

## OMB APPROVAL

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Required fields are shown with yellow backgrounds and asterisks.

Page 1 of \* 16

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

File No.\* SR - 2012 - \* 005

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) \*



Rule

Pilot



Extension of Time Period  
for Commission Action \*



Date Expires \*

☐ 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 \*).

Proposed rule change to amend C2's rules to incorporate violations of C2's Market-Maker continuous quoting obligations into its Minor Rule Violation Plan.

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 \* Laura

Last Name \* Dickman

Title \* Attorney/Assistant Secretary

E-mail \* dickman@cboe.com

Telephone \* (312) 786-7572

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 01/26/2012

By Laura Dickman

(Name \*)

Attorney/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.

Laura Dickman dickman@cboe.com

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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

**Form 19b-4 Information (required)**

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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)**

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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**

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Exhibit Sent As Paper Document

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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

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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**

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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**

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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**

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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 the Proposed Rule Change

(a) C2 Options Exchange, Incorporated (the “Exchange” or “C2”) 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 provided below:

\* \* \* \* \*

(additions are underlined; deletions are [bracketed])

**C2 Options Exchange, Incorporated  
Rules**

\* \* \* \* \*

**CHAPTER 17  
Discipline**

The rules contained in CBOE Chapter XVII, as such rules may be in effect from time to time, shall apply to C2 and are hereby incorporated into this Chapter. C2 Participants shall comply with CBOE Chapter XVII as if such rules were part of the C2 Rules. Unless the context dictates otherwise, the following terms, or any variations of these terms, from CBOE Chapter XVII shall have the following meanings for purposes of this Chapter: “Exchange” and “CBOE” shall mean C2; “Trading Permit Holder” (i.e., CBOE Trading Permit Holder) shall mean “Permit Holder”; “Trading Permit Holders” shall mean “Permit Holders”; and “Clearing Trading Permit Holder” shall mean “Clearing Participant.”

Notwithstanding the above paragraph, with respect to its applicability to C2 only, CBOE Rule 17.50(g)(14) will be replaced in its entirety with the following:

**(14) Failure to Meet C2 Quoting Obligations**

A fine shall be imposed upon a Market-Maker or Preferred Market-Maker (as applicable) in accordance with the fine schedule set forth below for failure to meet its continuous quoting obligations (Rule 8.5(a)(1) and Rule 8.13(d)).

**Number of Offenses in Any Rolling Twenty-Four Month Period**

**Fine Amount**

1st Offense

\$2,000 to \$4,000

2nd Offense

\$4,000 to \$5,000

Subsequent Offenses

\$5,000 or Referral to Business  
Conduct Committee

\* \* \* \* \*

(b) Not applicable.

(c) Not applicable.

Item 2. Procedures of the Self-Regulatory Organization

(a) C2's Office of the Chairman pursuant to delegated authority approved the proposed rule change on December 8, 2011.

(b) Please refer questions and comments on the proposed rule change to Joanne Moffic-Silver, Executive Vice President, General Counsel and Corporate Secretary, (312) 786-7462, or Laura Dickman, (312) 786-7572, Chicago Board Options Exchange, Incorporated, 400 South LaSalle, Chicago, Illinois 60605.

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

(a) 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>1</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.

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<sup>1</sup> See CBOE Rule 17.50(g)(14).

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 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>2</sup>

(b) Statutory Basis

The Exchange believes the proposed rule change is consistent with the requirements of the Securities Exchange Act of 1934 (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>3</sup> Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>4</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 promote consistency in the minor rule violation programs and reporting obligations of option exchanges.

Item 4. 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

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<sup>2</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>3</sup> 15 U.S.C. 78f(b).

<sup>4</sup> 15 U.S.C. 78f(b)(5).

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>5</sup>

Item 5. 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.

Item 6. Extension of Time Period for Commission Action

C2 does not consent to an extension of the time period specified in Section 19(b)(2) of the Act for Commission consideration of the proposed rule change.

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<sup>6</sup> and Rule 19b-4(f)(6)<sup>7</sup>.

(b) The Exchange asserts that the proposed rule change effects a change that (i) does not significantly affect the protection of investors or the public interest; (ii) does not impose any significant burden on competition; and (iii) by its terms, does not become operative for 30 days after the date of the filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest. This filing does not propose any new or novel rule concepts; it simply proposes to incorporate violations of C2's Market-Maker continuous quoting obligations into its Minor Rule Violation Plan, similar to other self-regulatory organizations.<sup>8</sup> Additionally, the

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<sup>5</sup> See supra note 2.

<sup>6</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>7</sup> 17 CFR 240.19b-4(f)(6).

<sup>8</sup> See supra note 2.

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, at least five business days prior to the date of filing of the proposed rule change as required by Rule 19b-4(f)(6) under the Act.<sup>9</sup>

For the foregoing reasons, this rule filing qualifies for immediate effectiveness as a “non-controversial” rule change under Rule 19b-4(f)(6) under the Act.

(c) Not applicable.

(d) Not applicable.

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

The minor rule violation plan of each of CBOE, BOX, NYSE Amex and NYSE Arca similarly imposes sanctions on their market-makers for violations of their respective continuous quoting obligations and provides that the exchange may take other disciplinary action with respect to any violations.<sup>10</sup> This proposed rule change is identical to CBOE’s minor rule violation plan with respect to market-maker continuous quoting obligations, with the minor exception that CBOE’s plan provides that third and subsequent offenses will be referred to its business conduct committee, while C2 is proposing that it may either fine a Market-Maker \$5,000 for a third or subsequent offense or refer that offense to its Business Conduct Committee. NYSE Amex and NYSE Arca use a rolling 24-month look-back period, as C2 is proposing, but have different fine amounts.<sup>11</sup> BOX also uses a rolling 24-month look-back period, but imposes a daily fine.<sup>12</sup>

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<sup>9</sup> 17 CFR 240.19b-4(f)(6).

<sup>10</sup> See *supra* note 2.

<sup>11</sup> NYSE Amex imposes the following fines: first offense – \$500 (individual) or \$1,000 (organization); second offense – \$1,000 (individual) or \$2,500 (organization); and subsequent offenses – \$2,500 (individual) or \$5,000 (organization). NYSE Arca imposes



Item 9.        Exhibits

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

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the following fines: first offense – \$1,000, second offense – \$2,500, and third offense – \$3,500.

<sup>12</sup> For two or more cumulative violations within the previous 24-month period, BOX imposes a fine of \$300 for each day during which a violation occurs and continues up to fifteen consecutive trading days.

EXHIBIT 1

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

Dated: \_\_\_\_\_

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 [insert date], 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, II and III 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.

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

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

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 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

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

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 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,

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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).

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 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.

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

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

### 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 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.

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

<sup>9</sup> 17 CFR 240.19b-4(f)(6).

Paper comments:

- Send paper comments in triplicate to 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 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 inspection and copying 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 C2. 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>

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

Secretary