Self-Regulatory Organizations; C2 Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Modify Rule 6.12

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 14, 2010, C2 Options Exchange, Incorporated (“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 Exchange filed the proposal as a “non-controversial” proposed rule change pursuant to Section 19(b)(3)(A)(iii) of the Act3 and Rule 19b-4(f)(6) thereunder.4 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 modify the wording of Rule 6.12 relating to the C2 matching algorithm. The text of the proposed rule change is available on the Exchange’s website (www.cboe.org/Legal), at the Exchange’s Office of the Secretary, at the Commission’s Public Reference Room, and on the Commission’s website at www.sec.gov.

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

In its filing with the Commission, C2 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 those 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 parts of such statements.

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

1. **Purpose**

   In 2009, C2 was registered as a national securities exchange under Section 6 of the Exchange Act. C2 has yet to commence trading options, however a launch is anticipated in October 2010. The central purpose of this filing is to streamline Rule 6.12 relating to order execution and priority. Currently Rule 6.12 allows C2 to select a base matching algorithm and subsequently overlay certain priorities over the selected base algorithm. There are currently two base algorithms: price-time (often referred to as first in, first out or FIFO) in which trading interest at a given price point is ranked based on time priority, and pro-rata in which trading interest at a given price point is ranked based on the size of each order/quote at that price. The priority overlays allowed under Rule 6.12 are public customer priority (priority to non-broker-dealer orders), trade participation right priority (priority, up to a designated percentage, for qualifying Preferred Market-Makers), and market turner priority (priority, up to a designated percentage, for participants that are first to improve the market price on C2).

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C2 seeks to simplify Rule 6.12 to allow for 3 choices of matching algorithms: price-time, pro-rata, and price-time with first priority going to public customers and second priority pursuant to the trade participation right. The first two of these options are unchanged. C2 believes that adding the third, which is achievable under existing C2 Rule 6.12 and which is the intended algorithm of choice for the C2 launch, makes C2 matching rules clearer for C2 users. Thus, the filing is not in any way adding new matching functionality, it is streamlining the wording of Rule 6.12 (in the process, it is eliminating certain matching “options” available under the current rule, but C2 has no intention to use a matching algorithm other than the three set forth in the revised rule). Further, as proposed, the new Rule would continue to allow for a market turner overlay. The Exchange represents that market turner priority would only be applicable and would only be utilized when the pro-rata algorithm is in place. This is because the market turner overlay gives priority to the participant that is first in time at an improved price point, something that price-time priority already accomplishes.

The filing also proposes to correct two mistaken references in the definitions of Professional and Voluntary Professional in Rule 1.1. Specifically those definitions mistakenly reference Rule 6.13(c)(5) as 6.13(c)(v).

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the Securities Exchange Act of 1934 (the “Act”) ⁶ and the rules and regulations thereunder 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

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designed to promote just and equitable principles of trade, to prevent fraudulent and manipulative acts, to 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. Streamlining the C2 matching rules will assist users seeking to better understand the matching alternatives available on C2.

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.

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 proposal.

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

Because the foregoing proposed rule change: (1) does not significantly affect the protection of investors or the public interest; (2) does not impose any significant burden on competition; and (3) by its terms does not become operative for 30 days after the date of this filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act\(^9\) and Rule 19b-4(f)(6) thereunder.\(^10\)

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

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\(^10\) 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6)(iii) requires a self-regulatory organization to provide the Commission with written notice of its intent to file the proposed rule change, along with a brief description and text of 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. C2 has satisfied this requirement.
action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

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-C2-2010-005 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-C2-2010-005. 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-C2-2010-005 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.\(^\text{11}\)

Florence E. Harmon
Deputy Secretary

\(^{11}\) 17 CFR 200.30-3(a)(12).