

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-66384; File No. SR-C2-2012-006)

February 13, 2012

Self-Regulatory Organizations; C2 Options Exchange, Incorporated; Notice of Filing of a Proposed Rule Change Relating to its Automated Improvement 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 January 31, 2012, 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 substantially 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 the Substance of the Proposed Rule Change

The Exchange proposes to amend its rules relating to its Automated Improvement Mechanism (“AIM”). The text of the proposed rule change is available on the Exchange’s website (<http://www.c2exchange.com>), 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 the 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 these statements may be examined at the places specified in Item IV below. The self-regulatory organization has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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

1. Purpose

The purpose of this proposed rule change is to amend C2 Rule 6.51 to permit an Initiating Participant to elect to have last priority in AIM’s order allocation. AIM allows a Participant to submit an Agency Order along with a contra-side second order (a principal order or a solicited order for the same size as the Agency Order) into an Auction where other participants could compete with the Initiating Participant’s second order to execute against the Agency Order, which guarantees that the Agency Order will receive an execution.³ Initiating Participants must submit the Agency Order at the better of the NBBO or the Agency Order’s limit price (if the order is a limit order).⁴ Once an Auction commences, the Initiating Participant cannot cancel it.⁵ Upon receipt of an Agency Order (and the Initiating Participant’s second order), the Exchange will commence the Auction by issuing a Request For Response (“RFR”) detailing the side and size of the Agency Order. The RFR period will last for one (1) second.⁶ At the conclusion of an Auction, an Agency Order will be allocated at the best price(s) in accordance with the applicable matching algorithm rules for that class, subject to the allocation provisions of Rule 6.51(b)(3).

Under this proposal, when submitting an Agency Order to initiate an Auction against a single-price submission, the Initiating Participant will have the opportunity to elect to have last

³ See C2 Rule 6.51.

⁴ See C2 Rule 6.51(a)(2). The Commission notes that if the Agency Order is for less than 50 contracts, the Initiating Participant must submit the Agency Order at the better of the NBBO price improved by one minimum price improvement increment, which increment shall be determined by the Exchange but may not be smaller than one cent; or the Agency Order’s limit price (if the order is a limit order). See C2 Rule 6.51(a)(3).

⁵ See C2 Rule 6.51(b)(1)(A).

⁶ See C2 Rule 6.51(b)(1). Several types of events will cause an Auction to conclude. See C2 Rule 6.51(b)(2).

priority in AIM's order allocation. If the Initiating Participant makes this election, the Initiating Participant would be allocated only the amount of contracts remaining, if any, after the Agency Order is allocated to all other Auction participants willing to trade with the Agency Order at the single-price submission price.⁷ If it makes this election, the Initiating Participant may not be allocated any contracts, or may be allocated fewer contracts than it would otherwise receive pursuant to Rule 6.51(b)(3)(F) (generally 40%).

As an example, suppose an Initiating Participant submits to an Auction an Agency Order for 1,000 contracts and makes the election described above:

- if at the conclusion of the Auction, other Auction participants are willing to trade with 800 of these contracts at the single-price submission price or better price(s) resulting from the Auction, then the Initiating Participant will be allocated the remaining 200 contracts (or 20%) for execution against its contra-side order at its specified single price.
- if at the conclusion of the Auction, other Auction participants are willing to trade with 600 of these contracts at the single-price submission price or better price(s) resulting from the Auction, then the Initiating Participant will be allocated the remaining 400 contracts (or 40%) for execution against its contra-side order at its specified single price.
- if at the conclusion of the Auction, other Auction participants are willing to trade with 400 of these contracts at the single-price submission price or better price(s)

⁷ The Exchange notes that Chapter V, Section 18(f)(v), The Price Improvement Period ("PIP"), of the Rules of the Boston Exchange Group, LLC includes a similar provision that permits an options participant initiating a PIP auction to designate a lower amount for which it will retain certain priority and trade allocation privileges upon the conclusion of the PIP auction than the 40% of the PIP order to which the initiating options participant is otherwise entitled pursuant to PIP's allocation order.

resulting from the Auction, then the Initiating Participant will be allocated 600 contracts for execution against its contra-side order at its specified single price.

- if at the conclusion of the Auction, other Auction participants are willing to trade with the entire Agency Order at the single-price submission price or better price(s) resulting from the Auction, then the Initiating Participant will be allocated no contracts.

Under this proposal, Agency Orders submitted to AIM will continue to be guaranteed execution at a price at least as good as the NBBO while providing the opportunity for execution at a price better than the NBBO.

The Exchange believes this proposal will incent more Participants to initiate Auctions, because the additional flexibility encourages increased participation by Participants willing to trade with Agency Orders at the NBBO but not at a price better than the NBBO and by Participants willing to facilitate and stop a customer order at a particular price even when there is not a desire to trade against any or all of the customer order. Additionally, this proposal provides the possibility that other Participants may receive increased order allocations through AIM, which the Exchange believes could increase participation in Auctions. The Exchange believes that this proposal may ultimately provide additional opportunities for price improvement over the NBBO for its customers.

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the requirements of the Securities Exchange Act of 1934 (the “Act”) and the rules and regulations thereunder applicable to a national securities exchange and, in particular, the requirements of Section 6(b) of

the Act⁸. Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)⁹ 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.

In particular, the Exchange believes this proposed rule change is a reasonable modification designed to provide additional flexibility for Participants to obtain executions on behalf of their customers while continuing to provide meaningful, competitive Auctions. The Exchange also believes that the proposed rule change will increase the number of and participation in Auctions, which will ultimately enhance competition in the AIM Auctions and provide customers with additional opportunities for price improvement.

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.

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

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will: (A) by order approve or

⁸ 15 U.S.C. 78f(b).

⁹ 15 U.S.C. 78f(b)(5).

disapprove such proposed rule change, or (B) institute proceedings to determine whether the proposed rule change should be 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-C2-2012-006 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-C2-2012-006. 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 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 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-C2-2012-006, 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.¹⁰

Kevin M. O'Neill
Deputy Secretary

¹⁰ 17 CFR 200.30-3(a)(12).