

Electronic Comments

- Use the Commission's internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an email to rule-comments@sec.gov. Please include File Number SR-NASDAQ-2018-093 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-NASDAQ-2018-093. This file number should be included on the subject line if email 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, DC 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 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-NASDAQ-2018-093 and should be submitted on or before December 18, 2018.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹³

Eduardo A. Aleman,
Assistant Secretary.

[FR Doc. 2018-25740 Filed 11-26-18; 8:45 am]

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-84642; File No. SR-CboeEDGX-2018-049]

Self-Regulatory Organizations; Cboe EDGX Exchange, Inc.; Notice of Filing of a Proposed Rule Change Relating To Adopt Complex Reserve Order Functionality

November 21, 2018.

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 November 8, 2018, Cboe EDGX Exchange, Inc. (the "Exchange" or "EDGX") 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 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 EDGX Exchange, Inc. (the "Exchange" or "EDGX") proposes to adopt Complex Reserve Order functionality. (additions are *italic*; deletions are [bracketed])

* * * * *

Rules of Cboe EDGX Exchange, Inc.

* * * * *

Rule 21.20. Complex Orders

(a) No change.
(b) Availability of Types of Complex Orders. The Exchange will determine and communicate to Members via specifications and/or a Regulatory Circular listing when the complex order types, among the complex order types set forth in this Rule, are available for use on the Exchange. The complex order types that may be submitted are limit orders and market orders, and orders with a Time in Force of GTD, IOC, DAY, GTC, or OPG as such terms are defined in Rule 21.1(f). *The System also accepts the following instructions for complex orders [will also be accepted by the Exchange]:*

- (1)-(3) No change.
- (4) *(Reserved)*
- (5) *(Reserved)*
- (6) *Complex Reserve Order. A "Complex Reserve Order" is a complex limit order with both a portion of the quantity displayed ("Display Quantity")*

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

and a reserve portion of the quantity ("Reserve Quantity") not displayed. Both the Display Quantity and Reserve Quantity of a Complex Reserve Order are available for potential execution pursuant to paragraphs (c) and (d) below. When entering a Complex Reserve Order, a User must instruct the Exchange as to the quantity of the Complex Reserve Order to be initially displayed by the System ("Max Floor"). If the Display Quantity of a Complex Reserve Order is fully executed, the System will, in accordance with the User's instruction, replenish the Display Quantity from the Reserve Quantity using one of the below replenishment instructions. If the remainder of a Complex Reserve Order is less than the replenishment amount, the System will display the entire remainder of the Complex Reserve Order. The System creates a new timestamp for both the Display Quantity and Reserve Quantity of the Complex Reserve Order each time it is replenished from reserve.

(A) *Random Replenishment.* An instruction that a User may attach to a Complex Reserve Order where the System randomly replenishes the Display Quantity for the Complex Reserve Order with a number of contracts not outside a replenishment range, which equals the Max Floor plus and minus a replenishment value established by the User when entering a Complex Reserve Order with a Random Replenishment instruction.

(B) *Fixed Replenishment.* For any Complex Reserve Order for which a User does not select Random Replenishment, the System will replenish the Display Quantity of the Complex Reserve Order with the number of contracts equal to the Max Floor (or the entire remainder of the Complex Reserve Order if it is less than the replenishment amount).

(c) *Trading of Complex Orders.* The Exchange will determine and communicate to Members via specifications and/or Regulatory Circular which complex order origin codes (*i.e.*, non-broker-dealer customers, broker-dealers that are not Market Makers on an options exchange, and/or Market Makers on an options exchange) are eligible for entry onto the COB. Complex orders will be subject to all other Exchange Rules that pertain to orders submitted to the Exchange generally, unless otherwise provided in this Rule.

- (1) No change.
- (2) Execution of Complex Orders.
- (A)-(E) No change.
- (F) *Legging.* Complex orders up to a maximum number of legs (determined by the Exchange on a class-by-class basis as either two, three, or four legs

¹³ 17 CFR 200.30-3(a)(12).

and communicated to Members via specifications and/or Regulatory Circular) may be automatically executed against bids and offers on the Simple Book (*both displayed and nondisplayed orders*) for the individual legs of the complex order (“Legging”), provided the complex order can be executed in full or in a permissible ratio by such bids and offers. Complex orders with two option legs where both legs are buying or both legs are selling and both legs are calls or both legs are puts may only trade against other complex orders on the COB and will not be permitted to leg into the Simple Book. Notwithstanding the foregoing, all two leg COA-eligible Customer complex orders will be allowed to leg into the Simple Book without restriction. Complex orders with three or four option legs where all legs are buying or all legs are selling may only trade against other complex orders on the COB and will not leg into the Simple Book, regardless of whether the option leg is a call or a put. *The entire quantity of a Complex Reserve Order (both the Display Quantity and Reserve Quantity) Legs into the Simple Book at the same time, and any quantity that does not execute pursuant to paragraph (c) or (d) after Legging will rest in the COB in accordance with the Complex Reserve Order instruction.*

(G) No change.

(3) Complex Order Priority.

(A) No change.

(B) Complex orders will be automatically executed against bids and offers on the COB in price priority. Bids and offers at the same price on the COB will be executed in time priority. *Displayed complex orders resting on the COB have priority over nondisplayed portions of Complex Reserve Orders resting on the COB. If there are Priority Customer Orders in the Simple Book at the same price as orders resting on the COB against which an incoming complex order will execute, the order will first leg into the Simple Book to execute against the Priority Customer Orders (both displayed and nondisplayed orders) before executing against complex orders in the COB.* Complex orders that leg into the Simple Book (as described in subparagraph (c)(2)(F) above) will be executed in accordance with Rule 21.8.

(4)–(6) No change.

(d) COA Process. All option classes will be eligible to participate in a COA. Upon evaluation as set forth in subparagraph (c)(5) above, the Exchange may determine to automatically submit a COA-eligible order into a COA.

(1) No change.

(2) Commencement of COA. Upon receipt of a COA-eligible order, the Exchange will begin the COA process by sending a COA auction message. The COA auction message will be sent to all subscribers to the Exchange’s data feeds that deliver COA auction messages. The COA auction message will identify the COA auction ID, instrument ID (*i.e.*, complex strategy), origin code, quantity, and side of the market of the COA-eligible order. *If the COA-eligible order is a Complex Reserve Order, the COA auction message only identifies the Display Quantity; however, the entire quantity (both the Display Quantity and Reserve Quantity) may execute following the COA pursuant to subparagraph (7) below.* The Exchange may also determine to include the price in COA auction messages and if it does so it will announce such determination in published specifications and/or a Regulatory Circular to Members. The price included in the COA auction message will be the limit order price, unless the COA is initiated by a complex market order, in which case such price will be the SBBO, subject to any applicable price protections.

(3) No change.

(4) COA Response. Members may submit a response to the COA auction message (a “COA Response”) during the Response Time Interval. COA Responses can be submitted by a Member with any origin code, including Priority Customer. COA Responses may be submitted in \$0.01 increments and must specify the price, size, side of the market (*i.e.*, a response to a buy COA as a sell or a response to a sell COA as a buy) and COA auction ID for the COA to which the response is targeted. *COA Responses may be larger than the COA-eligible order.* Multiple COA Responses from the same Member may be submitted during the Response Time Interval. COA Responses represent non-firm interest that can be modified or withdrawn at any time prior to the end of the Response Time Interval, though any modification to a COA Response other than a decrease of size will result in a new timestamp and a loss of priority. COA Responses will not be displayed by the Exchange. At the end of the Response Time Interval, COA Responses are firm (*i.e.*, guaranteed at their price and size). Any COA Responses not executed in full will expire at the end of the COA. Any COA Responses not executable based on the price of the COA will be cancelled immediately.

(5)–(6) No change.

(7) Allocation at the Conclusion of a COA. Orders executed in a COA will be

allocated first in price priority based on their original limit price as follows:

(A) Priority Customer Orders (*both displayed and nondisplayed Priority Customer Orders*) resting on the Simple Book;

(B) COA Responses and unrelated orders on the COB (*displayed complex orders have priority over nondisplayed portions of Complex Reserve Orders*) in time priority;

(C) No change.

(8)–(9) No change.

Interpretations and Policies:

.01–.06 No change.

* * * * *

The text of the proposed rule change is also available on the Exchange’s website (<http://www.cboe.com/AboutCBOE/CBOELegalRegulatoryHome.aspx>), at the Exchange’s Office of the Secretary, and at the Commission’s Public Reference Room.

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

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

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

1. Purpose

In 2016, the Exchange’s parent company, Cboe Global Markets, Inc. (formerly named CBOE Holdings, Inc.) (“Cboe Global”), which is the parent company of Cboe Exchange, Inc. (“Cboe Options”) and Cboe C2 Exchange, Inc., acquired the Exchange, Cboe EDGA Exchange, Inc. (“EDGA”), Cboe BZX Exchange, Inc. (“BZX or BZX Options”), and Cboe BYX Exchange, Inc. (“BYX” and, together with C2, Cboe Options, 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 the technology migration of Cboe Options to the same trading platform as the Exchange. Thus, the proposed rule change is intended to

add certain functionality to the Exchange's System that is currently offered by Cboe Options³ in order to ultimately provide a consistent technology offering for market participants who interact with the Cboe Affiliated Exchanges. 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.

Currently, one of the Order Types in the Rules for simple orders is a Reserve Order.⁴ When implemented, simple Reserve Orders will permit Users to enter orders with both displayed and nondisplayed amounts. Reserve Orders will provide Users with additional flexibility to manage and display their orders and additional control over their executions on the Exchange.

The Exchange proposes to adopt Complex Reserve Order functionality.⁵ Complex Reserve Orders would generally function in the same manner as simple Reserve Orders, as currently described in the definition of Reserve Orders in Rule 21.1(d)(1).⁶ Specifically, a "Complex Reserve Order" is a complex limit order with both a portion of the quantity displayed ("Display Quantity") and a reserve portion of the quantity ("Reserve Quantity") not displayed. Both the Display Quantity and Reserve Quantity of a Complex Reserve Order are available for execution pursuant to Rule 21.20(c) and (d).⁷ When entering a Complex Reserve

Order, a User must instruct the Exchange as to the quantity of the Complex Reserve Order to be initially displayed by the System ("Max Floor"). If the Display Quantity of a Complex Reserve Order is fully executed, the System will, in accordance with the User's instruction, replenish the Display Quantity from the Reserve Quantity using one of the below replenishment instructions. If the remainder of a Complex Reserve Order is less than the replenishment amount, the System will display the entire remainder of the Complex Reserve Order. The System creates a new timestamp for both the Display Quantity and Reserve Quantity of the Complex Reserve Order each time it is replenished from reserve.

A User may determine that a Complex Reserve Order it submits should be subject to "Random Replenishment" or "Fixed Replenishment." If a Complex Reserve Order has a Random Replenishment instruction, the System randomly replenishes the Display Quantity for the Complex Reserve Order with a number of contracts not outside a replenishment range, which equals the Max Floor plus and minus a replenishment value established by the User when entering a Complex Reserve Order with a Random Replenishment instruction. For any Complex Reserve Order for which a User does not select Random Replenishment, the System will replenish the Display Quantity of the Complex Reserve Order with the number of contracts equal to the Max Floor (or the entire remainder of the Complex Reserve Order if it is less than the replenishment amount).

Current Rule 21.20(d)(2) provides that upon receipt of a COA-eligible order,⁸ the Exchange will begin the complex order auction ("COA") process by sending a COA auction message to all subscribers to the Exchange's data feeds that deliver COA auction messages. A COA auction message identifies the COA auction ID, instrument ID (*i.e.* complex strategy), origin code, quantity, and side of the market of the COA-eligible order. The proposed rule change provides that if the COA-eligible order is a Complex Reserve Order, the COA auction message only identifies the Display Quantity; however, the entire quantity (both the Display Quantity and Reserve Quantity) may execute following the COA pursuant to Rule 21.20(d)(7).⁹ The Exchange believes this

(via Legging), or following a COA (if the complex order is COA-eligible pursuant to Rule 21.20(b)(2)). Complex Reserve Orders will be COA-eligible, subject to a User's instructions.

⁸ See Rule 21.20(b)(2) for the definition of a COA-eligible order.

⁹ See proposed Rule 21.20(d)(2).

is consistent with the purpose of a Reserve Order. If a User submits a Reserve Order (simple or complex), the User does so to only have a certain specified size publicly displayed. If the entire quantity of a Complex Reserve Order was auctioned in a COA, the entire size of the Complex Reserve Order would be publicly displayed,¹⁰ rather than the Display Quantity the User indicated it wanted publicly visible. Therefore, the Exchange believes it is appropriate to include only the Display Quantity of a Complex Reserve Order in a COA message.¹¹

Proposed Rule 21.20(c)(2)(F) states the entire quantity of a Complex Reserve Order (both the Display Quantity and Reserve Quantity) will Leg into the Simple Book at the same time, and any quantity that does not execute pursuant to Rule 21.20(c) or (d) after Legging will rest in the COB in accordance with the proposed Complex Reserve Order instruction. As stated in the definition of a Reserve Order and the proposed definition of a Complex Reserve Order, both the Displayed Quantity and Reserve Quantity are eligible for execution against incoming orders. The Exchange believes it is appropriate to similarly make both the Displayed Quantity and Reserve Quantity eligible for execution against orders and quotes in the Simple Book as well. This will maximize the size of resting orders and quotes on the Simple Book that may execute when these orders Leg into the Simple Book, as well as provide the entire quantity of a Complex Reserve Order with an opportunity to execute against orders in the Simple Book. A Complex Reserve Order may Leg into the Simple Book after a COA, following submission to the System (if not COA-eligible), or following evaluation when resting in the COB.¹² If any portion of a Complex Reserve Order does not execute in those circumstances, the remaining quantity will enter the COB with a Display Quantity and Reserve Quantity with amounts determined in

¹⁰ See current Rule 21.20(d)(2) (COA auction messages identify, among other things, the quantity of the COA-eligible order).

¹¹ Making both the Display Quantity and Reserve Quantity available for execution at the end of a COA is consistent with the definition of the Reserve Order instruction for simple orders, which provides that both portions are available for potential execution against incoming orders. See Rule 21.1(d)(1). The proposed rule change provides the entire quantity of a Complex Reserve Order that initiates a COA with an opportunity to execute following a COA.

¹² See Rule 21.20(c)(2)(G) (describing the initial evaluation process), (c)(5) (describing the evaluation process after a complex order is resting in the COB), and (d)(5) (describing the processing of COA-eligible orders).

³ Cboe Options currently offers reserve functionality for complex orders. See Cboe Options Regulatory Circular RG11-016 (January 27, 2011); see also Cboe Options Rule 6.53 (which permits Cboe Options to determine which orders types are available for which Exchange systems).

⁴ See Rule 21.1(d)(1). This rule is currently effective but not yet operative. See SR-CboeEDGX-2018-051 (November 5, 2018). The Exchange intends to implement simple Reserve Order functionality on November 29, 2018.

⁵ See proposed Rule 21.20(b)(6). The Exchange recently proposed to amend its Rules to adopt Post Only complex order functionality. See Securities Exchange Act Release No. 34-84393 (October 10, 2018), 83 FR 52264 (October 16, 2018) (SR-CboeEDGX-2018-043). The proposed rule text is based on the currently effective rule text (the proposed reserved subparagraphs (b)(4) and (5) accommodate proposed rule text the Exchange intends to include in an amendment to that rule filing). If SR-CboeEDGX-2018-043 is approved by the Securities and Exchange Commission (the "Commission") prior to the date the Commission acts on this rule filing, the Exchange will amend this rule filing to update the proposed rule text to reflect the rule text as amended by that filing.

⁶ See *supra* note 4.

⁷ Pursuant to Rule 21.20(c) and (d), complex orders (including the Display and Reserve Quantities of Complex Reserve Orders) may execute during the COB opening process, against incoming complex orders, simple orders in the Simple Book

accordance with proposed Rule 21.20(b)(6).

The proposed rule change also amends Rule 21.20(d)(4) to clarify that COA Responses may be larger than the COA-eligible order (in response to which the COA Response is submitted). Neither the System nor the Rules limit the size of COA Responses to the size of the COA-eligible order, and the Exchange believes this proposed change will provide Users with additional clarity. Because COA Responses are not limited to the size of COA-eligible orders, if a Complex Reserve Order initiates a COA, COA Responses with size larger than the Display Quantity of the Complex Reserve Order will have the opportunity to execute against the entire size of the Complex Reserve Order.

Processing and execution of Complex Reserve Orders will generally occur in the same manner as other complex orders in accordance with current Rule 21.20(c) and (d). Proposed Rule 21.20(c)(3)(B) and (d)(7)(B) states that displayed complex orders resting on the COB have priority over nondisplayed portions of Complex Reserve Orders resting on the COB. This is consistent with the current handling of simple Reserve Orders.¹³ The proposed rule change also clarifies in 21.20(c)(2)(F), (c)(3)(B), and (d)(7)(A) that both displayed and nondisplayed Priority Customer bids and offers on the Simple Book¹⁴ for the individual leg components of the complex order trade before complex orders (both displayed and nondisplayed orders) resting on the COB and COA Responses, if applicable, at the same price when a complex order Legs into the Simple Book. This is consistent with current functionality and current Rules. Specifically, Rule 21.20(c)(3)(B) states that complex orders that leg into the Simple Book will be executed in accordance with Rule 21.8, which provides that resting orders and quotes are prioritized according to price

and there [sic] are allocated in a pro-rata fashion (subject to priority overlays, such as Priority Customer Overlays and Entitlements), and that displayed orders have priority over nondisplayed orders. Therefore, if a complex order Legs in to the Simple Book, it would execute against displayed and then nondisplayed resting interest in the Simple Book at the applicable price before executing against other complex orders. The proposed rule change adds clarity to the priority of resting orders when a complex order Legs into the Simple Book, as well as describes how complex reserve orders will be prioritized.

If a complex order Legs into the Simple Book, the execution priority of contra-side interest will be as follows:

- Displayed Priority Customer simple orders
- Nondisplayed portions of Priority Customer simple orders
- Displayed complex orders and COA Responses, if applicable
- Nondisplayed portions of Complex Reserve Orders
- Displayed non-Priority Customer simple orders
- Nondisplayed portions of non-Priority Customer simple orders

The Exchange believes this is reasonable, as it ensures protection of the leg markets while ensuring system stability. This priority order results in nondisplayed orders on the Simple Book ahead of displayed complex orders on the COB. While the Exchange generally prioritizes displayed orders over nondisplayed orders to encourage Users to submit displayed liquidity, executing complex orders first against displayed Priority Customer simple orders, second against displayed complex orders and COA responses, third against displayed non-Priority Customer simple orders, fourth against nondisplayed portions Priority Customer simple orders, fifth against nondisplayed portions of Complex Reserve Orders, and sixth against nondisplayed portions of non-Priority Customer simple orders would significantly increase the complexity of the proposed functionality. The Simple Book and COB are entirely separate functioning books, and moving a complex order back and forth between the two books increases systematic risk related to Legging. Additionally, this would increase the execution time for complex orders that are able to Leg, which may harm Users. The Exchange believes the need to ensure system stability and efficient executions in connection with offering the proposed functionality to Users outweighs any

potential benefits of prioritizing all displayed interest ahead of nondisplayed interest in this context.

The proposed rule change also makes a nonsubstantive change to the introductory sentence to the list of complex order types in Rule 21.20(b) to eliminate the use of passive voice in that sentence.

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 proposed rule change will remove impediments to and perfect the mechanism of a free and open national market system, as well as benefit investors by providing Users with additional flexibility to manage and display their complex orders and additional control over their executions on the Exchange. This may encourage market participants to bring additional liquidity to the market, which benefits all investors.

The Exchange notes that Reserve Order functionality is not new or unique and is already available in a similar capacity for simple orders. While the Reserve Order functionality is not currently available for complex orders, the Exchange has Reserve Order functionality in its Rules for simple orders, which functions substantially in the same manner as the proposed Complex Reserve Order functionality.¹⁸

¹⁵ 15 U.S.C. 78f(b).

¹⁶ 15 U.S.C. 78f(b)(5).

¹⁷ *Id.*

¹⁸ As noted above, Reserve Order functionality for simple orders is described in Rules that are currently effective but not yet operative.

¹³ See Rule 21.1(d)(1) and *supra* note 4.

¹⁴ Priority Customer orders on the Simple Book have first priority pursuant to the Customer Overlay. See Rule 21.8(d). Because, pursuant to current Rule 21.20(c)(3)(A), a complex order must improve the price of the BBO of a component of a complex strategy by at least \$0.01 if it consists of a Priority Customer Order, if the execution price of a complex order is the same as the SBBO that consists of Priority Customer Orders, the order will first Leg into the Simple Book pursuant to Rule 21.20(c)(2)(F). The proposed rule change to Rule 21.20(c)(3)(A) clarifies this order of priority. Specifically, the proposed rule change states if there are Priority Customer Orders in the Simple Book at the same price as orders resting on the COB against which an incoming complex order will execute, the order will first Leg into the Simple Book to execute against the Priority Customer Orders (both displayed and nondisplayed orders) before executing against complex orders in the COB.

The purpose of a Complex Reserve Order is the same as the purpose of a simple Reserve Order.

The proposed rule change to only include the Displayed Quantity of a Complex Reserve Order in a COA message protects investors, as it is consistent with the purpose of a Complex Reserve Order and the intention of a User that submits a Complex Reserve Order, which is to only have a certain specified size publicly displayed. This provides Complex Reserve Orders with the potential for price improvement in a manner consistent with the objective of a Reserve Order. Therefore, the Exchange believes it is appropriate to only include the Display Quantity of a Complex Reserve Order in a COA message.

The Exchange believes the proposed rule change regarding how Complex Reserve Orders Leg into the Simple Book will benefit investors. The proposed rule change is consistent with the definition of a Reserve Order, which states that the entire quantity is eligible for potential execution against incoming orders, and thus provides the entire quantity of a Reserve Order with an opportunity to execute against orders and quotes in the Simple Book. Additionally, this will maximize the size of resting orders and quotes on the Simple Book that may execute when Complex Reserve Orders Leg into the Simple Book. Therefore, the Exchange believes the proposed rule change may increase execution opportunities for both Complex Reserve Orders and simple orders and quotes resting on the Simple Book.

The Exchange believes the proposed rule change related to the priority of Complex Reserve Orders promotes just and equitable principles of trade, as it is consistent with current priority in the Simple Book that provides displayed orders have priority over nondisplayed orders. The proposed rule change that displayed portions of complex orders resting on the COB have priority over nondisplayed portions of Complex Reserve Orders resting on the COB is reasonable, because it is consistent with the current handling of simple Reserve Orders, as discussed above. Additionally, the proposed rule change to clarify that displayed and nondisplayed Priority Customer orders and quotes resting on the Simple Book have priority over all displayed and nondisplayed orders resting on the COB when a complex order Legs into the Simple Book is consistent with current functionality and current Rules describing how complex orders Leg into the Simple Book. This additional clarity

regarding the order in which resting orders and quotes on the Simple Book will trade when a complex order Legs into the Simple Book benefits investors, as it provides more detail regarding the priority of executions on the Exchange. The Exchange also believes the proposed priority ensures system stability and efficient executions outweighs [sic]. The Exchange notes it is not novel for nondisplayed interest to trade ahead of displayed interest.¹⁹

The proposed rule change is generally intended to add certain system functionality to the Exchange's System in order to provide a consistent technology offering for the Cboe Affiliated Exchanges, as Cboe Options currently offers (and intends to offer following its migration to the same technology platform as the Exchange) complex reserve order functionality. A consistent technology offering, in turn, will simplify the technology implementation, changes, and maintenance by Users of the Exchange that are also participants on Cboe Affiliated Exchanges. The proposed rule change will provide Users with additional flexibility to manage and display their orders and control their executions on the Exchange. This may encourage market participants to bring additional liquidity to the market, which benefits all investors. Additionally, this will provide Users with greater harmonization between the order handling instructions available among the Cboe Affiliated Exchanges.

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 believes the proposed rule change will not burden intramarket competition because the Reserve Order instruction on complex orders will be available to all market participants. Additionally, use of the Reserve Order instruction on complex orders is voluntary. The Exchange also believes the proposed rule change will not impose any burden on intermarket competition because this relates to an instruction on orders that are submitted to the Exchange and how the Exchange's System will handle and execute them. Additionally, nothing prevents other options exchanges that offer complex orders from adopting a Reserve Order functionality for complex orders. The Exchange also believes the proposed rule change will promote competition,

as Complex Reserve Orders will provide Users with additional flexibility to manage and display their complex orders and additional control over their executions on the Exchange. This may encourage market participants to bring additional liquidity to the market, which benefits all investors.

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

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

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 45 days of the date of publication of this notice in the **Federal Register** or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the Exchange consents, the Commission will:

- A. By order approve or disapprove such proposed rule change, or
- B. institute proceedings to determine whether the proposed rule change should be 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 email to rule-comments@sec.gov. Please include File Number SR-CboeEDGX-2018-049 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-CboeEDGX-2018-049. This file number should be included on the subject line if email 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

¹⁹ See *supra* note 15 [sic].

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, DC 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-CboeEDGX-2018-049, and should be submitted on or before December 18, 2018.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²⁰

Brent J. Fields,
Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-84643; File No. SR-C2-2018-022]

Self-Regulatory Organizations; Cboe C2 Exchange, Inc.; Notice of Filing of a Proposed Rule Change Relating To Adopt Complex Reserve Order Functionality

November 21, 2018.

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 November 8, 2018, 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 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 Complex Reserve Order functionality.

(additions are *italic*; deletions are [bracketed])

* * * * *

Rules of Cboe C2 Exchange, Inc.

* * * * *

Rule 6.13. Complex Orders

Trading of complex orders is subject to all other Rules applicable to trading of orders, unless otherwise provided in this Rule 6.13.

(a) No change.

(b) *Types of Complex Orders.* The Exchange determines which Times-in-Force of Day, GTC, GTD, IOC, or OPG are available for complex orders (including for eligibility to enter the COB and initiate a COA). The Exchange determines which Capacities (*i.e.*, non-broker-dealer customers, broker-dealers that are not Market-Makers on an options exchange, or Market-Makers on an options exchange) are eligible for entry onto the COB. Complex orders are Book Only and may be market or limit orders. Users may designate complex orders as Attributable or Non-Attributable. The System also accepts the following instructions for complex orders:

(1)–(3) No change.

(4) *(Reserved)*

(5) *(Reserved)*

(6) *Complex Reserve Orders.* A

"Complex Reserve Order" is a complex limit order with both a portion of the quantity displayed ("Display Quantity") and a reserve portion of the quantity ("Reserve Quantity") not displayed. Both the Display Quantity and Reserve Quantity of the Complex Reserve Order are available for potential execution pursuant to paragraphs (c) through (e) below. When entering a Complex Reserve Order, a User must instruct the Exchange as to the quantity of the Complex Reserve Order to be initially displayed by the System ("Max Floor"). If the Display Quantity of a Complex Reserve Order is fully executed, the System will, in accordance with the User's instruction, replenish the Display Quantity from the Reserve Quantity using one of the below replenishment instructions. If the remainder of a Complex Reserve Order is less than the replenishment amount, the System will display the entire remainder of the Complex Reserve Order. The System

creates a new timestamp for both the Display Quantity and Reserve Quantity of the Complex Reserve Order each time it is replenished from reserve.

(A) *Random Replenishment.* An instruction that a User may attach to a Complex Reserve Order where the System randomly replenishes the Display Quantity for the Complex Reserve Order with a number of contracts not outside a replenishment range, which equals the Max Floor plus and minus a replenishment value established by the User when entering a Complex Reserve Order with a Random Replenishment instruction.

(B) *Fixed Replenishment.* For any Complex Reserve Order for which a User does not select Random Replenishment, the System will replenish the Display Quantity of the Complex Reserve Order with the number of contracts equal to the Max Floor (or the entire remainder of the Complex Reserve Order if it is less than the replenishment amount).

(c) No change.

(d) *Complex Order Auctions (COAs).*

(1) *Commencement of COA.* Upon receipt of a COA-eligible order, the System initiates the COA process by sending a COA auction message to all subscribers to the Exchange's data feeds that deliver COA auction messages. A COA auction message identifies the COA auction ID, instrument ID (*i.e.*, complex strategy), Capacity, quantity, and side of the market of the COA-eligible order. *If the COA-eligible order is a Complex Reserve Order, the COA auction message only identifies the Display Quantity; however, the entire quantity (both the Display Quantity and Reserve Quantity) may execute following the COA pursuant to subparagraph (5) below.* The Exchange may also determine to include the price in COA auction messages, which will be the limit order price or the SBO (SBB) (if initiated by a buy (sell) market complex order), or the drill-through price if the order is subject to the drill-through protection in Rule 6.14(b).

(2)–(3) No change.

(4) *COA Responses.* The System accepts a COA Response(s) with any Capacity in \$0.01 increments during the Response Time Interval.

(A) No change.

(B) *COA Responses may be larger than the COA-eligible order.* The System aggregates the size of COA Responses submitted at the same price for an EFID, and caps the size of the aggregated COA Responses at the size of the COA-eligible order (*including Display Quantity and Reserve Quantity if the COA-eligible order is a Complex Reserve Order*).

(C)–(D) No change.

²⁰ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.