

OMB APPROVAL

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

File No.* SR - 2019 - * 026

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

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 the Maximum Composite Width Check of the opening rotation as provided in subparagraph (e)(1) of Exchange Rule 6.11.

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 * Sarah Last Name * Tadtman
 Title * Counsel
 E-mail * stadtman@cboe.come
 Telephone * (913) 815-7203 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 12/04/2019

By Adrian Griffiths

(Name *)

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.

agriffiths@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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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 Sent As Paper Document

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Exhibit 3 - Form, Report, or Questionnaire

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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 Sent As Paper Document

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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 amend the Maximum Composite Width Check of the opening rotation as provided in subparagraph (e)(1) of Exchange Rule 6.11. 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 November 15, 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 Sarah Tadtman, Counsel, (913) 815-7203.

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

(a) Purpose

Exchange Rule 6.11 sets forth the Exchange’s opening auction process. Paragraph (e) of the Rule provides the opening rotation process, during which the System will determine whether the Composite Market¹ for a series is not wider than a maximum width, will determine the opening price, and open the series. Subparagraph (e)(1) provides that the

¹ The term “Composite Market” means the market for a series comprised of (1) the higher of the then-current best appointed Market-Maker bulk message bid on the Exchange and the ABB (if there is an ABB) and (2) the lower of the then-current best appointed Market-Maker bulk message offer on the Exchange and the ABO (if there is an ABO). The term “Composite Bid (Offer)” means the bid (offer) used to determine the Composite Market. See Exchange Rule 6.11(a).

System will determine whether the Composite Market for a series is not wider than a maximum width, as follows:

- If the Composite Width² of a series is less than or equal to the Maximum Composite Width,³ the series is eligible to open (and the System determines the Opening Price).⁴
- If the Composite Width of a series is greater than the Maximum Composite Width, but there are no non-M Capacity⁵ market orders or buy (sell) limit orders with prices higher (lower) than the Composite Bid (Offer) and there are no locked or crossed orders or quotes, the series is eligible to open (and the System determines the Opening Price).⁶

² The term “Composite Width” means the width of the Composite Market (*i.e.*, the width between the Composite Bid and the Composite Offer) of a series. See Exchange Rule 6.11(a).

³ The term “Maximum Composite Width” means the amount that the Composite Width of a series may generally not be greater than for the series to open (subject to certain exceptions set forth in subparagraph (e)(1)). The Exchange determines this amount on a class and Composite Bid basis, which amount the Exchange may modify during the opening auction process (which modifications the Exchange disseminates to all subscribers to the Exchange’s data feeds that deliver opening auction updates). See Exchange Rule 6.11(a).

⁴ See Exchange Rule 6.11(e)(1)(A).

⁵ Capacity M is used for orders for the account of a Market-Maker (with an appointment in the class), thus “non-M Capacity” orders refer to orders entered for the accounts of non-Market-Makers (e.g., Customer or Firm accounts). See U.S. Options Binary Order Entry Specifications, at 28 (definition of Capacity), available at http://cdn.cboe.com/resources/membership/US_Options_BOE_Specification.pdf.

⁶ See Exchange Rule 6.11(e)(1)(B).

- If neither of the conditions above are satisfied for a series, or if the Composite Market of a series is crossed, the series is ineligible to open. The Queuing Period⁷ for the series continues (including the dissemination of opening auction updates) until one of the above conditions for the series is satisfied, or the Exchange opens the series pursuant to paragraph (h).⁸

The Exchange implemented the price protection measure of subparagraph (e)(1)(B) in order to conservatively protect non-M capacity orders from executing in the Opening Auction Process at an extreme price. While it is possible for Market-Makers to submit orders to the Exchange at an extreme price, the Exchange believes there is less risk of a Market-Maker inputting an order at an extreme price given that Market-Makers are generally responsible for pricing the market. The following example shows the application of the Maximum Composite Width check provided for in subparagraph (e)(1)(B) and the type of extreme trade price for which the check is intended to limit.

Example #1

Suppose the Maximum Composite Width for a class is 1.00, and the Composite Market is 5.00 x 20.00 comprised of an appointed Market-Maker bulk message bid of 5.00 and an appointed Market-Maker bulk message offer of 20.00. There is a non-M capacity limit order to buy for 18.00 in the Queuing Book. Prior to the open, the Exchange does not know the market value of the option series; however, assume that the intrinsic value of the option series is 6.00. In this case, the series would not be eligible to open because the width

⁷ The term “Queuing Period” means the time period prior to the initiation of an opening rotation during which the System accepts orders and quotes in the Queuing Book for participation in the opening rotation for the applicable trading session. See Exchange Rule 6.11(a).

⁸ See Exchange Rule 6.11(e)(1)(C).

of the Composite Market is greater than the Maximum Composite Width, and there is a non-M Capacity order at a price inside of the Composite Market. If the Exchange permitted the option series to open in this circumstance, the non-M capacity limit order may execute in the Opening Auction Process at its limit price, which the Exchange would consider an extreme price given that the intrinsic value of the option series is 6.00. Therefore, subparagraph (e)(1)(B) is designed to protect the non-M capacity order from executing at such an extreme price by not opening the option series in such a scenario.

However, in certain instances where the Composite Market is wide, the Exchange believes the conditions of subparagraph (e)(1)(B) may be overly conservative and unnecessarily prevent the opening of a series when the risk of execution at the open at an extreme price is minimal. The following example shows the application of the Maximum Composite Width check provided for in subparagraph (e)(1)(B) and the type of non-extreme trade price for which the check will limit.

Example #2

Suppose the Maximum Composite Width for a class is 1.00, and the Composite Market is 5.00 x 7.00 comprised of an appointed Market-Maker bulk message bid of 5.00 and an appointed Market-Maker bulk message offer of 7.00. There is a non-M capacity limit order to buy for 5.75 in the Queuing Book.⁹ Prior to the open, the Exchange does not know

⁹ The term “Queuing Book” means the book into which Users may submit orders and quotes (and onto which Good-til-Cancelled (“GTC”) and Good-til-Date (“GTD”) orders remaining on the Book from the previous trading session or trading day, as applicable, are entered) during the Queuing Period for participation in the applicable opening rotation. Orders and quotes on the Queuing Book may not execute until the opening rotation. The Queuing Book for the Global Trading Hours (“GTH”) opening auction process may be referred to as the “GTH Queuing Book,” and the Queuing Book for the Regular Trading Hours

the market value of the option series; however, assume that the intrinsic value of the option series is 5.75. In this case, the series would not be eligible to open because the width of the Composite Market is greater than the Maximum Composite Width, and there is a non-M Capacity order at a price inside of the Composite Market.

As demonstrated in Example #2, subparagraph (e)(1)(B) provides no circumstance under which a non-M capacity order may improve the Composite Market when the Composite Width is greater than the Maximum Composite Width that would allow the Exchange to open the series, even when such non-M capacity order is not entered at an extreme limit price. Given this, the Exchange proposes to amend subparagraph (e)(1)(B) to allow the Exchange to open a series if the Composite Width is greater than the Maximum Composite Width and there are non-M Capacity limit orders at a price better than the Composite Bid (Offer) in certain circumstances. Specifically, the proposed amendment will allow the Exchange to open a series if the Composite Width of a series is greater than the Maximum Composite Width, but there are no non-M Capacity market orders or buy (sell) limit orders with prices higher (lower) than the Composite Market midpoint and there are no locked or crossed orders or quotes. Thus, under proposed subparagraph (e)(1)(B), the Exchange would allow the option series to open in Example #2 above as the non-M capacity limit bid was entered at a price lower than the Composite Market midpoint. The proposed amendment would continue to limit the risk of a non-M capacity order executing at an extreme price in Example #1 as the non-M capacity limit bid was entered at a price higher than the Composite Market midpoint.

(“RTH”) opening auction process may be referred to as the “RTH Queuing Book.” See Exchange Rule 6.11(a).

The Exchange believes the proposed amendment strikes a reasonable balance between protecting non-M capacity orders from executing at extreme prices and encouraging the submission of non-M capacity orders at prices that improve the Composite Market, which will allow the Exchange to open series earlier and also allow for more trading opportunities on the Exchange throughout the trading day. The Exchange believes the proposed amendment is reasonable, as it will allow the Exchange to open series on a less restrictive basis and potentially earlier, while still limiting the risk of a non-M capacity order executing at an extreme price on the open. If the width of the Composite Market (which the Exchange believes represents the prices most reflective of the market, as it is comprised of the better of Market-Maker bulk messages on the Exchange or any away market quotes) is no greater than the Maximum Composite Width, the Exchange will open the series because there is minimal risk of execution at an extreme price. Further, the Exchange notes that there are other price protections available to limit the risk of executions at an extreme price (e.g., drill-through protection).¹⁰ However, if the Composite Width is greater than the Maximum Composite Width but there are no non-M Capacity bids (offers) higher (lower) than the midpoint of the Composite Market (and thus better than the best Composite Bid (Offer) but still not marketable at a price at which the Exchange would open), there is minimal risk of an order executing at an extreme price on the open. Because the risk that the Maximum Composite Width Check is intended to address is limited in this situation and also because any such orders would be subject to other price protections to further limit this risk, and that the Exchange believes such minimal risk is outweighed by the benefits of additional trading

¹⁰ The Exchange notes that drill-through protection is designed to limit a marketable non-bulk message bid (offer) from executing a certain amount higher (lower) than the National Best Offer (National Best Bid) or the Opening Collar. See Exchange Rule 6.14(a)(4).

opportunities by opening these series earlier, the Exchange believes it is appropriate to open a series in either of these conditions. Therefore, if neither the 1) Composite Width of a series is less than or equal to the Maximum Composite Width, nor 2) if the Composite Width of a series is greater than the Maximum Composite Width, but there are no non-M Capacity¹¹ market orders or buy (sell) limit orders with prices higher (lower) than the Composite Market midpoint and there are no locked or crossed orders or quotes, the Exchange continues to believe there may be higher risk that orders would execute at an extreme price if the series opened, and therefore the Exchange will continue to not open a series.

(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.¹² Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)¹³ 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

¹¹ Capacity M is used for orders for the account of a Market-Maker (with an appointment in the class), thus “non-M Capacity” orders refer to orders entered for the accounts of non-Market-Makers (e.g., Customer or Firm accounts). See Exchange Rule 1.1.

¹² 15 U.S.C. 78f(b).

¹³ 15 U.S.C. 78f(b)(5).

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

The Exchange believes proposed Rule 6.11(e) will protect investors, because it will continue to limit the risk of execution of orders at extreme prices at the open in a manner similar to the existing Rule. The Exchange also believes the proposed amendment will benefit market participants as it may encourage the submission of orders at prices that improve the Composite Market in the Opening Auction Process on the Exchange, and allow the Exchange to open series earlier, which may also allow for more trading opportunities on the Exchange throughout the trading day.

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 that the proposed amendment will impose any burden on intramarket competition that is not necessary or appropriate in furtherance of the purposes of the Act, because it will apply to orders and quotes of all market participants in the same manner. Further, the proposed amendment would allow trading in options series to open sooner, which would benefit all market participants in these series. The Exchange notes that the protections of Rule 6.11(e)(1)(B) are not applied to Market-Maker orders because the Exchange believes there is less risk of a Market-Maker inputting an order at an extreme price given that Market-Makers are generally responsible for pricing the market.

¹⁴ Id.

The Exchange does not believe that the proposed rule change to amend the Maximum Composite Width Check of the opening rotation will impose any burden on intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act, because the proposed rule change only impacts the conditions under which a series will open on the Exchange. The proposed amendment may increase participation in the Opening Auction Process and further allow more series to open on the Exchange to the benefit of all Exchange Trading Permit Holders.

The Exchange believes the proposed rule change may enhance intermarket competition by encouraging the submission of orders at improved prices in the Opening Auction Process and allowing more series to open on the Exchange in a more timely manner. Further, the proposed amendment will continue to limit the risk of orders executing at extreme prices at the open in a similar manner as set forth under current Rule 6.11(e).

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 Act¹⁵ and Rule 19b-4(f)(6)¹⁶ 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 the proposed amendment will not significantly affect the protection of investors of the public interest. The Exchange believes the proposed amendment may encourage the submission of orders at improved prices in the Opening Auction Process on the Exchange, and allow the Exchange to open series earlier, to the benefit of Exchange Trading Permit Holders. However, Rule 6.11(e) (and other price protections) continues to provide for price protection measures designed to limit the risk of orders executing at extreme prices at the open.

For the foregoing reasons, this rule filing qualifies as a “non-controversial” rule change under Rule 19b-4(f)(6). The Exchange respectfully requests that the Commission

¹⁵ 15 U.S.C. 78s(b)(3)(A).

¹⁶ 17 CFR 240.19b-4(f)(6).

waive 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 functionality is scheduled to become available on December 6, 2019. The proposed rule change is not novel or unique, and is merely changing the price against which the Composite Width Check uses as a measurement to protect against executions at a potentially erroneous price at the open. As noted above, the Exchange believes the Maximum Composite Width Check will continue to limit the risk of executions at extreme prices, and executions will be subject to other price protections on the Exchange. Waiver of the operative delay will benefit/protect investors, because it would allow the Exchange to implement this proposed functionality, which the Exchange believes may encourage submission of orders at improved prices in the Opening Auction Process on the Exchange and allow the Exchange to open series earlier, which will allow for more trading opportunities on the Exchange throughout the trading day, as soon as its available.

(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 not based on a rule either of another self-regulatory organization or of the Commission.

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-C2-2019-026]

[Insert date]

Self-Regulatory Organizations; Cboe C2 Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend the Maximum Composite Width Check of the Opening Rotation as Provided in Subparagraph (e)(1) of Exchange Rule 6.11

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 Act³ and Rule 19b-4(f)(6) thereunder.⁴ The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

Cboe C2 Exchange, Inc. (the “Exchange” or “C2”) proposes to amend the Maximum Composite Width Check of the opening rotation as provided in subparagraph (e)(1) of Exchange Rule 6.11. 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://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

Exchange Rule 6.11 sets forth the Exchange's opening auction process. Paragraph (e) of the Rule provides the opening rotation process, during which the System will determine whether the Composite Market⁵ for a series is not wider than a maximum width, will determine the opening price, and open the series. Subparagraph (e)(1) provides that the System will determine whether the Composite Market for a series is not wider than a maximum width, as follows:

⁵ The term "Composite Market" means the market for a series comprised of (1) the higher of the then-current best appointed Market-Maker bulk message bid on the Exchange and the ABB (if there is an ABB) and (2) the lower of the then-current best appointed Market-Maker bulk message offer on the Exchange and the ABO (if there is an ABO). The term "Composite Bid (Offer)" means the bid (offer) used to determine the Composite Market. See Exchange Rule 6.11(a).

- If the Composite Width⁶ of a series is less than or equal to the Maximum Composite Width,⁷ the series is eligible to open (and the System determines the Opening Price).⁸
- If the Composite Width of a series is greater than the Maximum Composite Width, but there are no non-M Capacity⁹ market orders or buy (sell) limit orders with prices higher (lower) than the Composite Bid (Offer) and there are no locked or crossed orders or quotes, the series is eligible to open (and the System determines the Opening Price).¹⁰
- If neither of the conditions above are satisfied for a series, or if the Composite Market of a series is crossed, the series is ineligible to open. The Queuing Period¹¹ for the series continues (including the dissemination of opening auction updates)

⁶ The term “Composite Width” means the width of the Composite Market (*i.e.*, the width between the Composite Bid and the Composite Offer) of a series. See Exchange Rule 6.11(a).

⁷ The term “Maximum Composite Width” means the amount that the Composite Width of a series may generally not be greater than for the series to open (subject to certain exceptions set forth in subparagraph (e)(1)). The Exchange determines this amount on a class and Composite Bid basis, which amount the Exchange may modify during the opening auction process (which modifications the Exchange disseminates to all subscribers to the Exchange’s data feeds that deliver opening auction updates). See Exchange Rule 6.11(a).

⁸ See Exchange Rule 6.11(e)(1)(A).

⁹ Capacity M is used for orders for the account of a Market-Maker (with an appointment in the class), thus “non-M Capacity” orders refer to orders entered for the accounts of non-Market-Makers (e.g., Customer or Firm accounts). See U.S. Options Binary Order Entry Specifications, at 28 (definition of Capacity), available at http://cdn.cboe.com/resources/membership/US_Options_BOE_Specification.pdf.

¹⁰ See Exchange Rule 6.11(e)(1)(B).

¹¹ The term “Queuing Period” means the time period prior to the initiation of an opening rotation during which the System accepts orders and quotes in the Queuing Book for participation in the opening rotation for the applicable trading session. See Exchange Rule 6.11(a).

until one of the above conditions for the series is satisfied, or the Exchange opens the series pursuant to paragraph (h).¹²

The Exchange implemented the price protection measure of subparagraph (e)(1)(B) in order to conservatively protect non-M capacity orders from executing in the Opening Auction Process at an extreme price. While it is possible for Market-Makers to submit orders to the Exchange at an extreme price, the Exchange believes there is less risk of a Market-Maker inputting an order at an extreme price given that Market-Makers are generally responsible for pricing the market. The following example shows the application of the Maximum Composite Width check provided for in subparagraph (e)(1)(B) and the type of extreme trade price for which the check is intended to limit.

Example #1

Suppose the Maximum Composite Width for a class is 1.00, and the Composite Market is 5.00 x 20.00 comprised of an appointed Market-Maker bulk message bid of 5.00 and an appointed Market-Maker bulk message offer of 20.00. There is a non-M capacity limit order to buy for 18.00 in the Queuing Book. Prior to the open, the Exchange does not know the market value of the option series; however, assume that the intrinsic value of the option series is 6.00. In this case, the series would not be eligible to open because the width of the Composite Market is greater than the Maximum Composite Width, and there is a non-M Capacity order at a price inside of the Composite Market. If the Exchange permitted the option series to open in this circumstance, the non-M capacity limit order may execute in the Opening Auction Process at its limit price, which the Exchange would consider an extreme price given that the intrinsic value of the option series is 6.00. Therefore, subparagraph

¹² See Exchange Rule 6.11(e)(1)(C).

(e)(1)(B) is designed to protect the non-M capacity order from executing at such an extreme price by not opening the option series in such a scenario.

However, in certain instances where the Composite Market is wide, the Exchange believes the conditions of subparagraph (e)(1)(B) may be overly conservative and unnecessarily prevent the opening of a series when the risk of execution at the open at an extreme price is minimal. The following example shows the application of the Maximum Composite Width check provided for in subparagraph (e)(1)(B) and the type of non-extreme trade price for which the check will limit.

Example #2

Suppose the Maximum Composite Width for a class is 1.00, and the Composite Market is 5.00 x 7.00 comprised of an appointed Market-Maker bulk message bid of 5.00 and an appointed Market-Maker bulk message offer of 7.00. There is a non-M capacity limit order to buy for 5.75 in the Queuing Book.¹³ Prior to the open, the Exchange does not know the market value of the option series; however, assume that the intrinsic value of the option series is 5.75. In this case, the series would not be eligible to open because the width of the Composite Market is greater than the Maximum Composite Width, and there is a non-M Capacity order at a price inside of the Composite Market.

¹³ The term “Queuing Book” means the book into which Users may submit orders and quotes (and onto which Good-til-Cancelled (“GTC”) and Good-til-Date (“GTD”) orders remaining on the Book from the previous trading session or trading day, as applicable, are entered) during the Queuing Period for participation in the applicable opening rotation. Orders and quotes on the Queuing Book may not execute until the opening rotation. The Queuing Book for the Global Trading Hours (“GTH”) opening auction process may be referred to as the “GTH Queuing Book,” and the Queuing Book for the Regular Trading Hours (“RTH”) opening auction process may be referred to as the “RTH Queuing Book.” See Exchange Rule 6.11(a).

As demonstrated in Example #2, subparagraph (e)(1)(B) provides no circumstance under which a non-M capacity order may improve the Composite Market when the Composite Width is greater than the Maximum Composite Width that would allow the Exchange to open the series, even when such non-M capacity order is not entered at an extreme limit price. Given this, the Exchange proposes to amend subparagraph (e)(1)(B) to allow the Exchange to open a series if the Composite Width is greater than the Maximum Composite Width and there are non-M Capacity limit orders at a price better than the Composite Bid (Offer) in certain circumstances. Specifically, the proposed amendment will allow the Exchange to open a series if the Composite Width of a series is greater than the Maximum Composite Width, but there are no non-M Capacity market orders or buy (sell) limit orders with prices higher (lower) than the Composite Market midpoint and there are no locked or crossed orders or quotes. Thus, under proposed subparagraph (e)(1)(B), the Exchange would allow the option series to open in Example #2 above as the non-M capacity limit bid was entered at a price lower than the Composite Market midpoint. The proposed amendment would continue to limit the risk of a non-M capacity order executing at an extreme price in Example #1 as the non-M capacity limit bid was entered at a price higher than the Composite Market midpoint.

The Exchange believes the proposed amendment strikes a reasonable balance between protecting non-M capacity orders from executing at extreme prices and encouraging the submission of non-M capacity orders at prices that improve the Composite Market, which will allow the Exchange to open series earlier and also allow for more trading opportunities on the Exchange throughout the trading day. The Exchange believes the proposed amendment is reasonable, as it will allow the Exchange

to open series on a less restrictive basis and potentially earlier, while still limiting the risk of a non-M capacity order executing at an extreme price on the open. If the width of the Composite Market (which the Exchange believes represents the prices most reflective of the market, as it is comprised of the better of Market-Maker bulk messages on the Exchange or any away market quotes) is no greater than the Maximum Composite Width, the Exchange will open the series because there is minimal risk of execution at an extreme price. Further, the Exchange notes that there are other price protections available to limit the risk of executions at an extreme price (e.g., drill-through protection).¹⁴ However, if the Composite Width is greater than the Maximum Composite Width but there are no non-M Capacity bids (offers) higher (lower) than the midpoint of the Composite Market (and thus better than the best Composite Bid (Offer) but still not marketable at a price at which the Exchange would open), there is minimal risk of an order executing at an extreme price on the open. Because the risk that the Maximum Composite Width Check is intended to address is limited in this situation and also because any such orders would be subject to other price protections to further limit this risk, and that the Exchange believes such minimal risk is outweighed by the benefits of additional trading opportunities by opening these series earlier, the Exchange believes it is appropriate to open a series in either of these conditions. Therefore, if neither the 1) Composite Width of a series is less than or equal to the Maximum Composite Width, nor 2) if the Composite Width of a series is greater than the Maximum Composite Width, but

¹⁴ The Exchange notes that drill-through protection is designed to limit a marketable non-bulk message bid (offer) from executing a certain amount higher (lower) than the National Best Offer (National Best Bid) or the Opening Collar. See Exchange Rule 6.14(a)(4).

there are no non-M Capacity¹⁵ market orders or buy (sell) limit orders with prices higher (lower) than the Composite Market midpoint and there are no locked or crossed orders or quotes, the Exchange continues to believe there may be higher risk that orders would execute at an extreme price if the series opened, and therefore the Exchange will continue to not open a series.

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.¹⁶ Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)¹⁷ 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

¹⁵ Capacity M is used for orders for the account of a Market-Maker (with an appointment in the class), thus “non-M Capacity” orders refer to orders entered for the accounts of non-Market-Makers (e.g., Customer or Firm accounts). See Exchange Rule 1.1.

¹⁶ 15 U.S.C. 78f(b).

¹⁷ 15 U.S.C. 78f(b)(5).

the Section 6(b)(5)¹⁸ requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The Exchange believes proposed Rule 6.11(e) will protect investors, because it will continue to limit the risk of execution of orders at extreme prices at the open in a manner similar to the existing Rule. The Exchange also believes the proposed amendment will benefit market participants as it may encourage the submission of orders at prices that improve the Composite Market in the Opening Auction Process on the Exchange, and allow the Exchange to open series earlier, which may also allow for more trading opportunities on the Exchange throughout the trading day.

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 that the proposed amendment will impose any burden on intramarket competition that is not necessary or appropriate in furtherance of the purposes of the Act, because it will apply to orders and quotes of all market participants in the same manner. Further, the proposed amendment would allow trading in options series to open sooner, which would benefit all market participants in these series. The Exchange notes that the protections of Rule 6.11(e)(1)(B) are not applied to Market-Maker orders because the Exchange believes there is less risk of a Market-Maker inputting an order at an extreme price given that Market-Makers are generally responsible for pricing the market.

¹⁸

Id.

The Exchange does not believe that the proposed rule change to amend the Maximum Composite Width Check of the opening rotation will impose any burden on intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act, because the proposed rule change only impacts the conditions under which a series will open on the Exchange. The proposed amendment may increase participation in the Opening Auction Process and further allow more series to open on the Exchange to the benefit of all Exchange Trading Permit Holders.

The Exchange believes the proposed rule change may enhance intermarket competition by encouraging the submission of orders at improved prices in the Opening Auction Process and allowing more series to open on the Exchange in a more timely manner. Further, the proposed amendment will continue to limit the risk of orders executing at extreme prices at the open in a similar manner as set forth under current Rule 6.11(e).

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 Act¹⁹ and Rule 19b-4(f)(6)²⁰ 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
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-C2-2019-026 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-C2-2019-026. 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

¹⁹ 15 U.S.C. 78s(b)(3)(A).

²⁰ 17 CFR 240.19b-4(f)(6).

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-C2-2019-026 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.²¹

Secretary

²¹ 17 CFR 200.30-3(a)(12).

EXHIBIT 5

(additions are underlined; deletions are [bracketed])

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Rules of Cboe C2 Exchange, Inc.

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Rule 6.11. Opening Auction Process

(a)-(d) No change.

(e) *Opening Rotation.* After the System initiates the opening rotation for a series pursuant to paragraph (d) above, the System conducts the opening rotation as follows.

(1) *Maximum Composite Width Check.*

(A) No change.

(B) If the Composite Market of a series is not crossed, and the Composite Width of the series is greater than the Maximum Composite Width, but there are (i) no non-M Capacity (a) market orders or (b) buy (sell) limit orders with prices higher (lower) than the Composite [Bid (Offer)] Market midpoint and (ii) no orders or quotes marketable against each other, the series is eligible to open (and the System determines the Opening Trade Price pursuant to subparagraph (2) below).

(C) No change.

(2)-(3) No change.

(f)-(i) No change.

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