

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-65630; File No. SR-C2-2011-030)

October 26, 2011

Self-Regulatory Organizations; C2 Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Close Trading at 3:00 p.m. Chicago Time on the Last Day of Trading of Expiring P.M.-Settled S&P 500 Options

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on October 17, 2011, the 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 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 the Substance of the Proposed Rule Change

Prior to the commencement of the listing and trading on C2 of Standard & Poor’s 500 Index (“S&P 500”) options with third-Friday-of-the-month (“Expiration Friday”) expiration dates for which the exercise settlement value will be based on the index value derived from the closing prices of component securities (“PM-settled”),⁵ the Exchange proposes to close trading

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A)(iii).

⁴ 17 CFR 240.19b-4(f)(6).

⁵ Listing and trading of P.M.-settled S&P 500 options has already commenced, but the Exchange intends to have this change in place prior to the first Expiration Friday for such products. See email from Jeff Dritz, Attorney, C2, to Sara Hawkins, Special Counsel, Division of Trading and Markets, Commission on October 20, 2011.

at 3:00 p.m. Chicago time (all times referenced herein to be Chicago time) on the last day of trading of expiring P.M.-settled S&P 500 options. Non-expiring P.M.-settled S&P 500 options will continue to trade until 3:15 p.m. The text of the proposed rule change is available on the Exchange's Web site (<http://www.cboe.org/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 self-regulatory organization 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 Statutory Basis for, the Proposed Rule Change

1. Purpose

On September 2, 2011, the Commission approved a rule change filed by the Exchange to permit, on a pilot basis, the listing and trading on C2 of PM-settled S&P 500 options.⁶ The Exchange now proposes, prior to the commencement of trading of such products, to close trading at 3:00 p.m. on the last day of trading of expiring P.M.-settled S&P 500 options. Non-expiring P.M.-settled S&P 500 options will continue to trade until 3:15 p.m.

The S&P 500 is a capitalization-weighted index of 500 stocks from a broad range of industries. The component stocks are weighted according to the total market value of their

⁶ See Securities Exchange Act Release No. 34-65256 (September 2, 2011), 76 FR 55969 (September 9, 2011) (SR-C2-2011-008).

outstanding shares. The impact of a component's price change is proportional to the issue's total market share value, which is the share price times the number of shares outstanding. These are summed for all 500 stocks and divided by a predetermined base value. The base value for the S&P 500 is adjusted to reflect changes in capitalization resulting from, among other things, mergers, acquisitions, stock rights, and substitutions.⁷

PM-settled S&P 500 options will have a \$100 multiplier, and the minimum trading increment would be \$0.05 for options trading below \$3.00 and \$0.10 for all other series. Strike price intervals will be set no less than 5 points apart. Expiration processing would occur on Saturday following the Expiration Friday. The product will have European-style exercise, and because it is based on the S&P 500 index, there will be no position limits.⁸

PM-settled S&P 500 options will be priced in the market based on corresponding futures values. The primary listing markets for the component securities that comprise the S&P 500 close trading in those securities at 3:00 p.m. The primary listing exchanges for the component securities disseminate an official closing price of the component securities, which is used by S&P to calculate the exercise settlement value of the S&P 500. C2 believes that, under normal trading circumstances, the primary listing markets have sufficient bandwidth to prevent any data queuing that would cause any trades that are executed prior to the closing time from being reported after 3 p.m. Despite the fact that the exercise settlement value will be fixed at or soon after 3 p.m., trading in expiring PM-settled S&P 500 options would continue, under current rules, for an additional fifteen minutes until 3:15 p.m. and will not be priced on corresponding futures values, but rather the known cash value. At the same time, the prices of non-expiring

⁷ See supra note 6.

⁸ See supra note 6.

PM-settled S&P 500 options series will continue to move and be priced in response to changes in corresponding futures prices.

A potential pricing divergence could occur between 3:00 and 3:15 pm on the final trading day in expiring PM-settled S&P 500 options (*e.g.*, switch from pricing off of futures to cash). Further, in a wholly electronic marketplace, the switch from pricing off of futures to cash can be a difficult and risky switchover for liquidity providers. As a result, without closing expiring contracts at 3:00 p.m., it is foreseeable that market-makers would react by widening spreads in order to compensate for the additional risk. Therefore, the Exchange believes that, in order to mitigate potential investor confusion and the potential for increased costs to investors, it is appropriate to cease trading in expiring PM-settled S&P 500 options contracts at 3:00 p.m. The Exchange does not believe that the proposed change will impact volatility on the underlying cash market at the close on Expiration Friday.

The proposed change is identical in nature to two effective rule changes filed by Chicago Board Options Exchange, Incorporated (“CBOE”).⁹ In those filings, CBOE changed the close of trading hours from 3:15 p.m. to 3:00 p.m. on the last day of trading in expiring End-of-Week (“EOW”), End-of-Month (“EOM”) and Quarterly Index (“QIX”) Expirations.¹⁰ In the current situation, the Exchange merely proposes to apply the precedent established regarding those PM-settled products to expiring PM-settled S&P 500 options contracts.

Given the fact that the Commission approved the listing and trading of PM-settled S&P 500 options on a pilot basis and that such pilot program is scheduled to end on November 2,

⁹ See Securities Exchange Act Release No. 34-64243 (April 7, 2011), 75 FR 20771 (April 13, 2011) (SR-CBOE-2011-038) and Securities Exchange Act Release No. 34-59676 (April 1, 2009), 74 FR 16018 (April 8, 2009) (SR-CBOE-2009-020).

¹⁰ See supra note 9.

2012, the rule change proposed herein would also terminate on November 2, 2012 (unless the pilot period for the listing and trading of PM-settled S&P 500 options were to be extended or the program made permanent).

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the Act¹¹ and the rules and regulations thereunder and, in particular, the requirements of Section 6(b) of the Act.¹² Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)¹³ requirements that the rules of an exchange be 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. Preventing continued trading on a product after the exercise settlement value has been fixed eliminates potential confusion and thereby protects investors and the public interest.

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

No written comments were solicited or received with respect to the proposed rule change.

¹¹ 15 U.S.C. 78s(b)(1).

¹² 15 U.S.C. 78f(b).

¹³ 15 U.S.C. 78f(b)(5).

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

Because the foregoing proposed rule 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 if consistent with the protection of investors and the public interest, provided that the self-regulatory organization has given 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,¹⁴ the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act¹⁵ and Rule 19b-4(f)(6) thereunder.¹⁶

At any time within 60 days of the filing of such 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.

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

¹⁴ The Exchange has satisfied this requirement.

¹⁵ 15 U.S.C. 78s(b)(3)(A).

¹⁶ 17 CFR 240.19b-4(f)(6).

- Send an e-mail to rule-comments@sec.gov. Please include File No. SR-C2-2011-030 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 No. SR-C2-2011-030. 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 such filing also will be available for inspection and copying at the principal office of the C2. 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 No. SR-C2-2011-030 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.¹⁷

Kevin M. O'Neill
Deputy Secretary

¹⁷ 17 CFR 200.30-3(a)(12).