Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 23

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

File No. * SR 2022 - * 005
Amendment No. (req. for Amendments *)

Filing by Cboe C2 Exchange, Inc.

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

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

Pilot	Extension of Time Period for Commission Action *	Date Expires *
☐	☐	

Rule

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

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 modify how drill-through price protection applies to orders submitted by a User when multiple Stop Order and Stop-Limit Orders are triggered by the same price.

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 * Matthew
Last Name * Iwamaye

Title * Assistant General Counsel

E-mail * miwamaye@cboe.com

Telephone * (908) 489-1150
Fax

Signature

Pursuant to the requirements of the Securities Exchange of 1934, Cboe C2 Exchange, Inc.
has duty caused this filing to be signed on its behalf by the undersigned thereunto duty authorized.

Date 02/17/2022

By Laura G. Dickman
(Name *)

(Title *)
VP, Associate General Counsel

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

Laura Dickman Date: 2022.02.17 12:19:53 -06'00'

Required fields are shown with yellow backgrounds and astericks.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information * Add Remove View C2-22-005 (Drill-Through Price Protec	The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.
Exhibit 1 - Notice of Proposed Rule Change * Add Remove View C2-22-005 (Drill-Through Price Protec	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 Advanced Notice by Clearing Agencies * Add Remove View	The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)
Exhibit 2- Notices, Written Comments, Transcripts, Other Communications Add Remove View	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
Exhibit 3 - Form, Report, or Questionnaire Add Remove View	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
Exhibit 4 - Marked Copies Add Remove View	The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.
Exhibit 5 - Proposed Rule Text Add Remove View C2-22-005 (Drill-Through Protection) E	The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change
Partial Amendment Add Remove View	If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

1. Text of the Proposed Rule Change

(a) Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")[1] and Rule 19b-4 thereunder,[2] Cboe C2 Exchange, Inc. ("C2" or the "Exchange") is filing with the Securities and Exchange Commission (the "Commission") a proposal to modify how drill-through price protection applies to Users'[3] orders when multiple Stop (Stop-Loss) and Stop-Limit orders are triggered by the same price.

The text of the proposed rule change is enclosed as Exhibit 5. The text of the proposed rule change is available on the Exchange's website at http://markets.cboe.com/, at the Exchange's principal office and at the Public Reference Room of the Commission.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

(a) The Exchange's President (or designee) pursuant to delegated authority approved the proposed rule change on January 27, 2022. The Exchange will provide Trading Permit Holders with sufficient advanced notice of the implementation date of the proposed change via Exchange notice.

(b) Please refer questions and comments on the proposed rule change to Patrick Sexton, Executive Vice President, General Counsel, and Corporate Secretary, (312) 786-7462, or Matthew Iwamaye, Senior Director, Assistant General Counsel, (908) 489-1150.

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

---

1 15 U.S.C. 78s(b)(1).

2 17 CFR 240.19b-4.

3 The Term "User" shall mean any Trading Privilege Holder (TPH) or Sponsored User who is authorized to obtain access to the System pursuant to Rule 5.5.

(a) Purpose

The purpose of this rule filing is to amend current Rule 5.34(a)(4), Order and Quote Price Protection Mechanisms and Risk Controls, to add new Rule 5.34(a)(4)(E), which modifies what the drill-through price will be for Stop (Stop-Loss)[4] and Stop-Limit[5] orders when multiple Stop and Stop-Limit orders are triggered by the same stop price specified by Users.

Drill-through price protection is currently described in Exchange Rule 5.34(a)(4)(A). Rule 5.34(a)(4)(A) equates the drill-through reference price for a buy (sell) order to a price up to a buffer amount (the Exchange determines the buffer amount on a class and premium basis) above (below) the offer (bid) limit of the Opening Collar or the NBO (NBB) that existed at the time of order entry, respectively (the, "drill-through price").[6]

---

4 A "Stop (Stop-Loss)" order is an order to buy (sell) that becomes a market order when the consolidated last sale price (excluding prices from complex order trades if outside of the NBBO) or NBB (NBO) for a particular option contract is equal to or above (below) the stop price specified by the User. Users may not designate a Stop Order as All Sessions. Users may not designate bulk messages as Stop Orders. A User may not designate a Stop order as Direct to PAR. *See* Rule 5.6(c) (definition of "Stop (Stop-Loss)" order).

5 A "Stop-Limit" order is an order to buy (sell) that becomes a limit order when the consolidated last sale price (excluding prices from complex order trades if outside the NBBO) or NBB (NBO) for a particular option contract is equal to or above (below) the stop price specified by the User. A User may not designate a Stop-Limit Order as All Sessions. Users may not designate bulk messages as Stop-Limit Orders. A User may not designate a Stop-Limit order as Direct to PAR. *See* Rule 5.6(c) (definition of "Stop-Limit" order).

6 *See* Rule 5.34(a)(4)(A).

Currently, when multiple Stop (Stop-Loss) or Stop-Limit orders are triggered by the same price, the System[7] considers them separate orders received in sequence and enters them sequentially into the Book.[8] As such, when determining the drill-through price for each order, the System uses the contra side NBBO that existed at the time each of the orders was entered into the Book.[9] By applying drill-through price protection in this manner, the Exchange has observed, particularly in thinly traded markets, that the first order triggered will trade with the best priced contra-side order, while the second triggered order can trade at prices that may be multiple price levels away, as it is using the NBBO that existed after the first triggered order executed. Accordingly, the Exchange seeks to enhance the drill-through price functionality as it relates to Stop (Stop-Loss) and Stop Limit Orders, through the addition of proposed Rule 5.34(a)(4)(E). Under proposed Rule 5.34(a)(4)(E), rather than using separate drill-through prices for each individual Stop and Stop-Limit order, the System will instead use the contra-side NBBO that existed at the time the first order in sequence was entered into the Book as the drill-through price, for all orders. This is the drill-through price that would apply to each Stop or Stop-Limit order if it was the only one triggered at that price. By way of illustration, consider the following examples:

---

7 "System" means the Exchange's hybrid trading platform that integrates electronic and open outcry trading of option contracts on the Exchange and includes any connectivity to the foregoing trading platform that is administered by or on behalf of the Exchange, such as a communications hub. *See* Rule 1.1. (definition of, "System").

8 "Book" means the electronic book of simple orders and quotes maintained by the System, which single book is used during both the regular trading hours and global trading hours trading sessions. *See* Rule 1.1 (definition of, "Book").

9 *See* Rule 5.34(a)(4)(A)

Example 1 – Current Functionality

Assume that the drill-through price buffer[10] for a certain option series is $0.25, and that the following quotes are in the Book: Quote 1 (NBBO): 5.00 x 7.00; Quote 2: 4.00 x 8.00. Each quote has a size of 1. Additionally, the following Stop-Loss/Stop Limit orders are being held in the System when the Quote 1 offer is updated to $6.50 (they were received by the System in sequence):

Order 1: Sell 1 @ Market, Stop Price = $6.50
Order 2: Sell 1 @ Market, Stop Price = $6.55
Order 3: Sell 1 @ Market, Stop Price = $6.50

Per current Rule 5.34(a)(4), the following will occur:

1. *Orders 1, 2 and 3 are held in the System, and handled as separate orders received in sequence. Each have stop prices less than the NBO, and are therefore triggered by the 6.50 quote, and enter the Book for execution or posting. Under today's functionality, the System assigns each order a separate drill-through price, equal to the contra-side NBBO in existence at the time each order separately entered the Book for execution.*

2. *Order 1 will execute against Quote 1 @ $5.00. Using the NBB of $5.00 as the drill-through price, the System would prevent execution beyond $4.75.*

3. *When Order 1 executes against Quote 1 @ 5.00, that NBB will no longer be in the Book. Instead Order 2 will execute against Quote 2 @ 4.00 and use the NBB of 4.00 as the drill-through price, and prevent execution beyond $3.75.*

4. *Order 3 will cancel due to no liquidity left at the drill-through price of $3.75.*

Example 2 – Proposed Functionality

Again, assume that the drill-through price buffer for a certain option series is $0.25, and that the following quotes are in the Book: Quote 1 (NBBO): 5.00 x 7.00; Quote 2: 4.00 x 8.00. Each quote has a size of 1. Additionally, the following Stop-Loss/Stop Limit orders

10 The Exchange determines the buffer amount on a premium and class basis.

are being held in the System when Quote 1 offers is updated to $6.50 (they were received by the System in sequence):

Order 1: Sell 1 @ Market, Stop Price = $6.50
Order 2: Sell 1 @ Market, Stop Price = $6.55
Order 3: Sell 1 @ Market, Stop Price = $6.50

Per proposed Rule 5.34(a)(4)(E), the following will occur:

1. *Orders 1, 2 and 3 each have stop prices less than the NBO, and will therefore be triggered by the 6.50 quote, and enter the Book for execution or posting. A drill-through price for all three orders is set at the contra-side NBB of 5.00.*

2. *Order 1 will execute against Quote 1 @ $5.00.*

3. *Orders 2 and 3 will cancel due to no liquidity left at the drill-through price of $4.75.*

The Exchange notes that aside from the difference in drill-through price, the drill-through mechanism will apply in the same manner to these orders. The Exchange is not proposing wholly new drill-through protection behavior, but rather only seeks to modify the reference price utilized by the drill-through price protection for Stop (Stop-Loss) and Stop Limit orders if multiple such orders are triggered and entered into the Book for execution due to the same price event. By using the same drill-through price for all triggered orders eligible for execution, the proposed modification will help the drill-through protection prevent executions too far away from the NBBO when multiple Stop (Stop-Loss) and Stop Limit orders become eligible for execution. In doing so, Stop (Stop-Loss) and Stop Limit orders will receive executions at prices more closely aligned to the stop prices specified by Exchange Users.

(b) Statutory Basis

The Exchange believes the proposed rule amendment is consistent with the requirements of Section 6(b) of the Act,[11] in general, and Section 6(b)(5) of the Act,[12] in particular, in that it is 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 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.

Specifically, the Exchange believes that proposed Rule 5.34(a)(4)(E) does not unfairly discriminate amongst Users. Under proposed Rule 5.34(a)(4)(E), all Users with Stop (Stop-Loss) and Stop-Limit Orders triggered by the same price event will have the same drill-through reference price. The primary purpose of the drill-through price protection is to prevent orders from executing at prices "too far away" from the market when they enter the Book for potential execution. The Exchange believes the proposed rule change is consistent with this purpose, and thus will promote just and equitable principles of trade and protect investors, because Users who submit Stop and Stop-Limit Orders will receive the same level of drill-through price protection against execution at potentially erroneous prices, regardless of the sequence in which they enter the Book. As a result of the proposed rule change, all Users' Stop and Stop-Limit Orders will receive protection based on the NBBO at the time those orders were triggered to enter the Book

[11] 15 U.S.C. § 78f(b).

[12] 15 U.S.C. § 78f(b)(5).

for potential execution, which is consistent with the drill-through protection as well as Stop Order functionality.

4. <u>Self-Regulatory Organization's Statement on Burden on Competition</u>

The Exchange does not believe that the proposed rule change imposes any burden on intramarket competition that is not necessary or appropriate in furtherance of the purposes of the Act. Under the current drill-through price protection functionality, the System's use of separate drill-through prices can result in Stop Orders executed later in sequence being filled at prices several levels away from the NBBO in existence at the time they are triggered and entered into the Book for execution merely because those orders were submitted after another Stop Order. As discussed above, the proposed rule change will apply the same drill-through price (and thus the same level of drill-through price protection) to Stop and Stop-Limit Orders that become eligible for potential execution at the same time due to the same price triggering event.

The Exchange does not believe that the proposed rule change will impose any burden on intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act because it relates solely to how an Exchange price protection applies to Stop (Stop-Loss) and Stop Limit orders. The proposed enhancement to the drill-through protection is consistent with the current protection and provides orders subject to drill-through price protection with improved protection against execution at potentially erroneous prices.

1. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others

The Exchange has not solicited, and does not intend to solicit, comments on this proposal. No written comments were solicited or received on the proposed rule change.

6. Extension of Time Period for Commission Action

Not applicable.

7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)

Because the foregoing proposed rule change does not: (A) significantly affect the protection of investors or public interest; (B) impose any significant burden on competition; and (C) will not become operative for 30 days from the date on which it was filed or such shorter time as the Commission may designated it has become effective pursuant to Section 19(b)(3)(A) of the Act[13] and paragraph (f)(6) of Rule 19b-4 thereunder,[14] the Exchange has designated this rule filing as non-controversial. The Exchange has also 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 the filing of the proposed rule change, or such shorter time as designated by the Commission.

As noted above, the Exchange believes that the proposed rule amendment does not significantly affect the protection of investors or the public interest. The primary purpose of drill-through price protection is to prevent orders from executing at prices "too far away" from the market when they enter the Book for potential execution. The purpose of Stop

13 15 U.S.C. 78s(b)(3)(A).

14 17 CFR 240.19b-4.

and Stop-Limit Orders is to delay potential execution until the market reaches a certain price. The Exchange seeks only to modify the current functionality to apply the same drill-through price (and thus the same level of drill-through price protection) to Stop and Stop-Limit Orders that become eligible for potential execution at the same time due to the same price triggering event. In doing so, Stop (Stop-Loss) and Stop Limit orders will receive executions at prices more closely aligned to the stop prices specified by Exchange Users, and the drill-through protection will prevent potentially erroneous executions of such orders.

The Exchange also believes the proposed rule change will not impose any significant burden on competition. Under the current drill-through price protection functionality, the System's use of separate drill-through prices can result in Stop Orders executed later in sequence being filled at prices several levels away from the NBBO in existence at the time they are triggered and entered into the Book for execution merely because those orders were submitted after another Stop Order. As discussed above, the proposed rule change will apply the same drill-through price (and thus the same level of drill-through price protection) to Stop and Stop-Limit Orders that become eligible for potential execution at the same time due to the same price triggering event.

For the foregoing reasons, this rule filing qualifies for immediate effectiveness as a "non-controversial" rule change under paragraph (f)(6) of Rule 19b-4. The Exchange requests that the Commission waive the 30day pre-operative waiting period contained in Rule 19b-4(f)(6)(iii) under the Act.[15] Waiver of this requirement is consistent with the protection of investors and the public interest for the reasons described above.

---

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

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: (1) necessary or appropriate in the public interest; (2) for the protection of investors; or (3) otherwise in the furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

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

The proposed rule change is not based on the rules of another self-regulatory

9. Exhibits

Exhibit 1 – Form of Notice of Proposed Rule Change for Federal Register.

Exhibit 5 – Text of the Proposed Rule Change

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-   ; File No. SR-C2-2022-005]

[Insert date]

Self-Regulatory Organizations; Cboe C2 Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to Modify how Drill-Through Price Protection Applies to Users' Orders when Multiple Stop (Stop-Loss) and Stop-Limit orders are Triggered by the Same Price

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"),[1] and Rule 19b-4 thereunder,[2] notice is hereby given that on [insert date], Cboe C2 Exchange, Inc. (the "Exchange" or "C2") filed with the Securities and Exchange Commission (the "Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. The Exchange filed the proposal as a "non-controversial" proposed rule change pursuant to Section 19(b)(3)(A)(iii) of the Act[3] and Rule 19b-4(f)(6) thereunder.[4] The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

Cboe C2 Exchange, Inc. ("C2" or the "Exchange") is filing with the Securities and Exchange Commission (the "Commission") a proposal to modify how drill-through price protection applies to Users'[5] orders when multiple Stop (Stop-Loss) and Stop-Limit

---

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).

5 The Term "User" shall mean any Trading Privilege Holder (TPH) or Sponsored User who is authorized to obtain access to the System pursuant to Rule 5.5.

orders are triggered by the same price. The text of the proposed rule change is provided in Exhibit 5.

The text of the proposed rule change is also available on the Exchange's website (http://markets.cboe.com/us/options/regulation/rule_filings/ctwo/), at the Exchange's Office of the Secretary, and at the Commission's Public Reference Room.

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 purpose of this rule filing is to amend current Rule 5.34(a)(4), Order and Quote Price Protection Mechanisms and Risk Controls, to add new Rule 5.34(a)(4)(E), which modifies what the drill-through price will be for Stop (Stop-Loss)[6] and Stop-

---

[6] A "Stop (Stop-Loss)" order is an order to buy (sell) that becomes a market order when the consolidated last sale price (excluding prices from complex order trades if outside of the NBBO) or NBB (NBO) for a particular option contract is equal to or above (below) the stop price specified by the User. Users may not designate a Stop Order as All Sessions. Users may not designate bulk messages as Stop Orders. A User may not designate a Stop order as Direct to PAR. *See* Rule 5.6(c) (definition of "Stop (Stop-Loss)" order).

Limit[7] orders when multiple Stop and Stop-Limit orders are triggered by the same stop price specified by Users.

Drill-through price protection is currently described in Exchange Rule 5.34(a)(4)(A). Rule 5.34(a)(4)(A) equates the drill-through reference price for a buy (sell) order to a price up to a buffer amount (the Exchange determines the buffer amount on a class and premium basis) above (below) the offer (bid) limit of the Opening Collar or the NBO (NBB) that existed at the time of order entry, respectively (the, "drill-through price").[8]

Currently, when multiple Stop (Stop-Loss) or Stop-Limit orders are triggered by the same price, the System[9] considers them separate orders received in sequence and enters them sequentially into the Book.[10] As such, when determining the drill-through price for each order, the System uses the contra side NBBO that existed at the time each of the orders was entered into the Book.[11] By applying drill-through price protection in

---

[7] A "Stop-Limit" order is an order to buy (sell) that becomes a limit order when the consolidated last sale price (excluding prices from complex order trades if outside the NBBO) or NBB (NBO) for a particular option contract is equal to or above (below) the stop price specified by the User. A User may not designate a Stop-Limit Order as All Sessions. Users may not designate bulk messages as Stop-Limit Orders. A User may not designate a Stop-Limit order as Direct to PAR. _See_ Rule 5.6(c) (definition of "Stop-Limit" order).

[8] _See_ Rule 5.34(a)(4)(A).

[9] "System" means the Exchange's hybrid trading platform that integrates electronic and open outcry trading of option contracts on the Exchange and includes any connectivity to the foregoing trading platform that is administered by or on behalf of the Exchange, such as a communications hub. _See_ Rule 1.1. (definition of, "System").

[10] "Book" means the electronic book of simple orders and quotes maintained by the System, which single book is used during both the regular trading hours and global trading hours trading sessions. _See_ Rule 1.1 (definition of, "Book").

[11] _See_ Rule 5.34(a)(4)(A)

this manner, the Exchange has observed, particularly in thinly traded markets, that the first order triggered will trade with the best priced contra-side order, while the second triggered order can trade at prices that may be multiple price levels away, as it is using the NBBO that existed after the first triggered order executed. Accordingly, the Exchange seeks to enhance the drill-through price functionality as it relates to Stop (Stop-Loss) and Stop Limit Orders, through the addition of proposed Rule 5.34(a)(4)(E). Under proposed Rule 5.34(a)(4)(E), rather than using separate drill-through prices for each individual Stop and Stop-Limit order, the System will instead use the contra-side NBBO that existed at the time the first order in sequence was entered into the Book as the drill-through price, for all orders. This is the drill-through price that would apply to each Stop or Stop-Limit order if it was the only one triggered at that price. By way of illustration, consider the following examples:

Example 1 – Current Functionality

Assume that the drill-through price buffer[12] for a certain option series is $0.25, and that the following quotes are in the Book: Quote 1 (NBBO): 5.00 x 7.00; Quote 2: 4.00 x 8.00. Each quote has a size of 1. Additionally, the following Stop-Loss/Stop Limit orders are being held in the System when the Quote 1 offer is updated to $6.50 (they were received by the System in sequence):

Order 1: Sell 1 @ Market, Stop Price = $6.50
Order 2: Sell 1 @ Market, Stop Price = $6.55
Order 3: Sell 1 @ Market, Stop Price = $6.50

Per current Rule 5.34(a)(4), the following will occur:

1. *Orders 1, 2 and 3 are held in the System, and handled as separate orders received in sequence. Each have stop prices less than the NBO, and are therefore*

[12] The Exchange determines the buffer amount on a premium and class basis.

triggered by the 6.50 quote, and enter the Book for execution or posting. Under today's functionality, the System assigns each order a separate drill-through price, equal to the contra-side NBBO in existence at the time each order separately entered the Book for execution.

2. *Order 1 will execute against Quote 1 @ $5.00. Using the NBB of $5.00 as the drill-through price, the System would prevent execution beyond $4.75.*

3. *When Order 1 executes against Quote 1 @ 5.00, that NBB will no longer be in the Book. Instead Order 2 will execute against Quote 2 @ 4.00 and use the NBB of 4.00 as the drill-through price, and prevent execution beyond $3.75.*

4. *Order 3 will cancel due to no liquidity left at the drill-through price of $3.75.*

Example 2 – Proposed Functionality

Again, assume that the drill-through price buffer for a certain option series is $0.25, and that the following quotes are in the Book: Quote 1 (NBBO): 5.00 x 7.00; Quote 2: 4.00 x 8.00. Each quote has a size of 1. Additionally, the following Stop-Loss/Stop Limit orders are being held in the System when Quote 1 offers is updated to $6.50 (they were received by the System in sequence):

Order 1: Sell 1 @ Market, Stop Price = $6.50
Order 2: Sell 1 @ Market, Stop Price = $6.55
Order 3: Sell 1 @ Market, Stop Price = $6.50

Per proposed Rule 5.34(a)(4)(E), the following will occur:

1. *Orders 1, 2 and 3 each have stop prices less than the NBO, and will therefore be triggered by the 6.50 quote, and enter the Book for execution or posting. A drill-through price for all three orders is set at the contra-side NBB of 5.00.*

2. *Order 1 will execute against Quote 1 @ $5.00.*

3. *Orders 2 and 3 will cancel due to no liquidity left at the drill-through price of $4.75.*

The Exchange notes that aside from the difference in drill-through price, the drill-through mechanism will apply in the same manner to these orders. The Exchange is not proposing wholly new drill-through protection behavior, but rather only seeks to modify the reference price utilized by the drill-through price protection for Stop (Stop-Loss) and Stop Limit orders if multiple such orders are triggered and entered into the Book for execution due to the same price event. By using the same drill-through price for all triggered orders eligible for execution, the proposed modification will help the drill-through protection prevent executions too far away from the NBBO when multiple Stop (Stop-Loss) and Stop Limit orders become eligible for execution. In doing so, Stop (Stop-Loss) and Stop Limit orders will receive executions at prices more closely aligned to the stop prices specified by Exchange Users.

2. <u>Statutory Basis</u>

The Exchange believes the proposed rule amendment is consistent with the requirements of Section 6(b) of the Act,[13] in general, and Section 6(b)(5) of the Act,[14] in particular, in that it is 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 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.

Specifically, the Exchange believes that proposed Rule 5.34(a)(4)(E) does not unfairly discriminate amongst Users. Under proposed Rule 5.34(a)(4)(E), all Users with Stop (Stop-Loss) and Stop-Limit Orders triggered by the same price event will have the same drill-through reference price. The primary purpose of the drill-through price protection is to prevent orders from executing at prices "too far away" from the market when they enter the Book for potential execution. The Exchange believes the proposed

---

[13] 15 U.S.C. § 78f(b).

[14] 15 U.S.C. § 78f(b)(5).

rule change is consistent with this purpose, and thus will promote just and equitable principles of trade and protect investors, because Users who submit Stop and Stop-Limit Orders will receive the same level of drill-through price protection against execution at potentially erroneous prices, regardless of the sequence in which they enter the Book. As a result of the proposed rule change, all Users' Stop and Stop-Limit Orders will receive protection based on the NBBO at the time those orders were triggered to enter the Book for potential execution, which is consistent with the drill-through protection as well as Stop Order functionality.

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change imposes any burden on intramarket competition that is not necessary or appropriate in furtherance of the purposes of the Act. Under the current drill-through price protection functionality, the System's use of separate drill-through prices can result in Stop Orders executed later in sequence being filled at prices several levels away from the NBBO in existence at the time they are triggered and entered into the Book for execution merely because those orders were submitted after another Stop Order. As discussed above, the proposed rule change will apply the same drill-through price (and thus the same level of drill-through price protection) to Stop and Stop-Limit Orders that become eligible for potential execution at the same time due to the same price triggering event.

The Exchange does not believe that the proposed rule change will impose any burden on intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act because it relates solely to how an Exchange price protection applies to Stop (Stop-Loss) and Stop Limit orders. The proposed enhancement to the drill-through protection is consistent with the current protection and provides orders subject to drill-through price protection with improved protection against execution at potentially erroneous prices.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

The Exchange has not solicited, and does not intend to solicit, comments on this proposal. No written comments were solicited or received 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[15] and Rule 19b-4(f)(6)[16] 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

---

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

16 17 CFR 240.19b-4(f)(6).

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-C2-2022-005 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-C2-2022-005. 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-C2-2022-005 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.[17]

Secretary

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

EXHIBIT 5

Proposed new language is underlined; proposed deletions are in [brackets].

Rules of Cboe C2 Exchange, Inc.

*****

Rule 5.34 Order and Quote Price Protection Mechanisms and Risk Controls

(No changes.)

(a) (1) – (3) (No changes.)

(4) *Drill-Through Protection*

(A) – (D) (No changes.)

(E) If multiple Stop (Stop-Loss) or Stop-Limit orders to buy (sell) have the same stop price and are thus triggered by the same trade price or NBBO, and would execute or post to the Book, the "drill-through price" for each order for purposes of subparagraph (A) above is equal to the contra-side NBBO that existed at the time the first order was triggered.

*****