

Required fields are shown with yellow backgrounds and asterisks.

Filing by C2 Options Exchange, Incorporated  
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial * <input checked="" type="checkbox"/>	Amendment * <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input type="checkbox"/>	Section 19(b)(3)(A) * <input checked="" type="checkbox"/>	Section 19(b)(3)(B) * <input type="checkbox"/>
			Rule		
Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input checked="" type="checkbox"/> 19b-4(f)(6)	

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010	Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934
Section 806(e)(1) <input type="checkbox"/>	Section 806(e)(2) <input type="checkbox"/>
	Section 3C(b)(2) <input type="checkbox"/>

Exhibit 2 Sent As Paper Document <input type="checkbox"/>	Exhibit 3 Sent As Paper Document <input type="checkbox"/>
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**Description**

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

The Exchange is proposing to modify its rules to address certain option order handling procedures.

**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 action.

First Name \* Megan R. Last Name \* Malone

Title \* Attorney

E-mail \* malone@cboe.com

Telephone \* (312) 786-7304 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.

(Title \*)

Date 07/25/2013

By Megan R. Malone

Attorney

Megan R. Malone, malone@cboe.com

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.

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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

**Form 19b-4 Information \***

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 \***

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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 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies**

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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, security-based swap submission, or advance notice 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 modify its rules to address certain option order handling procedures on the Exchange after the implementation of the market wide equity Plan to Address Extraordinary Market Volatility (the “Plan”). The text of the proposed rule change is provided in Exhibit 5.

(b) Not applicable.

(c) Not applicable.

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

(a) The Exchange’s President (or designee) pursuant to delegated authority approved the proposed rule change on April 12, 2013.

(b) Please refer questions and comments on the proposed rule change to Joanne Moffic-Silver, (312) 786-7462, or Megan R. Malone, (312) 786-7304, 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

In an attempt to address extraordinary market volatility in NMS Stock, and, in particular, events like the severe volatility on May 6, 2010, the Exchange, in conjunction with the other national securities exchanges and the Financial Industry Regulatory Authority, Inc. (collectively, “Participants”) drafted the Plan pursuant to Rule 608 of Regulation NMS and under the Securities Exchange Act of 1934 (the “Act”).<sup>1</sup> The Plan is primarily designed to, among other things, address extraordinary market volatility in NMS stocks, protect investors, and promote fair and orderly markets. The Plan provides

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<sup>1</sup> See Securities Exchange Act Release No. 64547 (May 25, 2011), 76 FR 31647 (June 1, 2011)(File No. 4-631).

for market-wide limit up-limit down requirements that prevent trades in individual NMS Stocks from occurring outside of specified price bands, as defined in Section I(N) of the Plan. These requirements are coupled with trading pauses, as defined in Section I(Y) of the Plan, to accommodate more fundamental price moves (as opposed to erroneous trades or monetary gaps of liquidity).

The Plan was filed on April 5, 2011 by the Participants for publication and comment.<sup>2</sup> The Participants requested the Commission approve the Plan as a one-year pilot. On May 24, 2012, the Participants filed an amendment to the Plan which clarified, among other things, the calculation of the reference price, as defined in Section I(T) of the Plan, potential for order type exemption, and the creation of an Advisory Committee.<sup>3</sup> On May 31, 2012, the Commission approved the Plan, as amended, on a one-year pilot basis.<sup>4</sup> The Plan was implemented on April 8, 2013.

Though the Plan was primarily designed for equity markets, the Exchange believed it would impact the options markets as well. Thus, the Exchange filed rule changes to amend the Exchange rules to ensure the option markets are not compromised as a result of the Plan's implementation.<sup>5</sup> The Exchange is proposing to amend these rules to clarify how the openings will operate on the Exchange in the event of a limit up-limit down state.

The current rule 6.11, as recently amended, states that is an underlying security for an option class enters into a limit up-limit down state when the class moves to opening

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<sup>2</sup> Id.

<sup>3</sup> See Securities and Exchange Act Release No. 67091 (May 31, 2012), 77 FR 33498 (June 6, 2012) (File No. 4-631).

<sup>4</sup> See Securities and Exchange Act Release No. 67091 (May 31, 2012) 77 FR 33498 (June 6, 2012).

<sup>5</sup> See Securities and Exchange Act Release No. 34-69345 (April 8, 2013), 78 FR 21985(April 11, 2013) (SR-C2-2013-013).

rotation, “all market orders in the system will be cancelled.”<sup>6</sup> The Exchange is proposing to: (1) correct the reference to Exchange Rule 6.3A, (2) add an exception to this general rule, and (3) provide greater clarity on the effect of a limit up-limit down state on an underlying security after the Rotation Period has begun.

First, the Exchange is proposing to clarify an incorrect reference in Rule 6.11.03 to Rule 6.3A. The correct reference should be made to Rule 6.39 which was a recently added rule to address the Plan. The Exchange believes that by updating the reference, Permit Holders will have greater clarity of which rule is applicable.

Next the Exchange is proposing to make an exception to the general rule that all market orders will be cancelled during the Rotation Period if the underlying security is in a limit up-limit down state. The Exchange is proposing to add language stating that the type of order described in Exchange Rule 6.12(h), “No-Bid Series” orders, from a previous day will not be cancelled. The Exchange is proposing to allow such market orders to remain in the Exchange Book because these essentially act as limit orders at the minimum increment. Cancelling such orders could potentially cause such orders to lose their priority with respect to other market orders in the Exchange Book. The Exchange believes that though these orders are essentially treated as limit orders, because they may have a “market” distinction, alerting Permit Holders of the behavior of such orders when the underlying security enters a limit up-limit down state will provide more clarity. In addition, this behavior is consistent with how limit orders are treated in the same situation.

Finally, the Exchange is proposing to add further clarity to the recently amended rule to clarify that if a limit up-limit down state commences after the Rotation Period has begun

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<sup>6</sup> See Exchange Rule 6.11.03.

for a class of options, the Rotation Period will continue normally. More specifically, the Exchange is proposing to add language to state that market and limit orders will continue through the Rotation Period as they would if there was not a limit up-limit down state. Once the Rotation Period has begun for a class of options, due to how the Exchange System operates, the process will not be interrupted to modify the order handling mid-process.

Market orders will continue to process even though they are normally returned during a limit up-limit down state,<sup>7</sup> limit orders will process normally,<sup>8</sup> and the Exchange will open normally if there is a presence of Opening Conditions.<sup>9</sup> Market orders, though normally returned during a limit up-limit down state to avoid executions at unfavorable or unreliable prices, do not face the same risks when they are part of the opening process. This is because preopening orders are matched with each other and with other interest during the Rotation Period. Thus, market orders will trade at the calculated opening price. Preopening limit orders will also be filled at the opening price and cannot be filled through their limit prices.

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<sup>7</sup> See Exchange Rule 6.10(a) which describes how market orders process.

<sup>8</sup> See Exchange Rule 6.10(b) which describes how limit orders process.

<sup>9</sup> See Exchange Rule 6.11(f) which describes how the Exchange will open in the presence of Opening Conditions. If a limit up-limit down state commences after the Rotation Period has begun for a class of options, options to buy and sell will be paired to the extent possible. If another market is displaying a more favorable price, then the Exchange will open as described in 6.11(f). Consistent with Rule 6.11(f), the Exchange will link any unmatched portion of the market order to an away trading venue. Any portion of a market order that is unfilled and returned to the Exchange will be cancelled. Thus, market orders will not be filled at an unreliable price because they will either be paired with other resting orders at the open or linked to an away trading venue displaying a more favorable price. The Exchange believes this is consistent with the treatment of market orders and ensures they will not be given an unreliable price despite the limit up-limit down state. Additionally, because limit orders have a limit price, these orders will also not fill at an unreliable price.

The Exchange believes this clarity is necessary to ensure Permit Holders are fully aware of special order handling during limit up-limit down states. Though the rule currently specifies what happens to orders on the Exchange if the limit up-limit down state commences prior to the Rotation Period beginning for a class of options, the Exchange believes it is necessary to additionally state what would happen if the Rotation Period had already begun and the limit up-limit down state triggers during the time of that process. The Exchange believes that including pre-opening market order interest in the Rotation Period will enhance the liquidity available during the rotation, and that the nature of the opening match process will protect market orders against anomalous opening prices that could otherwise be caused by market conditions associated with a limit-up limit-down state. This will also help to ensure the options markets remain just and equitable with the implementation of the Plan.

(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.<sup>10</sup> Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>11</sup> requirements that the rules of an exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open

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<sup>10</sup> 15 U.S.C. 78f(b).

<sup>11</sup> 15 U.S.C. 78f(b)(5).

market and a national market system, and, in general, to protect investors and the public interest. Additionally, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>12</sup> requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

In particular, the Exchange believes the proposed changes will be in accordance with the Act as they are merely intended to ensure the options markets will continue to remain just and equitable with the implementation of the Plan which is intended to reduce the negative impacts of a sudden, unanticipated price movement in NMS stocks. The proposed rule changes would promote this intention in the options markets while protecting investors participating there. More specifically, the currently proposed changes will correct and clarify current Exchange rules promoting the interest of investors. Finally, creating a more orderly market will promote just and equitable principles of trade by allowing investors to feel more secure in their participation in the national market system after the implementation of the Plan. In addition, the Exchange is proposing to provide a more robust rule text by clarifying what occurs if a limit up-limit down states initiates after the beginning of the Exchange's opening rotation. The Exchange believes that not cancelling the pre-opening interest will ensure investors can execute more interest despite the change in the market conditions after the opening process has begun. This will also help to ensure the options markets remain just and equitable with the implementation of the Plan.

**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.

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<sup>12</sup> Id.

Specifically, the Exchange believes the proposed changes will not impose any burden on intramarket competition because it applies to all Permit Holders equally. The Exchange does not believe the proposed changes will impose any burden on intermarket competition as the changes are merely being made to protect investors with the implementation of the Plan. In addition, the proposed changes will provide certainty of treatment and execution of options orders during periods of extraordinary market volatility.

**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**

Not applicable.

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

(a) The proposed rule change is filed for immediate effectiveness pursuant to Section 19(b)(3)(A) of Act<sup>13</sup> and Rule 19b-4(f)(6)<sup>14</sup> 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

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<sup>13</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>14</sup> 17 CFR 240.19b-4(f)(6).

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 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, or such shorter time as designated by the Commission. Specifically, the Exchange is merely attempting to provide more clarity to how orders will be handled while the underlying security is in a limit up-limit down state. As such, the Exchange does not see the proposed language affecting the protection of investors or the public interest or imposing any significant burden on competition. Also as such, the Exchange believes the proposed rule change does not present any new, unique or substantive issues.

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. 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. If the Commission takes such action, the Commission will institute proceedings to determine whether the proposed rule change should be approved or disapproved.

(c) Not applicable.

(d) Not applicable.

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

The proposed rule change is not based on a rule either of another self-regulatory organization or of the Commission.

**Item 9.        Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act**

Not applicable.

**Item 10.      Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act**

Not applicable.

**Item 11.      Exhibits**

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

Exhibit 5.      Proposed rule text if not included under Item 1(a).

EXHIBIT 1

**SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34- ; File No. SR-C2-2013-028]

[Insert date]

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

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 modify its rules to address certain option order handling procedures on the Exchange after the implementation of the market wide equity Plan to Address Extraordinary Market Volatility (the “Plan”). The text of the proposed rule change is available on the Exchange’s website (<http://www.c2exchange.com/Legal/>), at the Exchange’s Office of the Secretary, and at the Commission’s Public Reference Room.

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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 these 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 Statutory Basis for, the Proposed Rule Change**

#### **1. Purpose**

In an attempt to address extraordinary market volatility in NMS Stock, and, in particular, events like the severe volatility on May 6, 2010, the Exchange, in conjunction with the other national securities exchanges and the Financial Industry Regulatory Authority, Inc. (collectively, "Participants") drafted the Plan pursuant to Rule 608 of Regulation NMS and under the Securities Exchange Act of 1934 (the "Act").<sup>3</sup> The Plan is primarily designed to, among other things, address extraordinary market volatility in NMS stocks, protect investors, and promote fair and orderly markets. The Plan provides for market-wide limit up-limit down requirements that prevent trades in individual NMS Stocks from occurring outside of specified price bands, as defined in Section I(N) of the Plan. These requirements are coupled with trading pauses, as defined in Section I(Y) of the Plan, to accommodate more fundamental price moves (as opposed to erroneous trades or monetary gaps of liquidity).

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<sup>3</sup> See Securities Exchange Act Release No. 64547 (May 25, 2011), 76 FR 31647 (June 1, 2011)(File No. 4-631).

The Plan was filed on April 5, 2011 by the Participants for publication and comment.<sup>4</sup> The Participants requested the Commission approve the Plan as a one-year pilot. On May 24, 2012, the Participants filed an amendment to the Plan which clarified, among other things, the calculation of the reference price, as defined in Section I(T) of the Plan, potential for order type exemption, and the creation of an Advisory Committee.<sup>5</sup> On May 31, 2012, the Commission approved the Plan, as amended, on a one-year pilot basis.<sup>6</sup> The Plan was implemented on April 8, 2013.

Though the Plan was primarily designed for equity markets, the Exchange believed it would impact the options markets as well. Thus, the Exchange filed rule changes to amend the Exchange rules to ensure the option markets are not compromised as a result of the Plan's implementation.<sup>7</sup> The Exchange is proposing to amend these rules to clarify how the openings will operate on the Exchange in the event of a limit up-limit down state.

The current rule 6.11, as recently amended, states that is an underlying security for an option class enters into a limit up-limit down state when the class moves to opening rotation, "all market orders in the system will be cancelled."<sup>8</sup> The Exchange is proposing to: (1) correct the reference to Exchange Rule 6.3A, (2) add an exception to this general rule, and (3) provide greater clarity on the effect of a limit up-limit down state on an underlying security after the Rotation Period has begun.

First, the Exchange is proposing to clarify an incorrect reference in Rule 6.11.03 to Rule 6.3A. The correct reference should be made to Rule 6.39 which was a recently added

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<sup>4</sup> Id.

<sup>5</sup> See Securities and Exchange Act Release No. 67091 (May 31, 2012), 77 FR 33498 (June 6, 2012) (File No. 4-631).

<sup>6</sup> See Securities and Exchange Act Release No. 67091 (May 31, 2012) 77 FR 33498 (June 6, 2012).

<sup>7</sup> See Securities and Exchange Act Release No. 34-69345 (April 8, 2013), 78 FR 21985(April 11, 2013) (SR-C2-2013-013).

<sup>8</sup> See Exchange Rule 6.11.03.

rule to address the Plan. The Exchange believes that by updating the reference, Permit Holders will have greater clarity of which rule is applicable.

Next the Exchange is proposing to make an exception to the general rule that all market orders will be cancelled during the Rotation Period if the underlying security is in a limit up-limit down state. The Exchange is proposing to add language stating that the type of order described in Exchange Rule 6.12(h), “No-Bid Series” orders, from a previous day will not be cancelled. The Exchange is proposing to allow such market orders to remain in the Exchange Book because these essentially act as limit orders at the minimum increment. Cancelling such orders could potentially cause such orders to lose their priority with respect to other market orders in the Exchange Book. The Exchange believes that though these orders are essentially treated as limit orders, because they may have a “market” distinction, alerting Permit Holders of the behavior of such orders when the underlying security enters a limit up-limit down state will provide more clarity. In addition, this behavior is consistent with how limit orders are treated in the same situation.

Finally, the Exchange is proposing to add further clarity to the recently amended rule to clarify that if a limit up-limit down state commences after the Rotation Period has begun for a class of options, the Rotation Period will continue normally. More specifically, the Exchange is proposing to add language to state that market and limit orders will continue through the Rotation Period as they would if there was not a limit up-limit down state. Once the Rotation Period has begun for a class of options, due to how the Exchange System operates, the process will not be interrupted to modify the order handling mid-process.

Market orders will continue to process even though they are normally returned during a limit up-limit down state,<sup>9</sup> limit orders will process normally,<sup>10</sup> and the Exchange will open normally if there is a presence of Opening Conditions.<sup>11</sup> Market orders, though normally returned during a limit up-limit down state to avoid executions at unfavorable or unreliable prices, do not face the same risks when they are part of the opening process. This is because preopening orders are matched with each other and with other interest during the Rotation Period. Thus, market orders will trade at the calculated opening price. Preopening limit orders will also be filled at the opening price and cannot be filled through their limit prices.

The Exchange believes this clarity is necessary to ensure Permit Holders are fully aware of special order handling during limit up-limit down states. Though the rule currently specifies what happens to orders on the Exchange if the limit up-limit down state commences prior to the Rotation Period beginning for a class of options, the Exchange believes it is necessary to additionally state what would happen if the Rotation Period had already begun and the limit up-limit down state triggers during the time of that process. The Exchange believes that including pre-opening market order interest in the Rotation Period will enhance the liquidity available during the rotation, and that the nature of the opening match process will protect market orders against anomalous opening prices that

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<sup>9</sup> See Exchange Rule 6.10(a) which describes how market orders process.

<sup>10</sup> See Exchange Rule 6.10(b) which describes how limit orders process.

<sup>11</sup> See Exchange Rule 6.11(f) which describes how the Exchange will open in the presence of Opening Conditions. If a limit up-limit down state commences after the Rotation Period has begun for a class of options, options to buy and sell will be paired to the extent possible. If another market is displaying a more favorable price, then the Exchange will open as described in 6.11(f). Consistent with Rule 6.11(f), the Exchange will link any unmatched portion of the market order to an away trading venue. Any portion of a market order that is unfilled and returned to the Exchange will be cancelled. Thus, market orders will not be filled at an unreliable price because they will either be paired with other resting orders at the open or linked to an away trading venue displaying a more favorable price. The Exchange believes this is consistent with the treatment of market orders and ensures they will not be given an unreliable price despite the limit up-limit down state. Additionally, because limit orders have a limit price, these orders will also not fill at an unreliable price.

could otherwise be caused by market conditions associated with a limit-up limit-down state. This will also help to ensure the options markets remain just and equitable with the implementation of the Plan.

## 2. 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.<sup>12</sup> Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>13</sup> requirements that the rules of an exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest. Additionally, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>14</sup> requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

In particular, the Exchange believes the proposed changes will be in accordance with the Act as they are merely intended to ensure the options markets will continue to remain just and equitable with the implementation of the Plan which is intended to reduce the negative impacts of a sudden, unanticipated price movement in NMS stocks. The proposed rule changes would promote this intention in the options markets while

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<sup>12</sup> 15 U.S.C. 78f(b).

<sup>13</sup> 15 U.S.C. 78f(b)(5).

<sup>14</sup> Id.

protecting investors participating there. More specifically, the currently proposed changes will correct and clarify current Exchange rules promoting the interest of investors. Finally, creating a more orderly market will promote just and equitable principles of trade by allowing investors to feel more secure in their participation in the national market system after the implementation of the Plan. In addition, the Exchange is proposing to provide a more robust rule text by clarifying what occurs if a limit up-limit down states initiates after the beginning of the Exchange's opening rotation. The Exchange believes that not cancelling the pre-opening interest will ensure investors can execute more interest despite the change in the market conditions after the opening process has begun. This will also help to ensure the options markets remain just and equitable with the implementation of the Plan.

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. Specifically, the Exchange believes the proposed changes will not impose any burden on intramarket competition because it applies to all Permit Holders equally. The Exchange does not believe the proposed changes will impose any burden on intermarket competition as the changes are merely being made to protect investors with the implementation of the Plan. In addition, the proposed changes will provide certainty of treatment and execution of options orders during periods of extraordinary market volatility.

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) of the Act<sup>15</sup> and Rule 19b-4(f)(6)<sup>16</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. If the Commission takes such action, the Commission will institute proceedings to determine whether the proposed rule change should be approved or 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:

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

<sup>16</sup> 17 CFR 240.19b-4(f)(6).

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-C2-2013-028 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-C2-2013-028. 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 website (<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, D.C. 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of 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-C2-2013-028 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>17</sup>

Secretary

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

EXHIBIT 5

(additions are underlined; deletions are [bracketed])

\* \* \* \* \*

**C2 Options Exchange, Incorporated**

**Rules**

\* \* \* \* \*

**Rule 6.11. Openings (and sometimes Closings)**

\* \* \* \* \*

*. . . Interpretations and Policies:*

\* \* \* \* \*

*.03 Limit Up Limit Down States:* If the underlying security for an option class is in a limit up- limit down state as defined in Rule 6.39[A] when the class moves to a Rotation Period, then all market orders in the system will be cancelled except market orders that are considered limit orders pursuant to Rule 6.12(h) and entered the previous trading day. In addition, if the opening rotation has already begun for an options class when a limit up-limit down state initiates for the underlying security of that class, market and limit orders will continue through the end of the Rotation Period.

\* \* \* \* \*