

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-78508; File No. SR-C2-2016-016)

August 9, 2016

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

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 August 1, 2016, 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 the 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.

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 Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange proposes to amend its Fees Schedule. Specifically, the Exchange proposes to establish a fee scale for the purchase of Market Maker Quoting and Order Bandwidth Packets ("Bandwidth Packets"), provide for an allotment scale of CMI CAS Servers, and adopt a fee for extra CMI CAS Servers.

The Exchange first proposes to adopt a fee scale for Bandwidth Packets. Particularly, the Exchange proposes to provide that the first through ninth Bandwidth Packets obtained by a Trading Permit Holder ("TPH") would cost \$1,000 per packet per month, the tenth through fourteenth Bandwidth Packets obtained by that TPH would cost \$500 per packet per month, and the fifteenth and each additional Bandwidth Packet obtained by that TPH would cost \$250 per packet per month. The Exchange believes the proposed fee scale will encourage Market Makers to purchase additional Bandwidth Packets which will allow them to quote and trade more on the Exchange, thereby providing more trading opportunities for all market participants.

The Exchange next proposes to amend its Fees Schedule with respect to Connectivity Charges. By way of background, in order to connect to CBOE Command, which allows a TPH to trade on the C2 System, a TPH must connect via either a CMI or FIX interface (depending on the configuration of the TPH's own systems). For TPHs that connect via a CMI interface, they must use CMI CAS Servers. Currently each TPH is provided one CAS Server plus access to a pool of shared backup CAS Servers. In order to ensure that a CAS Server is not overburdened by quoting activity for Market Makers, the Exchange proposes to allot each Market Maker a certain number of CASs (in addition to the shared backups) based on the amount of quoting bandwidth that they have. Quoting Bandwidth would be determined by the number of

Bandwidth Packets the TPH holds in addition to 5 times the number of Market Maker Trading Permits it holds.³ Additionally, the Exchange will aggregate the Market Maker Trading Permits and Market Maker Quoting and Order Entry Bandwidth Packets from affiliated TPHs (TPHs with at least 75% common ownership between the firms as reflected on each firm’s Form BD, Schedule A) for purposes of determining the number of Trading Permits and Market Maker Quoting and Order Entry Bandwidth Packets a TPH holds. Particularly, the Exchange proposes to add a chart listing the amounts of equivalent Bandwidth Packets and corresponding CAS Servers:

Total Bandwidth Packets Equivalency	CAS Servers
1-25	1 + shared backup
26-50	2 + shared backup
51-75	3 + shared backup
76-100	4 + shared backup
100+	5 + shared backup

Next, the Exchange proposes to provide that if a Market Maker wishes to connect via an extra CMI CAS Server (in order to segregate TPH users for business or availability purposes) beyond the TPH’s allotted number of CMI CAS Servers (described above), that TPH will be assessed a fee of \$2,000 per month for each extra CMI CAS Server. The purpose of this proposed change is

³ The Exchange notes that a C2 Market Maker Quoting and Order Entry Bandwidth Packet is equivalent to 1/5th of a Market Maker Trading Permit. As such, each Market-Maker Trading Permit a TPH holds is equivalent to 5 Quoting and Order Entry Bandwidth Packet for purposes of bandwidth. Therefore, if a TPH has 2 Market Maker Trading Permits and 16 Quoting and Order Entry Bandwidth Packets, the TPH has an equivalent of 26 Bandwidth Packets. The Exchange proposes to include this example in the Fees Schedule to provide additional clarity.

to manage the allotment of CMI CAS Servers in a fair manner and to prevent the Exchange from being required to expend large amounts of resources (the provision and management of the CMI CAS Servers can be costly) in order to provide TPHs with an unlimited amount of CMI CAS Servers. The purpose of the fee for extra CMI CAS Servers is to cover the costs related to the provision, management and upkeep of such CMI CAS Servers.

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the Securities Exchange Act of 1934 (the “Act”) and the rules and regulations thereunder applicable to the Exchange and, in particular, the requirements of Section 6(b) of the Act.⁴ Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)⁵ 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 Section 6(b)(4) of the Act,⁶ 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 the proposed rule change is reasonable because the proposed change provides the opportunity to have lower fees for the Market Maker Quoting and Order Entry

⁴ 15 U.S.C. 78f(b).

⁵ 15 U.S.C. 78f(b)(5).

⁶ 15 U.S.C. 78f(b)(4).

Bandwidth Packets than previously. The proposed change is also equitable and not unfairly discriminatory because the fee scale will apply to all Market Makers uniformly. The Exchange believes it's equitable and not unfairly discriminatory to establish a discounted fee scale for Market Maker Quoting and Order Entry Bandwidth Packets because Market Makers, unlike other C2 market participants, take on a number of obligations, including quoting obligations that other market participants do not have. Further, the proposed change is intended to incent Market Makers to quote and trade more on the Exchange, thereby providing more trading opportunities for all market participants.

The Exchange believes that the proposed change regarding CMI CAS Servers is reasonable because each CMI CAS Server should be capable of handling the bandwidth needs of at least the equivalent of 25 Bandwidth Packets. This proposed allotment is equitable and not unfairly discriminatory because it will be applied to all Market Makers accessing CBOE Command via a CMI connection. It is equitable and not unfairly discriminatory to provide allotment of CASs for Market Makers only, because the impact of non-quoting activity does not result in the need for more than one CAS. The proposed fee of \$2,000 for each extra CMI CAS Server that a Market Maker requests is reasonable because it allows the Exchange to recoup the costs related to the provision, maintenance and upkeep of such Servers, and is equitable and not unfairly discriminatory because the fee will be applied to all Market Makers that request an extra CMI CAS Server.

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 Exchange does not believe that the proposed rule change will impose any burden on intramarket competition that is not necessary or appropriate in furtherance of the purposes of the Act because, while different fees apply to Market-Maker Quoting and Order Bandwidth Packets, Market-Makers have

different obligations and different circumstances (as described in the “Statutory Basis” section above). Additionally, the proposed change is intended to encourage Market Makers to quote more, which provides more trading opportunities for all market participants. The Exchange does not believe that the proposed allotment of one CMI CAS Server for every equivalent 25 Market Maker Bandwidth Packets that a TPH holds (plus one shared backup) and the proposed fee of \$2,000 for each extra CMI CAS Server that a TPH requests will cause an unnecessary burden on intramarket competition because while such allotment and fee will only be applied to Market Makers accessing CBOE Command via a CMI connection, Market Makers have different obligations and different circumstances (as described in the “Statutory Basis” section above) and because market participants that do not quote would not need additional CASs.

The Exchange does not believe that the proposed change will impose any burden on intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act because it only applies to trading on the Exchange. Additionally the Exchange does not believe such proposed bandwidth scale, CAS allotment and fee will cause an unnecessary burden on intermarket competition because different exchanges have different systemic setups for connection to such exchanges and are likely not comparable or competitive. Should the proposed change make C2 a more attractive trading venue for market participants at other exchanges, such market participants may elect to become market participants at C2.

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 Act⁷ and paragraph (f) of Rule 19b-4⁸ 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. Please include File Number SR-C2-2016-016 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-C2-2016-016. 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

⁷ 15 U.S.C. 78s(b)(3)(A).

⁸ 17 CFR 240.19b-4(f).

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, D.C. 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 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-C2-2016-016, 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.⁹

Robert W. Errett
Deputy Secretary

⁹ 17 CFR 200.30-3(a)(12).