

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-61987; File No. SR-C2-2010-001)

April 27, 2010

Self-Regulatory Organizations; C2 Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Adopt Certain Order Routing and Market-Maker Rules

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 April 23, 2010, 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, 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 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 a rule relating to order routing to other exchanges and to adopt preferred market-maker rules. The text of the proposed rule change is available on the Exchange’s website (www.cboe.org/Legal), 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, C2 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 Statutory Basis for, the Proposed Rule Change

1. Purpose

C2 was recently registered as a national securities exchange under Section 6 of the Exchange Act.⁵ When operational, C2 will operate an all-electronic marketplace for the trading of listed options. It will not maintain a physical trading floor. C2 is filing this proposed rule change in order to add a linkage order routing rule. The rule is identical to a rule adopted by the Chicago Board Options Exchange, Incorporated ("CBOE") as part of the transition to the new intermarket linkage plan (the Options Order Protection and Locked/Crossed Market Plan). Under the new linkage, exchanges ensure order protection by routing orders to other markets through broker-dealers. The proposed rule adopts certain guidelines that would be applicable to any routing services provided by C2 through a broker-dealer. Routing services would be available to C2 permit holders only and are optional. Permit holders that do not want orders routed can use the Immediate or Cancel designation to avoid routing.

As proposed, routing services will only be provided by routing brokers that are not affiliated with the Exchange. Further, the Exchange may not use a routing broker for which the

⁵ See Exchange Act Release No. 61152 (Dec. 10, 2009), 74 FR 66699 (Dec. 16, 2009).

Exchange or any affiliate of the Exchange is the designated examining authority. For each routing broker used by the Exchange, an agreement will be in place between the Exchange and the routing broker that will, among other things, restrict the use of any confidential and proprietary information that the routing broker receives to legitimate business purposes necessary for routing orders at the direction of the Exchange.

The rule further requires the Exchange to provide routing services in compliance with the Securities Exchange Act of 1934 and the rules thereunder, including, but not limited to, the requirements in Section 6(b)(4) and (5) of the Act that the rules of a national securities exchange provide for the equitable allocation of reasonable dues, fees, and other charges among its members and issuers and other persons using its facilities, and not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers. The rule also requires the Exchange to establish and maintain procedures and internal controls reasonably designed to adequately restrict the flow of confidential and proprietary information between the Exchange and the routing broker, and any other entity, including any affiliate of the routing broker, and, if the routing broker or any of its affiliates engages in any other business activities other than providing routing services to the Exchange, between the segment of the routing broker or affiliate that provides the other business activities and the segment of the routing broker that provides the routing services.

Under the proposed rule, the Exchange will determine the logic that provides when, how, and where orders are routed away to other exchanges. Further, the routing broker cannot change the terms of an order or the routing instructions, nor does the routing broker have any discretion about where to route an order. Lastly, the rule provides that any bid or offer entered on the

Exchange routed to another exchange via a routing broker that results in an execution shall be binding on the member that entered such bid/offer.

The filing also proposes to adopt a Preferred Market-Maker rule and a participation entitlement for Preferred Market-Makers (PMMs). The proposed additions are virtually identical to rules governing the PMM program on CBOE. A PMM program allows order senders to designate a preferred Market-Maker for orders sent to the Exchange. If the PMM meets certain requirements at the time the order is received, the PMM is entitled to an enhanced participation on the trade (a participation entitlement). Adopting a PMM program will provide C2 with greater flexibility in attracting dedicated liquidity providers.

Proposed Rule 8.13 provides that the Exchange may allow, on a class-by-class basis, for the receipt orders that carry a designation specifying a Market-Maker in that class as the "Preferred Market-Maker" for that order. The PMM will receive a participation entitlement for such order if the following provisions are met: (i) the PMM is registered in the relevant option class; and (ii) the PMM is quoting at the best bid/offer on the Exchange. The participation entitlement shall be 40% when there are two or more Market-Makers also quoting at the NBBO on the Exchange, and 50% when there is only one other Market-Maker quoting at the NBBO on the Exchange. In addition: (i) a PMM may not be allocated a total quantity greater than the quantity that the PMM is quoting at the best bid/offer on the Exchange; (ii) the participation entitlement rate is based on the number of contracts remaining after all public customer orders in the book at the best bid/offer on the Exchange have been satisfied; and (iii) if a Preferred Market-Maker receives a PMM participation entitlement, then no other participation entitlements shall apply to such order.

PMMs will be subject to heightened quoting requirements. More specifically, PMMs must comply with the quoting obligations applicable under Exchange rules and must provide continuous electronic quotes in at least 90% of the series of each class for which it receives Preferred Market-Maker orders.⁶

Proposed Rule 8.13 also allows the Exchange to implement a PMM program for complex orders. The program is substantially similar to the program for straight orders and is identical to the program in place for CBOE.

Corresponding changes to Rule 6.12 are also proposed to ensure that the order execution and priority rule contemplates a participation entitlement for PMMs.

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with Section 6(b) of the Exchange Act in general and furthers the objectives of Section 6(b)(5) in particular in that, by making the linkage process more efficient and ensuring certain safeguards are in place when routing firms are used, it should promote just and equitable principles of trade, serve to remove impediments to and perfect the mechanism of a free and open market and a national market system, and protect investors and the public interest. Moreover, the Exchange believes that adopting these rules will facilitate the trading of options in a national market system by establishing more transparent routing guidelines, and will facilitate the ability of preferred Market-Makers to provide deeper liquidity.

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

⁶ Under Rule 8.5(a)(1), C2 Market-Makers must maintain a continuous (99% of the time) two-sided market in 60% of the series of each registered class that have time to expiration of less than nine months.

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 Act⁷ and Rule 19b-4(f)(6) thereunder.⁸ At any time within 60 days of the filing of such proposed rule change, the Commission may summarily abrogate 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

⁷ 15 U.S.C. 78s(b)(3)(A).

⁸ 17 CFR 240.19b-4(f)(6).

- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-C2-2010-001 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-C2-2010-001. 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 Web site (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission,⁹ 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 Web site 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 C2. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only

⁹ The text of the proposed rule change is available on the Commission's Web site at <http://www.sec.gov/rules/sro.shtml>.

information that you wish to make available publicly. All submissions should refer to File Number SR-C2-2010-001 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.¹⁰

Florence E. Harmon
Deputy Secretary

¹⁰ 17 CFR 200.30-3(a)(12).