

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-73488; File No. SR-C2-2014-020)

October 31, 2014

Self-Regulatory Organizations; C2 Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to the Automatic Handling Process in No-Bid Series

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 October 22, 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, 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 regarding its automatic order handling process. The text of the proposed rule change is 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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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 Exchange proposes to amend its rules regarding its automatic order handling process. The proposed rule change seeks to modify subparagraph (h) to Rule 6.12, which sets forth how the C2 System (the “System”)³ handles market orders to sell in option series for which the national best bid in the series is zero (“no-bid series”).⁴ Currently, if the System receives during the trading day or has resting in the electronic book (the “Book”)⁵ after the opening of trading a market order to sell in a no-bid series, it handles the order as follows:

- if the Exchange best offer in that series is less than or equal to \$0.30, then the System will consider, for the remainder of the trading day, the market order as a limit order to sell with a limit price equal to the minimum trading increment applicable to the series and enter the order into the Book behind limit orders to sell at the minimum increment that are already resting in the Book.
- if the Exchange best offer in that series is greater than \$0.30, then the market order will be cancelled.

³ The System is the automated trading system used by the Exchange for the trading of options contracts.

⁴ The Exchange notes that, for singly listed series, the national best bid is equivalent to the Exchange’s best bid and the national best offer is equivalent to the Exchange’s best offer.

⁵ For example, the Exchange receives a market order to sell prior to the opening of a series and the series opens with a sell market order imbalance pursuant to Rule 6.11(e)(4). When the series opens the market order to sell, which was resting in the book prior to the opening of the series, will be routed according to the no-bid procedures in Rule 6.12.

Based on experience since the implementation of this parameter, the Exchange now proposes to change the parameter from \$0.30 to \$0.50. The Exchange believes that the automatic handling of market orders to sell in no-bid series if the Exchange best offer is less than or equal to \$0.50 would reduce the number of orders that are automatically cancelled. Additionally, the \$0.50 threshold serves as a protection feature for investors in certain situations, such as when a series is no-bid because the last bid traded just prior to the entry of the market order to sell. The purpose of this threshold is to limit the automatic booking of market orders to sell at minimum increments to only those for true zero-bid options, as options in no-bid series with an offer of more than \$0.50 are less likely to be worthless.

For example, if the CBOE Hybrid System receives a market order to sell in a no-bid series with a minimum increment of \$0.01 and the Exchange best offer is \$0.01, the System will consider, for the remainder of the trading day, the order as a limit order with a price of \$0.01 and submit it to the Book behind other limit orders to sell at the minimum increment that are already resting in the Book. At that point, even if the series is no-bid because, for example, the last bid just traded and the limit order trades at \$0.01, the next bid entered after the trade would not be higher than \$0.01.⁶

However, if the System receives a market order to sell in a no-bid series with a minimum increment of \$0.01 and the Exchange best offer is \$1.20 (because, for example, the last bid of \$1.00 just traded and a new bid has not yet populated the Exchange's quote), the System will

⁶ If the order does not execute during the trading day as a limit order and remains outstanding after the close of trading (i.e., a GTC order), the System at that time will no longer consider the order as a limit order and will again handle the order as a market order to sell after the close of trading. The market order will stay on the Book until the opening of the next trading day (or until cancelled), at which point it may execute during the open or, if it remains unexecuted after the opening of trading, it will either execute with the best bid at the time or, if the series is still no-bid, again be handled pursuant to proposed Rule 6.12(h).

instead cancel the order. It would be unfair to the entering firm to let its market order trade as a limit order for \$0.01 because, for example, the firm submitted the order during the brief time when there were no disseminated bids in a series trading significantly higher than the minimum increment.

The Exchange believes the threshold of \$0.50 is reasonable. The Exchange notes that this threshold is less than the current acceptable price range (“APR”) parameter for series with a bid price of less than \$100.00.⁷ Pursuant to the price check provision in Rule 6.17⁸ the System will not automatically execute a marketable order if the width between the national best bid and national best offer is not within the APR, which the Exchange has currently set at \$10.00 for any bid price between \$0.00 and \$100. Instead, the System will cancel the order. Notwithstanding this provision, proposed Rule 6.12(h), as amended, would allow for the potential execution of market orders to sell in no-bid series with offers less than \$0.50 as limit orders at the price of a minimum increment. If the threshold in proposed Rule 6.12(h) were higher, the risk of having a market order trade at a minimum increment in a series that is not truly no-bid would increase.

After the rule change is effective, the Exchange will announce the implementation date of the proposed rule change in a Regulatory Circular to be published no later than 90 days

⁷ The acceptable APR parameter is determined by the Exchange on a class-by-class basis. See Rule 6.17 and C2 Regulatory Circular RG14-020 (Operational System Settings – APR and OEPW).

⁸ Rule 6.17 also provides that the System will not automatically execute eligible orders that are marketable if the execution would follow an initial partial execution on the Exchange and would be at a subsequent price that is not within an acceptable tick distance from the initial execution. The APR for purposes of Rule 6.17 is determined by the Exchange on a class-by-class basis and may not be less than \$0.375 between the bid and offer for each option contract for which the bid is less than \$2, \$0.60 where the bid is at least \$2 but does not exceed \$5, \$0.75 where the bid is more than \$5 but does not exceed \$10, \$1.20 where the bid is more than \$10 but does not exceed \$20, and \$1.50 where the bid is more than \$20. An “acceptable tick distance” shall be no less than two minimum increments.

following the effective date. The implementation date will be no later than 180 days following the effective date and at least two weeks after the publication of the above Regulatory Circular.

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.⁹ Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)¹⁰ 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)¹¹ requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

In particular, the Exchange believes that the automated handling of market orders to sell in no-bid series if the Exchange best offer is \$0.50 or less assists with the maintenance of fair and orderly markets and protects investors and the public interest because it provides for automated handling of these orders, ultimately resulting in more efficient executions of these orders. The Exchange believes that the \$0.50 threshold also protects investors and assists with the maintenance of fair and orderly markets by preventing executions of market orders to sell in

⁹ 15 U.S.C. 78f(b).

¹⁰ 15 U.S.C. 78f(b)(5).

¹¹ Id.

no-bid series with higher offers at potentially extreme prices in series that are not truly no-bid. The Exchange believes this threshold appropriately reflects the interests of investors, as options in no-bid series with offers higher than \$0.50 are less likely to be worthless, and cancelling the orders will prevent the execution of these orders at unfavorable prices. The Exchange also believes that the \$0.50 threshold promotes fair and orderly markets because market orders to sell in no-bid series with offers of \$0.50 or less are likely to be individuals seeking to close out a worthless position for which automatic handling 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 that is not necessary or appropriate in furtherance of the purposes of the Act. More specifically, the Exchange does not believe that the proposed rule changes will impose any burden on intramarket competition because it will be applicable to all TPHs trading on the Exchange trading floor. In addition, the Exchange does not believe the proposed changes will impose any intermarket burden because the Exchange will operate in a similar manner only with a more applicable no-bid series threshold.

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 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)

of the Act¹² and Rule 19b-4(f)(6)¹³ 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 will institute proceedings to determine whether the proposed rule change 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
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-C2-2014-020 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-C2-2014-020. 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

¹² 15 U.S.C. 78s(b)(3)(A).

¹³ 17 CFR 240.19b-4(f)(6).

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-C2-2014-020 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.¹⁴

Kevin M. O'Neill
Deputy Secretary

¹⁴ 17 CFR 200.30-3(a)(12).