

## OMB APPROVAL

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 hours per response.....38

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 - \* 006

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 \* ☐

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

☐ I am not a self-regulatory organization.

☐ I am not a self-regulatory organization.

### Description

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

This filing modifies the C2 AIM system.

### 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 \* Angelo Last Name \* Evangelou  
 Title \* Assistant General Counsel  
 E-mail \* evangelou@cboe.com  
 Telephone \* (312) 786-7464 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 01/31/2012

By Angelo Evangelou

(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.

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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)**

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)**

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**

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**

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**

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**

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**

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 (“C2” or “Exchange”) proposes to amend C2 Rule 6.51 related to its Automated Improvement Mechanism (“AIM”). The text of the proposed rule change is provided below (additions are underlined and deletions are [bracketed]).<sup>1</sup>

\* \* \* \* \*

C2 OPTIONS EXCHANGE, INCORPORATED

RULES

\* \* \* \* \*

**Rule 6.51. Automated Improvement Mechanism (“AIM”)**

Notwithstanding the provisions of Rule 6.50, a Participant that represents agency orders may electronically execute an order it represents as agent (“Agency Order”) against principal interest or against a solicited order provided it submits the Agency Order for execution into the AIM auction (“Auction”) pursuant to this Rule.

(a) No change.

(b) Auction Process. Only one Auction may be ongoing at any given time in a series and Auctions in the same series may not queue or overlap in any manner. The Auction may not be cancelled and shall proceed as follows:

(1) Auction Period and Request for Responses (RFRs).

(A) To initiate the Auction, the Initiating Participant must mark the Agency Order for Auction processing, and specify (i) a single price at which it seeks to cross the Agency Order (with principal interest or a solicited order) (a “single-price submission”), including whether the Initiating Participant elects to have last priority in allocation, or (ii) that it is willing to automatically match as principal the price and size of all Auction responses (“auto-match”) in which case the Agency Order will be stopped at the NBBO (if 50 contracts or greater) or one cent/one minimum increment better than the NBBO (if less than 50 contracts). Once the Initiating Participant has submitted an Agency Order for processing

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<sup>1</sup> This proposed rule change text does not include proposed changes to Rule 6.51 contained in a separate pending rule filing. See SR-C2-2011-043 (proposal to (a) allow Participants to enter orders they represent as agent for fewer than 50 contracts into AIM at the national best bid or offer; (b) allow Participants that initiate an Auction to designate a limit price if it elects to automatically match the price and size of all Auction responses (“auto-match”); and (c) eliminate the restriction that only market-makers with an appointment in the relevant option class may submit responses to a Request for Responses for an Agency Order in an Auction.).

pursuant to this subparagraph, such submission may not be modified or cancelled.

(B) - (I) No changes.

(2) No change.

(3) Order Allocation. At the conclusion of the Auction, the Agency Order will be allocated at the best price(s) pursuant to the matching algorithm in effect for the class subject to the following:

(A) – (I) No change.

(J) If the Initiating Participant elected to have last priority in allocation when submitting an Agency Order to initiate an Auction against a single-price submission, the Initiating Participant will be allocated only the amount of contracts remaining, if any, after the Agency Order is allocated to all other responses at the single price specified by the Initiating Participant.

If an unexecuted balance remains on the Auction responses after the Agency Order has been executed and such balance could trade against any unrelated order(s) that caused the Auction to conclude, then the RFR balance will trade against the unrelated order(s).

**...Interpretations and Policies:**

**.01 - .09** No change.

\* \* \* \* \*

(b) Not applicable.

(c) Not applicable.

**Item 2. Procedures of the Self-Regulatory Organization**

(1) The proposed rule change was approved by the Exchange's Office of the Chairman pursuant to delegated authority on December 22, 2011.

(2) Questions and comments on the proposed rule change may be referred to Joanne Moffic-Silver, 400 South LaSalle Street, Chicago, Illinois 60605; Telephone: (312) 786-7462; Fax: (312) 786-7919 or Angelo Evangelou at 312-786-7464.

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

## (a) Purpose.

The purpose of this proposed rule change is to amend C2 Rule 6.51 to permit an Initiating Participant to elect to have last priority in AIM's order allocation. AIM allows a Participant to submit an Agency Order along with a contra-side second order (a principal order or a solicited order for the same size as the Agency Order) into an Auction where other participants could compete with the Initiating Participant's second order to execute against the Agency Order, which guarantees that the Agency Order will receive an execution.<sup>2</sup> Initiating Participants must submit the Agency Order at the better of the NBBO or the Agency Order's limit price (if the order is a limit order).<sup>3</sup> Once an Auction commences, the Initiating Participant cannot cancel it.<sup>4</sup> Upon receipt of an Agency Order (and the Initiating Participant's second order), the Exchange will commence the Auction by issuing an RFR detailing the side and size of the Agency Order. The RFR period will last for one (1) second.<sup>5</sup> At the conclusion of an Auction, an Agency Order will be allocated at the best price(s) in accordance with the applicable matching algorithm rules for that class, subject to the allocation provisions of Rule 6.51(b)(3).

Under this proposal, when submitting an Agency Order to initiate an Auction against a single-price submission, the Initiating Participant will have the opportunity to elect to have last priority in AIM's order allocation. If the Initiating Participant makes this election, the Initiating Participant would be allocated only the amount of contracts remaining, if any, after the Agency Order is allocated to all other Auction participants willing to trade with the Agency Order at the single-price submission price.<sup>6</sup> If it makes this

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<sup>2</sup> See C2 Rule 6.51.

<sup>3</sup> See C2 Rule 6.51(a)(2).

<sup>4</sup> See C2 Rule 6.51(b)(1)(A).

<sup>5</sup> See C2 Rule 6.51(b)(1). Several types of events will cause an Auction to conclude. See C2 Rule 6.51(b)(2).

<sup>6</sup> The Exchange notes that Chapter V, Section 18(f)(v), The Price Improvement Period ("PIP"), of the Rules of the Boston Exchange Group, LLC includes a similar provision that permits an options participant initiating a PIP auction to designate a lower amount for which it will retain certain priority and trade allocation privileges upon the conclusion of the PIP auction than the 40% of the PIP order to which the initiating options participant is otherwise entitled pursuant to PIP's allocation order.

election, the Initiating Participant may not be allocated any contracts, or may be allocated fewer contracts than it would otherwise receive pursuant to Rule 6.51(b)(3)(F) (generally 40%).

As an example, suppose an Initiating Participant submits to an Auction an Agency Order for 1,000 contracts and makes the election described above:

- if at the conclusion of the Auction, other Auction participants are willing to trade with 800 of these contracts at the single-price submission price or better price(s) resulting from the Auction, then the Initiating Participant will be allocated the remaining 200 contracts (or 20%) for execution against its contra-side order at its specified single price.
- if at the conclusion of the Auction, other Auction participants are willing to trade with 600 of these contracts at the single-price submission price or better price(s) resulting from the Auction, then the Initiating Participant will be allocated the remaining 400 contracts (or 40%) for execution against its contra-side order at its specified single price.
- if at the conclusion of the Auction, other Auction participants are willing to trade with 400 of these contracts at the single-price submission price or better price(s) resulting from the Auction, then the Initiating Participant will be allocated 600 contracts for execution against its contra-side order at its specified single price.
- if at the conclusion of the Auction, other Auction participants are willing to trade with the entire Agency Order at the single-price submission price or

better price(s) resulting from the Auction, then the Initiating Participant will be allocated no contracts.

Under this proposal, Agency Orders submitted to AIM will continue to be guaranteed execution at a price at least as good as the NBBO while providing the opportunity for execution at a price better than the NBBO.

The Exchange believes this proposal will incent more Participants to initiate Auctions, because the additional flexibility encourages increased participation by Participants willing to trade with Agency Orders at the NBBO but not at a price better than the NBBO and by Participants willing to facilitate and stop a customer order at a particular price even when there is not a desire to trade against any or all of the customer order. Additionally, this proposal provides the possibility that other Participants may receive increased order allocations through AIM, which the Exchange believes could increase participation in Auctions. The Exchange believes that this proposal may ultimately provide additional opportunities for price improvement over the NBBO for its customers.

(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 a national securities exchange and, in particular, the requirements of Section 6(b) of the Act<sup>7</sup>. Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>8</sup> requirements that the rules of an exchange be designed to promote just and equitable principles of trade, to prevent

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<sup>7</sup> 15 U.S.C. 78f(b).

<sup>8</sup> 15 U.S.C. 78f(b)(5).

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, the Exchange believes this proposed rule change is a reasonable modification designed to provide additional flexibility for Participants to obtain executions on behalf of their customers while continuing to provide meaningful, competitive Auctions. The Exchange also believes that the proposed rule change will increase the number of and participation in Auctions, which will ultimately enhance competition in the AIM Auctions and provide customers with additional opportunities for price improvement.

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

The Exchange does not consent to an extension of the time period specified in Section 19(b)(2) of the Act<sup>9</sup> 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)

Not applicable.



Item 8.        Proposed Rule Change Based on Rules or By-Laws of Another Self-Regulatory Organization or of 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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<sup>9</sup>        15 U.S.C. 78s(b)(2).

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34- ; File No. SR-C2-2012-006)

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

Self-Regulatory Organizations; C2 Options Exchange, Incorporated; Notice of Filing of a Proposed Rule Change Relating to its Automated Improvement Mechanism

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], 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 relating to its Automated Improvement Mechanism (“AIM”). The text of the proposed rule change is available on the Exchange’s Web site (<http://www.c2exchange.com>), at the Exchange’s Office of the Secretary, and at the Commission.

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

In its filing with the Commission, the self-regulatory organization 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 these statements may

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

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

be examined at the places specified in Item IV below. The self-regulatory organization 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

The purpose of this proposed rule change is to amend C2 Rule 6.51 to permit an Initiating Participant to elect to have last priority in AIM's order allocation. AIM allows a Participant to submit an Agency Order along with a contra-side second order (a principal order or a solicited order for the same size as the Agency Order) into an Auction where other participants could compete with the Initiating Participant's second order to execute against the Agency Order, which guarantees that the Agency Order will receive an execution.<sup>3</sup> Initiating Participants must submit the Agency Order at the better of the NBBO or the Agency Order's limit price (if the order is a limit order).<sup>4</sup> Once an Auction commences, the Initiating Participant cannot cancel it.<sup>5</sup> Upon receipt of an Agency Order (and the Initiating Participant's second order), the Exchange will commence the Auction by issuing an RFR detailing the side and size of the Agency Order. The RFR period will last for one (1) second.<sup>6</sup> At the conclusion of an Auction, an Agency Order will be allocated at the best price(s) in accordance with the applicable matching algorithm rules for that class, subject to the allocation provisions of Rule 6.51(b)(3).

Under this proposal, when submitting an Agency Order to initiate an Auction against a single-price submission, the Initiating Participant will have the opportunity to elect

<sup>3</sup> See C2 Rule 6.51.

<sup>4</sup> See C2 Rule 6.51(a)(2).

<sup>5</sup> See C2 Rule 6.51(b)(1)(A).

<sup>6</sup> See C2 Rule 6.51(b)(1). Several types of events will cause an Auction to conclude. See C2 Rule 6.51(b)(2).

to have last priority in AIM's order allocation. If the Initiating Participant makes this election, the Initiating Participant would be allocated only the amount of contracts remaining, if any, after the Agency Order is allocated to all other Auction participants willing to trade with the Agency Order at the single-price submission price.<sup>7</sup> If it makes this election, the Initiating Participant may not be allocated any contracts, or may be allocated fewer contracts than it would otherwise receive pursuant to Rule 6.51(b)(3)(F) (generally 40%).

As an example, suppose an Initiating Participant submits to an Auction an Agency Order for 1,000 contracts and makes the election described above:

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- if at the conclusion of the Auction, other Auction participants are willing to trade with the entire Agency Order at the single-price submission price or better price(s) resulting from the Auction, then the Initiating Participant will be allocated no contracts.

Under this proposal, Agency Orders submitted to AIM will continue to be guaranteed execution at a price at least as good as the NBBO while providing the opportunity for execution at a price better than the NBBO.

The Exchange believes this proposal will incent more Participants to initiate Auctions, because the additional flexibility encourages increased participation by Participants willing to trade with Agency Orders at the NBBO but not at a price better than the NBBO and by Participants willing to facilitate and stop a customer order at a particular price even when there is not a desire to trade against any or all of the customer order. Additionally, this proposal provides the possibility that other Participants may receive increased order allocations through AIM, which the Exchange believes could increase participation in Auctions. The Exchange believes that this proposal may ultimately provide additional opportunities for price improvement over the NBBO for its customers.

## 2. 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 a national securities exchange and, in particular, the requirements of Section 6(b) of the Act<sup>8</sup>. Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>9</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, the Exchange believes this proposed rule change is a reasonable modification designed to provide additional flexibility for Participants to obtain executions on behalf of their customers while continuing to provide meaningful, competitive Auctions. The Exchange also believes that the proposed rule change will increase the number of and participation in Auctions, which will ultimately enhance competition in the AIM Auctions and provide customers with additional opportunities for price improvement.

### 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.

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<sup>8</sup> 15 U.S.C. 78f(b).

<sup>9</sup> 15 U.S.C. 78f(b)(5).

C. 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.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will: (A) by order approve or disapprove such proposed rule change, or (B) institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the 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-C2-2012-006 on the subject line.

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-C2-2012-006). 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 website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the principal office of the 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-C2-2012-006 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>

Secretary

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