

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-66286; File No. SR-C2-2012-005)

February 1, 2012

Self-Regulatory Organizations; C2 Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Minor Rule Violation Plan

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 January 26, 2012, 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 and II 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 rules to incorporate violations of C2’s Market-Maker continuous quoting obligations into its Minor Rule Violation Plan. The text of the proposed rule change is available on the Exchange’s Web site (<http://www.c2exchange.com/Legal/>), at the Exchange’s Office of the Secretary, and at the Commission.

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

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

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

the most significant aspects of such statements.

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

1. Purpose

Chicago Board Options Exchange, Incorporated's ("CBOE") Minor Rule Violation Plan imposes sanctions for various technical rule violations, including violations of CBOE's Market-Maker quoting obligations.<sup>3</sup> Chapter 17 of the C2 rules incorporates by reference CBOE Chapter XVII, including its Minor Rule Violation Plan (CBOE Rule 17.50). CBOE Rule 17.50(g)(14) applies to violations of CBOE's Market-Maker quoting obligations. As a result, this subparagraph is inapplicable to C2, and C2's Minor Rule Violation Plan does not cover C2's Market-Maker continuous quoting obligations.

C2 Rules 8.5(a)(1) and 8.13(d) require C2 Market-Makers and Preferred Market-Makers (collectively referred to in this filing as "Market-Makers"), respectively, to meet specified continuous quoting obligations. The purpose of the proposed rule change is to amend C2 Chapter 17 to incorporate violations of these continuous quoting obligations into C2's Minor Rule Violation Plan, which will allow C2 to impose sanctions upon its Market-Makers for failing to meet such obligations. C2 believes that these violations are suitable for incorporation into its Minor Rule Violation Plan because they are generally technical in nature. Further, incorporating these violations into the Minor Rule Violation Plan will allow C2 to carry out its regulatory responsibilities more quickly and efficiently.

C2 is proposing to adopt ranges for the sanction levels to be imposed according to the degree of the violation(s). Specifically, C2 is proposing to assess fines ranging from \$2,000 to \$4,000 for a first offense and \$4,000 to \$5,000 for a second offense. Any subsequent offenses will

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<sup>3</sup> See CBOE Rule 17.50(g)(14).

be subject to a fine of \$5,000 or referred to C2's Business Conduct Committee. C2 will maintain internal guidelines that will dictate the sanction that will be imposed for a particular violation (based on the degree of the violation). As with all other violations incorporated into C2's Minor Rule Violation Plan, C2 retains the ability to refer a violation of Market-Maker continuous quoting obligations to its Business Conduct Committee should the circumstances warrant such a referral.

In support of this proposal, the Exchange notes that several other self-regulatory organizations impose sanctions on their market-makers for violations of their respective continuous quoting obligations pursuant to their respective minor rule violation plans.<sup>4</sup>

## 2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the requirements of 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>5</sup> Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>6</sup> requirements that the rules of an exchange be designed to promote just and equitable principles of trade, to prevent fraudulent and manipulative acts, to remove impediments to and to 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, C2 believes that the proposed rule change will strengthen its ability to carry out its oversight responsibilities as a self-regulatory organization pursuant to the Act and reinforce its surveillance and enforcement functions. This proposed rule change will also

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<sup>4</sup> See, e.g., CBOE Rule 17.50(g)(14); Boston Options Exchange Group LLC ("BOX") Chapter X, Section 2(d); NYSE Amex LLC ("NYSE Amex") Rules 476A and 590(g); and NYSE Arca, Inc. ("NYSE Arca") Rule 10.12(h)(39) and (k)(i)(39).

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

<sup>6</sup> 15 U.S.C. 78f(b)(5).

promote consistency in the minor rule violation programs and reporting obligations of option exchanges.

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 not necessary or appropriate in furtherance of the purposes of the Act. As indicated above, the Exchange notes that several other self-regulatory organizations impose sanctions on market-makers for violations of their respective quoting obligations pursuant to their respective minor rule violation plans.<sup>7</sup>

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: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) by its terms, become operative for 30 days after 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)<sup>8</sup> of the Act and Rule 19b-4(f)(6)<sup>9</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

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<sup>7</sup> See supra note 4.

<sup>8</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>9</sup> 17 CFR 240.19b-4(f)(6). Pursuant to Rule 19b-4(f)(6)(iii) under the Act, the Exchange is required to give the Commission written notice of its intent to file the proposed rule change, along with a brief description and text of 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.

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](mailto:rule-comments@sec.gov). Please include File Number SR-C2-2012-005 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-C2-2012-005. 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-C2-2012-005 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>10</sup>

Kevin M. O'Neill  
Deputy Secretary

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<sup>10</sup> 17 CFR 200.30-3(a)(12).