



SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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

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

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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 \***

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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 amend its rules regarding Market-Maker continuous quoting obligations. 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 pursuant to delegated authority approved the proposed rule change on April 17, 2014. The Exchange will announce the implementation date of the proposed rule change in a Regulatory Circular to be published no later than 90 days following the effective date. The implementation date will be no later than 180 days following the effective date.

(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

The purpose of the proposed rule change is to amend Rules 8.5, 8.13 and 8.17: (i) to provide that compliance with continuous quoting obligations apply to Market-Makers’ appointed classes collectively and (ii) to provide that the Exchange will determine Market-Makers’ compliance with continuous quoting obligations on a monthly basis. These changes do not substantially change Market-Makers’ quoting obligations and make C2’s Market-Maker obligations more consistent with market-maker obligations at other options

exchanges. The proposed rule change only changes how and when the Exchange determines a Market-Maker's compliance with continuous quoting obligations.

#### Collective Application

Rules 8.5, 8.13, 8.17 impose the following continuous electronic quoting obligations on Market-Makers, Preferred Market-Makers ("PMMs"), and Designated Primary Market-Makers ("DPMs"), respectively (collectively, "Market-Makers" unless the context otherwise requires):

- Rule 8.7(a)(1) requires Market-Makers to maintain a continuous two-sided market in 60% of the non-adjusted option series of each registered class that have a time to expiration of less than nine months, with continuous meaning 90% of the time<sup>1</sup>;
- Rule 8.13(d) requires PMMs to provide continuous electronic quotes in at least 90% of the non-adjusted option series of each class for which it receives Preferred Market-Maker orders, with continuous meaning 99% of the time<sup>2</sup>; and

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<sup>1</sup> Rule 8.7(a)(1) also provides that if a technical failure or limitation of the System prevents a Market-Maker from maintaining, or communicating to the Exchange, timely and accurate quotes in a series, the duration of such failure will not be considered in determining whether the Market-Maker has satisfied the 90% quoting standard with respect to that series. The Exchange may consider other exceptions to this continuous electronic quote obligation based on demonstrated legal or regulatory requirements or other mitigating circumstances. It further provides that this quoting obligation does not apply to intra-day add-on series on the day during which such series are added for trading.

<sup>2</sup> Rule 8.13(d) also provides that if a technical failure or limitation of the System prevents a Market-Maker from maintaining, or communicating to the Exchange, timely and accurate quotes in a series, the duration of such failure will not be considered in determining whether the Market-Maker has satisfied the 90% quoting standard with respect to that series. The Exchange may consider other exceptions to this continuous electronic quote obligation based on demonstrated legal or regulatory requirements or other mitigating circumstances.

- Rule 8.17(a)(1) requires DPMs to provide continuous quotes in at least the lesser of 99% of the non-adjusted option series or 100% of the non-adjusted option series minus one call-put pair<sup>3</sup> in each of their allocated classes, with continuous meaning 90% of the time.<sup>4</sup>

C2 proposes to amend Rules 8.7(a)(1), 8.13(d), and 8.17(a)(1) to provide that the continuous quoting obligation for Market-Makers will be applied collectively across all classes in which the Market-Maker has appointments<sup>5</sup>, rather than on a class-by-class basis.<sup>6</sup>

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<sup>3</sup> A “call-put” pair refers to one call and one put that cover the same underlying instrument and have the same expiration date and exercise price.

<sup>4</sup> Rule 8.17(a)(1) also provides that if a technical failure or limitation of the System prevents a Market-Maker from maintaining, or communicating to the Exchange, timely and accurate quotes in a series, the duration of such failure will not be considered in determining whether the Market-Maker has satisfied the 90% quoting standard with respect to that series. It further provides that this quoting obligation does not apply to intra-day add-on series on the day during which such series are added for trading. The proposed rule change adds that the Exchange may consider other exceptions to this continuous electronic quote obligation based on demonstrated legal or regulatory requirements or other mitigating circumstances, consistent with the Exchange’s ability to do so for Market-Makers and PMMs. This language was previously and inadvertently omitted from the rules. The Exchange believes it is reasonable and fair to DPMs to have this authority for all market-Makers.

<sup>5</sup> As this rule filing demonstrates, the Exchange has several types of Market-Makers, each of which has separate quoting obligations. The Exchange notes that proposed rule change to apply the quoting obligation collectively applies with respect to each Market-Maker type as the Market-Maker is approved to act. Thus, the collective application of the continuous quoting obligation applies to classes for each Market-Maker type (*i.e.* classes for which the Market-Maker has the same quoting obligation). For example, if a Market-Maker is a Permit Holder organization with appointments in ten classes, with 100 series in each, for a total of 1,000 series (with an obligation to quote in 60% of the series in those classes 90% of the time it is quoting in those classes) and acts as a DPM in three classes, with 100 series in each, for a total of 300 series (with an obligation to quote 99% (or 100% minus one call-put pair) of the series in those classes 90% of the time), for purposes of compliance with the continuous quoting obligation, the Permit Holder must quote in 600 series (or 60% of the series) in the ten Market-Maker classes collectively for 90% of the time it is quoting in those classes and 297 series (or 99% of the series) in the three DPM classes collectively for 90% of the trading day. The Exchange believes this is consistent with the application of those exchanges’ rules, as it

The Exchange believes that applying the continuous quoting requirements for Market-Makers collectively across all classes is a fair and efficient way for the Exchange and market participants to evaluate compliance with the continuous quoting obligation. Applying the continuous electronic quoting requirements collectively across all classes rather than on a class-by-class basis is beneficial to Market-Makers by providing some flexibility to choose which series in their appointed classes they will continuously quote – increasing the continuous quoting in the series of one class while allowing for a decrease in the continuous quoting in the series of another class. This flexibility, however, does not diminish the Market-Maker’s obligation to continuously quote in a significant percentage of series for a significant part of the trading day. This flexibility is especially important for classes that have relatively few series and may prevent a Market-Maker from reaching the continuous quoting obligation when failing to quote 90% or 99% of the trading day, as applicable, in more than one series in an appointed class. The Exchange believes that the proposed rule change will not diminish, and may in fact increase, market-making activity on the Exchange, by applying continuous quoting obligations in a reasonable manner, which is already in place on other options exchanges.<sup>7</sup>

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would not be possible to apply the collective standard across classes for which a Market-Maker has different quoting obligations.

<sup>6</sup> The proposed rule change makes corresponding changes to Rule 8.13(d) to delete rule text that a PMM must quote the specified percentage of series in each class it receives PMM orders and to Rule 8.17(a)(1) to delete rule text that a DPM must quote the specified percentage of series in each class allocated to it. This language is no longer applicable given the proposed collectively application of the continuous quoting obligation.

<sup>7</sup> See, e.g., Box Options Exchange, LLC (“BOX”) Rule 8050(e); International Securities Exchange, LLC (“ISE”) Rule 804, Supplementary Material .01; Miami International Securities Exchange, LLC (“MIAX”) Rule 604(e); NYSE Arca, Inc. (“NYSE Arca”) Options Rules 6.37B(b) and (c) and 6.88(iv); and NYSE MKT LLC (“NYSE MKT”) Options Rules 925.1NY(b) and (c) and 964.1NY(iv).

### Monthly Compliance

The continuous quoting obligations described above apply on a daily basis. C2 proposes to amend Rules 8.7(a)(1), 8.13(d), and 8.17(a)(1) to provide that the Exchange will determine compliance by Market-Makers with continuous quoting obligations on a monthly basis.<sup>8</sup> Determining compliance with these quoting obligations does not relieve Market-Makers from meeting these quoting obligations on a daily basis, nor does it prohibit the Exchange from taking disciplinary action against Market-Makers for failing to meet any of these requirements each trading day.

Similar to the proposed rule change to apply continuous quoting obligations to all classes collectively, the Exchange believes that reviewing compliance on a monthly basis is a fair and more efficient way for the Exchange and market participants to evaluate compliance with these quoting obligations. Reviewing compliance on a monthly basis allows the Exchange to review a Market-Maker's daily compliance in the aggregate and determine the appropriate disciplinary action for single or multiple compliance failures during a one-month period. C2 believes that the proposed rule change will not diminish, and in fact may increase, market-making on the Exchange by establishing quoting

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<sup>8</sup> The Exchange will continue to provide to Market-Makers daily reports to enable them to monitor their compliance with their quoting obligations. On the basis of these daily reports, the Exchange will continue to monitor Market-Maker compliance on a daily basis and inform Market-Makers if they are failing to satisfy their quoting obligations. Additionally, on the basis of this daily monitoring activity, the Exchange can determine whether Market-Makers violated any other Exchange rules, such as Chicago Board Options Exchange, Incorporated (CBOE) Rule 4.1 (which is incorporated into C2 Rules pursuant to Chapter 4) regarding just and equitable principles of trade. This daily monitoring will allow the Exchange to investigate unusual activity and to take appropriate regulatory action.

compliance standards that are reasonable and already in place on other options exchanges.<sup>9</sup> C2 also believes that determining compliance by Market-Makers with quoting obligations on a monthly basis will facilitate C2's determination of appropriate penalties or other remedial measures for violation(s) of these obligations.

The Exchange will announce the implementation date of the proposed rule change in a Regulatory Circular to be published no later than 90 days following the effective date. The implementation date will be no later than 180 days following the effective date. Because the proposed change provides for a monthly compliance standard, the Exchange believes it is appropriate for implementation of the proposed rule change to occur on the first trading day of a month. Additionally, the implementation date will provide sufficient time for the Exchange to make any necessary changes to its surveillances with respect to continuous quoting obligations and for Market-Makers to make any system changes in connection with the proposed collective standard.

(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,

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<sup>9</sup> See, e.g., BOX Rule 8050(e); ISE Rule 804(e), Supplementary Material .01; and MIAX Rule 604(e).

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

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

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>12</sup> requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The proposed rule change removes impediments to and perfects the mechanisms of a free and open market and a national market system because it is consistent with standards currently in place on other options exchanges. With respect to the application of continuous electronic quoting obligations collectively, the Exchange believes that providing Market-Makers with flexibility to satisfy their continuous quoting obligations collectively across their appointed classes will not diminish Market-Makers' obligations to provide continuous quotes in a significant percentage of series for a significant part of the trading day. With respect to the monthly compliance standard, the Exchange believes that the proposed rule change will enhance compliance efforts by Market-Makers and the Exchange. The Exchange believes that determining compliance with continuous quoting obligations on a monthly basis will prevent fraudulent and manipulative acts and practices and to promote just and equitable principles of trade, because it will increase regulatory efficiency to the benefit of both the Exchange and market participants. The Exchange believes that the proposed rule change will not diminish, and in fact may increase, market-making activity and liquidity on the Exchange by establishing a quoting

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<sup>12</sup> Id.

compliance standard that is reasonable and is already in place on other options exchanges.

C2 continues to believe that the balance between the obligations imposed on and benefits provided to Market-Makers under the rules is appropriate. The proposed rule change does not diminish any of the obligations imposed on Market-Makers. Rather, it merely changes how the continuous quoting obligation is applied and when the Exchange determines compliance with continuous quoting obligations. The Exchange notes that Market-Makers are subject to many obligations under the rules, including the obligation to contribute to the maintenance of a fair and orderly market in their appointed classes, which the Exchange believes will ensure continued liquidity on the Exchange. C2 believes that its proposed rule change is consistent with the Act in that providing flexibility does not detract from the overall market-making obligations of Market-Makers. The proposed rule change better supports a Market-Maker's continuous obligation to engage in dealings for its own account. Accordingly, any benefits of the proposed rule change to provide flexibility to Market-Makers are offset by the continued responsibilities to provide significant liquidity to the market to the benefit of all market participants.

**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. The proposed rule change applies to all Market-Makers. All Market-Makers may benefit from the flexibility provided by the proposed rule change, which benefit is offset by the continued responsibilities to provide significant liquidity to the market to the benefit of all market participants. The proposed rule change to the compliance standard does not

change the obligations imposed on Market-Makers; it merely changes the time at which the Exchange will determine compliance with these obligations. The proposed rule change is substantially similar to rules in place at other options exchanges, which the Exchange believes may enhance, rather than burden, competition among the options exchanges. C2 is better able to compete for liquidity providers when its Market-Maker obligations are consistent with those of other options exchanges, which may increase competition and liquidity on C2. Market participants on other exchanges are welcome to trade at C2 if they determine that this proposed rule change has made C2 more attractive or favorable to them.

**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

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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).

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 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.

The proposed rule change does not reduce Market-Makers’ quoting obligations, nor does the proposed rule change prohibit the Exchange from taking disciplinary action against Market-Makers for failing to meet their quoting obligations. The proposed rule change is substantially similar to current rules of other options exchanges and does not raise any new, novel, or unique issues. The Exchange believes the proposed rule change will ensure fair competition among options exchanges and encourage greater liquidity on C2 to the benefit of investors. The proposed rule change will also provide for a fair and more efficient way for the Exchange and market participants to evaluate compliance with Market-Makers’ quoting obligations.

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 to provide that compliance with continuous electronic quoting obligations will apply to Market-Makers' appointed classes collectively is based on BOX Rule 8050(e); ISE Rule 804, Supplementary Material .01; MIAX Rule 604(e); NYSE Arca Options Rule 6.37B(b) and (c) and 6.88(iv); and NYSE MKT Options Rules 925.1NY(b) and (c) and 964.1NY(iv). The proposed rule change to allow the Exchange to determine compliance of Market-Makers with continuous electronic quoting obligations on a monthly basis is based on ISE Rule 804(e), Supplementary Material .01; MIAX Rule 604(e); and PHLX Rule 1014(b)(ii)(D)(1) and (2).

**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.

EXHIBIT 1

**SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34- ; File No. SR-C2-14-015]

[Insert date]

Self-Regulatory Organizations; C2 Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to Amend Market-Maker Quoting Obligations

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 regarding Market-Maker continuous quoting obligations.

The text of the proposed rule change is available on the Exchange’s website (<http://www.cboe.com/AboutCBOE/CBOELegalRegulatoryHome.aspx>), 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**

The purpose of the proposed rule change is to amend Rules 8.5, 8.13 and 8.17: (i) to provide that compliance with continuous quoting obligations apply to Market-Makers' appointed classes collectively and (ii) to provide that the Exchange will determine Market-Makers' compliance with continuous quoting obligations on a monthly basis. These changes do not substantially change Market-Makers' quoting obligations and make C2's Market-Maker obligations more consistent with market-maker obligations at other options exchanges. The proposed rule change only changes how and when the Exchange determines a Market-Maker's compliance with continuous quoting obligations.

#### **Collective Application**

Rules 8.5, 8.13, 8.17 impose the following continuous electronic quoting obligations on Market-Makers, Preferred Market-Makers ("PMMs"), and Designated Primary Market-Makers ("DPMs"), respectively (collectively, "Market-Makers" unless the context otherwise requires):

- Rule 8.7(a)(1) requires Market-Makers to maintain a continuous two-sided market in 60% of the non-adjusted option series of each registered class that have

a time to expiration of less than nine months, with continuous meaning 90% of the time<sup>3</sup>;

- Rule 8.13(d) requires PMMs to provide continuous electronic quotes in at least 90% of the non-adjusted option series of each class for which it receives Preferred Market-Maker orders, with continuous meaning 99% of the time<sup>4</sup>; and
- Rule 8.17(a)(1) requires DPMs to provide continuous quotes in at least the lesser of 99% of the non-adjusted option series or 100% of the non-adjusted option series minus one call-put pair<sup>5</sup> in each of their allocated classes, with continuous meaning 90% of the time.<sup>6</sup>

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<sup>3</sup> Rule 8.7(a)(1) also provides that if a technical failure or limitation of the System prevents a Market-Maker from maintaining, or communicating to the Exchange, timely and accurate quotes in a series, the duration of such failure will not be considered in determining whether the Market-Maker has satisfied the 90% quoting standard with respect to that series. The Exchange may consider other exceptions to this continuous electronic quote obligation based on demonstrated legal or regulatory requirements or other mitigating circumstances. It further provides that this quoting obligation does not apply to intra-day add-on series on the day during which such series are added for trading.

<sup>4</sup> Rule 8.13(d) also provides that if a technical failure or limitation of the System prevents a Market-Maker from maintaining, or communicating to the Exchange, timely and accurate quotes in a series, the duration of such failure will not be considered in determining whether the Market-Maker has satisfied the 90% quoting standard with respect to that series. The Exchange may consider other exceptions to this continuous electronic quote obligation based on demonstrated legal or regulatory requirements or other mitigating circumstances.

<sup>5</sup> A “call-put” pair refers to one call and one put that cover the same underlying instrument and have the same expiration date and exercise price.

<sup>6</sup> Rule 8.17(a)(1) also provides that if a technical failure or limitation of the System prevents a Market-Maker from maintaining, or communicating to the Exchange, timely and accurate quotes in a series, the duration of such failure will not be considered in determining whether the Market-Maker has satisfied the 90% quoting standard with respect to that series. It further provides that this quoting obligation does not apply to intra-day add-on series on the day during which such series are added for trading. The proposed rule change adds that the Exchange may consider other exceptions to this continuous electronic quote obligation based on demonstrated legal or regulatory requirements or other mitigating circumstances, consistent with the Exchange’s ability to

C2 proposes to amend Rules 8.7(a)(1), 8.13(d), and 8.17(a)(1) to provide that the continuous quoting obligation for Market-Makers will be applied collectively across all classes in which the Market-Maker has appointments<sup>7</sup>, rather than on a class-by-class basis.<sup>8</sup> The Exchange believes that applying the continuous quoting requirements for Market-Makers collectively across all classes is a fair and efficient way for the Exchange and market participants to evaluate compliance with the continuous quoting obligation. Applying the continuous electronic quoting requirements collectively across all classes rather than on a class-by-class basis is beneficial to Market-Makers by providing some flexibility to choose which series in their appointed classes they will continuously quote –

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do so for Market-Makers and PMMs. This language was previously and inadvertently omitted from the rules. The Exchange believes it is reasonable and fair to DPMs to have this authority for all market-Makers.

<sup>7</sup> As this rule filing demonstrates, the Exchange has several types of Market-Makers, each of which has separate quoting obligations. The Exchange notes that proposed rule change to apply the quoting obligation collectively applies with respect to each Market-Maker type as the Market-Maker is approved to act. Thus, the collective application of the continuous quoting obligation applies to classes for each Market-Maker type (i.e. classes for which the Market-Maker has the same quoting obligation). For example, if a Market-Maker is a Permit Holder organization with appointments in ten classes, with 100 series in each, for a total of 1,000 series (with an obligation to quote in 60% of the series in those classes 90% of the time it is quoting in those classes) and acts as a DPM in three classes, with 100 series in each, for a total of 300 series (with an obligation to quote 99% (or 100% minus one call-put pair) of the series in those classes 90% of the time), for purposes of compliance with the continuous quoting obligation, the Permit Holder must quote in 600 series (or 60% of the series) in the ten Market-Maker classes collectively for 90% of the time it is quoting in those classes and 297 series (or 99% of the series) in the three DPM classes collectively for 90% of the trading day. The Exchange believes this is consistent with the application of those exchanges' rules, as it would not be possible to apply the collective standard across classes for which a Market-Maker has different quoting obligations.

<sup>8</sup> The proposed rule change makes corresponding changes to Rule 8.13(d) to delete rule text that a PMM must quote the specified percentage of series in each class it receives PMM orders and to Rule 8.17(a)(1) to delete rule text that a DPM must quote the specified percentage of series in each class allocated to it. This language is no longer applicable given the proposed collectively application of the continuous quoting obligation.

increasing the continuous quoting in the series of one class while allowing for a decrease in the continuous quoting in the series of another class. This flexibility, however, does not diminish the Market-Maker's obligation to continuously quote in a significant percentage of series for a significant part of the trading day. This flexibility is especially important for classes that have relatively few series and may prevent a Market-Maker from reaching the continuous quoting obligation when failing to quote 90% or 99% of the trading day, as applicable, in more than one series in an appointed class. The Exchange believes that the proposed rule change will not diminish, and may in fact increase, market-making activity on the Exchange, by applying continuous quoting obligations in a reasonable manner, which is already in place on other options exchanges.<sup>9</sup>

#### Monthly Compliance

The continuous quoting obligations described above apply on a daily basis. C2 proposes to amend Rules 8.7(a)(1), 8.13(d), and 8.17(a)(1) to provide that the Exchange will determine compliance by Market-Makers with continuous quoting obligations on a monthly basis.<sup>10</sup> Determining compliance with these quoting obligations does not relieve

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<sup>9</sup> See, e.g., Box Options Exchange, LLC ("BOX") Rule 8050(e); International Securities Exchange, LLC ("ISE") Rule 804, Supplementary Material .01; Miami International Securities Exchange, LLC ("MIAX") Rule 604(e); NYSE Arca, Inc. ("NYSE Arca") Options Rules 6.37B(b) and (c) and 6.88(iv); and NYSE MKT LLC ("NYSE MKT") Options Rules 925.1NY(b) and (c) and 964.1NY(iv).

<sup>10</sup> The Exchange will continue to provide to Market-Makers daily reports to enable them to monitor their compliance with their quoting obligations. On the basis of these daily reports, the Exchange will continue to monitor Market-Maker compliance on a daily basis and inform Market-Makers if they are failing to satisfy their quoting obligations. Additionally, on the basis of this daily monitoring activity, the Exchange can determine whether Market-Makers violated any other Exchange rules, such as Chicago Board Options Exchange, Incorporated (CBOE) Rule 4.1 (which is incorporated into C2 Rules pursuant to Chapter 4) regarding just and equitable principles of trade. This daily monitoring will allow the Exchange to investigate unusual activity and to take appropriate regulatory action.

Market-Makers from meeting these quoting obligations on a daily basis, nor does it prohibit the Exchange from taking disciplinary action against Market-Makers for failing to meet any of these requirements each trading day.

Similar to the proposed rule change to apply continuous quoting obligations to all classes collectively, the Exchange believes that reviewing compliance on a monthly basis is a fair and more efficient way for the Exchange and market participants to evaluate compliance with these quoting obligations. Reviewing compliance on a monthly basis allows the Exchange to review a Market-Maker's daily compliance in the aggregate and determine the appropriate disciplinary action for single or multiple compliance failures during a one-month period. C2 believes that the proposed rule change will not diminish, and in fact may increase, market-making on the Exchange by establishing quoting compliance standards that are reasonable and already in place on other options exchanges.<sup>11</sup> C2 also believes that determining compliance by Market-Makers with quoting obligations on a monthly basis will facilitate C2's determination of appropriate penalties or other remedial measures for violation(s) of these obligations.

The Exchange will announce the implementation date of the proposed rule change in a Regulatory Circular to be published no later than 90 days following the effective date. The implementation date will be no later than 180 days following the effective date. Because the proposed change provides for a monthly compliance standard, the Exchange believes it is appropriate for implementation of the proposed rule change to occur on the first trading day of a month. Additionally, the implementation date will provide sufficient time for the Exchange to make any necessary changes to its

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<sup>11</sup> See, e.g., BOX Rule 8050(e); ISE Rule 804(e), Supplementary Material .01; and MIAX Rule 604(e).

surveillances with respect to continuous quoting obligations and for Market-Makers to make any system changes in connection with the proposed collective standard.

## 2. Statutory Basis

The Exchange believes the proposed rule change is consistent with 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.

The proposed rule change removes impediments to and perfects the mechanisms of a free and open market and a national market system because it is consistent with standards currently in place on other options exchanges. With respect to the application of continuous electronic quoting obligations collectively, the Exchange believes that providing Market-Makers with flexibility to satisfy their continuous quoting obligations collectively across their appointed classes will not diminish Market-Makers' obligations

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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.

to provide continuous quotes in a significant percentage of series for a significant part of the trading day. With respect to the monthly compliance standard, the Exchange believes that the proposed rule change will enhance compliance efforts by Market-Makers and the Exchange. The Exchange believes that determining compliance with continuous quoting obligations on a monthly basis will prevent fraudulent and manipulative acts and practices and to promote just and equitable principles of trade, because it will increase regulatory efficiency to the benefit of both the Exchange and market participants. The Exchange believes that the proposed rule change will not diminish, and in fact may increase, market-making activity and liquidity on the Exchange by establishing a quoting compliance standard that is reasonable and is already in place on other options exchanges.

C2 continues to believe that the balance between the obligations imposed on and benefits provided to Market-Makers under the rules is appropriate. The proposed rule change does not diminish any of the obligations imposed on Market-Makers. Rather, it merely changes how the continuous quoting obligation is applied and when the Exchange determines compliance with continuous quoting obligations. The Exchange notes that Market-Makers are subject to many obligations under the rules, including the obligation to contribute to the maintenance of a fair and orderly market in their appointed classes, which the Exchange believes will ensure continued liquidity on the Exchange. C2 believes that its proposed rule change is consistent with the Act in that providing flexibility does not detract from the overall market-making obligations of Market-Makers. The proposed rule change better supports a Market-Maker's continuous obligation to engage in dealings for its own account. Accordingly, any benefits of the

proposed rule change to provide flexibility to Market-Makers are offset by the continued responsibilities to provide significant liquidity to the market to the benefit of all market participants.

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. The proposed rule change applies to all Market-Makers. All Market-Makers may benefit from the flexibility provided by the proposed rule change, which benefit is offset by the continued responsibilities to provide significant liquidity to the market to the benefit of all market participants. The proposed rule change to the compliance standard does not change the obligations imposed on Market-Makers; it merely changes the time at which the Exchange will determine compliance with these obligations. The proposed rule change is substantially similar to rules in place at other options exchanges, which the Exchange believes may enhance, rather than burden, competition among the options exchanges. C2 is better able to compete for liquidity providers when its Market-Maker obligations are consistent with those of other options exchanges, which may increase competition and liquidity on C2. Market participants on other exchanges are welcome to trade at C2 if they determine that this proposed rule change has made C2 more attractive or favorable to them.

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:

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-C2-2014-015 on the subject line.

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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).

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-C2-2014-015. 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-C2-2014-015 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])

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**C2 Options Exchange, Incorporated****Rules**

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**Rule 8.5. Obligations of Market-Makers**

(a) No change.

(1) During trading hours, a Market-Maker must maintain a continuous two-sided market in 60% of the non-adjusted option series of each registered class that have a time to expiration of less than nine months. For purposes of this subparagraph, “continuous” means 90% of the time. If a technical failure or limitation of the System prevents a Market-Maker from maintaining, or from communicating to the Exchange, timely and accurate quotes in a series, the duration of such failure shall not be considered in determining whether that Market-Maker has satisfied the 90% quoting standard with respect to that series. An “adjusted option series” is an option series wherein, as a result of a corporate action by the issuer of the underlying security, one option contract in the series represents the delivery of other than 100 shares of underlying stock or Units. This obligation does not apply to intra-day add-on series on the day during which such series are added for trading. The Exchange may consider other exceptions to this obligation based on demonstrated legal or regulatory requirements or other mitigating circumstances. Compliance with this quoting obligation applies to all of a Market-Maker’s appointed classes collectively. The Exchange will determine compliance by a Market-Maker with the quoting obligations in this paragraph on a monthly basis. However, determining compliance with this quoting obligation on a monthly basis does not relieve a Market-Maker from meeting this obligations on a daily basis, nor does it prohibit the Exchange from taking disciplinary action against a Market-Maker for failing to meet this obligation each trading day.

(2) – (6) No change.

(b) – (d) No change.

*. . . Interpretations and Policies:***.01** No change.

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**Rule 8.13. Preferred Market-Maker Program**

(a) – (c) No change.

(d) *Quoting Obligations*[:]. The Preferred Market-Maker must comply with the quoting obligations applicable under Exchange rules and must provide continuous electronic quotes in at least 90% of the non-adjusted option series (as defined in Rule 8.5(a)(1)) [of each class for which it receives Preferred Market-Maker orders]. For purposes of this subparagraph, “continuous” means 99% of the time. If a technical failure or limitation of the System prevents a Preferred Market-Maker from maintaining, or from communicating to the Exchange, timely and accurate quotes in a series, the duration of such failure shall not be considered in determining whether that Preferred Market-Maker has satisfied the 99% quoting standard with respect to that series. The Exchange may consider other exceptions to this obligation based on demonstrated legal or regulatory requirements or other mitigating circumstances. Compliance with this quoting obligation applies to all of a Preferred Market-Maker’s classes for which it receives Preferred Market-Maker orders collectively. The Exchange will determine compliance by a Preferred Market-Maker with this quoting obligation on a monthly basis. However, determining compliance with this obligation on a monthly basis does not relieve a Preferred Market-Maker from meeting this quoting obligation on a daily basis, nor does it prohibit the Exchange from taking disciplinary action against a Preferred Market-Maker for failing to meet this obligation each trading day.

... *Interpretations and Policies:*

.01 No change.

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**Rule 8.17. DPM Obligations**

(a) *Dealer Transactions*. Each DPM shall fulfill all of the obligations of a Market-Maker under the Rules, and shall satisfy each of the following requirements in respect of each of the securities allocated to the DPM. To the extent that there is any inconsistency between the specific obligations of a DPM set forth in this Rule 8.17 and the general obligations of a Market-Maker under the Rules, this Rule 8.17 shall govern. Each DPM shall:

(1) provide continuous electronic quotes in at least the lesser of 99% of the non-adjusted option series (as defined in Rule 8.5(a)(1)) or 100% of the non-adjusted option series minus one call-put pair [of each option class allocated to it], with the term “call-put pair” referring to one call and one put that cover the same underlying instrument and have the same expiration date and exercise price, and assure that its disseminated market quotations are accurate. This obligation does not apply to intra-day add-on series on the day during which such series are added for trading. For purposes of this subparagraph (a)(1), “continuous” means 90% of the time. If a technical failure or limitation of the System prevents a DPM from maintaining, or from communicating to the Exchange, timely and accurate quotes in a series, the duration of such failure shall not be considered in determining whether that DPM has satisfied the 90% quoting standard with respect to that series. The Exchange may consider other exceptions to this

obligation based on demonstrated legal or regulatory requirements or other mitigating circumstances. Compliance with this quoting obligation applies to all of a DPM's allocated classes collectively. The Exchange will determine compliance by a DPM with this quoting obligation on a monthly basis. However, determining compliance with this obligation on a monthly basis does not relieve a DPM from meeting this obligation on a daily basis, nor does it prohibit the Exchange from taking disciplinary action against DPM for failing to meet this obligation each trading day;

(2) – (5) No change.

(b) – (e) No change.

***. . . Interpretations and Policies:***

**.01 – .02** No change.

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