

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 28	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - 2014 - * 024	Amendment No. (req. for Amendments *)
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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 *).

Proposed rule change to amend rules related to the complex order book (COB).

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 * Laura Last Name * Dickman
 Title * Senior Attorney
 E-mail * dickman@cboe.com
 Telephone * (312) 786-7572 Fax

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 10/15/2014
 By Corinne Klott
 Attorney

(Name *)

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.

Persona Not Validated - 1396541032712,

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Add Remove View

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

Add Remove View

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 related to the complex order book (“COB”). The text of the proposed rule change is provided below and in Exhibit 1.

(additions are underlined; deletions are [bracketed])

* * * * *

C2 Options Exchange, Incorporated

Rules

* * * * *

Rule 6.13. Complex Order Execution

(a) – (c) No change.

. . . Interpretations and Policies:

.01 – .06 No change

.07 Execution of Complex Orders on the COB Open:

(a) Complex orders, including stock-option orders, do not participate in opening rotations for individual component option series legs conducted pursuant to Rule 6.11. When the last of the individual component option series legs that make up a complex order strategy has opened (and, in the case of a stock-option order, the underlying stock has opened), the COB for that strategy will open. The COB will open with no trade, except as follows:

[a]i) The COB will open with a trade against the individual component option series legs if there are complex orders on only one side of the COB that are marketable against the opposite side of the derived net market. The resulting execution will occur at the derived net market price to the extent marketable pursuant to the rules of trading priority otherwise applicable to incoming electronic orders in the individual component legs. To the extent there is any remaining balance, the complex orders will trade pursuant to subparagraph (ii) below or, if unable to trade, be processed as they would on an intraday basis under Rule 6.13. [(This subparagraph (a)i) is not applicable to stock-option orders because stock-option orders do not trade against the individual component option series legs when the COB opens.)]

[b]ii) The COB will open (or continue to open with another trade if a trade occurred pursuant to subparagraph (i) above) with a trade against complex orders if there are complex orders in the COB (including any remaining balance of an order that enters the COB after a partial trade with the legs pursuant to subparagraph (i)) that are marketable

against each other and priced within the derived net market. The resulting execution will occur at a market clearing price that is inside the derived net market and that matches complex orders to the extent marketable pursuant to the allocation algorithm from Rule 6.12, as determined by the Exchange on a class-by-class basis[. In determining the priority,] with the addition that the COB gives priority to complex orders whose net price is better than the market clearing price first, and then to complex orders at the market clearing price. To the extent there is any remaining balance, the complex orders will be processed as they would on an intra-day basis under Rule 6.13. [(This subparagraph ([b]ii) is applicable to stock-option orders.)]

([c]b) The “derived net market” for a stock-option order strategy will be calculated using the Exchange’s best bid or offer in the individual option series leg(s) and the NBBO in the stock leg. The “derived net market” for any other complex order strategy will be calculated using the Exchange’s best bid or offer in the individual option series legs.

(c) The Exchange may also use the process described in paragraph (a) of this Interpretation and Policy .07 when the COB reopens a strategy after a time period during which trading of that strategy was unavailable.

* * * * *

(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 September 23, 2014.

(b) Please refer questions and comments on the proposed rule change to Joanne Moffic-Silver, (312) 786-7462, or Laura G. 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 Exchange proposes to amend its rules related its COB. Rule 6.13, Interpretation and Policy .07 describes how complex orders execute when the COB opens. Complex orders do not participate in the opening rotation for the individual leg series (which occurs

pursuant to Rule 6.11). Rather, the COB for a complex order strategy will open when the last of the individual legs series that make up the strategy has opened (and, in the case of a stock-option order, when the underlying stock has opened). Under the current rules, the COB will open with no trade, except as follows:

- The COB will open with a trade against the individual component option series legs if there are complex orders on only one side of the COB that are marketable against the opposite side of the derived net market.¹ The resulting execution will occur at the derived net market price to the extent marketable. To the extent there is any remaining balance, the complex orders will be processed as they would on an intra-day basis under Rule 6.13.² This does not apply to stock-option orders, which cannot trade against the individual leg series when the COB opens.
- The COB will open with a trade against complex orders if there are complex orders in the COB that are marketable against each other and priced within the derived net market. The resulting execution will occur at a market clearing price that is inside the derived net market and that matches complex orders to the extent marketable. In determining the priority, the COB gives priority to complex orders whose net price is better than the market clearing price first, and then to complex orders at the market clearing price. To the extent there is any remaining balance, the

¹ The “derived net market” is calculated based on the Exchange’s best bid or offer (“BBO”) in the individual series legs. For stock-option orders, the derived net market is calculated based on the BBO in the individual option series leg(s) and the national best bid or offer (“NBBO”) in the stock leg. See Rule 6.13, Interpretation and Policy .07(c) (which this rule filing proposes to change to paragraph (b)).

² Pursuant to Rule 13, complex orders may either enter the COB or process through a complex order auction (COA).

complex orders will be processed as they would on an intra-day basis under Rule 6.13.³ This applies to stock-option orders.

The proposed rule change adds to current paragraph (b) of Interpretation and Policy .07⁴ that the Exchange may determine, on a class-by-class basis, which allocation algorithm from Rule 6.12⁵ will apply to complex order trades on the COB open pursuant to current paragraph (b) (proposed paragraph (a)(ii)).⁶ The Exchange may determine on a class-by-class basis which allocation algorithm from Rule 6.12 will apply to executions to opening rotations.⁷ This opening allocation algorithm may be different than the intraday allocation algorithm. The proposed rule change provides the Exchange with the same flexibility with respect to executions of complex orders on the COB open. While Rule 6.13, Interpretation and Policy .05 provides the Exchange with the flexibility to determine on a class-by-class basis which allocation algorithm from Rule 6.12 will apply to COB executions (in lieu of the algorithm specified in Rule 6.12(b)(1)(B))⁸, Interpretation and Policy .07 does not state

³ Id.

⁴ The proposed rule change reorganizes Interpretation and Policy .07. This proposed language appears in proposed paragraph (a)(ii) (current paragraph (b)), which is the paragraph related to trades of complex orders on the COB at the open.

⁵ The allocation algorithms include price-time, pro-rata, and price-time with primary public customer priority and secondary trade participation right priority base priorities and a combination of various optional priority overlays pertaining to public customer priority, Market-Maker participation entitlements, small order preference and market turner. See Rule 6.12.

⁶ The proposed rule change also adds to current paragraph (a) (proposed paragraph (a)(i)) that executions of complex orders against the individual legs will be pursuant to the rules of trading priority otherwise applicable to incoming electronic orders in the individual component legs. The current rule is silent on what allocation algorithm applies to executions of complex orders on the COB against the individual legs. The Exchange believes the proposed rule text merely eliminates any potential confusion regarding how complex orders will be allocated in accordance with proposed paragraph (a)(i).

⁷ See Rule 6.11, Interpretation and Policy .01.

⁸ Rule 6.13(b)(1) states that complex orders submitted to the COB may trade as follows: (a) a complex order in the COB will automatically execute against individual

that the applicable allocation algorithm for complex order executions on the COB open may be different than the intraday allocation algorithm for the COB. The proposed rule change adds this detail to the rules and allows the Exchange to determine on a class-by-class basis which allocation algorithm will apply to complex order trades on the COB open, which may be different than the allocation algorithm applicable to intraday complex order trades on the COB.⁹ The Exchange will announce any allocation algorithm determinations via Regulatory Circular.¹⁰

The Exchange is not proposing to adopt any new allocation algorithms or priority rules nor is it proposing to modify the COB opening process.¹¹ Rather, it is adding detail to the Exchange rule regarding the COB opening process and providing the Exchange with flexibility to choose an algorithm from among the existing algorithms that will apply to complex order trades on the COB open, rather than simply defaulting to the algorithm in effect for intraday trading on the COB in that class. The Exchange believes this flexibility is

quotes and orders on the book provided the complex order can be executed in full or in a permissible ratio by the orders and quotes in the book; or (b) complex orders in the COB that are marketable against each other will automatically execute, and the allocation of complex orders within the COB will be pursuant to the rules of trading priority otherwise applicable to incoming orders in the individual component legs.

⁹ Currently, complex orders that execute against the COB (proposed subparagraph (a)(ii)) allocate pursuant to price-time.

¹⁰ See Rule 6.13, Interpretation and Policy .01 (which states that the Exchange will announce to Trading Permit Holders via Regulatory Circular all pronouncements regarding determinations by the Exchange pursuant to Rule 6.13).

¹¹ The Exchange represents that complex orders continue to have opportunities to trade against the leg markets, both at the open pursuant to proposed paragraph (a)(i) and intraday pursuant to Rule 6.13(b) (execution of orders in the COB) and (c) (execution of orders through COA). Additionally, this filing does not change the complex order priority principles (including public customer priority) set forth in Rules 6.12 and 6.13.

consistent with its other rules regarding the determination of allocation algorithms and will further promote fair and orderly openings of strategies on the COB.¹²

The proposed rule change also adds detail to proposed paragraph (a)(ii) regarding which trades on the COB are deemed to be part of the opening of the COB (and thus subject to the allocation algorithm in place for the COB open). To the extent a complex order partially trades with the leg series on the COB open, and the remaining balance enters the COB (pursuant to Rule 6.13) as set forth in proposed subparagraph (a)(i), if that remaining balance is marketable against another complex order on the COB at the open, those orders will execute as set forth in proposed subparagraph (a)(ii). Thus, any execution of that remaining balance on the COB is considered an execution at the COB open, as the open is intended to cause any marketable complex orders to trade, and thus subject to proposed subparagraph (a)(ii) (current paragraph (b)). The proposed rule change makes a corresponding change to proposed paragraph (a)(i) to provide that any remaining balance may trade pursuant to proposed paragraph (a)(ii) (if unable to trade, it will be processed as it would on an intra-day basis). The proposed rule change also makes a corresponding change to proposed paragraph (a)(ii) to provide that the COB will open, or continue to open, with a trade of complex orders on the COB, as the COB opening may already have been initiated by a trade pursuant to paragraph (a)(i).

For example, suppose Complex Order X is an order to buy 20 Series A and 20 Series B for a net price of \$2.40 and on the COB at the open. If the market for Series A is \$1.00 – \$1.20 and the market for Series B is \$1.00 – \$1.20 (for a net price of \$2.00 – \$2.40),

¹² Additionally, because Rules 6.11, Interpretation and Policy .01, 6.12 and 6.13, Interpretation and Policy .05 provide the Exchange with flexibility to determine allocation algorithms on a class-by-class basis, the Exchange believes it is appropriate to provide the same class-by-class flexibility to trading at the COB open.

with the offer to sell at \$2.40 for 10 contracts, then when the COB opens, 10 contracts of Complex Order X will trade against the 10 contracts in the leg markets. The remaining balance of 10 of Complex Order X then enters the COB pursuant to Rule 6.13(b). If Complex Order Y to sell 10 Series A and 10 Series B at \$2.40 is on the COB at the open, then the remaining balance of Complex Order X will trade against Complex Order Y. This trade of Complex Order X against Complex Order Y is part of the COB open. If there were multiple complex orders at the same price, they would allocate in accordance with the algorithm in place for the COB open.

The Exchange believes that the rule text is currently unclear as to whether any remaining balance from proposed subparagraph (a)(i) enters the COB and is marketable against the COB would trade in accordance with COB open or COB intraday rules. Currently, if the remaining balance is marketable against other complex orders in the COB, the System will execute the remaining balance against orders in the COB as part of the COB open (and thus in accordance with the opening matching algorithm). Generally, the “opening” includes all trades that would “clear” the market.¹³ The proposed rule change is consistent with this idea and adds this detail to proposed subparagraph (a)(ii) to codify the intent of the current rule.

In addition, the proposed rule change adds paragraph (c) to Interpretation and Policy .07, which states that the Exchange may use the process described in paragraph (a) when the COB reopens a strategy after a time period during which trading of that strategy was unavailable pursuant to the rules. The Exchange may use the opening rotation process to

¹³ See Rule 6.11 regarding the opening of series at a market-clearing price and Rule 6.13, Interpretation and Policy .07(b) regarding the opening of the COB at a market-clearing price.

reopen a class after a trading halt.¹⁴ The proposed rule change provides the Exchange with the same flexibility with respect to reopening the COB. Trading of strategies may be unavailable on the COB, for example, if there is a trading halt in the underlying security or if trading on the COB is “on hold” because the derived net market is outside of price check parameters set by the Exchange to prevent extreme executions.¹⁵ The Exchange uses the opening rotation process to reopen after a trading halt to provide for an orderly reopening, and the Exchange would similarly like to provide for a fair and orderly reopening of the COB after any period during which COB trading was unavailable.

The proposed rule change also makes nonsubstantive, technical changes to Interpretation and Policy .07, including adding and modifying subparagraph lettering and numbering, indenting subparagraphs, and deleting unnecessary parentheticals.

(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.¹⁶ Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)¹⁷ 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

¹⁴ See Rule 6.11(i).

¹⁵ See Rule 6.13, Interpretation and Policy .04. For example, pursuant to paragraph (a)(3), if the BBO or derived net market is not within an acceptable price range, the System holds marketable limit orders and does not allow trading of complex orders for that strategy until the market is no longer outside the applicable price range.

¹⁶ 15 U.S.C. 78f(b).

¹⁷ 15 U.S.C. 78f(b)(5).

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)¹⁸ requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

In particular, the proposed rule change adds detail to its rules regarding the opening of trading on its COB, which benefits investors. The Exchange believes the flexibility provided by the proposed rule change is consistent with its other rules. The Exchange already has flexibility to apply a different allocation algorithm at the open of trading of simple orders and to use its opening procedure after a trading halt for simple orders.¹⁹ It also already has the flexibility to apply a different allocation algorithm to complex order executions on the COB.²⁰ The Exchange is merely extending this flexibility to the opening and reopening of trading of complex orders on the COB. The Exchange notes that the level of trading activity is often different at the open than during the trading day. To ensure a fair and orderly opening in light of this trading activity, rules often allow the Exchange to apply them in a different manner to the opening of trading (such as different bid-ask differential requirements, different price reasonability checks and different allocation algorithms). The Exchange believes extending similar flexibility to the opening of complex order trading on the Exchange will allow it to

¹⁸ Id.

¹⁹ See Rule 6.11(i) (use of opening procedures after a trading halt) and Interpretation and Policy .01 (determination of allocation algorithm on a class-by-class basis during opening rotations, which may be different than allocation algorithm for intraday trading).

²⁰ See Rule 6.13, Interpretation and Policy .05.

similarly ensure a fair and orderly COB open, which protects investors and promotes just and equitable principles of trade.

The proposed rule change that specifies that the remaining balance of a complex order that partially trades with the individual leg series may be executed as part of the COB open provision, and that the COB open may include both trades of complex orders with the legs and with other complex orders, further benefits investors and promotes an open market by adding detail to the rules regarding how the System treats this remaining balance. Openings generally include a series of trades in order to execute all orders that are marketable upon the open, and the Exchange believes the proposed rule change is consistent with that idea.

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 complex order trading on the COB when it opens or reopens. In addition, the proposed rule change applies only to the COB opening process on the Exchange. Its purpose is to include the COB opening procedure that is currently in place on the Exchange, which procedure is designed to open complex order strategies on the Exchange in a fair and orderly manner. The proposed rule change does not help C2 market participants to the detriment of market participants on other exchanges.

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 Act²¹ and Rule 19b-4(f)(6)²² thereunder.

(b) The Exchange designates that the proposed rule change effects a change that (i) does not significantly affect the protection of investors or the public interest; (ii) does not impose any significant burden on competition; and (iii) by its terms, does not become operative for 30 days after the date of the filing, or such shorter time as the Securities and Exchange Commission (the “Commission”) may designate if consistent with the protection of investors and the public interest. Additionally, the Exchange has given the Commission written notice of its intent to file the proposed rule change, along with a 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 raise any new, unique issues. The proposed rule change is consistent with other existing rules related to the application of allocation algorithms.²³ The Exchange already has flexibility to apply a different allocation algorithm

²¹ 15 U.S.C. 78s(b)(3)(A).

²² 17 CFR 240.19b-4(f)(6).

²³ See, e.g., Rules 6.11(i) (use of opening procedures after a trading halt) and Interpretation and Policy .01 (determination of allocation algorithm on a class-by-class basis during opening rotations, which may be different than allocation algorithm for intraday trading), 6.12 (determination of allocation algorithms on a class-by-class basis) and 6.13, Interpretation and Policy .05 (determination of allocation algorithm on a class-

at the opening (and reopening) of trading of simple orders. The Exchange is merely extending this flexibility to the opening (and reopening) of trading of complex orders on the COB. The proposed rule change that specifies that the remaining balance of a complex order that partially trades with the individual leg series may be executed as part of the COB open adds detail to the rules regarding how the System treats this remaining balance. The idea that multiple trades of all marketable orders constitute an “opening” is consistent with other rules regarding openings.²⁴ The proposed rule change does not adopt any new allocation algorithms or priority rules.

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.

by-class basis for COB executions, which may be different than allocation algorithm for trading individual leg series).

²⁴ See Rule 6.11(f) and (g) (which states that the System will match orders and quotes to the extent possible at a single clearing price).

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 1

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34- ; File No. SR-C2-2014-024]

[Insert date]

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

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on [insert date], C2 Options Exchange, Incorporated (the “Exchange” or “C2”) filed with the Securities and Exchange Commission (the “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to amend its rules related to the complex order book (“COB”). The text of the proposed rule change is provided below.

(additions are underlined; deletions are [bracketed])

* * * * *

**C2 Options Exchange, Incorporated
Rules**

* * * * *

Rule 6.13. Complex Order Execution

(a) – (c) No change.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

. . . Interpretations and Policies:

.01 – .06 No change

.07 Execution of Complex Orders on the COB Open:

(a) Complex orders, including stock-option orders, do not participate in opening rotations for individual component option series legs conducted pursuant to Rule 6.11. When the last of the individual component option series legs that make up a complex order strategy has opened (and, in the case of a stock-option order, the underlying stock has opened), the COB for that strategy will open. The COB will open with no trade, except as follows:

[(a)i] The COB will open with a trade against the individual component option series legs if there are complex orders on only one side of the COB that are marketable against the opposite side of the derived net market. The resulting execution will occur at the derived net market price to the extent marketable pursuant to the rules of trading priority otherwise applicable to incoming electronic orders in the individual component legs. To the extent there is any remaining balance, the complex orders will trade pursuant to subparagraph (ii) below or, if unable to trade, be processed as they would on an intra-day basis under Rule 6.13. [(This subparagraph ((a)i) is not applicable to stock-option orders because stock-option orders do not trade against the individual component option series legs when the COB opens.[]]

[(b)ii] The COB will open (or continue to open with another trade if a trade occurred pursuant to subparagraph (i) above) with a trade against complex orders if there are complex orders in the COB (including any remaining balance of an order that enters the COB after a partial trade with the legs pursuant to subparagraph (i)) that are marketable against each other and priced within the derived net market. The resulting execution will occur at a market clearing price that is inside the derived net market and that matches complex orders to the extent marketable pursuant to the allocation algorithm from Rule 6.12, as determined by the Exchange on a class-by-class basis[. In determining the priority,] with the addition that the COB gives priority to complex orders whose net price is better than the market clearing price first, and then to complex orders at the market clearing price. To the extent there is any remaining balance, the complex orders will be processed as they would on an intra-day basis under Rule 6.13. [(This subparagraph ((b)ii) is applicable to stock-option orders.[]]

[(c)b] The “derived net market” for a stock-option order strategy will be calculated using the Exchange’s best bid or offer in the individual option series leg(s) and the NBBO in the stock leg. The “derived net market” for any other complex order strategy will be calculated using the Exchange’s best bid or offer in the individual option series legs.

(c) The Exchange may also use the process described in paragraph (a) of this Interpretation and Policy .07 when the COB reopens a strategy after a time period during which trading of that strategy was unavailable.

* * * * *

The text of the proposed rule change is also 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.

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 Exchange proposes to amend its rules related its COB. Rule 6.13, Interpretation and Policy .07 describes how complex orders execute when the COB opens. Complex orders do not participate in the opening rotation for the individual leg series (which occurs pursuant to Rule 6.11). Rather, the COB for a complex order strategy will open when the last of the individual legs series that make up the strategy has opened (and, in the case of a stock-option order, when the underlying stock has opened). Under the current rules, the COB will open with no trade, except as follows:

- The COB will open with a trade against the individual component option series legs if there are complex orders on only one side of the COB that are marketable against the opposite side of the derived net market.³ The resulting

³ The "derived net market" is calculated based on the Exchange's best bid or offer ("BBO") in the individual series legs. For stock-option orders, the derived net market is

execution will occur at the derived net market price to the extent marketable. To the extent there is any remaining balance, the complex orders will be processed as they would on an intra-day basis under Rule 6.13.⁴ This does not apply to stock-option orders, which cannot trade against the individual leg series when the COB opens.

- The COB will open with a trade against complex orders if there are complex orders in the COB that are marketable against each other and priced within the derived net market. The resulting execution will occur at a market clearing price that is inside the derived net market and that matches complex orders to the extent marketable. In determining the priority, the COB gives priority to complex orders whose net price is better than the market clearing price first, and then to complex orders at the market clearing price. To the extent there is any remaining balance, the complex orders will be processed as they would on an intra-day basis under Rule 6.13.⁵ This applies to stock-option orders.

The proposed rule change adds to current paragraph (b) of Interpretation and Policy .07⁶ that the Exchange may determine, on a class-by-class basis, which allocation algorithm from Rule 6.12⁷ will apply to complex order trades on the COB open pursuant

calculated based on the BBO in the individual option series leg(s) and the national best bid or offer (“NBBO”) in the stock leg. See Rule 6.13, Interpretation and Policy .07(c) (which this rule filing proposes to change to paragraph (b)).

⁴ Pursuant to Rule 13, complex orders may either enter the COB or process through a complex order auction (COA).

⁵ Id.

⁶ The proposed rule change reorganizes Interpretation and Policy .07. This proposed language appears in proposed paragraph (a)(ii) (current paragraph (b)), which is the paragraph related to trades of complex orders on the COB at the open.

⁷ The allocation algorithms include price-time, pro-rata, and price-time with primary public customer priority and secondary trade participation right priority base

to current paragraph (b) (proposed paragraph (a)(ii)).⁸ The Exchange may determine on a class-by-class basis which allocation algorithm from Rule 6.12 will apply to executions to opening rotations.⁹ This opening allocation algorithm may be different than the intraday allocation algorithm. The proposed rule change provides the Exchange with the same flexibility with respect to executions of complex orders on the COB open. While Rule 6.13, Interpretation and Policy .05 provides the Exchange with the flexibility to determine on a class-by-class basis which allocation algorithm from Rule 6.12 will apply to COB executions (in lieu of the algorithm specified in Rule 6.12(b)(1)(B))¹⁰, Interpretation and Policy .07 does not state that the applicable allocation algorithm for complex order executions on the COB open may be different than the intraday allocation algorithm for the COB. The proposed rule change adds this detail to the rules and allows the Exchange to determine on a class-by-class basis which allocation algorithm will apply to complex order trades on the COB open, which may be different than the allocation

priorities and a combination of various optional priority overlays pertaining to public customer priority, Market-Maker participation entitlements, small order preference and market turner. See Rule 6.12.

⁸ The proposed rule change also adds to current paragraph (a) (proposed paragraph (a)(i)) that executions of complex orders against the individual legs will be pursuant to the rules of trading priority otherwise applicable to incoming electronic orders in the individual component legs. The current rule is silent on what allocation algorithm applies to executions of complex orders on the COB against the individual legs. The Exchange believes the proposed rule text merely eliminates any potential confusion regarding how complex orders will be allocated in accordance with proposed paragraph (a)(i).

⁹ See Rule 6.11, Interpretation and Policy .01.

¹⁰ Rule 6.13(b)(1) states that complex orders submitted to the COB may trade as follows: (a) a complex order in the COB will automatically execute against individual quotes and orders on the book provided the complex order can be executed in full or in a permissible ratio by the orders and quotes in the book; or (b) complex orders in the COB that are marketable against each other will automatically execute, and the allocation of complex orders within the COB will be pursuant to the rules of trading priority otherwise applicable to incoming orders in the individual component legs.

algorithm applicable to intraday complex order trades on the COB.¹¹ The Exchange will announce any allocation algorithm determinations via Regulatory Circular.¹²

The Exchange is not proposing to adopt any new allocation algorithms or priority rules nor is it proposing to modify the COB opening process.¹³ Rather, it is adding detail to the Exchange rule regarding the COB opening process and providing the Exchange with flexibility to choose an algorithm from among the existing algorithms that will apply to complex order trades on the COB open, rather than simply defaulting to the algorithm in effect for intraday trading on the COB in that class. The Exchange believes this flexibility is consistent with its other rules regarding the determination of allocation algorithms and will further promote fair and orderly openings of strategies on the COB.¹⁴

The proposed rule change also adds detail to proposed paragraph (a)(ii) regarding which trades on the COB are deemed to be part of the opening of the COB (and thus subject to the allocation algorithm in place for the COB open). To the extent a complex order partially trades with the leg series on the COB open, and the remaining balance enters the COB (pursuant to Rule 6.13) as set forth in proposed subparagraph (a)(i), if that remaining balance is marketable against another complex order on the COB at the

¹¹ Currently, complex orders that execute against the COB (proposed subparagraph (a)(ii)) allocate pursuant to price-time.

¹² See Rule 6.13, Interpretation and Policy .01 (which states that the Exchange will announce to Trading Permit Holders via Regulatory Circular all pronouncements regarding determinations by the Exchange pursuant to Rule 6.13).

¹³ The Exchange represents that complex orders continue to have opportunities to trade against the leg markets, both at the open pursuant to proposed paragraph (a)(i) and intraday pursuant to Rule 6.13(b) (execution of orders in the COB) and (c) (execution of orders through COA). Additionally, this filing does not change the complex order priority principles (including public customer priority) set forth in Rules 6.12 and 6.13.

¹⁴ Additionally, because Rules 6.11, Interpretation and Policy .01, 6.12 and 6.13, Interpretation and Policy .05 provide the Exchange with flexibility to determine allocation algorithms on a class-by-class basis, the Exchange believes it is appropriate to provide the same class-by-class flexibility to trading at the COB open.

open, those orders will execute as set forth in proposed subparagraph (a)(ii). Thus, any execution of that remaining balance on the COB is considered an execution at the COB open, as the open is intended to cause any marketable complex orders to trade, and thus subject to proposed subparagraph (a)(ii) (current paragraph (b)). The proposed rule change makes a corresponding change to proposed paragraph (a)(i) to provide that any remaining balance may trade pursuant to proposed paragraph (a)(ii) (if unable to trade, it will be processed as it would on an intra-day basis). The proposed rule change also makes a corresponding change to proposed paragraph (a)(ii) to provide that the COB will open, or continue to open, with a trade of complex orders on the COB, as the COB opening may already have been initiated by a trade pursuant to paragraph (a)(i).

For example, suppose Complex Order X is an order to buy 20 Series A and 20 Series B for a net price of \$2.40 and on the COB at the open. If the market for Series A is \$1.00 – \$1.20 and the market for Series B is \$1.00 – \$1.20 (for a net price of \$2.00 – \$2.40), with the offer to sell at \$2.40 for 10 contracts, then when the COB opens, 10 contracts of Complex Order X will trade against the 10 contracts in the leg markets. The remaining balance of 10 of Complex Order X then enters the COB pursuant to Rule 6.13(b). If Complex Order Y to sell 10 Series A and 10 Series B at \$2.40 is on the COB at the open, then the remaining balance of Complex Order X will trade against Complex Order Y. This trade of Complex Order X against Complex Order Y is part of the COB open. If there were multiple complex orders at the same price, they would allocate in accordance with the algorithm in place for the COB open.

The Exchange believes that the rule text is currently unclear as to whether any remaining balance from proposed subparagraph (a)(i) enters the COB and is marketable

against the COB would trade in accordance with COB open or COB intraday rules. Currently, if the remaining balance is marketable against other complex orders in the COB, the System will execute the remaining balance against orders in the COB as part of the COB open (and thus in accordance with the opening matching algorithm). Generally, the “opening” includes all trades that would “clear” the market.¹⁵ The proposed rule change is consistent with this idea and adds this detail to proposed subparagraph (a)(ii) to codify the intent of the current rule.

In addition, the proposed rule change adds paragraph (c) to Interpretation and Policy .07, which states that the Exchange may use the process described in paragraph (a) when the COB reopens a strategy after a time period during which trading of that strategy was unavailable pursuant to the rules. The Exchange may use the opening rotation process to reopen a class after a trading halt.¹⁶ The proposed rule change provides the Exchange with the same flexibility with respect to reopening the COB. Trading of strategies may be unavailable on the COB, for example, if there is a trading halt in the underlying security or if trading on the COB is “on hold” because the derived net market is outside of price check parameters set by the Exchange to prevent extreme executions.¹⁷ The Exchange uses the opening rotation process to reopen after a trading halt to provide for an orderly reopening, and the Exchange would similarly like to provide for a fair and

¹⁵ See Rule 6.11 regarding the opening of series at a market-clearing price and Rule 6.13, Interpretation and Policy .07(b) regarding the opening of the COB at a market-clearing price.

¹⁶ See Rule 6.11(i).

¹⁷ See Rule 6.13, Interpretation and Policy .04. For example, pursuant to paragraph (a)(3), if the BBO or derived net market is not within an acceptable price range, the System holds marketable limit orders and does not allow trading of complex orders for that strategy until the market is no longer outside the applicable price range.

orderly reopening of the COB after any period during which COB trading was unavailable.

The proposed rule change also makes nonsubstantive, technical changes to Interpretation and Policy .07, including adding and modifying subparagraph lettering and numbering, indenting subparagraphs, and deleting unnecessary parentheticals.

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the Act and the rules and regulations thereunder applicable to the Exchange and, in particular, the requirements of Section 6(b) of the Act.¹⁸ Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)¹⁹ 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)²⁰ requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

In particular, the proposed rule change adds detail to its rules regarding the opening of trading on its COB, which benefits investors. The Exchange believes the flexibility provided by the proposed rule change is consistent with its other rules. The

¹⁸ 15 U.S.C. 78f(b).

¹⁹ 15 U.S.C. 78f(b)(5).

²⁰ Id.

Exchange already has flexibility to apply a different allocation algorithm at the open of trading of simple orders and to use its opening procedure after a trading halt for simple orders.²¹ It also already has the flexibility to apply a different allocation algorithm to complex order executions on the COB.²² The Exchange is merely extending this flexibility to the opening and reopening of trading of complex orders on the COB. The Exchange notes that the level of trading activity is often different at the open than during the trading day. To ensure a fair and orderly opening in light of this trading activity, rules often allow the Exchange to apply them in a different manner to the opening of trading (such as different bid-ask differential requirements, different price reasonability checks and different allocation algorithms). The Exchange believes extending similar flexibility to the opening of complex order trading on the Exchange will allow it to similarly ensure a fair and orderly COB open, which protects investors and promotes just and equitable principles of trade.

The proposed rule change that specifies that the remaining balance of a complex order that partially trades with the individual leg series may be executed as part of the COB open provision, and that the COB open may include both trades of complex orders with the legs and with other complex orders, further benefits investors and promotes an open market by adding detail to the rules regarding how the System treats this remaining balance. Openings generally include a series of trades in order to execute all orders that are marketable upon the open, and the Exchange believes the proposed rule change is consistent with that idea.

²¹ See Rule 6.11(i) (use of opening procedures after a trading halt) and Interpretation and Policy .01 (determination of allocation algorithm on a class-by-class basis during opening rotations, which may be different than allocation algorithm for intraday trading).

²² See Rule 6.13, Interpretation and Policy .05.

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 complex order trading on the COB when it opens or reopens. In addition, the proposed rule change applies only to the COB opening process on the Exchange. Its purpose is to include the COB opening procedure that is currently in place on the Exchange, which procedure is designed to open complex order strategies on the Exchange in a fair and orderly manner. The proposed rule change does not help C2 market participants to the detriment of market participants on other exchanges.

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 Act²³ and Rule 19b-4(f)(6)²⁴ thereunder. At any time within 60 days of the filing of the proposed rule

²³ 15 U.S.C. 78s(b)(3)(A).

²⁴ 17 CFR 240.19b-4(f)(6).

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. Please include File Number SR-C2-2014-024 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-C2-2014-024. 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-C2-2014-024 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.²⁵

Secretary

²⁵ 17 CFR 200.30-3(a)(12).