

(Additions are underlined; deletions are [bracketed])

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C2 Options Exchange, Incorporated

Rules

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Rule 1.1. Definitions

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BBO

The term “BBO” means the best bid or offer disseminated on the Exchange.

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Designated Primary Market-Maker

The term “Designated Primary Market-Maker” or “DPM” means a Participant organization that is approved by the Exchange to function in allocated securities as a Market-Maker (as defined in Rule 1.1) and is subject to the obligations under Rule 8.17 or as otherwise provided under the Rules.

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Rule 6.12. Order Execution and Priority

System orders shall be executed consistent with the following provisions:

(a) Base Execution Algorithm. The Exchange will determine to apply, for each option class traded on the System, one of the following rules of trading priority.

(1) Price-Time Priority. No change.

(2) Pro Rata Priority. No change.

(3) Price-Time with Primary Public Customer Priority and Secondary Trade Participation Right Priority. Under this method, first priority is provided to Public Customers as described in subparagraph (a)(3)(A) below; second priority is afforded to Trade Participation Right recipients as described in subparagraph (a)(3)(B) below; and remaining priority is handled in accordance with Price-Time Priority as set forth in subparagraph (a)(1) above.

(A) Public Customer. No change.

(B) Trade Participation Right. Preferred Market-Makers and DPMs may be granted trade participation rights pursuant to the provisions of Chapter 8 up to the applicable participation right percentage designated pursuant to the provisions of Rule 8.13 and Rule 8.19, respectively. More than one such trade participation right may be activated for an option class (including at different priority sequences), however in no case may more than one trade participation right be applied on the same trade. For example, the Preferred Market-Maker trade participation right of Rule 8.13 and the DPM trade participation right of Rule 8.19 may be in effect, along with other priorities that are allowed under this Rule, for an option class at different priority levels (e.g. Public Customer has first priority, Market

Turner participation right has second priority, Preferred Market-Maker has third priority, and DPM participation right – if the Preferred Market-Maker participation right was not applied on the trade – has fourth priority). In allocating the participation right, all of the following shall apply:

- (i) To be entitled to their participation right, a Preferred Market-Maker's or DPM's order and/or quote must be at the best price on the Exchange.
- (ii) A Preferred Market-Maker or DPM may not be allocated a total quantity greater than the quantity that it is quoting (including orders not part of quotes) at that price.
- (iii) In establishing the counterparties to a particular trade, the Preferred Market-Maker's or DPM's participation right must first be counted against the Preferred Market-Maker's or DPM's, as applicable, highest priority bids or offers.
- (iv) [t]The participation right shall only apply to any remaining balance of an order once all higher priorities are satisfied.

Under any of the algorithms above, all displayed orders at a given price shall have priority over the non-displayed portion of a Reserve Order at the same price.

(b) Additional Priority Overlays. In addition to the base allocation methodologies set forth above, the Exchange may determine to apply, on a series-by-series basis, any or all of the following designated market participant overlay priorities in a sequence determined by the Exchange. The Exchange will issue a Regulatory Circular periodically which will specify which series or classes are subject to these additional priorities as well as any time the Exchange changes these priorities.

(1) Market Turner. No change.

(2) Small Order Preference.

(A) Orders for five (5) contracts or fewer will be executed first by the DPM; provided, however, that, on a quarterly basis, the Exchange will evaluate what percentage of the volume executed on the Exchange (excluding volume resulting from the execution of orders in AIM (see Rule 6.51)) is comprised of orders for five (5) contracts or fewer executed by DPMs, and will reduce the size of the orders included in this provision if such percentage is over forty percent (40%).

(B) This procedure only applies to the allocation of executions among non-customer orders and Market-Maker quotes existing in the Book at the time the order is received by the Exchange. No market participant is allocated any portion of an execution unless it has an existing interest at the execution price. Moreover, no market participant can execute a greater number of contracts than is associated with the price of its existing interest. Accordingly, the small order preference contained in this allocation procedure is not a guarantee; the DPM (1) must be quoting at the execution price to receive an allocation of any size, and (2) cannot execute a greater number of contracts than the size that is associated with its quote.

(C) If a Preferred Market-Maker is not quoting at a price equal to the NBBO at the time a preferred order is received, the allocation procedure contained in subparagraphs (b)(2)(A) and (B) shall be applied to the execution of the preferred order. If a Preferred Market Maker is quoting at the NBBO at the time the preferred order is received, the allocation procedure contained in subparagraph (a) shall be applied to the execution of the preferred order. Any Market Turner status shall not apply.

(D) The small order preference contained in this allocation procedure is only applicable to automatic executions and is not applicable to auctions.

(c) – (g) No change.

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Rule 8.14. Approval to Act as a DPM

(a) To act as a DPM, a Participant must file an application with the Exchange on such forms as the Exchange may prescribe.

(b) The Exchange shall determine the appropriate number of approved DPMs. Each DPM approval shall be made by the Exchange from among the DPM applications on file with the Exchange, based on the Exchange's judgment as to which applicant is best able to perform the functions of a DPM. Factors to be considered in making such a selection may include, but are not limited to, any one or more of the following:

(1) adequacy of capital;

(2) operational capacity;

(3) trading experience of and observance of generally accepted standards of conduct by the applicant and its associated persons;

(4) regulatory history of and history of adherence to the Rules by the applicant and its associated persons; and

(5) willingness and ability of the applicant and its associated persons to promote the Exchange as a marketplace.

(c) Each applicant for approval as a DPM will be given an opportunity to present any matter that it wishes the Exchange to consider in conjunction with the approval decision. The Exchange may require that a presentation be solely or partially in writing, and may require the submission of additional information from the applicant or persons associated with the applicant. Formal rules of evidence shall not apply to these proceedings.

(d) In selecting an applicant for approval as a DPM, the Exchange may place one or more conditions on the approval, including but not limited to conditions concerning the capital or operations of or persons associated with the applicant, and the number or type of securities that may be allocated to the applicant.

(e) Each DPM shall retain its approval to act as a DPM for one year, unless the Exchange relieves the DPM of its approval and obligations to act as a DPM or the Exchange earlier terminates the DPM's approval to act as a DPM pursuant to Rule 8.20. After each one-year term, a DPM may file an application with the Exchange to renew its approval to act as a DPM on such forms as the Exchange may prescribe, which the Exchange may approve or disapprove in its sole discretion in the same manner and based on the same factors set forth in paragraphs (b) through (d) above, and any other factors that the Exchange deems relevant, including an evaluation of the extent to which the DPM has satisfied its obligations under Rule 8.17.

(f) If pursuant to Rule 8.20 the Exchange terminates or otherwise limits its approval for a Participant to act as a DPM, the Exchange shall have the discretion to do one or both of the following:

(1) approve a DPM on an interim basis, pending the final approval of a new DPM pursuant to paragraphs (a) through (d) of this Rule; and

(2) allocate on an interim basis to another DPM(s) the securities that were allocated to the affected DPM, pending a final allocation of such securities pursuant to Rule 8.15.

Neither an interim approval nor allocation made pursuant to this paragraph (f) should be viewed as a prejudgment with respect to the final approval or allocation.

(g) DPM appointments may not be sold, assigned, or otherwise transferred without prior written approval of the Exchange.

Rule 8.15. Allocation of Securities to DPMs

(a) The Exchange shall determine for each security traded on the Exchange whether the security should be allocated to a DPM and, if so, to which DPM the security should be allocated.

(b) The Exchange may consider any information that the Exchange believes will be of assistance to it in making determinations pursuant to paragraph (a) of this Rule. Factors to be considered in making such determinations may include, but are not limited to, any one or more of the following: performance, volume, capacity, market performance commitments, operational factors, efficiency, competitiveness, environment in which the security will be traded, expressed preferences of issuers, and recommendations of Exchange committees.

(c) During a DPM's term, the Exchange may remove the allocation of a security to the DPM, and may reallocate the applicable security pursuant to paragraph (a) of this Rule, if the DPM fails to adhere to any market performance commitments made by the DPM in connection with receiving the allocation. Any determination made pursuant to paragraph (a) of this Rule may also be changed by the Exchange at any time if the Exchange concludes that a change is in the best interests of the Exchange based on operational factors or efficiency.

(d) Prior to taking any action pursuant to paragraph (c) of this Rule, except when expeditious action is required, the Exchange shall notify the DPM involved of the reasons the Exchange is considering taking action pursuant to paragraph (c) of this Rule and the kind of action that is under consideration, and shall either convene one or more informal meetings with the DPM to discuss the matter, or shall provide the DPM with the opportunity to submit a written statement to the Exchange. Ordinarily, neither counsel for the Exchange nor counsel for the DPM shall be invited to any such informal meetings, and no verbatim record of the meetings shall be kept.

(e) The allocation of a security to a DPM does not convey ownership rights in such allocation or in the order flow associated with such allocation.

(f) In allocating and reallocating securities to DPMs, the Exchange shall act in accordance with any limitation or restriction on the allocation of securities that is established pursuant to another Exchange rule.

... Interpretations and Policies:

.01 Subject to Rule 8.14(f), the Exchange may reallocate a security pursuant to paragraph (a) of this Rule at the end of a DPM's one-year term, in the event that the security is removed pursuant to another Exchange Rule from the DPM to which the security has been allocated, or in the event that for some other reason the DPM to which the security has been allocated no longer retains such allocation.

Rule 8.16. Conditions on the Allocation of Securities to DPMs

(a) The Exchange may establish (1) restrictions applicable to all DPMs on the concentration of securities allocable to a single DPM and to affiliated DPMs and (2) minimum eligibility standards applicable to all DPMs, which must be satisfied in order for a DPM to receive allocations of securities, including but not limited to standards relating to adequacy of capital and operational capacity.

(b) The Exchange has the authority under the Rules to restrict the ability of particular DPMs to receive allocations of securities, including but not limited to, Rule 8.14(d) and Rule 8.20.

Rule 8.17. DPM Obligations

(a) Dealer Transactions. Each DPM shall fulfill all of the obligations of a Market-Maker under the Rules, and shall satisfy each of the following requirements in respect of each of the securities allocated to the DPM. To the extent that there is any inconsistency between the specific obligations of a DPM set forth in this Rule 8.17 and the general obligations of a Market-Maker under the Rules, this Rule 8.17 shall govern. Each DPM shall:

(1) provide continuous quotes in at least the lesser of 99% of the non-adjusted option series (as defined in Rule 8.5(a)(1)) or 100% of the non-adjusted option series minus one call-put pair of each option class allocated to it, with the term "call-put pair" referring to one call and one put that cover the same underlying instrument and have the same expiration date and exercise price, and assure that its disseminated market quotations are accurate. For purposes of this subparagraph (a)(1), "continuous" means 90% of the time. If a technical failure or limitation of the System prevents a DPM from maintaining, or from communicating to the Exchange, timely and accurate quotes in a series, the duration of such failure shall not be considered in determining whether that DPM has satisfied the 90% quoting standard with respect to the series;

(2) assure that each of its displayed market quotations are for the number of contracts required by Rule 8.6(a);

(3) segregate in a manner prescribed by the Exchange (A) all transactions consummated by the DPM in securities allocated to the DPM and (B) any other transactions consummated by or on behalf of the DPM that are related to the DPM's DPM business;

(4) not initiate a transaction for the DPM's own account that would result in putting into effect any stop or stop limit order that may be in the Book and when the DPM guarantees that the stop or stop limit order will be executed at the same price as the electing transaction. The restrictions set forth in this subparagraph (a)(4) apply to stop or stop limit orders only if the terms of such orders are visible to the DPM or if such orders are handled by the DPM; and

(5) ensure that a trading rotation is initiated promptly following the opening of the underlying security (or promptly after 8:30 a.m. (CT) in an index class) in accordance with Rule 6.11 in 100% of the series of each allocated class by entering opening quotes as necessary.

(b) Agency Transactions. A DPM shall not execute orders as an agent in its allocated option classes.

(c) Other Obligations. In addition to the obligations described in paragraphs (a) and (b) of this Rule, a DPM shall fulfill each of the following obligations:

(1) resolve disputes relating to transactions in the securities allocated to the DPM, subject to Exchange official review, upon the request of any party to the dispute;

(2) make competitive markets on the Exchange and otherwise promote the Exchange in a manner that is likely to enhance the ability of the Exchange to compete successfully for order flow in the classes it trades;

(3) promptly inform the Exchange of any material change in the financial or operational condition of the DPM;

(4) supervise all persons associated with the DPM to assure compliance with the Rules;

(5) segregate in a manner prescribed by the Exchange the DPM's business and activities as a DPM from the DPM's other businesses and activities; and

(6) continue to act as a DPM and to fulfill all of the DPM's obligations as a DPM until its DPM appointment has lapsed, the Exchange relieves the DPM of its approval and obligations to act as a DPM, or the Exchange terminates the DPM's approval to act as a DPM pursuant to Rule 8.20.

(d) Obligations of DPM Associated Persons. Each person associated with a DPM shall be obligated to comply with the provisions of paragraphs (a), (b), and (c) of this Rule when acting on behalf of the DPM.

(e) Requirements to Hold Trading Permit. Each DPM shall hold such number of Trading Permits as may be necessary based on the aggregate "registration cost" for the classes allocated to the DPM. Each Trading Permit held by the DPM has a registration credit of 1.0. The registration costs for the classes allocated to the DPM organization are set forth in Rule 8.2(d).

For example, if the DPM has been allocated such number of option classes that its aggregate registration cost is 1.6, the DPM would be required to hold two Trading Permits. The Exchange may change at any time the registration cost of any option class; upon any such change, each DPM will be required to hold the appropriate number of Trading Permits reflecting the revised registration costs of the classes that have been allocated to it. Additionally, a DPM is required to hold the appropriate number of Trading Permits at the time a new option class allocated to it pursuant to Rule 8.15 begins trading.

In the event a Participant approved as a DPM is also approved to act as a Market-Maker and has excess Trading Permit capacity above the aggregate registration cost for the classes allocated to it as the DPM, the Participant may utilize the excess Trading Permit capacity to quote in an appropriate

number of classes in the capacity of a Market-Maker. For example, if the DPM has been allocated such number of option classes that its aggregate registration cost is 1.6, the Participant could request an appointment as a Market-Maker in any combination of option classes whose aggregate registration cost does not exceed .40. The Participant will not function as a DPM in any of these additional classes. In the event the Participant utilizes any excess Trading Permit capacity to quote in some additional classes as a Market-Maker, it must comply with the provisions of Rule 8.2.

... Interpretations and Policies:

.01 Willingness to promote the Exchange as a marketplace includes assisting in meeting and educating market participants (and taking the time for travel related thereto), maintaining communications with Participants in order to be responsive to suggestions and complaints, responding to suggestions and complaints, and other like activities.

Rule 8.18. DPM Financial Requirements

Each DPM shall maintain (a) net liquidating equity in its DPM account of not less than \$100,000, and in conformity with such guidelines as the Exchange may establish from time to time, and (b) net capital sufficient to comply with the requirements of Exchange Act Rule 15c3-1. Each DPM which is a Clearing Participant shall also maintain net capital sufficient to comply with the requirements of the Clearing Corporation.

Rule 8.19. Participation Entitlement of DPMs

(a) Subject to the review of the Board, the Exchange may establish from time to time a participation entitlement formula that is applicable to all DPMs.

(b) The participation entitlement for DPMs shall operate as follows:

(1) Generally.

(A) To be entitled to a participation entitlement, the DPM must be quoting at the BBO.

(B) A DPM may not be allocated a total quantity greater than the quantity that the DPM is quoting at the BBO.

(C) The participation entitlement is based on the number of contracts remaining after all public customer orders in the Book at the BBO have been satisfied.

(2) Participation Rates Applicable to DPMs. The collective DPM participation entitlement shall be: 50% when there is one Market-Maker also quoting at the BBO and 40% when there are two or more Market-Makers also quoting at the BBO. If only the DPM is quoting at BBO (with no Market-Makers quoting at the BBO), the participation entitlement shall not be applicable and the allocation procedures under Rule 6.12 shall apply.

(3) Participation Entitlement in Instances Where a Preferred Market-Maker Receives a Participation Entitlement Pursuant to Rule 8.13. A DPM will not receive its participation entitlement set forth in this Rule in trades for which a Preferred Market-Maker receives a participation entitlement pursuant to Rule 8.13, based on the order priority determined by the Exchange under Rule 6.12.

... Interpretations and Policies:

.01 Notwithstanding subparagraph (b)(2) above, the Exchange may establish a lower DPM participation rate on a product-by-product basis for newly listed products or products that are being allocated to a DPM for the first time. Notification of such lower participation rate shall be provided to Participants through a Regulatory Circular.

Rule 8.20. Termination, Conditioning, or Limiting Approval to Act as a DPM

(a) The Exchange may terminate, place conditions upon, or otherwise limit a Participant's approval to act as a DPM under any one or more of the following circumstances:

(1) if the Participant incurs a material financial or operational change;

(2) if the Participant fails to comply with any of the requirements under this Chapter 8 regarding DPM obligations and responsibilities (including, but not limited to, any conditions imposed under Rule 8.14(d), Rule 8.16(a)(2), or this Rule 8.20); or

(3) if for any reason the TPH organization should no longer be eligible for approval to act as a DPM or to be allocated a particular security or securities.

Before the Exchange takes action to terminate, condition, or otherwise limit a Participant's approval to act as a DPM, the Participant will be given notice of such possible action and an opportunity to present any matter which it wishes the Exchange to consider in determining whether to take such action. Such proceedings shall be conducted in the same manner as Exchange proceedings concerning DPM approvals, which are governed by Rule 8.14(c).

(b) Notwithstanding the provisions of paragraph (a) of this Rule, the Exchange has the authority to immediately terminate, condition, or otherwise limit a Participant's approval to act as a DPM if it incurs a material financial or operational change warranting such action or if the Participant fails to comply with any of the financial requirements of Rule 8.18.

(c) Limiting a Participant's approval to act as a DPM may include, among other things, limiting or withdrawing the Participant's DPM participation entitlement provided for under 8.19 and withdrawing the right of the Participant to act in the capacity of a DPM in a particular security or securities that have been allocated to the Participant.

(d) If a Participant's approval to act as a DPM is terminated, conditioned, or otherwise limited by the Exchange pursuant to this Rule, the Participant may seek review of that decision under Chapter 19 of the Rules.

Rule 8.21. Limitations on Dealings of DPMs and Affiliated Persons of DPMs

A DPM shall maintain information barriers that are reasonably designed to prevent the misuse of material, non-public information with any affiliates that may conduct a brokerage business in option classes allocated to the DPM or act as a specialist or market-maker in any security underlying options allocated to the DPM, and otherwise comply with the requirements of CBOE Rule 4.18 regarding the misuse of material non-public information. A DPM shall provide its information barriers to the Exchange and obtain prior written approval.

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CHAPTER 17
Discipline

The rules contained in CBOE Chapter XVII, as such rules may be in effect from time to time, shall apply to C2 and are hereby incorporated into this Chapter. C2 Participants shall comply with CBOE Chapter XVII as if such rules were part of the C2 Rules. Unless the context dictates otherwise, the following terms, or any variations of these terms, from CBOE Chapter XVII shall have the following meanings for purposes of this Chapter: “Exchange” and “CBOE” shall mean C2; “Trading Permit Holder” (i.e., CBOE Trading Permit Holder) shall mean “Permit Holder”; “Trading Permit Holders” shall mean “Permit Holders”; and “Clearing Trading Permit Holder” shall mean “Clearing Participant.”

Notwithstanding the above paragraph, with respect to its applicability to C2 only, CBOE Rule 17.50(g)(14) will be replaced in its entirety with the following:

(14) Failure to Meet C2 Quoting Obligations

A fine shall be imposed upon a Market-Maker, [or]Preferred Market-Maker or DPM (as applicable) in accordance with the fine schedule set forth below for failure to meet its continuous quoting obligations (Rule 8.5(a)(1), [and]Rule 8.13(d) and Rule 8.17(a)(1), respectively).

Number of Offenses in Any Rolling Twenty-Four Month Period

Fine Amount

| | |
|---------------------|---|
| 1st Offense | \$2,000 to \$4,000 |
| 2nd Offense | \$4,000 to \$5,000 |
| Subsequent Offenses | \$5,000 or Referral to Business Conduct Committee |

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