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Required fields are shown with yellow backgrounds and asterisks.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Form 19b-4

File No.* SR - 2012 - * 003

Amendment No. (req. for Amendments *)

Proposed Rule Change by C2 Options Exchange, Incorporated

Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial *	Amendment *	Withdrawal	Section 19(b)(2) *	Section 19(b)(3)(A) *	Section 19(b)(3)(B) *
☑	☐	☐	☐	☑	☐

Pilot	Extension of Time Period for Commission Action *	Date Expires *
☐	☐	

Rule

☐ 19b-4(f)(1)	☐ 19b-4(f)(4)
☐ 19b-4(f)(2)	☐ 19b-4(f)(5)
☐ 19b-4(f)(3)	☑ 19b-4(f)(6)

Exhibit 2 Sent As Paper Document ☐ Exhibit 3 Sent As Paper Document ☐

Description

Provide a brief description of the proposed rule change (limit 250 characters, required when Initial is checked *).

The Exchange is proposing to amend its complex order processing rules to update existing price check protection features and include some additional ones.

Contact Information

Provide the name, telephone number and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the proposed rule change.

First Name * Jennifer Last Name * Lamie
Title * Assistant General Counsel
E-mail * lamie@cboe.com
Telephone * (312) 786-7576 Fax (312) 786-7919

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized officer.

Date 01/09/2012

By Jennifer M. Lamie (Name *)

Assistant Secretary (Title *)

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

Jennifer lamie, lamie@cboe.com

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFS website.

Form 19b-4 Information (required) Add Remove View	The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.
Exhibit 1 - Notice of Proposed Rule Change (required) Add Remove View	The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)
Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications Add Remove View Exhibit Sent As Paper Document ☐	Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.
Exhibit 3 - Form, Report, or Questionnaire Add Remove View Exhibit Sent As Paper Document ☐	Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.
Exhibit 4 - Marked Copies Add Remove View	The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.
Exhibit 5 - Proposed Rule Text Add Remove View	The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.
Partial Amendment Add Remove View	If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

Item 1. Text of Proposed Rule Change

(a) The C2 Options Exchange, Incorporated ("C2" or "Exchange") is proposing to amend its complex order processing rules to update existing price check protection features and include some additional ones. The text of the proposed rule change is provided below (additions are underlined and deletions are [bracketed]).

C2 Options Exchange, Incorporated
Rules

* * * * *

Rule 6.13. Complex Order Execution

* * * * *

. . . *Interpretations and Policies:*

* * * * *

.04 Price Check Parameters: On a class-[ ]by-[ ]class basis, the Exchange may determine (and announce via Regulatory Circular) that COB will not automatically execute an eligible complex order[s] that [are]is:

(a) Market Width Parameters: An [Market] order[s] that is marketable if (i) the width between the Exchange's best bid and best offer in any individual series leg is not within an acceptable price range or (ii) the width between the Exchange's best net priced bid and best net priced offer in the individual series legs comprising the complex order is not within an acceptable price range. For purpose of this paragraph (a):

(1) An "acceptable price range" shall be determined by the Exchange (and announced to via Regulatory Circular) on a series-[ ]by-[ ]series basis for market orders and/or marketable limit orders for each series comprising the complex order (or, in the case of subparagraph (a)(ii), based on the sum of each individual series leg of a complex order) and be no less than 0.375 for each option contract for which the bid is less than $2, $0.60 for each option contract for which the bid is at least $2 but does not exceed $5, $0.75 for each option contract for which the bid is at least $5 but does not exceed $10, $1.20 for each option contract for which the bid is at least $10 but does not exceed $20, and $1.50 for each option contract for which the bid is more than $20; and

(2) The Help Desk may grant intra-day relief by widening the acceptable price range.

(3) [Such] A market [complex] order[s] under this paragraph (a) will be cancelled. A marketable limit order under this paragraph (a) will be held in the system, displayed in the COB if applicable, and not be eligible for automatic execution until the market width condition is resolved.

(4) Notwithstanding paragraph (a) above, if part of a marketable order may be executed within an acceptable price range, that part of the order will be executed automatically and the part of the order that would execute at a price outside the acceptable price range will be cancelled.

(b) Credit-to-Debit Parameters: Market orders that would be executed at a net [credit (]debit[)] price after receiving a partial execution at a net [debit (]credit[)] price will be cancelled.

(c) Same Expiration Strategy Parameters:

(1) A limit order priced at a net credit price that consists of at least two series and would result in an execution to:

(i) buy a number of call option contracts and sell the same number of call option contracts in a series with the same underlying security and expiration date but a higher exercise price; or

(ii) buy a number of put option contracts and sell the same number of put option contracts in a series with the same underlying security and expiration date but a lower exercise price; or

(2) A m[M]arket order[s] that would be executed at a net [credit (]debit[)] price, or a limit order[s] priced at a net [credit (]debit[)] price, that consists of at least two series and would result in an execution to:

[(1)](i) [Buy (]sell[)] a number of call option contracts and [sell (]buy[)] the same number [or applicable ratio (as determined by the Exchange on a class by class basis)] of call option contracts in a series with the same underlying security and expiration date but a higher exercise price; or

[(2)](ii) [Buy (]sell[)] a number of put option contracts and [sell (]buy[)] the same number [or applicable ratio (as determined by the Exchange on a class by class basis)] of put option contracts in a series with the same underlying security and expiration date but a lower exercise price.

(3) Such an incoming limit order [complex] order[s] under this paragraph (c) will be rejected if these conditions exist when the order is routed to COB. To the extent the parameters under this paragraph (c) are triggered [once] when an incoming market order is [resting in] routed to COB or after an incoming market order [receives a partial execution] is subject to COA, any part of the market order that may be executed within an acceptable price range will be executed automatically and the part of the [such complex] order[s] that would execute at a net debit price will be cancelled.

(d) Buy-Buy (Sell-Sell) Strategy Parameters: A l[L]imit order[s] where (1) all the components of the strategy are to buy and the order is priced at zero, any net credit price, or a net debit price that is less than the number of individual option series legs in the strategy (or applicable ratio) multiplied by the applicable minimum net price increment for the complex order; or (2) all the components of the strategy are to sell and the order is priced at zero, any net debit price, or a net credit price that is less than the number of individual option series legs in the strategy (or applicable ratio) multiplied by the applicable minimum net price increment for the complex order. Such complex orders under this paragraph (d) will be rejected. In classes where this price check parameter is available, it will also be available for COA responses under Rule 6.13(c), COA and Solicitation Auction Mechanism complex orders and responses under Rule 6.51 or 6.52, and customer-to-customer immediate cross complex orders under Rule 6.51.08. Such paired complex orders and responses under these provisions will be rejected except that, to the extent that only a paired contra-side order subject to an auction under Rule 6.51 or 6.52 exceeds this price check parameter, the contra-side order will be rejected and the paired original Agency Order will be rejected or, at the order entry firm's discretion, continue processing as an unpaired complex order.

(e) Percentage Distance Parameter: An order that is marketable if, following COA, the execution would be at a price that is not within an acceptable percentage distance from the derived net price of the individual series legs at the start of COA. The "acceptable percentage distance" will be a percentage determined by the Exchange on a class-by-class basis and shall be no less than 3 percent. Such a complex order will be cancelled.

* * * * *

(b) Not applicable

(c) Not applicable.

Item 2. Procedures of the Self-Regulatory Organization

(a) The C2's Office of the Chairman pursuant to delegated authority approved the proposed rule change on September 9, 2011.

(b) Questions and comments on the proposed rule change may be referred to Joanne Moffic-Silver, General Counsel, CBOE, 400 South LaSalle Street, Chicago, Illinois 60605; Telephone: (312) 786-7462; Fax: (312) 786-7919 or Jennifer Lamie at 312-786-7576.

Item 3. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

(a) Purpose

The Exchange has in place various price check parameter features that are designed to prevent incoming orders from automatically executing at potentially erroneous prices. These price check parameter features are designed to help maintain a fair and orderly market. The Exchange is proposing to amend its complex order processing rules under Rule 6.13, Complex Order Execution, to update existing price check protection features to provide additional clarity on the operation of the functionality and to include some additional features. The Exchange believes the below-described price check parameter revisions will enhance the existing functionality and assist with the maintenance of fair and orderly markets by helping to mitigate the potential risks associated with an order drilling through multiple price points (thereby resulting in executions at prices that are extreme and potentially erroneous) and complex orders trading at prices that are inconsistent with particular complex order strategies (thereby resulting in executions at prices that are extreme and potentially erroneous).

First, the Exchange is proposing to include descriptive headings in the rule text for each of the existing price check parameters. The Exchange is also proposing to break the description of the existing same expiration strategy price check parameters into two separate paragraphs instead of a single paragraph. We believe these changes will make it easier for users to read and understand the operation of these price protection features. These changes are simply non-substantive formatting changes and do not impact the operation of the various features.

Second, the market width parameter under Rule 6.13.04(a) currently provides that the complex order book ("COB") will not automatically execute eligible complex orders that are market orders if the width between the Exchange's best bid and best offer ("BBO") are not within an acceptable price range. In addition, the rule text currently provides that such market complex orders will be cancelled.

The Exchange is proposing to revise this provision to provide that the Exchange may determine to apply these price check parameters to market orders and/or marketable limit orders. However, whereas market orders that are subject to this price protection feature are cancelled, marketable limit orders would be held in the system. Any such orders held in the system would not be eligible to automatically execute until after the market width parameter condition is resolved. In addition, while being held in the system, such orders would be displayed in the COB as applicable. This functionality for marketable limit order is currently in use but not expressly covered in the rules. The Exchange believes that extending the same price check logic to not automatically execute such marketable limit orders but to continue to hold such orders in the system is reasonable and appropriate because, as with market orders, this feature should help to prevent executions of such limit orders at extreme and potentially erroneous prices. In contrast to market orders, marketable limit orders are able to be held in the system because they have a price associated with them. The Exchange also notes that applying market width price check logic to market orders and/or marketable limit orders is consistent with other existing price check parameters that apply to both market orders and marketable limit complex orders.[1] In addition, the Exchange is proposing to correct a typographical error by changing the minimum acceptable price range specified in the rule text for orders in option series where the bid is less than \$2 from \$0.37 to \$0.375.[2]

Third, the debit-to-credit (credit-to-debit) parameters under Rule 6.13.04(b) currently provide that (i) a market order that would be executed at a net credit price after receiving a partial execution at a net debit price would not be automatically executed (the "debit-to-credit" parameter), and (ii) a market order that would be executed at a net debit price after receiving a partial execution at a net credit price would not be automatically executed (the "credit-to-debit" parameter). The Exchange is proposing to eliminate the debit-to-credit parameter because it not possible for such a scenario to occur and therefore the parameter is

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1 See, e.g., Rule 6.17, Price Check Parameters (which provides, among other things, that the Exchange will not automatically execute eligible orders that are marketable if the width between the national best bid and offer is not within an acceptable price range (as determined by the Exchange on a series by series basis for market orders and/or marketable limit orders and announced to Trading Permit Holders via Regulatory Circular).

2 The \$0.375 amount is same as the acceptable price range parameters set forth in Rule 6.17.

unnecessary. (Because orders are executed at the best available price and then the next best price, a market order would never execute at a net debit price then at a net credit price.)

Fourth, the Exchange is proposing to change the existing same expiration strategy price check parameters to distinguish between its application to limit orders and to market orders. The Exchange is also proposing to eliminate a provision that would make this price check parameter feature available to ratio orders should the Exchange determine to do so. As the term implies, the "same expiration strategy" price protection parameters apply to certain complex order strategies where all the option series have the same expiration.[3] The functionality is designed to detect scenarios where (i) a limit order is entered at a net credit price when it clearly should have been entered at a net debit price (or vice versa) and (ii) a market order would be executed at a net debit price when it clearly should be executed at a net credit price (but not vice versa).[4]

Currently the rule text provides that, if the conditions for this price check parameter exist when a complex order is routed to the COB, then the order will be rejected. The rule text also currently provides that, to the extent the parameters are triggered once an order is resting in COB or after an incoming order receives a partial execution, such a complex order will be cancelled. The provision does not distinguish between limit orders and market orders.

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3 See Rule 6.13.04(c).

4 A same expiration strategy market order that would result in an execution at a net credit price (i.e., the net sale proceeds from the series being sold are more than the net purchase cost from the series being bought) but that would normally execute at a net debit price (i.e., the net sale proceeds from the series being sold are less than the net purchase cost from the series being bought) would be a favorable execution for the market order and would not trigger this price check parameter. In making the changes to the rule text, the Exchange is correcting a typographical error, which correction clarifies that the same expiration strategy parameter does not apply to market orders that would execute at a net credit.

The Exchange is proposing to amend the text to separately describe how the two categories of orders are processed.

With respect to limit orders, proposed changes to the text provide that incoming limit orders will be rejected under this parameter only if the conditions exist when the order is first routed to COB. The provisions about resting orders and partial executions are not applicable to limit orders because incoming limit orders that are priced at a net price that meets the conditions are rejected outright upon routing to COB and never get to the point where they are resting or partially executed. With respect to market orders, proposed changes to the text provide that, to the extent the parameters are triggered when an incoming market order is routed to COB or after an incoming market order is subject to a complex order RFR auction ("COA"), any part of the market order that may be executed within an acceptable price range will be executed automatically and the part of the order that would execute at a net debit price will be cancelled. (A market order would never rest in COB, so that provision will be removed from the rule text.) The following examples illustrate this price check parameter:

Example 1: Assume a complex order to buy 50 Jan 45 XYZ calls and sell 50 Jan 50 XYZ calls is entered with a limit that is a net credit price (i.e., the net sale proceeds from the Jan 50 calls are larger than the net purchase cost from the Jan 45 calls). Such an order would appear to be erroneously priced as a net credit – it should instead be a net debit - because normally a person would expect that the Jan 50 calls would not cost more than the Jan 45 calls. As a result, upon routing to COB, such a limit order would be rejected.

Example 2: Assume a butterfly spread to buy 50 Jan 45 XYZ calls, sell 100 Jan 50 XYZ calls and buy 50 Jan 55 XYZ calls is entered at a net credit price (i.e., the net sale proceeds from the Jan 50 calls are more than the net purchase cost from the Jan 45 and 55 calls). Such an order would appear to be erroneously priced as a net credit – it should instead be a net debit – because normally a person would expect that selling the middle 50 strike would result in less than the cost of buying the upper 55 and lower 45 strikes. As a result, upon routing to COB, such a limit order would be rejected.

Example 3: Assume a market order to buy 50 Jan 45 XYZ calls and sell 50 Jan 40 XYZ calls is entered. Also assume that the Jan 45 XYZ calls are quoted $4.00 - $4.10 for 10 contracts and the next available offer is $4.30 for 100 contracts, and that the Jan 40 XYZ calls are quoted $4.50 - $4.60 for 10 contracts and the next available bid is $4.20 for 100 contracts. Under this scenario, the incoming market order would receive an execution for 10 spreads at a net credit price of $0.40 each (i.e., the net sale proceeds from the Jan 40 Series are larger than the net purchase cost from the Jan 45 Series). When the series decrement, the net execution price would become a net debit price of $0.10 each (i.e., the net sale proceeds from the Jan 40 Series are less than the net purchase cost from the Jan 45 Series). Such an execution would appear to be erroneous because normally a person in this scenario would expect to execute the vertical spread at a net credit price. As a result, upon routing to COB, 10 contracts would execute at a net credit price of $0.40 each and the remaining 40 contracts would be cancelled.

Example 4: Assume a market order to buy 50 Jan 45 XYZ calls and sell 50 Jan 40 XYZ calls is routed to COA. Also assume that at the end of the COA the Jan 45 XYZ calls are quoted $4.00 - $4.10 for 10 contracts and the next available offer is $4.30 for 100 contracts, and that the Jan 40 XYZ calls are quoted $4.50 - $4.60 for 10 contracts and the next available bid is $4.20 for 100 contracts. To the extent the market order can execute at prices within the price check parameter, then that part of the order would execute (i.e., 10 vertical spreads will execute at a net credit price of $0.40). To the extent that the price check parameters are triggered at the conclusion of COA, then that part of the market order would be cancelled (i.e., 40 vertical spreads will cancel).

As noted above, the Exchange is also proposing to delete a provision in the rule that provides that the Exchange may determine to make the same expiration strategy price check parameters available to applicable ratio orders (as such applicable ratios are determined by the Exchange on a class-by-class basis). The Exchange has not activated this feature for ratio orders and has no intention to do so at this time. Therefore, the Exchange is proposing to delete this provision from the rule at this time.[5]

Finally, fifth, the Exchange is proposing to codify a price check parameter for orders processed via COA, which is currently in use but not expressly covered in the rules.

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5 In the future, should the Exchange would determine to apply this price check parameter feature to ratio orders, the Exchange would address it through a separate rule change filing.

Specifically, the Exchange may determine on a class-by-class basis (and announce via Regulatory Circular) that COA will not automatically execute a COA-eligible order that is marketable if the execution would be at a price that is not within an acceptable percentage distance from the derived net price of the individual series legs at the start of COA. For purposes of this provision, the "acceptable percentage distance" will be a percentage determined by the Exchange on a class-by-class basis and it shall be not less than 3 percent. The Exchange believes a 3 percent level is reasonable and appropriate because a marketable order that would deviate from the derived net market by that percentage or more may be indicative of an extreme or potentially erroneous price, and a broker would generally want to evaluate the order further before receiving an automatic execution. The Exchange also believes that a 3 percent minimum is reasonable and appropriate in comparison to other price check parameters it currently has available.[6] To the extent the parameters under this provision are triggered, such a complex order will be cancelled.

For example, the Exchange could determine that the acceptable percentage distance is 5%. Assume at the start of COA the individual leg market in Series A is \$1.00 - \$1.20 and in series B is \$2.00 - \$2.20 and the derived leg market is \$0.80 (net debit) - \$1.20 (net credit). The acceptable percentage distance would be \$0.04 (5% X \$0.80) for orders to buy Series A and sell series B and \$0.06 (5% X \$1.20) for orders to sell Series A and buy series B. As a result, COA would execute a COA-eligible order at prices ranging from \$0.84 (net debit) - \$1.26 (net credit), but not an order priced at a net debit of \$0.85 or more or a net credit of \$1.27 or more.

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6 The "acceptable percentage distance" price check parameter for complex orders is adapted from the "acceptable tick distance" parameter set forth in Rule 6.17, which provides that the acceptable tick distance shall not be less than 2 minimum increment ticks.

(b) Statutory Basis

The proposed rule change is consistent with Section 6(b) of the Securities Exchange Act of 1934 (the "Act")[7] in general and furthers the objectives of Section 6(b)(5) of the Act[8] in particular in that 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. The Exchange believes the complex order price check parameters assist in the automatic execution and processing of orders that are subject to the Exchange's complex order processing. The Exchange also believes these price check parameters assist with the maintenance of fair and orderly markets by helping to mitigate the potential risks associated with complex orders drilling through multiple price points (thereby resulting in executions at prices that are extreme and potentially erroneous) and complex orders trading at prices that are inconsistent with particular complex order strategies (thereby resulting in executions at prices that are extreme and potentially erroneous). In this regard, for example, the Exchange notes that the acceptable percentage distance parameter is designed to mitigate the potential risks of executions at prices that are not within an acceptable percentage distance from the derived net market price of the individual series legs. The Exchange also notes that the extension of the BBO market width logic to include marketable limit orders is designed to help prevent executions of such limit orders at extreme and potentially erroneous prices in a manner consistent with the existing logic utilized for market orders. The Exchange also believes that the proposed changes to the rule text will make it easier for users to read and understand the operation of the price check

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7 15 U.S.C. 78f(b).

8 15 U.S.C. 78f(b)(5).

parameters, and will better and more fully describe the operation of the parameters.

Item 4. Self-Regulatory Organization's Statement on Burden on Competition

This proposed rule change does not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

Item 5. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

No written comments were solicited or received with respect to the proposed rule change.

Item 6. Extension of Time Period for Commission Action

Not applicable.

Item 7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)

(a) The proposed rule change is filed for immediate effectiveness pursuant to Section 19(b)(3)(A) of the Act [9] and Rule 19b-4(f)(6) thereunder.[10]

(b) The Exchange asserts that the proposed rule change (i) will not significantly affect the protection of investors or the public interest, (ii) will not impose any significant burden on competition, and (iii) by its terms, will not become operative for 30 days after the date of this filing, or such shorter time as the Commission may designate, if consistent with the protection of investors and the public interest. In addition, the Exchange provided the Commission with written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change.

The Exchange requests that the Commission waive the 30-day operative delay period after which a proposed rule change under Rule 19b-4(f)(6) becomes effective. As indicated

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9 15 U.S.C. 78s(b)(3)(A).

above, the Exchange believes that the price check parameters assist with the maintenance of orderly markets by helping to mitigate the potential risks associated with complex orders drilling through multiple price points (thereby resulting in execution at prices that are extreme and potentially erroneous) and complex orders trading at prices that are inconsistent with particular complex order strategies (thereby resulting in executions at prices that are extreme and potentially erroneous). Waiving the 30-day operative delay will enable the Exchange to alert market participants to the changes, which are also designed to make the text easier for users to read and understand the operation of the complex order price check parameters and the automatic execution parameters, and to better and more fully describe the operation of those features. Waiver will also enable the Exchange codify existing protection features that were not expressly covered in the rules and for market participants to continue to derive the benefits of those protections without interruption. As such, the Exchange believes that waiver of the 30-day operative delay requirements are consistent with the protection of investors and the public interest.

Item 8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or the Commission

Not applicable.

Item 9. Exhibits

Exhibit 1. Form of Notice of Proposed Rule Change for publication in the Federal Register.

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[10] 17 CFR 240.19b-4(f)(6).

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34- ; File No. SR-C2-2012-003)

Dated:____________

Self-Regulatory Organizations; C2 Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Related to Complex Order Price Check Parameter Features

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 _________, 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) of the Act[3] 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 is proposing to amend its complex order processing rules to update existing price check protection features and include some additional ones. 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.

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1 15 U.S.C. 78s(b)(1).

2 17 CFR 240.19b-4.

3 15 U.S.C. 78s(b)(3)(A).

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

The Exchange has in place various price check parameter features that are designed to prevent incoming orders from automatically executing at potentially erroneous prices. These price check parameter features are designed to help maintain a fair and orderly market. The Exchange is proposing to amend its complex order processing rules under Rule 6.13, Complex Order Execution, to update existing price check protection features to provide additional clarity on the operation of the functionality and to include some additional features. The Exchange believes the below-described price check parameter revisions will enhance the existing functionality and assist with the maintenance of fair and orderly markets by helping to mitigate the potential risks associated with an order drilling through multiple price points (thereby resulting in executions at prices that are extreme and potentially erroneous) and complex orders trading at prices that are inconsistent with particular complex order strategies (thereby resulting in executions at prices that are extreme and potentially erroneous).

First, the Exchange is proposing to include descriptive headings in the rule text for each of the existing price check parameters. The Exchange is also proposing to break the description of the existing same expiration strategy price check parameters into two separate paragraphs instead of a single paragraph. We believe these changes will make it easier for users to read and understand the operation of these price protection features. These changes are simply non-substantive formatting changes and do not impact the operation of the various features.

Second, the market width parameter under Rule 6.13.04(a) currently provides that the complex order book ("COB") will not automatically execute eligible complex orders that are market orders if the width between the Exchange's best bid and best offer ("BBO") are not within an acceptable price range. In addition, the rule text currently provides that such market complex orders will be cancelled.

The Exchange is proposing to revise this provision to provide that the Exchange may determine to apply these price check parameters to market orders and/or marketable limit orders. However, whereas market orders that are subject to this price protection feature are cancelled, marketable limit orders would be held in the system. Any such orders held in the system would not be eligible to automatically execute until after the market width parameter condition is resolved. In addition, while being held in the system, such orders would be displayed in the COB as applicable. This functionality for marketable limit order is currently in use but not expressly covered in the rules. The Exchange believes that extending the same price check logic to not automatically execute such marketable limit orders but to continue to hold such orders in the system is reasonable and appropriate because, as with market orders, this feature should help to prevent executions of such limit orders at extreme and potentially erroneous prices. In contrast to market orders, marketable limit orders are able to be held in the system because they have a price associated with them. The Exchange also notes that applying market width price check logic to market orders and/or marketable limit orders is consistent with other existing price check parameters that apply to both market orders and marketable limit complex orders.[5] In addition, the Exchange is proposing to correct a typographical error by changing the minimum acceptable price range specified in the rule text for orders in option series where the bid is less than \$2 from \$0.37 to \$0.375.[6]

Third, the debit-to-credit (credit-to-debit) parameters under Rule 6.13.04(b) currently provide that (i) a market order that would be executed at a net credit price after receiving a partial execution at a net debit price would not be automatically executed (the "debit-to-credit" parameter), and (ii) a market order that would be executed at a net debit price after receiving a partial execution at a net credit price would not be automatically executed (the "credit-to-debit" parameter). The Exchange is proposing to eliminate the debit-to-credit parameter because it not possible for such a scenario to occur and therefore the parameter is unnecessary. (Because orders are executed at the best available price and then the next best price, a market order would never execute at a net debit price then at a net credit price.)

Fourth, the Exchange is proposing to change the existing same expiration strategy price check parameters to distinguish between its application to limit orders and to market

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5 See, e.g., Rule 6.17, Price Check Parameters (which provides, among other things, that the Exchange will not automatically execute eligible orders that are marketable if the width between the national best bid and offer is not within an acceptable price range (as determined by the Exchange on a series by series basis for market orders and/or marketable limit orders and announced to Trading Permit Holders via Regulatory Circular).

6 The \$0.375 amount is same as the acceptable price range parameters set forth in Rule 6.17.

orders. The Exchange is also proposing to eliminate a provision that would make this price check parameter feature available to ratio orders should the Exchange determine to do so. As the term implies, the "same expiration strategy" price protection parameters apply to certain complex order strategies where all the option series have the same expiration.[7] The functionality is designed to detect scenarios where (i) a limit order is entered at a net credit price when it clearly should have been entered at a net debit price (or vice versa) and (ii) a market order would be executed at a net debit price when it clearly should be executed at a net credit price (but not vice versa).[8]

Currently the rule text provides that, if the conditions for this price check parameter exist when a complex order is routed to the COB, then the order will be rejected. The rule text also currently provides that, to the extent the parameters are triggered once an order is resting in COB or after an incoming order receives a partial execution, such a complex order will be cancelled. The provision does not distinguish between limit orders and market orders. The Exchange is proposing to amend the text to separately describe how the two categories of orders are processed.

With respect to limit orders, proposed changes to the text provide that incoming limit orders will be rejected under this parameter only if the conditions exist when the order is first

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7 See Rule 6.13.04(c).

8 A same expiration strategy market order that would result in an execution at a net credit price (i.e., the net sale proceeds from the series being sold are more than the net purchase cost from the series being bought) but that would normally execute at a net debit price (i.e., the net sale proceeds from the series being sold are less than the net purchase cost from the series being bought) would be a favorable execution for the market order and would not trigger this price check parameter. In making the changes to the rule text, the Exchange is correcting a typographical error, which correction clarifies that the same expiration strategy parameter does not apply to market orders that would execute at a net credit.

routed to COB. The provisions about resting orders and partial executions are not applicable to limit orders because incoming limit orders that are priced at a net price that meets the conditions are rejected outright upon routing to COB and never get to the point where they are resting or partially executed. With respect to market orders, proposed changes to the text provide that, to the extent the parameters are triggered when an incoming market order is routed to COB or after an incoming market order is subject to a complex order RFR auction ("COA"), any part of the market order that may be executed within an acceptable price range will be executed automatically and the part of the order that would execute at a net debit price will be cancelled. (A market order would never rest in COB, so that provision will be removed from the rule text.) The following examples illustrate this price check parameter:

Example 1: Assume a complex order to buy 50 Jan 45 XYZ calls and sell 50 Jan 50 XYZ calls is entered with a limit that is a net credit price (i.e., the net sale proceeds from the Jan 50 calls are larger than the net purchase cost from the Jan 45 calls). Such an order would appear to be erroneously priced as a net credit – it should instead be a net debit - because normally a person would expect that the Jan 50 calls would not cost more than the Jan 45 calls. As a result, upon routing to COB, such a limit order would be rejected.

Example 2: Assume a butterfly spread to buy 50 Jan 45 XYZ calls, sell 100 Jan 50 XYZ calls and buy 50 Jan 55 XYZ calls is entered at a net credit price (i.e., the net sale proceeds from the Jan 50 calls are more than the net purchase cost from the Jan 45 and 55 calls). Such an order would appear to be erroneously priced as a net credit – it should instead be a net debit – because normally a person would expect that selling the middle 50 strike would result in less than the cost of buying the upper 55 and lower 45 strikes. As a result, upon routing to COB, such a limit order would be rejected.

Example 3: Assume a market order to buy 50 Jan 45 XYZ calls and sell 50 Jan 40 XYZ calls is entered. Also assume that the Jan 45 XYZ calls are quoted \$4.00 - \$4.10 for 10 contracts and the next available offer is \$4.30 for 100 contracts, and that the Jan 40 XYZ calls are quoted \$4.50 - \$4.60 for 10 contracts and the next available bid is \$4.20 for 100 contracts. Under this scenario, the incoming market order would receive an execution for 10 spreads at a net credit price of \$0.40 each (i.e., the net sale proceeds from the Jan 40 Series are larger than the net purchase cost from the Jan 45 Series). When the series decrement, the net execution price would become a net debit price of $0.10 each (i.e., the net sale proceeds from the Jan 40 Series are less than the net purchase cost from the Jan 45 Series). Such an execution would appear to be erroneous because normally a person in this scenario would expect to execute the vertical spread at a net credit price. As a result, upon routing to COB, 10 contracts would execute at a net credit price of $0.40 each and the remaining 40 contracts would be cancelled.

Example 4: Assume a market order to buy 50 Jan 45 XYZ calls and sell 50 Jan 40 XYZ calls is routed to COA. Also assume that at the end of the COA the Jan 45 XYZ calls are quoted $4.00 - $4.10 for 10 contracts and the next available offer is $4.30 for 100 contracts, and that the Jan 40 XYZ calls are quoted $4.50 - $4.60 for 10 contracts and the next available bid is $4.20 for 100 contracts. To the extent the market order can execute at prices within the price check parameter, then that part of the order would execute (i.e., 10 vertical spreads will execute at a net credit price of $0.40). To the extent that the price check parameters are triggered at the conclusion of COA, then that part of the market order would be cancelled (i.e., 40 vertical spreads will cancel).

As noted above, the Exchange is also proposing to delete a provision in the rule that provides that the Exchange may determine to make the same expiration strategy price check parameters available to applicable ratio orders (as such applicable ratios are determined by the Exchange on a class-by-class basis). The Exchange has not activated this feature for ratio orders and has no intention to do so at this time. Therefore, the Exchange is proposing to delete this provision from the rule at this time.[9]

Finally, fifth, the Exchange is proposing to codify a price check parameter for orders processed via COA, which is currently in use but not expressly covered in the rules. Specifically, the Exchange may determine on a class-by-class basis (and announce via Regulatory Circular) that COA will not automatically execute a COA-eligible order that is

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9 In the future, should the Exchange would determine to apply this price check parameter feature to ratio orders, the Exchange would address it through a separate rule change filing.

marketable if the execution would be at a price that is not within an acceptable percentage distance from the derived net price of the individual series legs at the start of COA. For purposes of this provision, the "acceptable percentage distance" will be a percentage determined by the Exchange on a class-by-class basis and it shall be not less than 3 percent. The Exchange believes a 3 percent level is reasonable and appropriate because a marketable order that would deviate from the derived net market by that percentage or more may be indicative of an extreme or potentially erroneous price, and a broker would generally want to evaluate the order further before receiving an automatic execution. The Exchange also believes that a 3 percent minimum is reasonable and appropriate in comparison to other price check parameters it currently has available.[10] To the extent the parameters under this provision are triggered, such a complex order will be cancelled.

For example, the Exchange could determine that the acceptable percentage distance is 5%. Assume at the start of COA the individual leg market in Series A is $1.00 - $1.20 and in series B is $2.00 - $2.20 and the derived leg market is $0.80 (net debit) - $1.20 (net credit). The acceptable percentage distance would be $0.04 (5% X $0.80) for orders to buy Series A and sell series B and $0.06 (5% X $1.20) for orders to sell Series A and buy series B. As a result, COA would execute a COA-eligible order at prices ranging from $0.84 (net debit) - $1.26 (net credit), but not an order priced at a net debit of $0.85 or more or a net credit of $1.27 or more.

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10 The "acceptable percentage distance" price check parameter for complex orders is adapted from the "acceptable tick distance" parameter set forth in Rule 6.17, which provides that the acceptable tick distance shall not be less than 2 minimum increment ticks.

2. Statutory Basis

The proposed rule change is consistent with Section 6(b) of the Act[11] in general and furthers the objectives of Section 6(b)(5) of the Act[12] in particular in that 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. The Exchange believes the complex order price check parameters assist in the automatic execution and processing of orders that are subject to the Exchange's complex order processing. The Exchange also believes these price check parameters assist with the maintenance of fair and orderly markets by helping to mitigate the potential risks associated with complex orders drilling through multiple price points (thereby resulting in executions at prices that are extreme and potentially erroneous) and complex orders trading at prices that are inconsistent with particular complex order strategies (thereby resulting in executions at prices that are extreme and potentially erroneous). In this regard, for example, the Exchange notes that the acceptable percentage distance parameter is designed to mitigate the potential risks of executions at prices that are not within an acceptable percentage distance from the derived net market price of the individual series legs. The Exchange also notes that the extension of the BBO market width logic to include marketable limit orders is designed to help prevent executions of such limit orders at extreme and potentially erroneous prices in a manner consistent with the existing logic utilized for market orders. The Exchange also believes that the proposed changes to the rule text will make it easier for users to read and understand the operation of the price check parameters, and will better and more

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11 15 U.S.C. 78f(b).

12 15 U.S.C. 78f(b)(5).

fully describe the operation of the parameters.

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 Act[13] and Rule 19b-4(f)(6) thereunder.[14] At any time within 60 days of 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

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13 15 U.S.C. 78s(b)(3)(A).

14 17 CFR 240.19b-4(f)(6).

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-C2-2012-003 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-C2-2012-003. 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, 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 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-C2-2012-003 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.[15]

Elizabeth M. Murphy
Secretary

Dated: ________________________

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15 17 CFR 200.30-3(a)(12).