

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-65360; File No. SR-C2-2011-022)

September 20, 2011

Self-Regulatory Organizations; C2 Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Related to the Exchange's Complex Order Execution Mechanisms

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 September 16, 2011, the C2 Options Exchange, Incorporated ("Exchange" or "C2") filed with the Securities and Exchange Commission (the "Commission") the proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. The Exchange has designated the proposal as a "non-controversial" proposed rule change pursuant to Section 19(b)(3)(A)(iii) of the Act³ and Rule 19b-4(f)(6) thereunder.⁴ 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 C2 Rules [sic] 6.13, Complex Order Execution. The text of the proposed rule change is available on the Exchange's website (<http://www.c2exchange.com/Legal/RuleFilings.aspx>), at the Exchange's Office of the Secretary and at the Commission.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A)(iii).

⁴ 17 CFR 240.19b-4(f)(6).

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 those 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 parts of such statements.

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

1. Purpose

C2 Rule 6.13 governs the operation of the Exchange’s electronic complex order book and electronic complex order auction (referred to as “COB” and “COA,” respectively). The purpose of this proposed rule change is to incorporate a provision that would provide the Exchange with the ability to determine which electronic allocation algorithm shall apply for COB and/or COA executions on a class-by-class basis, subject to certain conditions. Currently, as described in more detail below, the allocation algorithms for COB and COA default to the allocation algorithms in effect for a given options class. As proposed, the rule change would provide the Exchange with the flexibility to permit the allocation algorithm in effect for COB/COA to be different from the default allocation algorithm in effect for the options class. The applicable algorithm for COB/COA would be selected from among the allocation algorithms set forth in Rule 6.12, Order Execution and Priority.⁵

Specifically, the Exchange is proposing as follows:

⁵ The allocation algorithms include price-time priority, pro-rata priority, and price-time with primary public customer and secondary trade participation right priority. Each of these base allocation methodologies can be supplemented with an optional market turner priority overlay. See Rule 6.12(a) through (b).

- COB: Currently, Rule 6.13(b)(1)(A) through (B) provides that, at the same net price, individual series component legs have priority over complex orders resting in the COB when executing against a complex order. If there are multiple complex orders resting in COB at the same price, the allocation of a complex order within COB is pursuant to the rules of trading priority otherwise applicable to incoming electronic orders in the individual component legs. The Exchange is proposing to amend Rule 6.13(b)(1)(B) to have the flexibility to determine to apply a different allocation algorithm for complex orders resting in COB. Such algorithm would be selected from among the algorithms set forth in Rule 6.12. (At the same price, the individual series legs will continue to have priority over complex orders resting in COB regardless of the allocation algorithm that is chosen for complex orders resting in COB.)
- COA: Currently, Rule 6.13(c)(5)(A) through (D) provides that, at the same place [sic], individual series component legs have priority over complex orders resting in COB and COA responses when executing against an incoming COA-eligible order. To the extent there are multiple complex orders and responses at the same price, Rule 6.13(c)(5)(B) through (D) specifies that, at the same price, the allocation is based on public customer complex orders and responses having priority (with multiple public customer complex orders and responses being allocated based on time priority), then non-public customer complex orders resting in COB before the COA auction response time interval (with multiple non-public customer complex orders being allocated based on the allocation algorithm in effect for the individual component legs), then non-public customer complex orders resting in COB and responses received during the COA auction response time interval (with such multiple non-public customer complex orders and responses being

allocated based on the allocation algorithm in effect for the individual component legs). The Exchange is proposing to amend the rule to have the flexibility to determine to apply a different allocation algorithm from the one set out in Rule 6.13(c)(5)(B) through (D) for complex orders and responses that trade against a COA-eligible order. Such algorithm would be selected from among the algorithms set forth in Rule 6.12, which may or may not include public customer priority. (At the same price, the individual series legs will continue to have priority over complex orders in COB and COA responses regardless of the allocation algorithm that is chosen for complex orders in COB and COA responses.) All pronouncements regarding allocation algorithm determinations by the Exchange will be announced to C2 Trading Permit Holders via Regulatory Circular.

As noted above, the allocation algorithm applied to COB/COA for each options class will be selected from among those set forth in Rule 6.12. Thus, the Exchange is not creating any new algorithms for the mechanisms, but is amending Rules [sic] 6.13 to provide the flexibility to choose an algorithm from among the existing algorithms to be applied to the COB/COA mechanisms rather than simply defaulting to the algorithm in effect for intra-day trading in an options class (e.g., the algorithm for intra-day trading may be established as pro-rata priority without public customer priority, while the algorithm for complex orders in COB and COA may be established as price-time priority (with or without public customer priority)). Regardless of the algorithm selected for complex order in COB or COA responses, the individual series legs retain priority over complex orders. All other aspects of COB/COA pursuant to Rules [sic] 6.13 shall apply unchanged. The Exchange believes that having this additional flexibility will allow the Exchange to select an allocation algorithm (from among the existing algorithms set forth in Rule 6.12) that the Exchange believes is appropriate considering the particular options class and

mechanism. With respect to COA, the Exchange believes that having the ability to select an alternate algorithm will provide us with additional flexibility to incent market participants to respond to COA auctions.

The second purpose of the proposed rule change is to make a correction to the text of Rule 6.13 pertaining to complex orders. In particular, the Exchange is proposing to change the maximum permissible ratio for complex orders in COB, which is currently incorrectly identified as a ratio of one-to-two or lower, to a ratio of one-to-three or lower. As revised, this Rule 6.13 provision will conform the rule text with the definition of a ratio order in subparagraph (d)(5) of C2 Rule 6.10, Order Types Defined.⁶ We also note that the change to a maximum ratio of one-to-three is consistent with the electronic complex order book rules of other options exchanges.⁷

2. Statutory Basis

The basis under the Securities Exchange Act of 1934 (the “Act”) for this proposed rule change is the requirement under Section 6(b)(5)⁸ that an exchange have rules that are designed to promote just and equitable principles of trade, and to remove impediments to and 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 the proposed change is designed to promote just and equitable principles of trade, and to remove impediments to and perfect the mechanism for a free and open market and national market system because the rule

⁶ Rule 6.10(d)(5) currently provides that a permissible ratio for a ratio order is any ratio that is equal to greater than one-to-three (.333) and less than or equal to three-to-one (3.00). The Exchange notes that Rule 6.10(d)(5) was amended as part of the C2 Form-1 application to become a national securities exchange in order to reflect this maximum one-to-three ratio. See Amendment 1 to C2 Form-1 Application, December 4, 2009. We are now seeking to conform the text of Rule 6.13.

⁷ See, e.g., Chicago Board Options Exchange, Incorporated (“CBOE”) Rule 6.53C(c)(iii).

⁸ 15 U.S.C. 78f(b)(5).

change would provide more flexibility for the Exchange to designate the allocation algorithm for COB and/or COA in a manner that is consistent with existing C2 rules. The Exchange also believes that correcting the text of Rule 6.13 to reflect the maximum ratio for complex orders in COB of one-to-three will provide additional clarity, avoid confusion and conform the rule text to be consistent with C2 Rule 6.10(d)(5) and the electronic complex order book rules of other options exchanges.⁹

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange 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.

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 proposal.

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

Because the foregoing rule does not (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest, provided that the self-regulatory organization has given the Commission written notice of its intent to file the proposed rule change at least five business days prior to the date of filing of the proposed rule change or such shorter time as designated by the Commission, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act¹⁰ and Rule 19b-4(f)(6) thereunder.¹¹ At any time within 60 days of

⁹ See note 3, [sic] supra, and surrounding discussion.

¹⁰ 15 U.S.C. 78s(b)(3)(A).

¹¹ 17 CFR 240.19b-4(f)(6). C2 has requested that the Commission waive the five-day pre-filing notice requirement in Rule 19b-4(f)(6)(iii). The Commission waives the five-day

the filing of such 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
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-C2-2011-022 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-C2-2011-022. 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 am and 3:00 pm. 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-C2-2011-022 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.¹²

Elizabeth M. Murphy
Secretary

¹² 17 CFR 200.30-3(a)(12).