SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-72499; File No. SR-C2-2014-012)

June 30, 2014

Self-Regulatory Organizations; C2 Options Exchange, Incorporated; Notice of Filing and
Immediate Effectiveness of a Proposed Rule Change Relating to the Exchange's Quote Risk
Monitor Mechanism

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 June 20, 2014, 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 and II 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 Quote Risk Monitor Mechanism rule. The text of

the proposed rule change is provided below.

(additions are underlined; deletions are [bracketed])

* * * * *

C2 Options Exchange, Incorporated

Rules

* * * * *

Rule 8.12. Quote Risk Monitor Mechanism
Each Market-Maker who is obligated to provide and maintain continuous electronic quotes
pursuant to Rule 8.5, or the Participant organization with which the Market-Maker is associated,
may establish parameters by which the Exchange will activate the Quote Risk Monitor ("QRM")
Mechanism. The functionality of the QRM Mechanism that is available to Market-Makers [that
use the QRM Mechanism shall specify] includes, for each such option class in which the Market-

---

Maker is engaged in trading[,]: (i) a maximum number of contracts for such option class (the "Contract Limit") and a rolling time period in milliseconds within which such Contract Limit is to be measured (the "Measurement Interval")[.]; (ii) a maximum cumulative percentage that the Market-Maker is willing to trade (the "Cumulative Percentage Limit"), where the cumulative percentage is the sum of the percentages of the original quoted size of each size of each series that traded, and a Measurement Interval; and (iii) the maximum number of series for which either side of the quote is fully traded (the "Number of Series Fully Traded") and a Measurement Interval. This functionality is optional and Market-Makers are not required to set parameters for the aforementioned QRM Mechanism functions.

When the Exchange determines that the Market-Maker has traded [more than] at least the Contract Limit or Cumulative Percentage Limit for such option class during any rolling Measurement Interval, or has traded at least the Number of Series Fully Traded on an option class during any rolling Measurement Interval, the QRM Mechanism shall cancel all electronic quotes [that are] being disseminated with respect to that Market-Maker in that option class and any other classes with the same underlying security until the Market-Maker refreshes those electronic quotes. Such action by the Exchange is referred to herein as a QRM Incident. Once the QRM Mechanism is triggered, all counters that determine whether the QRM Mechanism is triggered and a QRM Incident occurs will be reset for all classes for which quotes were canceled for all parties for whom such quotes were canceled.

A Market-Maker or a Participant organization may also specify a maximum number of QRM Incidents on an Exchange-wide basis. When the Exchange determines that such Market-Maker or Participant organization has reached its QRM Incident limit during any rolling Measurement Interval, the QRM Mechanism shall cancel all of the Market-Maker's or Participant organization's electronic quotes and Market-Maker orders resting in the Book in all option classes on the Exchange and prevent the Market-Maker or Participant organization from sending additional quotes or orders to the Exchange until the Market-Maker or Participant organization reactivates its ability to send quotes or orders in a manner prescribed by the Exchange. Once the QRM Mechanism is triggered and quotes and orders are cancelled, all counters that determine whether the QRM Mechanism is triggered and a QRM Incident occurs will be reset for all parties for whom the QRM Mechanism was triggered and for all classes for which quotes and orders were canceled. If the Exchange cancels all of the Market-Maker's or Participant organization's electronic quotes and Market-Maker orders resting in the Book, and the Market-Maker or Participant organization does not reactivate its ability to send quotes or orders, the block will be in effect only for the organization does not reactivate its ability to send quotes or orders, the block will be in effect only for the trading day that the Market-Maker or Participant organization reached its QRM Incident limit. Market-Makers and Participant organizations are not required to set parameters for the Exchange-wide QRM.

* * * * *

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

The operation of the Exchange's Quote Risk Monitor ("QRM") Mechanism is codified in Rule 8.12. The purpose of this proposed rule change is to add three new functions to the QRM Mechanism to help Market-Makers and Participant organizations control the risk of multiple, nearly simultaneous executions across related option series. The use of the new functions is voluntary. The proposed rule change also makes clear that the Participant organization with which a Market-Maker is associated (as well as the individual Market-Maker) may establish parameters by which the Exchange will activate the QRM Mechanism for the Market-Maker (the current rule text only explicitly permits Market-Makers to establish such parameters). The Exchange also proposes to make some changes to the Rule 8.12 text to make such rule more readable in conjunction with the other changes proposed herein.[3]

---

[3]   Specifically, the Exchange proposes to amend the beginning of the second sentence of Rule 8.12, which reads "Market-Makers that use the QRM Mechanism shall specify, for each such option class in which the Market-Maker is engaged in trading, a maximum number of contracts for such option class (the "Contract Limit") and a rolling time period in seconds within which such Contract Limit is to be measured (the "Measurement Interval")" to read: "The functionality of the QRM Mechanism that is available to Market-Makers includes, for each such option class in which the Market-Maker is engaged in trading: (i) a maximum number of contracts for such option class (the

3

The first new function available to Market-Makers allows each Market-Maker the ability to specify a maximum cumulative percentage that the Market-Maker is willing to trade (the "Cumulative Percentage Limit"). Under the proposal, the cumulative percentage is the sum of the percentages of the original quoted size of each side of each series within a class that traded, and a rolling time period in milliseconds within which such Cumulative Percentage Limit is to be measured (the "Measurement Interval"). When the QRM Mechanism determines that the Market-Maker has traded at least the Cumulative Percentage Limit for any option class during any rolling Measurement Interval, the QRM Mechanism will automatically cancel all of the electronic quotes being disseminated with respect to that Market-Maker in that option class and any other classes with the same underlying security until the Market-Maker refreshes those electronic quotes.[4]

By way of example, assume a Market-Maker is quoting the following series in a class:

- Series A Quote: 1.00 – 1.20 50 x 50

---

[4] "Contract Limit") and a rolling time period in milliseconds within which such Contract Limit is to be measured (the "Measurement Interval")." The Exchange's systems will allow Market-Makers to set the Measurement Interval in milliseconds (as opposed to seconds), so the Exchange proposes to provide this more precise option to Market-Makers.

The Exchange also proposes to delete the words "more than" from the specification that "When the Exchange determines that the Market-Maker has traded more than the Contract Limit or Cumulative Percentage Limit for such option class during any rolling Measurement Interval, or has traded at least the Number of Series Fully Traded during any rolling Measurement Interval, the QRM Mechanism shall cancel all electronic quotes that are being disseminated with respect to that Market-Maker in that option class and any other classes with the same underlying security until the Market-Maker refreshes those electronic quotes" and replace "more than" with the words "at least." This is because the QRM Mechanism is triggered (and quotes are canceled) at the moment when the Market-Maker trades the Contract Limit or Cumulative Percentage Limit (as opposed to when the Market-Maker has traded more than Contract Limit or Cumulative Percentage Limit). The Exchange also proposes to delete the words "that are" from the above statement for reasons of grammatical simplicity.

- Series B Quote 2.00 – 2.20 75 x75

- Series C Quote 3.00 – 3.20 100 x 100

If the Cumulative Percentage Limit is set at 150% for the Market-Maker and an order to buy 40 contracts of Series A is received, the series percentage would be 80% (i.e., 40/50). The cumulative percentage would also be 80%. If a second order to sell 25 contracts of Series B is received, the series percentage would be 33% (i.e., 25/75). The cumulative percentage would now be 113% (i.e., 80 + 33 = 113). If a third order to buy 70 contracts of Series C is received, the series percentage would be 70% (i.e., 70/100). The cumulative percentage would now be 183% (i.e., 113 + 70 = 183). Since 183% exceeds the Cumulative Percentage Limit of 150%, the Market-Maker's quotes in the class, and any class with the same underlying security, would be cancelled. This cancellation, however, would not occur until after execution of the third order. Due to firm quote obligations rules, the QRM Mechanism will not cancel quotes (and in the case of an Exchange-wide QRM Incident, orders) until after the execution of the order that caused the triggering of the QRM Mechanism. Note that percentages are added to one another, regardless of the denominator.

Percentages are also calculated based on the original quote size, not the remaining quote size. Using the quotes set forth above as an example, if an order to buy 40 contracts of Series A is received, the series percentage would be 80% (i.e., 40/50). The cumulative percentage would also be 80%. If a second order to sell 25 contracts of Series B is received, the series percentage would be 33% (i.e., 25/75). The cumulative percentage would then be 113% (i.e., 80 + 33 = 113). If a third order to buy 10 contracts of Series A is received, the series percentage would be 20% (i.e., 10/50). The cumulative percentage would then be 133% (i.e., 113 + 20 = 133). If a

fourth order to buy 70 contracts of Series C is received, the series percentage would be 70% (i.e.,

70/100). The cumulative percentage would then be 203% (i.e., 133 + 70 = 203).

The proposed rule change adds a second new function to the QRM Mechanism that

would allow each Market-Maker to specify the maximum number of series for which either side

of the quote is fully traded (the "Number of Series Fully Traded") and a Measurement Interval.

When the QRM Mechanism determines that the Market-Maker has traded at least the Number of

Series Fully Traded for any option class during any rolling Measurement Interval, the QRM

Mechanism will automatically cancel all of the Market-Maker's electronic quotes being

disseminated in that option class and any other classes with the same underlying security until

the Market-Maker refreshes those electronic quotes.

To illustrate this functionality, assume that a Market-Maker is quoting the following

series in a class:

- Series A Quote: 1.00 – 1.20 50 x 50

- Series B Quote 2.00 – 2.20 75 x 75

- Series C Quote 3.00 – 3.20 100 x 100

If the Number of Series Fully Traded is set at two, and an order to buy 50 contracts of Series A is

received, the number of series traded in full will be one. If a second order to sell 25 contracts of

Series B is received, the number of series traded in full will still be one because Series B did not

trade in full. If a third order to buy 100 contracts of Series C is received, the number of series

traded in full will then be two. Since two meets the parameter set for Number of Series Fully

Traded, the Market-Maker's quotes in that class (and any other classes with the same underlying

security) would be cancelled.

Whenever one of the QRM functions (i.e., Contract Limit, Cumulative Percentage Limit or Number of Series Fully Traded) has been triggered and the QRM Mechanism automatically cancels all of the Market-Maker's electronic quotes in all series of that option class (and any other classes with the same underlying security), such action by the Exchange shall be termed a "QRM Incident". Both of the new functionalities described above (along with the already-existing Contract Limit QRM functionality) are optional and Market-Makers are not required to set parameters for the aforementioned QRM Mechanism functions.

The Exchange has above proposed that, when the QRM Mechanism automatically cancels all of a Market-Maker's electronic quotes in an option class, the Exchange will also cancel all of the Market-Maker's electronic quotes in any other classes with the same underlying security. The purpose of this is because the risk involved in trading beyond a Market-Maker's risk profile extends to classes that have the same underlying security (since often the only difference between such classes is the multiplier of number of units of the underlying security).

Finally, the proposed amendment adds a third function that allows the Exchange to cancel all quotes and orders of a Market-Maker or Participant Organization once a specified number of QRM Incidents has been reached. Under this proposed functionality, a Market-Maker or a Participant organization may specify a maximum number of QRM Incidents with respect to all QRM Functions (i.e., Contract Limit, Cumulative Percentage Limit and Number of Series Fully Traded) and a Measurement Interval on an Exchange-wide basis. When the Exchange determines that such Market-Maker or Participant organization has reached its QRM Incident limit during any rolling Measurement Interval, the QRM Mechanism shall cancel all of the Market-Maker's or Participant organization's electronic quotes and Market-Maker orders resting in the Book in all option classes on the Exchange and prevent a Market-Maker or Participant

organization from sending additional quotes or orders to the Exchange until the Market-Maker or Participant organization reactivates its ability to send quotes or orders in a manner prescribed by the Exchange.[5]

Once the QRM Mechanism is triggered and quotes (and in the case of an Exchange-wide cancellation, orders) are cancelled, all counters that determine whether the QRM Mechanism is triggered and a QRM Incident occurs will be reset for all classes for which quotes (and in the case of an Exchange-wide cancellation, orders) were canceled for all parties for whom such quotes (and in the case of an Exchange-wide cancellation, orders) were canceled. This means that, if the QRM Mechanism is triggered due to a party's reaching the Contract Limit, Cumulative Percentage Limit, or Number of Series Fully Traded for a class, and quotes (and in the case of an Exchange-wide cancellation, orders) are canceled, the number of contracts traded in all classes for which quotes and orders were canceled would be reset to zero, the cumulative percentage for all classes for which quotes and orders were canceled would be reset to zero, and the number of series that are fully traded for all classes for which quotes and orders were canceled would be reset to zero. If the Exchange cancels all of the Market-Maker's or Participant organization's electronic quotes and Market-Maker orders resting in the Book, and the Market-Maker or Participant organization does not reactivate its ability to send quotes or orders, the block will be in effect only for the trading day that the Market-Maker or Participant organization reached its QRM Incident limit.

---

[5] The Exchange will announce such manner to Trading Permit Holders via Regulatory Circular. The current plan for such reactivation is for the Market-Maker or TPH Organization to contact the Exchange's Help Desk to request reactivation, though the Exchange is examining the possibility of creating a systematized manner for Market-Makers or TPH organizations to reactivate.

As with the Contract Limit, Cumulative Percentage Limit or Number of Series Fully Traded QRM functions, Market-Makers and Participant organizations are not required to set parameters for the Exchange-wide QRM. All QRM Mechanism functionalities are currently optional.

The Exchange represents that it has the systems capacity to permit the operation of these enhanced QRM Mechanism functions. The Exchange does note that, in a situation in which the QRM Mechanism is triggered, and quotes (and in the case of an Exchange-wide cancellation, orders) must be canceled for multiple classes related to the same underlying security or across multiple business clusters,[6] it may take a brief period for such cancellation to occur (during which period orders may execute against such quotes and orders; this functionality will not violate the Exchange's firm quote rules). The Exchange will use best efforts to cancel such quotes and orders as rapidly as possible.

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.[7] Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)[8] 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

---

[6]   The Exchange's systems group various classes into different business clusters for systems purposes.

[7]   15 U.S.C. 78f(b).

[8]   15 U.S.C. 78f(b)(5).

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)[9] 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 investors and market participants will benefit

from the proposed new functionality of the QRM Mechanism. Market-Makers are vulnerable to

the risk that, through an error in pricing or due to market events, they will receive multiple,

automatic executions at disadvantageous or erroneous prices before they can adjust their quotes.

Without adequate risk management tools such as the QRM, Market-Makers could widen their

quotes, quote less aggressively or limit their quote size. Such actions may undermine the quality

of the markets available to customers and other market participants.

Accordingly, with the enhancements proposed by the Exchange to QRM, the use of the

QRM Mechanism will encourage more aggressive and narrower quoting, thereby removing

impediments to and perfecting the mechanism of a free and open market and a national market

system, and, in general, more effectively protecting investors and the public interest. In addition,

providing Market-Makers with more tools for managing risk will facilitate transactions in

securities because, as noted above, the quotes of market makers will be more reliable and could

help prevent erroneous orders and transactions. As a result, the new functionality for the QRM

Mechanism has the potential to promote just and equitable principles of trade. Also, the

proposed changes do not change to whom any aspects of the QRM Mechanism applies, as the

---

[9]   Id.

proposed changes apply to all market participants to whom the QRM Mechanism previously applied.

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. Rather, the Exchange believes that the functions of the QRM Mechanism promote fair and orderly markets.

C2 does not believe that the proposed rule change will impose any burden on intramarket competition that is not necessary or appropriate in furtherance of the purposes of the Act because the use of the QRM Mechanism including the new enhancements is voluntary. Further, the proposed changes do not change to whom any aspects of the QRM Mechanism applies, as the proposed changes apply to all market participants to whom the QRM Mechanism previously applied. Similarly, the Exchange does not believe that the proposed rule change will impose any burden on intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act because, again, the use of the QRM Mechanism including the new enhancements is voluntary. Moreover, the proposed enhancements to the QRM Mechanism apply only to trading on C2. To the extent that the proposed changes may make C2 a more attractive trading venue for market participants on other exchanges, such market participants may elect to become C2 market participants.

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: (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 after the date of the filing, or such shorter time as the Commission may designate, it has become effective pursuant to 19(b)(3)(A) of the Act[10] and Rule 19b-4(f)(6)[11] thereunder.

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

IV.   Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with 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

---

[10]   15 U.S.C. 78s(b)(3)(A).

[11]   17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) 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.

- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-C2-2014-012 on the subject line.

Paper comments:

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

All submissions should refer to File Number SR-C2-2014-012. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (http://www.sec.gov/rules/sro.shtml). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, D.C. 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer

to File Number SR-C2-2014-012 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.[12]

Jill M. Peterson
Assistant Secretary

---

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