

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

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

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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

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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 order routing rules. The text of the proposed rule change is provided below.

(additions are underlined; deletions are [bracketed])

* * * * *

C2 Options Exchange, Incorporated

Rules

* * * * *

Rule 6.36. Order Routing to Other Exchanges

The Exchange may automatically route intermarket sweep orders to other exchanges under certain circumstances. In connection with such services, the following shall apply:

(a) Routing services will be provided in conjunction with one or more routing brokers that are not affiliated with the Exchange. For each routing broker used by the Exchange, an agreement will be in place between the Exchange and the routing broker that will, among other things, restrict the use of any confidential and proprietary information that the routing broker receives to legitimate business purposes necessary for routing orders at the direction of the Exchange.

(b) The Exchange shall establish and maintain procedures and internal controls reasonably designed to adequately restrict the flow of confidential and proprietary information between the Exchange and the routing broker, and any other entity, including any affiliate of the routing broker, and, if the routing broker or any of its affiliates engages in any other business activities other than providing routing services to the Exchange, between the segment of the routing broker or affiliate that provides the other business activities and the segment of the routing broker that provides the routing services.

(c) The Exchange may not use a routing broker for which the Exchange or any affiliate of the Exchange is the designated examining authority.

(d) The Exchange will provide its routing services in compliance with the provisions of the Act and the rules thereunder, including, but not limited to, the requirements in Section 6(b)(4) and (5) of the Act that the rules of a national securities exchange provide for the equitable allocation of reasonable dues, fees, and other charges among its members and issuers and other persons using its facilities, and not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

(e) For all routing services, the Exchange will determine the logic that provides when, how, and where orders are routed away to other exchanges.

(f) The routing broker will receive routing instructions from the Exchange, to route orders to other exchanges and report such executions back to the Exchange. The routing broker cannot change the terms of an order or the routing instructions, nor does the routing broker have any discretion about where to route an order.

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

... Interpretations and Policies:

.01 Rule 6.36 does not prohibit a routing broker from designating a preferred market-maker at the other exchange to which the order is being routed pursuant to Rule 6.36.

* * * * *

(b) Not applicable.

(c) Not applicable.

Item 2. Procedures of the Self-Regulatory Organization

(a) The Exchange's President pursuant to delegated authority approved the proposed rule change on September 9, 2012.

(b) Please refer questions and comments on the proposed rule change to Joanne Moffic-Silver, (312) 786-7462, or Laura Dickman, (312) 786-7572, C2 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

Rule 6.36 governs the Exchange's process for routing sweep orders to other markets pursuant to intermarket linkage rules and states that the Exchange may contract with one or more routing brokers that are not affiliated with the Exchange to route sweep orders to other exchanges. The Rule imposes certain obligations on the Exchange and routing brokers. In particular, Rule 6.36(e) provides that the Exchange will determine the logic that provides when, how and where orders are routed away to other exchanges.

Additionally, Rule 6.36(f) provides that a routing broker cannot change the terms of an order or the routing instructions, nor does the routing broker have any discretion about where to route an order.

The proposed rule change adds Interpretation and Policy .01 to Rule 6.36 to clarify that the Rule does not prohibit a routing broker from designating a preferred market-maker (or equivalent market participant) at the other exchange to which an outbound sweep order is being routed. The proposed rule change has no impact on customer orders, which receive the same level of order protection and trade at the best market prices regardless of whether the routing broker designates a preferred market-maker recipient at the destination exchange. The Exchange still makes the sole determination as to which exchange an order will be routed, as well as when and how the order will be routed. Additionally, routing brokers are still prohibited from changing the terms of an order or the Exchange's routing instructions and still have no discretion about to which exchange an order will be routed.

The proposed rule change merely clarifies that a routing broker may indicate which market-maker at the away exchange may trade against the routed order in accordance with the order terms and the Exchange's routing instructions. In other words, if a routing broker preferences a customer order that is to be routed to another exchange, the order is not handled any differently by the routing broker than if the routing broker did not preference the order.¹ Further, the order is executed at the same exchange and at the same price and in accordance with the same order terms as it would if the routing broker did not preference the

¹ The Exchange notes that orders that may be routed to other exchanges under Rule 6.36 are all immediate-or-cancel orders. Therefore, routed orders would not be subject to any automated price improvement mechanisms that may exist under other exchanges' rules.

order. Therefore, the proposed rule change does not disadvantage customers in any way. The Exchange believes that other exchanges allow this practice and that its routing brokers should be able to do the same.

(b) Statutory Basis

The Exchange believes the proposed rule change is consistent with 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.² Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)³ 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 proposed rule change helps remove impediments to and perfect the mechanism for a free and open market and a national market system because it still provides customer order protection and facilitates trading at away exchanges so that customer orders trade at the best market prices. Additionally, customer orders still trade in compliance with the Exchange’s routing instructions in accordance with the Options Order Protection and Locked/Crossed Market Plan. The proposed rule change also protects investors and the public interest because it clarifies in the rules an existing practice of the Exchange’s routing brokers, which the Exchange believes other exchanges allow their routing brokers to do as well. Finally, codifying this practice in the Rules

² 15 U.S.C. 78f(b).

³ 15 U.S.C. 78f(b)(5).

provides additional transparency to Trading Permit Holders regarding routing of their orders to away 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 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

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 for Securities and Exchange Commission action on the proposed rule change specified in Section 19(b)(2) of the Act⁴.

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 Act⁵ and Rule 19b-4(f)(6)⁶ thereunder.

(b) The Exchange designates 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 Securities and Exchange Commission (the “Commission”) may designate if consistent with the protection of investors and the public interest. Additionally, the Exchange has given the Commission written notice of its intent to file the proposed rule change, along with a

⁴ 15 U.S.C. 78s(b)(2).

⁵ 15 U.S.C. 78s(b)(3)(A).

⁶ 17 CFR 240.19b-4(f)(6).

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.

The proposed rule change is a codification of a current practice that routing brokers may preference a routed customer order. The proposed rule change merely clarifies that Rule 6.36 does not prohibit this practice. The proposed rule change does not change how a customer order is handled, nor does it disadvantage customers in any way. The Exchange still makes the sole determination as to which exchange an order will be routed, as well as when and how the order will be routed. Additionally, routing brokers are still prohibited from changing the terms of an order or the Exchange's routing instructions and still have no discretion about to which exchange an order will be routed. Therefore, under the proposed rule change, a routed customer order is handled in the same manner, and will trade at the best price and in accordance with the order terms, regardless of whether a routing broker preferences the order. This preference simply identifies which market-maker at the away exchange may trade against the order.

For the foregoing reasons, this rule filing qualifies as a "non-controversial" rule change under Rule 19b-4(f)(6), which renders the proposed rule change effective upon filing with the Commission.

(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 proposed rule change is not based on the rules of another self-regulatory organization.

Item 9. Exhibits

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

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34- ; File No. SR-C2-2012-035]

Self-Regulatory Organizations; C2 Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to Order Routing Rules

[Insert date]

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 [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 order routing rules. The text of the proposed rule change is available on the Exchange’s Web site (<http://www.c2exchange.com/Legal/>), at the Exchange’s Office of the Secretary, and at the Commission.

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

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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

Rule 6.36 governs the Exchange's process for routing sweep orders to other markets pursuant to intermarket linkage rules and states that the Exchange may contract with one or more routing brokers that are not affiliated with the Exchange to route sweep orders to other exchanges. The Rule imposes certain obligations on the Exchange and routing brokers. In particular, Rule 6.36(e) provides that the Exchange will determine the logic that provides when, how and where orders are routed away to other exchanges. Additionally, Rule 6.36(f) provides that a routing broker cannot change the terms of an order or the routing instructions, nor does the routing broker have any discretion about where to route an order.

The proposed rule change adds Interpretation and Policy .01 to Rule 6.36 to clarify that the Rule does not prohibit a routing broker from designating a preferred market-maker (or equivalent market participant) at the other exchange to which an outbound sweep order is being routed. The proposed rule change has no impact on customer orders, which receive the same level of order protection and trade at the best market prices regardless of whether the routing broker designates a preferred market-maker recipient at the destination exchange. The Exchange still makes the sole determination as to which exchange an order will be routed, as well as when and how the order will be routed. Additionally, routing brokers are still prohibited from changing the

terms of an order or the Exchange's routing instructions and still have no discretion about to which exchange an order will be routed.

The proposed rule change merely clarifies that a routing broker may indicate which market-maker at the away exchange may trade against the routed order in accordance with the order terms and the Exchange's routing instructions. In other words, if a routing broker preferences a customer order that is to be routed to another exchange, the order is not handled any differently by the routing broker than if the routing broker did not preference the order.³ Further, the order is executed at the same exchange and at the same price and in accordance with the same order terms as it would if the routing broker did not preference the order. Therefore, the proposed rule change does not disadvantage customers in any way. The Exchange believes that other exchanges allow this practice and that its routing brokers should be able to do the same.

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the Act and the rules and regulations thereunder applicable to the Exchange and, in particular, the requirements of Section 6(b) of the Act.⁴ Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)⁵ 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

³ The Exchange notes that orders that may be routed to other exchanges under Rule 6.36 are all immediate-or-cancel orders. Therefore, routed orders would not be subject to any automated price improvement mechanisms that may exist under other exchanges' rules.

⁴ 15 U.S.C. 78f(b).

⁵ 15 U.S.C. 78f(b)(5).

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 proposed rule change helps remove impediments to and perfect the mechanism for a free and open market and a national market system because it still provides customer order protection and facilitates trading at away exchanges so that customer orders trade at the best market prices. Additionally, customer orders still trade in compliance with the Exchange's routing instructions in accordance with the Options Order Protection and Locked/Crossed Market Plan. The proposed rule change also protects investors and the public interest because it clarifies in the rules an existing practice of the Exchange's routing brokers, which the Exchange believes other exchanges allow their routing brokers to do as well. Finally, codifying this practice in the Rules provides additional transparency to Trading Permit Holders regarding routing of their orders to away 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 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 proposed rule change.

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

Because the foregoing proposed rule change does not:

- A. significantly affect the protection of investors or the public interest;
- B. impose any significant burden on competition; and

C. become operative for 30 days from 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)⁶ of the Act and Rule 19b-4(f)(6)⁷ thereunder.

At any time within 60 days of the filing of this 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. Please include File Number SR-C2-2012-035 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-C2-2012-035. This file number should be included on the subject line if e-mail is used. To help the Commission process

⁶ 15 U.S.C. 78s(b)(3)(A).

⁷ 17 CFR 240.19b-4(f)(6).

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, D.C. 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 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-C2-2012-035 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.⁸

Secretary

⁸ 17 CFR 200.30-3(a)(12).