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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-86038; File No. SR-C2-2019-013]

Self-Regulatory Organizations; Cboe C2 Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to Adopt Limit-on-Close (“LOC”) and Market-on-Close (“MOC”) Orders

June 5, 2019.

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 May 29, 2019, 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 and II 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 adopt limit-on-close (“LOC”) and market-on-close (“MOC”) orders. 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

In 2016, the Exchange's parent company, Cboe Global Markets, Inc. ("Cboe Global"), also the parent company of Cboe Exchange, Inc. ("Cboe Options"), acquired Cboe EDGX Exchange, Inc. ("EDGX or EDGX Options"), Cboe EDGA Exchange, Inc. ("EDGA"), Cboe BZX Exchange, Inc. ("BZX or BZX Options"), and Cboe BYX Exchange, Inc. ("BYX" and, together with Cboe Options, the Exchange, EDGX, EDGA, and BZX, the "Cboe Affiliated Exchanges"). The Cboe Affiliated Exchanges are working to align certain system functionality, retaining only intended differences between the Cboe Affiliated Exchanges, in the context of a technology migration. Cboe Options intends to migrate its technology to the same trading platform used by the Exchange, EDGX Options, and BZX Options in the fourth quarter of 2019. The proposal set forth below is intended to add certain functionality to the Exchange's System that is available on Cboe Options in order to ultimately provide a consistent technology offering

for market participants who interact with the Cboe Affiliated Exchanges.⁵ Although the Exchange intentionally offers certain features that differ from those offered by its affiliates and will continue to do so, the Exchange believes that offering similar functionality to the extent practicable will reduce potential confusion for Users.

The Exchange proposes to adopt LOC and MOC orders. The proposed amendments to Rule 6.10(d) define an LOC order as a limit order, and an MOC order as a market order, respectively, that may only execute on the Exchange no earlier than three minutes prior to Regular Trading Hours (“RTH”) market close. The System enters LOC and MOC orders into the Book in time sequence (based on the times at which the Exchange initially received them), where they may be processed in accordance with Rule 6.12.⁶ The Exchange notes that it does not have a closing auction in which market participants may participate in an auction rotation that determines the closing price for a series, like that of the equities space, but that the proposed MOC and LOC orders merely become executable three minutes prior to the close of RTH. The Exchange queues LOC and MOC orders in the System until three minutes before the RTH market close. At that time, the System handles a LOC or MOC order as a limit order or market order, as applicable, and processes them in accordance with Rule 6.12. The Exchange believes that three minutes prior to the RTH market close is a reasonable time prior to the market close to trigger MOC and LOC orders, as it provides those orders with sufficient time to interact with contra-side interest and potentially execute at a time close to the RTH

⁵ The Exchange also notes that its affiliated exchanges, BZX Options and EDGX Options, are simultaneously proposing to make similar changes in order to align functionality with Cboe Options.

⁶ Rule 6.12 describes how the System processes orders and quotes in the Book.

market close.⁷ The proposed LOC and MOC order definitions also provide that the System cancels an LOC order or an MOC order (or an unexecuted portion of an LOC or MOC order) that does not execute by the RTH market close. This is consistent with the purpose of these orders, which is to execute near the RTH market close on the day they were submitted to the Exchange. As the execution of MOC and LOC orders is linked to the RTH market close, such orders will be valid only during RTH; however, the System will accept such orders during any trading session.⁸ A User may not designate an MOC or LOC order as “All Sessions”;⁹ any MOC or LOC order designated as All Sessions will be rejected. In addition to this, the Exchange notes that Users may not designate bulk messages as MOC or LOC, which is consistent with the current requirement that bulk messages must have a time-in-force of Day to encourage Users to provide liquidity to the Exchange’s market throughout the trading day and update bulk messages in response to changed market conditions day-to-day.¹⁰ The proposed order types are based on

⁷ The Exchange notes that Cboe Options currently triggers the MOC and LOC orders three minutes prior to the RTH market close.

⁸ The Exchange notes that an RTH Only MOC or LOC order submitted during Global Trading Hours (“GTH”) will remain on the book until the close of RTH.

⁹ See Rule 6.10(b) which defines “All Sessions” as an order a User designates as eligible to trade during both Global Trading Hours (“GTH”) and RTH. The Exchange also notes that Rule 6.10(b) defines “RTH Only” as an order a User designates as eligible to trade only during RTH or not designated as All Sessions. Therefore, the default instruction is RTH Only and an unmarked MOC or LOC order will be treated as RTH Only. See also Securities Exchange Act Release No. 85788 (May 6, 2019), 84 FR 20673 (May 10, 2019) (Notice of Filing and Immediate Effectiveness of a Proposed Rule Change To Amend the Exchange’s Opening Process and Add a Global Trading Hours Session for DJX Options) (SR-C2-2019-009).

¹⁰ See Rule 6.10(d), which defines time-in-force of “Day” as an order that, if not executed, expires at the RTH market close. All bulk messages have a Time-in-Force of Day. See also Securities Exchange Act Release No. 85038 (February 2, [sic] 2019), 84 FR 2598 (February 7, 2019) (Notice of Filing and Immediate

substantially similar order types available on Cboe Options.¹¹ MOC and LOC orders allow a User to execute orders in a series close to the close time.

The Exchange also proposes to add subparagraph (C) to Rule 6.12(c)(5) to include additional order handling regarding MOC orders during a limit up-limit down state.¹² The proposed change provides that if the underlying security is in a limit up-limit down state three minutes prior to the RTH market close a MOC order will not be elected, and that if the underlying security exits the limit up-limit down state prior to the RTH market close, the System will attempt to re-evaluate, elect, and execute the order.¹³ The Exchange notes that the proposed handling of MOC orders in a limit up-limit down state is consistent with the Regulation NMS Plan to Address Extraordinary Market Volatility (“Limit Up-Limit Down Plan”) and is based on the corresponding Cboe Options rule regarding handling of MOC orders.¹⁴ The Exchange also proposes to add a reference to

Effectiveness of a Proposed Rule Change To Discontinue Bulk Order Functionality and Implement Bulk Message Functionality) (SR-C2-2018-025). Note Users may submit bulk messages within three minutes of the RTH market close, which would ultimately be handled in the same manner as an LOC order.

¹¹ See Cboe Options Rule 6.53, which defines a “market-on-close” order as a market or limit order to be executed as close as possible to the close of the market near to or at the closing price for the particular option series. The Exchange notes that in connection with migration, Cboe Options intends to propose the same definitions of market- and limit-on-close orders as proposed in this rule filing.

¹² See Rule 6.39 which defines a “limit up-limit down state” to mean the period of time when the underlying security of an option enters a limit or straddle state as defined in the Regulation NMS Plan to Address Extraordinary Market Volatility (the “Limit Up-Limit Down Plan” or the “Plan”).

¹³ The Exchange also amends the heading to subparagraph (c)(5) to reflect the addition of MOC order handling during a limit up-limit down state. The Exchange notes that during a limit up-limit down state limit orders are not impacted and continue to be eligible for execution.

¹⁴ See Cboe Options Rule 6.45(d)(2).

MOC orders to Rule 6.39(a), which lists the order types that will be handled specially during a limit up-limit-down state, to reflect the proposed change to Rule 6.12(c)(5).

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.¹⁵

Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)¹⁶ 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)¹⁷ 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 adoption of MOC and LOC orders serves to benefit investors by allowing Users flexibility to have orders only be eligible for execution near the close, a time in which maximum significant number of participants interact on the Exchange. The Exchange believes that the proposed change promotes just and equitable principles of trade because it encourages increased

¹⁵ 15 U.S.C. 78f(b).

¹⁶ 15 U.S.C. 78f(b)(5).

¹⁷ Id.

participation near the close, thereby contributing to enhanced price discovery and transparency that will result in a closing price point that more closely reflects the interest of market participants. The Exchange also believes that the proposed change will benefit investors by fostering increased liquidity near the close. As stated, the proposed change is based on Cboe Options rules.¹⁸

Furthermore, the Exchange believes specifying that the MOC and LOC may execute no more than three minutes from the RTH close removes impediments to and perfects the mechanism of a free and open market and national market system and protects investors because it will allow Users greater flexibility regarding the execution of their orders and/or their customers' orders. The Exchange believes this three minute time-frame prior to the RTH market close is a reasonable time prior to the market close to trigger MOC and LOC orders, because it provides those orders with sufficient times to interact with contra-side interest and to potentially execute at a time close to RTH market close.

The Exchange also believes not permitting bulk messages to be MOC and LOC orders will remove impediments to and perfect the mechanism of a free and open market and protect investors because it is consistent with the purpose of bulk messages. As stated, bulk messages are currently restricted to designation as time-in-force of Day in order to encourage Users to provide liquidity to the Exchange's market during RTH and update bulk messages in response to day-to-day changed market conditions.¹⁹ Because MOC and LOC orders are only available for execution for three minutes prior to the RTH market close, as opposed to during the entire RTH session, Exchange believes that not

¹⁸ See supra note 11.

¹⁹ See supra note 10.

permitting bulk messages to be MOC or LOC orders ensures that functionality available to Users is consistent with the purpose of bulk messages.

Moreover, the Exchange also believes that rejecting MOC and LOC orders if designated as “All Sessions” serves to remove impediments to and perfect the mechanism of a free and open market and protect investors by providing functionality that is consistent with the purpose of MOC and LOC orders. As described above, because MOC and LOC orders are linked to the RTH close, allowing MOC or LOC orders to be marked for All Sessions (i.e. RTH and GTH) would be inconsistent with the function of MOC and LOC orders. Therefore, the Exchange believes that not permitting MOC and LOC orders to be marked as All Sessions will protect investors by ensuring instructions for MOC and LOC orders are consistent with their purpose.

Additionally, the Exchange believes that the proposed additional order handling for MOC during a limit up-limit down state protects investors because it is consistent with the Limit Up-Limit Down Plan and prevents a market order from executing outside of the specified price bands. This order handling is consistent with that of Cboe Options rules.²⁰

Lastly, the Exchange notes that the proposed rule change is generally intended to align the functionality offered by the Exchange with functionality currently offered by Cboe Options in order to provide a consistent technology offering for the Cboe Affiliated Exchanges.²¹ A consistent technology offering, in turn, will simplify the technology implementation, changes, and maintenance by Users of the Exchange that are also

²⁰ See supra note 14.

²¹ See supra note 5.

participants on Cboe Affiliated Exchanges.²² The Exchange believes this consistency will promote a fair and orderly national options market system. When Cboe Options migrates to the same technology as that of the Exchange and other Cboe Affiliated Exchanges, Users of the Exchange and other Cboe Affiliated Exchanges will have access to similar functionality on all Cboe Affiliated Exchanges. As such, the proposed rule change would foster cooperation and coordination with persons engaged in facilitating transactions in securities and would remove impediments to and perfect the mechanism of a free and open market and a national market system.

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, as the proposed rule change will apply in the same manner to all orders submitted as MOC or as LOC. MOC and LOC orders will be available to all Users, and MOC and LOC orders from all Users will be handled in the same manner. The use of MOC and LOC orders will be voluntary. The Exchange does not believe the proposed rule change will impose any burden on intermarket competition because the proposed change is based on rules that allow for substantially the same order types that are available on another options exchange.²³

²² Id.

²³ See supra note 11.

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 proposed rule change does not (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act²⁴ and Rule 19b-4(f)(6) thereunder.²⁵

A proposed rule change filed under Rule 19b-4(f)(6)²⁶ normally does not become operative for 30 days after the date of filing. However, pursuant to Rule 19b-4(f)(6)(iii)²⁷ the Commission may designate a shorter time if such action is consistent with the protection of investors and the public interest.

The Exchange has asked the Commission to waive the 30-day operative delay. The Commission believes that waiving the 30-day operative delay is consistent with the protection of investors and the public interest as it will allow the Exchange to offer two

²⁴ 15 U.S.C. 78s(b)(3)(A).

²⁵ 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6)(iii) requires a self-regulatory organization to give the Commission written notice of its intent to file 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 has satisfied this requirement.

²⁶ 17 CFR 240.19b-4(f)(6).

²⁷ 17 CFR 240.19b-4(f)(6)(iii).

order types that are substantially similar to order types that are currently available on Cboe Options. Thus, as represented by the Exchange, the proposed rule change does not introduce any new functionality or present any novel issues. For this reason, the Commission designates the proposed rule change to be operative on June 20, 2019, the day before the Exchange would like to implement MOC and LOC orders.²⁸

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.

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-C2-2019-013 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.

²⁸ For purposes only of waiving the 30-day operative delay, the Commission has also considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

All submissions should refer to File Number SR-C2-2019-013. 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. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to

File Number SR-C2-2019-013 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.²⁹

Eduardo A. Aleman
Deputy Secretary

²⁹ 17 CFR 200.30-3(a)(12).

