

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-67409; File No. SR-C2-2012-022)

July 11, 2012

Self-Regulatory Organizations; C2 Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to Continuous Quotes

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on July 5, 2012, C2 Options Exchange, Incorporated (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

The Exchange proposes to amend its Rules relating to continuous quotes. The text of the proposed rule change is available on the Exchange’s Web site (<http://www.c2exchange.com/Legal/>), at the Exchange’s Office of the Secretary, and at the Commission.

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.

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

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

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

1. Purpose

The purpose of the proposed rule change is to amend Rule 8.5, “Obligations of Market-Makers,” to reduce to 90% the percentage of time for which a Market-Maker is required to provide quotes in an appointed option class. The proposed rule change is comparable to the rules of other options exchanges applicable to equivalent market participants.<sup>3</sup>

Rule 8.5(a)(1) provides that during trading hours, a Market-Maker must maintain a continuous two-sided market in 60% of the non-adjusted option series<sup>4</sup> of each registered class that have a time to expiration of less than nine months. For purposes of that obligation, “continuous” means 99% of the time. The rule also provides that if a technical failure or limitation of the Exchange’s system prevents a Market-Maker from maintaining, or from communicating to the Exchange, timely and accurate quotes in a series, the duration of such failure will not be considered in determining whether that Market-Maker has satisfied the 99% quoting standard with respect to that series. The Exchange may consider other exceptions to this obligation based on demonstrated legal or regulatory requirements or other mitigating circumstances. The Exchange proposes to amend the continuous quoting obligation for Market-

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<sup>3</sup> The continuous quoting obligations for NASDAQ Options Market (“NOM”) market-makers and NASDAQ OMX PHLX LLC (“PHLX”) streaming quote trades (“SQTs”) and remote SQTs (“RSQTs”) are generally as follows: (1) NOM Chapter VII, Section 6(d) – market-makers must enter continuous bids and offers in at least 60% of the series in options in which the market-maker is registered for 90% of the trading day (as a percentage of the total number of minutes in such trading day) or such higher percentage as NASDAQ may announce in advance; and (2) PHLX Rule 1014(b)(ii)(D)(1) –SQTs and RSQTs must quote two-sided markets in 60% of series of the options in which they are assigned for at least 90% of the trading day (as a percentage of the total number of minutes in such trading day).

<sup>4</sup> The rule defines an “adjusted option series” as an option series wherein, as a result of a corporate action by the issuer of the underlying security, one option contract in the series represents the delivery of other than 100 shares of underlying stock or Units.

Makers from 99% to 90% of the time. The rule will still provide for automatic exceptions for technical failures or system limitations and discretionary exceptions based on demonstrated legal or regulatory requirements or other mitigating circumstances.

The Exchange does not believe that the proposed rule change would adversely affect the quality of the Exchange’s market or lead to a material decrease in liquidity. Rather, the Exchange believes that its current market structure with its high rate of participation by Market-Makers permits the lowering of the quoting time obligation without fear of losing liquidity. The Exchange Rules impose a number of other obligations on Market-Makers that will continue to ensure that they create and maintain a fair and orderly market in the option classes to which they are assigned. In particular, the proposed rule change does not change a Market-Maker’s obligation to provide continuous quotes in 60% of each allocated class. In addition, the proposed rule change would not excuse a Market-Maker from its obligation to submit a single quote or maintain continuous quotes in one or more series of a class to which the Market-Maker is appointed when called upon by an Exchange official if, in the judgment of such official, it is necessary to do so in the interest of maintaining a fair and orderly market.<sup>5</sup>

In support of this proposal, the Exchange notes that other competing options exchanges impose continuous quoting obligations on their market participants that have equivalent rights and obligations as Market-Makers that are comparable to the obligations proposed in this filing:

	% Time	% Series	Classes
<b>C2</b> (current rule)	99% of the time	60%	Class-by-class
<b>NOM</b>	90% of a trading day	60%	All classes collectively
<b>PHLX</b> (SQTs and RSQTs)	90% of the trading day	60%	All classes collectively

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<sup>5</sup> See Rule 8.5(d).

As the above table shows, upon effectiveness of the propose rule change, Market-Makers will be required to provide continuous quotes for the same amount of time in the same percentage of series as market-makers at these other exchanges. Additionally, the Exchange notes that C2's quoting obligation is more restrictive than that of other exchanges, because it applies its continuous quoting obligation on a class-by-class basis, whereas the other exchanges apply their quoting obligations to all classes collectively. As a result, C2's rules ensure that Market-Makers provide liquidity in a significant number of series in each class in which they are quoting, whereas the other exchanges' rules could result in reduced or no liquidity in certain classes.<sup>6</sup>

The Exchange believes that the benefit to Market-Makers of the slightly reduced quoting obligation (which still results in similar quoting times as other exchanges as shown above) is offset by their continued responsibility to provide minimum liquidity in each appointed class in which they are quoting (a more restrictive standard than the other exchanges discussed in this filing) and to quote upon request, as discussed above. The Exchange also believes this proposal will make the quoting time requirements of Market-Makers more comparable to those at other options exchanges and is therefore essential for competitive purposes. C2 believes it is disadvantageous to C2 Market-Makers if they are subject to stricter timing requirements with respect to their continuous quoting obligations than market-makers at other options exchanges.

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<sup>6</sup> For example, consider a Market-Maker with 10 appointed classes, each of which has 50 series, for a total of 500 series, quoting in each class during a regular 390-minute trading day. Market-Makers at each of C2, NOM and PHLX would be required to quote in at least 300 series for 90% of the trading day (351 minutes). However, C2 would require Market-Makers to quote in at least 30 series in each class; while market-makers at NOM and PHLX could satisfy their quoting obligations by quoting in, for example, 40 series in each of 6 classes and only 15 series in each of 4 classes, or 50 series in each of 6 classes and no series in the other 4 classes.

The proposed rule change also amends Rule 8.13(d) to clarify that Preferred Market-Makers<sup>7</sup> must continue to provide continuous quotes in at least 90% of the non-adjusted option series of each class for which it receives Preferred Market-Maker orders for 99% of the time. Additionally, the proposed rule change adds a provision to Rule 8.13(d) that says if a technical failure or limitation of the Exchange's system prevents a Preferred Market-Maker from maintaining, or from communicating to the Exchange, timely and accurate quotes in a series, the duration of such failure will not be considered in determining whether that Preferred Market-Maker has satisfied the 99% quoting standard with respect to that series, and that the Exchange may consider other exceptions to this obligation based on demonstrated legal or regulatory requirements or other mitigating circumstances. This proposal is merely a clarification of the current requirement for Preferred Market-Makers, which is currently not specified in the definition of "continuous" in Rule 8.13(d).

## 2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the Act and the rules and regulations thereunder applicable to the Exchange and, in particular, the requirements of Section 6(b) of the Act.<sup>8</sup> Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>9</sup> requirements that the rules of an exchange be designed to promote just and equitable principles of trade, to prevent fraudulent and manipulative acts, to

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<sup>7</sup> Rule 8.13(a) provides that the Exchange may allow, on a class-by-class basis, for the receipt of marketable orders, through the Exchange's system when the Exchange's disseminated quote is the national best bid or offer, that carry a designation from the member transmitting the order that specifies a Market-Maker in that class as the "Preferred Market-Maker" for that order. The Exchange currently has no Preferred Market-Makers.

<sup>8</sup> 15 U.S.C. 78f(b).

<sup>9</sup> 15 U.S.C. 78f(b)(5).

remove impediments to and to perfect the mechanism for a free and open market and a national market system, and, in general, to protect investors and the public interest.

In particular, the Exchange believes this proposed rule change promotes just and equitable principles of trade because it reduces burdens and unnecessary restrictiveness on Market-Makers. The Exchange still imposes many obligations on Market-Makers to maintain a fair and orderly market in their appointed classes, which the Exchange believes eliminates the risk of a material decrease in liquidity. While the time during which Market-Makers must provide continuous quotes will be slightly reduced, Market-Makers will still be obligated to provide continuous electronic quotes for a significant part of the trading day in 60% of series of each appointed class. Additionally, all Market-Makers will continue to be obligated to quote the series when requested by an Exchange official, or if the need otherwise arises. Accordingly, the proposal supports the quality of C2's market by helping to ensure that Market-Makers will continue to be obligated to quote in series when necessary.

The proposed rule change also will allow the Exchange to require its Market-Makers to provide continuous quotes in their appointed classes for a portion of the trading day that is the same as that of market-makers at other exchanges, which the Exchange believes will help remove impediments to and promote a free and open market.

Finally, the proposed rule change to Rule 8.13(d) protects investors and the public interest by clarifying in the Rules the continuous quoting obligations of Preferred Market-Makers.

For the foregoing reasons, the Exchange believes that the balance between the benefits provided to Market-Makers and the obligations imposed upon Market-Makers by the proposed rule change is appropriate.

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

C2 does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. In this regard and as indicated above, the Exchange notes that the proposed rule change is comparable to current rules at competing options exchanges related to market-maker continuous quoting obligations<sup>10</sup> and will ensure fair competition among the options exchanges with respect to these obligations.

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

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

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

Because the foregoing proposed rule change does not:

- A. significantly affect the protection of investors or the public interest;
- B. impose any significant burden on competition; and
- C. become operative for 30 days from the date on which it was filed, or such shorter

time as the Commission may designate,

it has become effective pursuant to Section 19(b)(3)(A)<sup>11</sup> of the Act and Rule 19b-4(f)(6)<sup>12</sup> thereunder.

At any time within 60 days of the filing of this proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

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<sup>10</sup> See supra note 3.

<sup>11</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>12</sup> 17 CFR 240.19b-4(f)(6).

#### 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](mailto:rule-comments@sec.gov). Please include File Number SR-C2-2012-022 on the subject line.

##### Paper comments:

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-C2-2012-022. 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, 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; 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-C2-2012-022 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

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

Kevin M. O'Neill  
Deputy Secretary

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<sup>13</sup> 17 CFR 200.30-3(a)(12).