

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-78235; File No. SR-C2-2016-010)

July 6, 2016

Self-Regulatory Organizations; C2 Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend Rules Related to Execution and Priority

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that, on June 29, 2016, C2 Options Exchange, Incorporated (“C2” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II, and III, 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 Act<sup>3</sup> and Rule 19b-4(f)(6) thereunder.<sup>4</sup> 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 rules related to execution and priority. The text of the proposed rule change is available on the Exchange’s website (<http://www.cboe.com/AboutCBOE/CBOELegalRegulatoryHome.aspx>), 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

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

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

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

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

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.

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

1. Purpose

The proposed rule change amends C2's execution and priority rules to more accurately reflect current System functionality and make other technical and nonsubstantive changes. First, the proposed rule change amends Rule 6.12(a) to provide the price-time and pro rata priority algorithms apply to orders and quotes. The current rule text states these trading priority allocations apply only to orders; however, the System applies these rules of trading priority to resting orders and quotes, which is consistent with the Exchange's intention and, the Exchange believes, Participants' expectations.<sup>5</sup> Resting quotes may trade with incoming orders in the same manner as resting orders, and the proposed rule change merely updates the rule text to explicitly state this. The proposed rule change also makes nonsubstantive changes to Rule 6.12(a), including correcting punctuation and using consistent language in both subparagraphs (1) and (2).<sup>6</sup>

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<sup>5</sup> Previous rule filings state these rules of trading priority apply to the allocation of both resting orders and quotes. See, e.g., SR-C2-2010-005. Additionally, Rule 6.12(a)(2) states an additional contract (if contracts cannot be distributed equally among Participants) will be distributed to the Participant whose quote or order has time priority, supporting the rule's applicability to orders and quotes.

<sup>6</sup> The proposed rule change similarly amends Rules 6.12(b)(1), 6.12(h), 6.16, 6.18(d), 6.34(d), and 6.51(b)(2)(B) to include references to quotes in rule provisions that currently only reference orders but also apply in the same manner to quotes.

Second, the proposed rule change amends Rule 6.12(a)(2) to add detail regarding how the System distributes contracts pursuant to the pro-rata algorithm and rounds fractions of contracts. Current Rule 6.12(a)(2) states resting orders are prioritized according to price, and if there are two or more orders at the best price, then trades are allocated proportionally according to size (in a pro rata fashion). Executable quantity is allocated to the nearest whole number, with fractions  $\frac{1}{2}$  or greater rounded up and fractions less than  $\frac{1}{2}$  rounded down. If there are two market participants that both are entitled to an additional  $\frac{1}{2}$  contract and there is only one contract remaining to be distributed, the additional contract will be distributed to the participant whose quote or order has time priority. This is consistent with System functionality; however, it represents only one example (a situation in which there are two market participants and only one remaining contract) rather than a general rule regarding allocations of contracts that cannot be allocated proportionally in whole numbers. For example, three market participants may be entitled to an additional fraction of a contract.

The proposed rule change amends this provision to state if there are two or more resting orders or quotes at the best price, then the System allocates contracts from an incoming order or quote to resting orders and quotes sequentially in the order in which the System received them (i.e., according to time) proportionally according to size (i.e., on a pro rata basis). The System allocates contracts to the first resting order or quote proportionally according to size (based on the number of contracts to be allocated and the size of the resting orders and quotes). Then, the System recalculates the number of contracts to which each remaining resting order and quote is afforded proportionally according to size (based on the number of remaining contracts to be allocated and the size of the remaining resting quotes and orders) and allocates contracts to the next resting order or quote. The System repeats this process until it allocates all contracts from

the incoming order or quote. The System rounds fractions  $\frac{1}{2}$  or greater up and fractions less than  $\frac{1}{2}$  down prior to each allocation. This proposed provision is consistent with the current rule that states contracts are distributed to quotes and orders in time priority. It adds detail regarding the sequential nature of the allocation process and applies the provision to situations in which any number of orders or quotes may be entitled to non-whole numbers of contracts. The Exchange believes this is a fair, objective process and simple systematic process to allocate “extra” contracts when more than one market participant may be entitled to those extra contracts after rounding. The following examples demonstrate this process:

- Example 1: Suppose there are three resting orders at the same price with sizes of 30 (Order A), 20 (Order B) and 10 (Order C) (received by the System in that order), and an incoming order with size of 15 is marketable against those three orders. The System first allocates 8 contracts to Order A ( $\frac{1}{2}$  of 15 is 7.5, which rounds to 8). After this allocation, the System allocates 5 of the 7 remaining contracts to Order B ( $\frac{2}{3}$  of 7 is 4.7, which rounds to 5), and then allocates the remaining 2 contracts to Order C.
- Example 2: Suppose there are three resting orders at the same price with sizes of 10 (Order A), 20 (Order B) and 30 (Order C) (received by the System in that order), and an incoming order with size of 15 is marketable against those three orders. The System first allocates 3 contracts to Order A ( $\frac{1}{6}$  of 15 is 2.5, which rounds to 3). After this allocation, the System allocates 5 of the 12 remaining contracts to Order B ( $\frac{2}{5}$  of 12 is 4.8, which rounds to 5), and then allocates the remaining 7 contracts to Order C.
- Example 3: Suppose there are three resting orders A, B and C (received by the System in that order) at the same price, each with a size of 50, and an incoming order with size of 100 is marketable against those three orders. The System first allocates 33

contracts to Order A ( $1/3$  of 100 is 33.3, which rounds to 33). After this allocation, the System allocates 34 of the 67 remaining contracts to Order B ( $1/2$  of 67 is 33.5, which rounds to 34), and then allocates the remaining 33 contracts to Order C.

Third, the proposed rule change amends Rule 6.12(a)(3)(B) to delete subparagraphs (i) through (iv) (as well as the introductory sentence to those subparagraphs, as it is no longer necessary with the deletion of the listed items). Currently, subparagraph (B) states when allocating the participation right of a Preferred Market-Maker (“PMM”) or Designated Primary Market-Maker (“DPM”) pursuant to Rule 8.13 or 8.19, respectively, the following apply:

- to be entitled to their participation right, a PMM’s or DPM’s order and/or quote must be at the best price on the Exchange (i.e., the Exchange’s best bid or offer (“BBO”).
- a PMM or DPM may not be allocated a total quantity greater than the quantity that it is quoting (including orders not part of quotes) at that price.
- in establishing the counterparties to a particular trade, the PMM’s or DPM’s participation right must first be counted against the PMM’s or DPM’s, as applicable, highest priority bids or offers.
- the participation right shall only apply to any remaining balance of an order once all higher priorities are satisfied.

Each of these four conditions must be satisfied in order for a PMM or DPM to receive a participation right, and that will continue to be the case. However, the first, second and fourth condition are all included in Rules 8.13 and 8.19 regarding PMM and DPM participation rights,

respectively.<sup>7</sup> Therefore, the Exchange proposes to delete these provisions from Rule 6.12, as they are duplicative, and instead state a PMM or DPM is entitled to a participation right if it satisfies the conditions in Rule 8.13 or 8.19, respectively. The Exchange notes the rule text being deleted states a PMM's or DPM's participation right is based on its order and/or quote; however, Rules 8.13 and 8.19 provide its participation right is based on its quote. Rules 8.13 and 8.19 are consistent with how the System determines a PMM's or DPM's entitlement to a participation right, which is consistent with the Exchange's intention and, the Exchange believes, Participant's expectations. As PMMs and DPMs having heightened quoting obligations under Rules 8.13 and 8.17, which make them eligible for the entitlement, the Exchange believes it is appropriate for the entitlement to be based on their quotes and not any resting orders they may also have at the same price. The Exchange believes deleting the provisions referenced above in Rule 6.12(a)(3)(B) will eliminate any potential confusion regarding how the System determines a PMM's or DPM's participation right.

Additionally, subparagraph (iii) states in establishing the counterparties to a particular trade, the participation entitlement must first be counted against the PMM's or DPM's, as applicable, highest priority bids or offers. For a PMM or DPM to receive an entitlement, it must have a quote at the BBO. A Market-Maker firm may have multiple individual Market-Makers submitting quotes within a class. An entitlement will apply to a PMM's or DPM's quotes with

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<sup>7</sup> See Rules 8.13(b)(ii), (c)(i), and (c)(ii), respectively, and 8.19(b)(1)(A), (b)(1)(B) and (b)(1)(C), respectively. Note the proposed rule change amends Rules 8.13(c)(ii) and 8.19(b)(1)(C) to provide the participation entitlement is based on the number of contracts remaining after all higher priority orders have been satisfied rather than public customer orders. This is consistent with current Rule 6.12(a)(3)(B)(iv) and System functionality. If the Exchange has applied public customer priority to a class, those orders would be filled prior to a PMM or DPM participation entitlement. However, if the Exchange has applied another priority to a class at a higher priority than the participation entitlement, such as market turn priority, those orders at the higher priority would also be filled prior to a PMM or DPM participation entitlement consistent with their higher priority status.

highest priority (i.e., the best price if the price is the BBO) and will not apply to quotes of the same PMM or DPM firm at a lower price. The general allocation and priority rules provide contracts are allocated to quotes with the highest priority, a PMM or DPM must be quoting at the BBO, and the PMM or DPM may not be allocated a quantity greater than the quantity of its quote at that price. The Exchange believes this provision is therefore redundant and proposes to delete it.

Fourth, the proposed rule change amends Rules 8.13(c) and 8.19(b)(2) related to the participation rights of PMMs and DPMs. Currently, Rule 8.13(c) and 8.19(b)(2) each provide that a PMM or DPM participation entitlement, respectively, is 50% if there is one other Market-Maker also quoting at the BBO and 40% if there are two or more Market-Makers also quoting at the BBO. The proposed rule change provides that each of the PMM and DPM participation entitlement is based on both the number of Market-Maker quotes and non-public customer orders (including orders of professionals and voluntary professionals)<sup>8</sup> at the BBO.<sup>9</sup> This is consistent with current System functionality. Additionally, the current rule considers whether other Market-Makers are quoting at the best price, because Market-Makers provide liquidity to C2's market and are encouraged to do so if they have the opportunity to participate in a larger portion

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<sup>8</sup> Pursuant to Rule 1.1, professionals and voluntary professionals will be treated as broker-dealers for purposes of Rule 8.13 (as well as other rules related to allocation and priority). The proposed rule change amends the definitions of professional and voluntary professional in Rule 1.1 to provide that professionals and voluntary professionals will be treated as broker-dealers for purposes of Rule 8.19 as well. It was the intent of those definitions for professionals and voluntary professionals to be treated as broker-dealers under all rules related to allocation and priority; the Exchange is adding Rule 8.19 to the list of rules in those definitions, as it was inadvertently omitted from the list.

<sup>9</sup> The proposed rule change makes a corresponding change to Rule 8.13, Interpretation and Policy .01(b) related to the PMM participation entitlement with respect to complex orders. The proposed rule change also amends Rules 8.13(c) and Interpretation and Policy .01(b) and 8.19(b) to use terms already defined in Rule 1.1 (BBO and Public Customer), as well as to make other nonsubstantive changes.

of a trade in which a PMM or DPM has a participation right. Other Participants besides Market-Makers provide liquidity to C2's market through orders, and the Exchange believes those Participants, like Market-Makers, should have the same opportunity with respect to non-public customer orders.

The proposed rule change also provides that the participation entitlement will be the greater of the amount the PMM or DPM, as applicable, would otherwise receive pursuant to the algorithm applicable to the class and 40% when there are two or more other Market-Maker quotes or non-Public Customer orders at the BBO or 50% when there is only one other Market-maker quote or non-Public Customer order at the BBO, but no fewer than one contract.<sup>10</sup> This change is consistent with current System functionality as well as the intent of the participation entitlement, which is to provide PMMs and DPMs with a benefit for their heightened quoting obligations.<sup>11</sup> The proposed change providing the participation entitlement may be the amount the PMM or DPM, as applicable, would otherwise receive pursuant to the applicable algorithm is appropriate, because the participation entitlement could harm rather than benefit the PMM or DPM if its quote was large enough it would, for example, receive 60% of the contract based on the pro rata algorithm. This encourages PMMs and DPMs to quote larger sizes, which increases

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<sup>10</sup> The proposed rule change also amends Rule 8.19(b)(2) to state the DPM participation entitlement will be 30% when there are three or more other Market-Maker quotes or non-Public Customer orders at the BBO (and thus amends the previous clause to state the DPM participation entitlement will be 40% when there are two other Market-Maker quotes or non-Public Customer orders at the BBO, rather than two or more). This third level of the participation entitlement encourages other market participants to quote and is consistent with the rules of another exchange. See, e.g., Chicago Board Options Exchange, Incorporated (“CBOE”) Rule 8.87(b)(2).

<sup>11</sup> See Rules 8.13 and 8.17, respectively.

liquidity and ultimately benefits investors. This proposed change is also consistent with the rules of other exchanges.<sup>12</sup>

With respect to the proposed change stating a PMM or DPM, as applicable, may receive no fewer than one contract pursuant to the participation entitlement, because fractions of contracts of less than ½ are rounded down, as discussed above, a transaction involving a small number of contracts may result in zero contracts being allocated to a PMM or DPM who should otherwise have priority. For example, if there is one contract left after an order trades with a public customer order, and there is a DPM and two other Market-Makers quoting at the BBO, 40% of one would give the DPM zero contracts, as 0.4 would round down to zero.<sup>13</sup> Thus, this proposed rule change is intended to ensure that a PMM or DPM would receive a contract in this situation to continue to encourage PMMs or DPMs to provide liquidity on the Exchange.

Fifth, the Exchange proposes to update Rule 6.12(c) regarding the priority of contingency orders. Currently, Rule 6.12(c) states, regardless of the allocation method in place, contingency orders (except elected stop-limit orders and the displayed portion of a reserve order) are placed last in priority order, regardless of when they were entered into the System. A contingency order that was entered before a limit order for the same security at the same price will be treated as if it were entered after the limit order. If public customer priority is afforded to a particular security, public customer contingency orders will have priority over non-public customer contingency orders but behind all other orders.

The Exchange proposes to replace that provision to add more detail regarding the prioritization of contingency orders. Proposed Rule 6.12(c) states once a certain event or trading

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<sup>12</sup> See CBOE Rules 6.45A(a)(i)(C) and 6.45B(a)(ii)(C); and Miami International Securities Exchange, LLC (“MIAX”) Rule 514(g)(1) and (h)(1).

<sup>13</sup> The contract would ultimately go to the Market-Maker who entered its quote first, as discussed above, which may not be the PMM or DPM.

condition satisfies an order's contingency, an order is no longer a contingency order and is treated as a market or limit order (as applicable), prioritized in the same manner as any other market or limit order based on the time it enters the book following satisfaction of the contingency (i.e., last in time priority with respect to other orders and quotes resting in the book at that time).<sup>14</sup> If contingencies of multiple orders are satisfied at the same time, the System sends them to the book in the order in which the System initially received them.

Notwithstanding the foregoing, under any algorithm in Rule 6.12<sup>15</sup>:

(1) Upon receipt of a reserve order, the System displays in the book any initially display-eligible portion of the reserve order, which is prioritized in the same manner as any other order (i.e., based on the time the System receives it). Once any non-displayed portion of a reserve order becomes eligible for display, the System displays in the book that portion of the order and prioritizes it based on the time it becomes displayed in the book (i.e., last in time priority with respect to other orders and quotes resting in the book at that time).

(2) Immediate-or-cancel and fill-or-kill orders are not placed in the book and thus are not prioritized with respect to other resting orders and quotes in the book (by definition, those types of orders are cancelled if they do not execute as soon as they are represented on the Exchange so have no opportunity to rest in the book). These orders execute

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<sup>14</sup> The System generally bases priority of a non-contingency order on the time the System receives it.

<sup>15</sup> As provided in current Rule 6.12(a), all displayed orders at a given price have priority over the non-displayed portion of a reserve order at the same price. This is also consistent with the definition of reserve orders in current Rule 6.10(c)(8). The proposed rule change moves this provision to proposed subparagraph (c)(1) so all provisions of this rule regarding priority of contingency orders are included in the same paragraph. The proposed rule change also adds all-or-none orders to this provision, as those are also not displayed until their contingencies are triggered, similar to the non-displayed portions of reserve orders.

against resting orders and quotes in the book based on the time the System receives them (i.e., the System processes these orders in the time sequence in which it receives them).

(3) all-or-none orders are always last in priority (including after the undisplayed portions of reserve orders). If the Exchange applies public customer priority to a class, orders trade in the following order: (A) public customer orders other than all-or-none, (B) non-public customer orders other than all-or-none and quotes, (C) public customer all-or-none orders (in time sequence), and (D) non-public customer all-or-none orders (in time sequence). If the Exchange applies pro-rata with no public customer priority or price-time to a class, orders trade in the following order: (A) orders other than all-or-none and quotes, and (B) all-or-none orders (in time sequence).<sup>16</sup>

The Exchange believes this provision is consistent with the definitions of these order types, pursuant to which most contingency orders become market or limit orders once the contingency is satisfied. All-or-none orders must always be last in priority to ensure that there is sufficient size to satisfy the condition of such an order to trade in its entirety after all other orders at the same price have executed. Additionally, the Exchange believes it is reasonable for orders that are not displayed in the book to not receive priority over orders that are displayed, as they are not yet eligible for execution until they become displayed. These provisions are consistent with current System functionality and are merely adding more detail to the rules to provide additional transparency regarding allocation and priority principles for investors. These provisions are also consistent with the non-inclusion of all-or-none orders and non-displayed portions of reserve orders in the NBBO.

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<sup>16</sup> Note other priorities may be applied to the class as well and would function as set forth in the rules.

Sixth, the proposed rule change amends Rule 6.12(e) regarding how modification of an order or quote may change its priority position. The proposed rule change amends Rule 6.12(e)(1) to clarify the provision applies to changing the price of a quote or order. This is consistent with the intention of the rule, including the final part of the provision that indicates priority is determined as if the order/quote was just received. However, reference in the rule to “changed side” (which applies to a quote) but not an order may create confusion for a market participant, who may mistakenly believe this provision only applies to quotes. Additionally, the proposed rule change amends Rule 6.12(e)(2) to clarify if the price or quantity of one side of a quote is changed, the unchanged side retains its priority position. This is consistent with the provision in subparagraph (1), which provides changing the price of a quote only changes the priority position of the changed side of the quote; the proposed rule change explicitly states that the unchanged side retains its position. The Exchange believes these changes will eliminate any potential confusion.

Finally, the proposed rule change amend Rule 6.12(f) to clarify the meaning of the provision. Current paragraph (f) states unless expressly stated otherwise, any potential price improvement resulting from an execution in the System shall accrue to the party that is removing liquidity previously posted in the System. Proposed paragraph (f) states, unless expressly stated otherwise, any potential price improvement resulting from an execution in the System accrues to the incoming order or quote that removes liquidity previously posted in the System. For example, suppose the market for a series is 1.00 to 1.20. A limit order in that series to buy for 1.25 enters the System. The System will provide price improvement to that incoming order and execute the order against the resting offer of 1.20. This is merely a clarification of the rule text and does not change any System functionality.

The proposed rule change makes nonsubstantive changes to Rules 6.12(b)(1), (e) and (h), 6.18(d) and 8.13(c) and Interpretation and Policy .01, including to fix punctuation and use defined terms, plain English, and language consistent with that used in similar rule provisions. In addition, the proposed rule change amends Rule 6.12(b)(1) to provide the Market Turner priority percentage may be reduced on a class-by-class basis rather than series-by-series basis, as the Exchange generally makes this determination for an entire class rather than for specific series.

## 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>17</sup> Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>18</sup> requirements that the rules of an exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest. Additionally, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>19</sup> requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

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<sup>17</sup> 15 U.S.C. 78f(b).

<sup>18</sup> 15 U.S.C. 78f(b)(5).

<sup>19</sup> Id.

In particular, the proposed rule change amends execution and priority rules to more accurately reflect System functionality, which transparency protects investors and perfects the mechanism of a free and open market. The proposed rule change to provide quotes, in addition to orders, are subject to price-time and pro rata priority promotes just and equitable principles of trade, as resting quotes trade with incoming orders in the same manner as resting orders. The proposed change regarding how the System rounds the number of contracts when they cannot be allocated proportionally in whole numbers pursuant to the pro-rata algorithm adds detail to the rules (which previously only addressed the situation if there one additional contract for two market participants) regarding the allocation process and provides a fair, objective manner for rounding and distribution in all situations in which the number of contracts many not be allocated proportionally in whole numbers. Distributing contracts to resting orders and quotes in time priority when they cannot be allocated proportionally in whole numbers is also consistent with C2's current rules as well as the rules of another options exchange.<sup>20</sup> The Exchange believes adding these details to the rules, as well as the technical and nonsubstantive changes to the rules, will better enable investors to understand how the System allocates trades and affords priority. The proposed rule change does not change how the System allocates and prioritizes orders and quotes; thus, orders and quotes will be subject to the same priority principles as they are today.

The proposed rule change to delete from Rule 6.12 the conditions a PMM or DPM must satisfy to be entitled to a participation right eliminates duplication and confusion, a these conditions are also contained in Rules 8.13 and 8.19, which protects investors. The proposed rule change providing a PMM's or DPM's participation right is determined in part by how many

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<sup>20</sup> See NASDAQ OMX BX, Inc. ("BX") Chapter VI, Section 10(1)(B).

Market-Maker quotes and non-public customer orders at the BBO is not only consistent with current System functionality but also encourages all Market-Makers, not just Trading Permit Holders, to continue to provide liquidity to the market because it may provide them with the opportunity to participate in a larger portion of a trade in which a PMM or DPM has a participation right (60% v. 50%). PMMs, and DPMs will still be entitled to a significant participation right of 40% or 50%, as applicable, which continues to provide an appropriate balance with their heightened quoting obligations. The proposed rule change to provide a DPM's participation right will be 30% if there are three or more Market-Maker quotes or non-Public Customer orders at the BBO will further promote other market participants to participate in a larger portion of a trade and thus further encourage liquidity from these other market participants, and is also consistent with the rules of another exchange.<sup>21</sup> This additional liquidity will ultimately benefit investors. The proposed rule change that a PMM or DPM may receive the amount it would otherwise receive pursuant to the applicable algorithm if greater than the percentage specified in the rule will ensure PMMs and DPMs are not harmed by the participation entitlements, which are intended to be a benefit. This will encourage PMMs and DPMs to quote larger sizes, which will benefit investors, and is consistent with the rules of other exchanges.<sup>22</sup> Similarly, the proposed rule change that the PMM or DPM participation entitlement may not be fewer than one contract when there are other Market-Maker quotes or non-Public Customer orders ensures PMMs and DPMs will receive a benefit in exchange for their heightened quoting obligations when executions involve small number of contracts.

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<sup>21</sup> See CBOE Rule 8.87(b)(2).

<sup>22</sup> See CBOE Rules 6.45A(a)(i)(C) and 6.45B(a)(ii)(C); and MIAX Rule 514(g)(1) and (h)(1).

The proposed rule changes regarding the priority of contingency orders, modified orders and quotes, and price improvement to incoming orders and quotes eliminate potential confusion, promote just and equitable principles of trade, and thus protect 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 that is not necessary or appropriate in furtherance of the purposes of the Act. The proposed rule change is consistent with how the System currently executes and prioritizes orders and quotes and primarily adds detail to the rules regarding current System functionality. Thus, the System will allocate orders and quotes under the proposed rule change in the same manner as it does today. The proposed rule change applies in the same manner to the orders and quotes of all Trading Permit Holders, and the additional transparency in the rules benefits all investors. The proposed rule change applies only to the allocation of orders and quotes in C2's System.

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) of the Act<sup>23</sup> and Rule 19b-4(f)(6)<sup>24</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 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-C2-2016-010 on the subject line.

##### Paper Comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-C2-2016-010. 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

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<sup>23</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>24</sup> 17 CFR 240.19b-4(f)(6).

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-C2-2016-010 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>25</sup>

Brent J. Fields  
Secretary

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<sup>25</sup> 17 CFR 200.30-3(a)(12).