

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-68980; File No. SR-C2-2013-009)

February 25, 2013

Self-Regulatory Organizations; C2 Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend the Fees Schedule

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 February 12, 2013, 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, 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 Fees Schedule. The text of the proposed rule change is available on the Exchange’s website (<http://www.c2exchange.com/Legal/>), 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 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, the Proposed Rule Change

1. Purpose

On February 1, 2013, the Exchange began operating under a new fees structure for simple, non-complex orders in equity options classes.<sup>3</sup> This new fees structure factors BBO Market Width at the time of execution into determining the amount of fees and rebates, and includes a maximum fee of \$0.85 per contract and a maximum rebate of \$0.75 per contract. More specifically, fees are calculated based on the following formula (fees are calculated on a per-contract basis):<sup>4</sup>

$$\text{Fee} = (\text{C2 BBO Market Width at time of execution}) \times (\text{Market Participant Rate}) \times 50$$

Rebates are calculated based upon the following formula (rebates are calculated on a per-contract basis):<sup>5</sup>

$$\text{Rebate} = (\text{C2 BBO Market Width at time of execution}) \times (\text{Order Size Multiplier}) \times 50$$

The C2 BBO Market Width is the difference between the quoted best offer and best bid in each class on C2 (the displayed C2 ask price minus the displayed C2 bid price).

However, the new fees structure does not directly contemplate a circumstance in which an execution occurs when there is no displayed C2 ask price. Such transactions occasionally occur, when a C2 bid is displayed (while an ask price is not) and an order is sent to the Exchange that immediately interacts with that displayed C2 bid. Currently, if such a circumstance occurs, it would result in a negative BBO Market Width, which would result in a negative fee or rebate amount

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<sup>3</sup> See Securities Exchange Act Release No. 68792 (January 31, 2013) (SR-C2-2013-004).

<sup>4</sup> The Market Participant Rates are different rates for different types of market participants, and are currently set as follows: C2 Market-Maker (30%); Public Customer (Maker) (40%); and All Other Origins (50%).

<sup>5</sup> The Order Size Multiplier is a different multiplier based upon the size of the order, and are currently set as follows: 1-10 contracts in an order (36%); 11-99 contracts in an order (30%); 100-250 contracts in an order (20%); and 251+ contracts in an order (0%).

(meaning that the Exchange would actually be paying a rebate where a fee would otherwise be assessed and that the Exchange would be assessing a fee where a rebate would otherwise be paid<sup>6</sup>).

As such, the Exchange proposes to amend the section of its Fees Schedule that regards this new fees structure to state that if an execution occurs when there is no Displayed C2 Ask Price, the maximum fee and/or rebate will apply. The purpose of this proposed change is to ensure that fees and rebates are still assessed in circumstances where there may not be both a bid and an offer, and that the maximum fee and/or rebates applies in such circumstances, since the lack of a positive BBO Market Width does not imply a narrow bid-ask spread.

## 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>7</sup> Specifically, the Exchange believes the proposed rule change is consistent with Section 6(b)(4) of the Act,<sup>8</sup> which requires that Exchange rules provide for the equitable allocation of reasonable dues, fees, and other charges among its Trading Permit Holders and other persons using its facilities. The Exchange believes that, if an execution occurs when there is no displayed C2 ask price, applying the maximum fee and/or rebate is reasonable because the new fees structure described above and in SR-C2-2013-004 is designed to encourage tighter quoting (and thus tighter spreads), and the execution of a trade when there is no displayed C2 ask price will not serve to narrow the spread. The Exchange believes that this proposed change is equitable and not unfairly discriminatory because it will apply to all market

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<sup>6</sup> No circumstance has occurred yet in which the Exchange has assessed a fee to a Public Customer Taker who would otherwise receive a rebate if there was a displayed C2 ask price.

<sup>7</sup> 15 U.S.C. 78f(b).

<sup>8</sup> 15 U.S.C. 78f(b)(4).

participants who trade when there is no displayed C2 ask price, and the maximum amounts will be the same as they were previously and apply to the same market participants as they did previously.

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. C2 does not believe that the proposed rule change will impose any burden on intramarket competition because it will apply to all market participants who trade when there is no displayed C2 ask price, and the maximum amounts will be the same as they were previously and apply to the same market participants as they did previously. C2 does not believe that the proposed rule change will impose any burden on intermarket competition because very few trades occur when there is no displayed ask price, and the new C2 fees structure is very unique and different than those offered on other US options exchanges. However, to the extent that this change could attract market participants trading on other exchanges to do so on C2, market participants trading on other exchanges can always elect to do so.

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>9</sup> and paragraph (f) of Rule 19b-4<sup>10</sup> thereunder. At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change

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<sup>9</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>10</sup> 17 C.F.R. 240.19b-4(f).

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](mailto:rule-comments@sec.gov). Please include File Number SR-C2-2013-009 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-C2-2013-009. 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-C2-2013-009 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>11</sup>

Kevin M. O'Neill  
Deputy Secretary

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<sup>11</sup> 17 CFR 200.30-3(a)(12).