

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-67832; File No. SR-C2-2012-031)

September 11, 2012

Self-Regulatory Organizations; C2 Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Make Technical Amendments to the Rules

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on September 4, 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 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

C2 proposes to make technical amendments to the C2 rules. The text of the proposed rule change is available on the Exchange’s Web site (<http://www.c2exchange.com/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 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.

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

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

1. Purpose

The Exchange proposes to make technical amendments to chapters in the Exchange rulebook that incorporate by reference rules of the Chicago Board Options Exchange, Incorporated (“CBOE”). CBOE Chapter 4 – Business Conduct (which includes Interpretation and Policy .06 to Rule 4.11 – Position Limits) is incorporated into the C2 rules by reference as C2 Chapter 4.<sup>3</sup> Interpretation and Policy .06 to CBOE Rule 4.11 describes the procedures and criteria by which a TPH organization may obtain a facilitation exemption from applicable standard position limits in non-multiply-listed Exchange options for the purposes of facilitating some orders, pursuant to the provisions of CBOE Rule 6.74(b). CBOE Rule 6.74(b) describes the process that allows a floor broker to cross orders. Because C2, as an all-electronic exchange, does not have floor brokers, CBOE Rule 6.74(b) does not apply to C2 (and indeed, is not incorporated into C2 rules). And since Interpretation and Policy .06 to Rule 4.11 relies on the inapplicable-to-C2 CBOE Rule 6.74(b), Interpretation and Policy .06 to Rule 4.11 is thereby itself inapplicable to C2. As such, the Exchange proposes to state that, with respect to applicability to C2 only, Interpretation and Policy .06 to CBOE Rule 4.11 is not applicable to C2.

The Exchange also proposes to amend its Rule 17.50 – Imposition of Fines for Minor Rule Violations to fix inaccurate references. CBOE Chapter 17 – Discipline (which includes Rule 17.50 – Imposition of Fines for Minor Rule Violations) is incorporated into the C2 rules by

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<sup>3</sup> See Securities Exchange Act Release No. 34-62323 (June 17, 2010), 75 FR 36144 (June 24, 2012) (SR-C2-2010-002).

reference as C2 Chapter 17.<sup>4</sup> CBOE Rule 17.50 references CBOE Rule 3.23 – Integrated Billing System. However, C2’s Integrated Billing System rule is C2 Rule 3.9. Therefore, C2 proposes to state that any references in Rule 17.50 to Rule 3.23 should be read, in reference to C2 only, to C2 Rule 3.9. Substantively, CBOE Rule 3.23 and C2 Rule 3.9 are identical.

C2 also proposes to amend its Chapter 17 to state that, with respect to applicability to C2 only, CBOE Rules 17.50(g)(4), 17.50(g)(5) and 17.50(g)(7) are not applicable to C2. Sections (g)(4), (g)(5) and (g)(7) of CBOE Rule 17.50 are not applicable to C2 because those sections apply to floor-based trading, and C2, as an all-electronic exchange, does not have any floor-based trading. CBOE Rule 17.50(g)(4) imposes fines for the failures to submit trade information on time and to the price reporter. On C2, trade information is submitted automatically (and the Exchange represents that C2 has appropriate systems in place to ensure that this occurs), rendering CBOE Rule 17.50(g)(4) inapplicable.

CBOE Rule 17.50(g)(5) imposes fines for the failure of a Market-Maker or Floor Broker to (1) honor the firm quote requirements of CBOE Rule 8.51, and (2) honor the priority of marketable customer orders maintained in the Customer Limit Order Book pursuant to CBOE Rule 6.45. Due to C2’s nature as all-electronic, Market-Makers lack the requisite control to commit such violations (and C2 does not have Floor Brokers). The Exchange represents that C2 has appropriate systems in place to ensure that firm quote violations do not occur and customer order priority is automatically honored. CBOE Rule 17.50(g)(5) also imposes fines for the failure of a Market-Maker or Floor Broker to use due diligence in the execution of orders for which the

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<sup>4</sup> See Securities Exchange Act Release No. 34-62323 (June 17, 2010), 75 FR 36144 (June 24, 2012) (SR-C2-2010-002).

floor Trading Permit Holder maintains an agency obligation pursuant to CBOE Rule 6.73. This section is inapplicable to C2 because C2 does not have floor Trading Permit Holders.

CBOE Rule 17.50(g)(7) imposes fines for failure to submit trade data on the trade date. On C2, such trade data is submitted automatically (and the Exchange represents that C2 has appropriate systems in place to ensure that trade data is submitted in a timely manner), rendering CBOE Rule 17.50(g)(7) inapplicable.

## 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.<sup>5</sup> Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>6</sup> 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. By correcting references and removing inapplicable sections within Rule 17.50 and Interpretation and Policy .06 to Rule 4.11, the Exchange eliminates confusion that could arise from reading Exchange rules, thereby removing impediments to and perfecting the mechanism for a free and open market.

### 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.

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<sup>5</sup> 15 U.S.C. 78f(b).

<sup>6</sup> 15 U.S.C. 78f(b)(5).

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:

- A. significantly affect the protection of investors or the public interest;
- B. impose any significant burden on competition; and
- C. 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)<sup>7</sup> of the Act and Rule 19b-4(f)(6)<sup>8</sup> thereunder.

At any time within 60 days of the filing of this 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

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<sup>7</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>8</sup> 17 CFR 240.19b-4(f)(6).

- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-C2-2012-031 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.

All submissions should refer to File Number SR-C2-2012-031. 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 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

Number SR-C2-2012-031 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.<sup>9</sup>

Kevin M. O'Neill  
Deputy Secretary

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<sup>9</sup> 17 CFR 200.30-3(a)(12).