

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-65744; File No. SR-C2-2011-034)

November 14, 2011

Self-Regulatory Organizations; C2 Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Related to the Quote Risk Monitor Mechanism

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 November 7, 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 adopt Rule 8.12 Quote Risk Monitor Mechanism. 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

Through this rule change, the Exchange proposes to codify in its rules a service the Exchange offers to help Market-Makers manage their quotations. C2 Rules require Market-Makers to maintain continuous electronic quotes.⁵ To comply with this requirement, each Market-Maker can employ its own proprietary quotation and risk management systems to determine the prices and sizes at which it quotes.

A Market-Maker’s risk in an options class is not limited to the risk in a single series of that class. Rather, a Market-Maker typically is active in quoting in multiple option classes, and each such option class can comprise dozens of individual option series. On C2, trades are automatically effected against a Market-Maker’s then current quote. As a result, a Market-Maker faces exposure in all series of a class, requiring that the Market-Maker off-set or otherwise hedge its overall position in a class. The QRM functionality helps Market-Makers limit this overall exposure and risk. Specifically, the functionality permits a Market-Maker to

⁵ See C2 Rule 8.5(a)(1).

establish parameters in the system to cancel its electronic quotes in all series of an option class until the Market-Maker refreshes those electronic quotes.

Under proposed Rule 8.12, each Market-Maker that elect to use the functionality would be required to specify two parameters that the QRM Mechanism would use to determine when that Market-Maker's quotes should be cancelled. In particular, each Market-Maker is required to specify a maximum number of contracts for each option class (the "Contract Limit") and a rolling time period in seconds during which such Contract Limit is to be measured (the "Measurement Interval").

When the QRM Mechanism determines that the Market-Maker has traded more than the Contract Limit for any option class during any rolling Measurement Interval, the QRM Mechanism automatically cancels all of the Market-Maker's quotes in any series of that option class. By limiting its exposure across series, a Market-Maker is better able to quote aggressively in an option, knowing that the QRM Mechanism will automatically cancel all its quotations in a class when its exposure limit is hit.

The Exchange notes that the proposed rule would not relieve a Market-Maker of its obligations to provide continuous electronic quotes under the Exchange rules⁶ nor to provide "firm" quotes pursuant to the requirements of Exchange Rule 8.6. The Exchange also notes that the proposed rule is based on Chicago Board Options Exchange, Incorporated ("CBOE") Rule 8.18 (Quote Risk Monitor Mechanism).

⁶ See C2 Rule 8.5(a)(1).

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)⁷ 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 change would provide a mechanism that would allow C2 Market-Makers to more effectively and efficiently manage their quotations. Knowing that a helpful quote management tool is in place would, in turn, allow those Market-Makers to quote more aggressively which removes impediments to a free and open market and benefits all C2 users.

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 proposed rule change: (1) does not significantly affect the protection of investors or the public interest; (2) does not impose any significant burden on competition; and (3) by its terms does not become operative for 30 days after the date of this

⁷ 15 U.S.C. 78f(b)(5).

filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest, the proposed rule change has become effective pursuant to Section 19(b)(3)(A)⁸ of the Act and Rule 19b-4(f)(6) thereunder.⁹

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 shall 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 Exchange 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 No. SR-C2-2011-034 in 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.

⁸ 15 U.S.C. 78s(b)(3)(A). In addition, Rule 19b-4(f)(6) requires the Exchange to give the Commission written notice of the Exchange's 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 Exchange has satisfied this requirement.

⁹ 17 CFR 240.19b-4(f)(6).

All submissions should refer to File Number SR-C2-2011-034. 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 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-C2-2011-034 and should be submitted by [insert date 21 days from the date of publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁰

Elizabeth M. Murphy
Secretary

¹⁰ 17 CFR 200.30-3(a)(12).