjust process and locks or crosses a Protected Quotation of another exchange), as applicable (in accordance with User instructions), except the order may not remove liquidity from the Book or route away to another Exchange. Users may designate bulk messages as Post Only as set forth in Rule 6.8(c).

<sup>12</sup> See supra note 8.

<sup>13</sup> See Rule 6.10, which defines a “Book Only” order as an order the System ranks and executes pursuant to Rule 6.12, subjects to the Price Adjust process pursuant to Rule 6.12, or cancels, as applicable (in accordance with User instructions), without routing away to another exchange. Users may designate bulk messages as Book Only as set forth in Rule 6.8(c).

<sup>14</sup> See supra note 8.

Post Only or Book Only, and other Users (i.e., non-Market-Makers or Market-Makers without an appointment in a class) must designate a bulk message for that class as Post Only.<sup>15</sup>

The Exchange now proposes to amend Rule 6.10(c) and Rule 6.12(b) to permit Users to designate bulk messages to be subject to the Price Adjust process, and permit Users to opt-out of such process for bulk messages by designating bulk messages as Cancel Back. The Price Adjust and Cancel Back designations, as applicable, will apply to all bulk message bids and offers within a single message. The Exchange notes that Users have noted the regularity with which their bulk messages are rejected because Price Adjust does not apply to them. As a result, some Users find this inefficient when submitting bulk messages. The Exchange believes that allowing bulk messages to be subject to the Price Adjust process will provide market participants with additional opportunities for execution and price improvement, as well as additional flexibility and control over their submission of bulk messages. If a User does not want a bulk message to be subject to the Price Adjust process, it may designate the bulk message as Cancel Back, as noted above. A Cancel Back bulk message will be handled in the same manner as a bulk message is handled today.<sup>16</sup>

As proposed, all bulk messages would now be subject to the Price Adjust process if it locks or crosses the BBO or ABBO and rest in the C2 Book pursuant to the process, thus

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<sup>15</sup> Pursuant to the current Rules, a bulk message must be designated as Post Only or Book Only. Additionally, because bulk messages must include bids and offers, and may not be market orders, all bulk messages are limit orders. See Rules 1.1 and 6.10(b).

<sup>16</sup> The Exchange also proposes to make a non-substantive change to Rule 6.12(b) to amend the capitalization of “exchange” in the phrase “or another exchange”, which is consistent with the format of this phrase throughout the Rules.

avoiding display of a locked or crossed market in accordance with the linkage rules.<sup>17</sup> Therefore, the Exchange now proposes to remove Rules 6.12(c)(6)(A) and 6.12(c)(6)(B) (and amend the subsequent lettering as a result) because Post Only and Bulk Only bulk messages will now be included in the Price Adjust process, the handling of which would now be consistent with the current order handling of Post Only and Book Only orders under the Price Adjust process.<sup>18</sup> The Exchange also notes that all bulk messages not subject to the Price Adjust process (because the User has designated a bulk message as Cancel Back) would be handled in the same manner as the proposed deleted subparagraphs (c)(6)(A) and (c)(6)(B) pursuant to the Cancel Back instruction under Rule 6.10(c).

The Exchange notes that allowing bulk messages to be subject to a repricing process is consistent with the handling of similar order (and quote) types on other exchanges.<sup>19</sup> A similar repricing (display-price sliding) process for bulk messages currently exists under Rule 21.1(h)(1) of the Exchange's affiliated exchange, Cboe BZX Exchange, Inc. ("BZX Options"). The Exchange also notes that other exchanges subject orders (quotes) similar to Post Only and Book Only bulk messages to a repricing process like the Price Adjust process. For example, NYSE Arca, Inc. ("Arca") recently adopted order types called the Market Maker Add Liquidity Only quotation ("MMALO"), which like a Post Only instruction may not remove liquidity from the Exchange, and the Market Maker Repricing quotation ("MMRP").<sup>20</sup> Pursuant to Arca's repricing process, if these

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<sup>17</sup> See supra note 8.

<sup>18</sup> See supra notes 11 and 13.

<sup>19</sup> See Securities Exchange Act Release No. 84737 (December 6, 2018), 83 FR 63919 (December 12, 2018) (SR-NYSEArca-2018-74) (order approving the proposed order types). See also BZX Options Rule 21.1(h)(1).

<sup>20</sup> See Arca Rule 6.37A-O(a)(3)(A) and Rule 6.37A-O(a)(3)(C).

quotes would not be able to trade upon entry (for example, because the MMALO would take liquidity or display at a price that locks or crosses any interest on the Exchange or the NBBO), it would be displayed at one minimum price variation below (above) such sell (buy) interest.

## 2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the Securities Exchange Act of 1934 (the “Act”) and the rules and regulations thereunder applicable to the Exchange and, in particular, the requirements of Section 6(b) of the Act.<sup>21</sup> Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>22</sup> requirements that the rules of an exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest. Additionally, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>23</sup> requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

In particular, the Exchange believes that the proposed rule change subjecting bulk messages to the Price Adjust process will remove impediments to and perfect the mechanism of a free and open market because it provides Users with the flexibility to

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<sup>21</sup> 15 U.S.C. 78f(b).

<sup>22</sup> 15 U.S.C. 78f(b)(5).

<sup>23</sup> Id.

apply to bulk messages the same functionality they may apply to their orders. The Exchange believes that repricing bulk messages for Users (that do not opt out of the Price Adjust process), as opposed to automatically rejecting messages that lock or cross protected quotes when posted to the C2 Book, will permit Users to use bulk messages to respond to continuously changing market conditions in a more efficient manner, as well as provide additional opportunity for execution and price improvement. The proposed repricing of bulk messages prevents the display of a locked or crossed market and is consistent with the Linkage Plan,<sup>24</sup> thereby perfecting the mechanism of a free and open market and national market system and protecting investors.

The Exchange also believes that by providing Users with the ability to designate bulk messages as subject to the Price Adjust process instead of cancelling or rejecting these messages under certain circumstances, will give Users greater flexibility and control over the circumstances under which their orders are able to interact with contra side-interest on the Exchange. The Exchange believes this may increase the opportunities for execution at multiple price points and encourage the provision of more liquidity to the market, and therefore believes that it is reasonably designed to facilitate the mechanism of price discovery.

The Exchange notes that the options markets are quote driven markets and thus dependent on liquidity providers, which are most commonly registered market-makers but also other Users, such as professional traders, for liquidity and price discovery. The Exchange believes that subjecting bulk messages to the Price Adjust process will provide liquidity providers with greater flexibility with respect to their submission of bulk

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<sup>24</sup> See supra note 8.

messages, the primary purpose of which is to provide liquidity to the market. The Exchange believes that the reduction in the number of rejected bulk messages will promote efficacy in bulk messaging and may encourage the provision of more liquidity. This may result in more trading opportunities and tighter spreads and contribute to price discovery. As a result, this proposed change intends to improve overall market quality and enhance competition on the Exchange to the benefit of all investors.<sup>25</sup>

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 does not believe the proposed rule change will impose any burden on intramarket competition that is not necessary or appropriate in furtherance of the purposes of the Act, as the proposed application of the Price Adjust and the Cancel Back process to bulk messages will be available to all applicable Users (e.g. Market-Makers may submit Book Only bulk messages, therefore, the option to apply the Price Adjust or Cancel Back process to Book Only bulk messages is available to all Market-Makers). While bulk messages will by default be subject to the Price Adjust process, all Users may apply the Cancel Back instruction to bulk messages in order to opt out of that process for its bulk messages (and continue to have their bulk messages be handled in the same manner as they are today). The Exchange also notes that the Price Adjust and Cancel Back instructions are already available to all Users for orders, including Post Only

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<sup>25</sup> The Exchange also believes that its proposed change to amend the capitalization of “exchange” when referring to “another exchange” in Rule 6.12(b) is a clarifying change that will alleviate potential investor confusion because it is consistent with the format of this phrase throughout the Rules. See supra note 14.



and Book Only orders, and will apply to bulk messages in the same manner as they apply to orders.

The Exchange does not believe 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 it will provide Users with bulk message repricing functionality that is similar to other order and quote repricing available on other options exchanges. The Exchange believes the proposed functionality will permit the Exchange to operate on an even playing field relative to other exchanges that have similar functionality.

As discussed above, the options markets are quote driven markets and thus dependent on various Users as liquidity providers and for price discovery. The Exchange believes the proposed amendment to subject bulk messages to the Price Adjust process will provide liquidity providers with additional flexibility and control over interactions of their bulk messages with contra-side liquidity, as well as additional opportunity for execution at multiple price points and price improvement. This may encourage the provision of more liquidity, which may result in more trading opportunities and tighter spreads, and contribute to price discovery. This may improve overall market quality and enhance competition on the Exchange, to the benefit of all investors.

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<sup>26</sup> and Rule 19b-4(f)(6)<sup>27</sup> 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:

#### **Electronic comments:**

- Use the Commission's Internet comment form

(<http://www.sec.gov/rules/sro.shtml>); or

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<sup>26</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>27</sup> 17 CFR 240.19b-4(f)(6).

- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-C2-2019-012 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-C2-2019-012. 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-C2-2019-012 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>28</sup>

Secretary

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<sup>28</sup> 17 CFR 200.30-3(a)(12).

## EXHIBIT 5

(additions are underlined; deletions are [bracketed])

\* \* \* \* \*

**Rules of Cboe C2 Exchange, Inc.**

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**Rule 6.10. Availability of Orders**

(a)-(b) No change.

(c) *Order Instructions*. An “Order Instruction” is a processing instruction a User may apply to an order or quote (multiple instructions may apply to a single order), subject to the restrictions set forth in Rule 6.8(c) with respect to orders and bulk messages submitted through bulk ports, when entering it into the System and includes:

\* \* \* \* \*

**Cancel Back**

A “Cancel Back” order (including bulk messages) is an order a User designates to not be subject to the Price Adjust Process pursuant to Rule 6.12 that the System cancels or rejects (immediately at the time the System receives the order or upon return to the System after being routed away) if displaying the order on the Book would create a violation of Rule 6.82, or if the order cannot otherwise be executed or displayed in the Book at its limit price. The System executes a Book Only – Cancel Back order against resting orders, and cancels or rejects a Post Only – Cancel Back order, that locks or crosses the opposite side of the BBO. [Users may not designate bulk messages as Cancel Back.]

\* \* \* \* \*

**Price Adjust**

A “Price Adjust” order is an order (including bulk messages) a User designates to be subject to the Price Adjust process pursuant to Rule 6.12 or not designated as Cancel Back. [The Price Adjust process does not apply to bulk messages.]

\* \* \* \* \*

**Rule 6.12. Order and Quote Book Processing, Display, Priority, and Execution**

(a) No change.

(b) *Price Adjust.* Unless a User enters instructions for an order (including bulk messages) to not be subject to the Price Adjust process in this paragraph (b), the System ranks and displays a buy (sell) order that, at the time of entry, would lock or cross a Protected Quotation of the Exchange or another [E]xchange at one minimum price increment below (above) the current NBO (NBB) (“Price Adjust”). [The Price Adjust process does not apply to bulk messages.]

(1)-(3) No change.

(c) *Additional Order Handling.*

(1)-(5) No change.

(6) *Bulk Messages and Orders Submitted Through Bulk Quoting Ports.*

[(A) The System cancels or rejects a Post Only bulk message bid (offer) with a price that locks or crosses the Exchange best offer (bid) or ABO (ABB).]

[(B) The System executes a Book Only bulk message bid (offer) that locks or crosses the ABO (ABB) against offers (bids) resting in the Book at prices the same as or better than the ABO (ABB) and then cancels the unexecuted portion of that bid (offer).

(C)] The System cancels or rejects a Book Only bulk message bid (offer) or order bid (offer) (or unexecuted portion) submitted by a Market-Maker with an appointment in the class through a bulk port if it would execute against a resting offer (bid) with a Capacity of M.

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