

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 45	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - 2015 - * 021	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 \*).

Proposal relating to price check parameters

**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 \* William      Last Name \* Wallenstein

Title \* Attorney / Assistant Secretary

E-mail \* wallenstein@cboe.com

Telephone \* (312) 786-8716      Fax (312) 786-7919

**Signature**

Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

(Title \*)

Date 07/17/2015      Attorney / Assistant Secretary

By William P. Wallenstein     

(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 - 1431530525801,

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 Proposed Rule Change

(a) The C2 Options Exchange, Incorporated (“C2” or “Exchange”) is proposing to amend the price check parameter provisions in its rules. The text of the proposed rule change is provided in Exhibit 5.

(b) Not applicable.

(c) Not applicable.

Item 2. Procedures of the Self-Regulatory Organization

(a) The Exchange’s President (or designee) pursuant to delegated authority approved the proposed rule change on January 9, 2015.

(b) Questions and comments on the proposed rule change may be referred to Joanne Moffic-Silver, 400 South LaSalle Street, Chicago, Illinois 60605; Telephone: (312) 786-7462; Fax: (312) 786-7919 or William P. Wallenstein at (312) 786-8716.

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

(a) Purpose

Under Rule 6.17, C2 does not automatically execute eligible orders that are marketable if (i) the width between the national best bid and offer (the “NBBO”) is not within an acceptable price range (as established by the Exchange on a series by series basis for market orders and/or marketable limit orders within certain parameters and announced to Trading Permit Holders (“TPHs”) via Regulatory Circular) (the “market width parameter”), or (ii) the execution would follow an initial partial execution on the Exchange and would be at a subsequent price that is not within an acceptable tick distance (“ATD”) from the initial execution (as determined by the Exchange on a series

by series and premium basis for market order and/or marketable limit orders and announced to TPHs by Regulatory Circular)(the “drill through parameter”).

The purpose of this proposed rule change is, first, to codify another price reasonability check within Rule 6.17. The reasonability check is currently in use but not expressly covered in the rules. Specifically, under this reasonability check, referred to as the “limit order price parameter,” the Exchange will not accept for execution eligible limit orders if (i) prior to the opening (including before a series is opened following a halt),<sup>1</sup> the order is to buy are at more than an acceptable tick distance above the Exchange’s previous day’s close or the order is to sell are at more than an acceptable tick distance below the Exchange’s previous day’s close (such ATD will be as determined by the Exchange on a series by series and premium basis and announced to TPHs by Regulatory Circular);<sup>2</sup> or, (ii) once a series has opened, the order is to buy are at more than an acceptable tick distance above the disseminated Exchange offer or the order to sell are at more than an acceptable tick distance below the disseminated Exchange bid

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<sup>1</sup> This includes halts that may occur at any time after the opening of trading on a particular trading day. The Exchange notes that this is the manner in which the limit order price parameter functionality currently operates. The Exchange believes that this functionality provides an additional safeguard to consider the reasonableness of limit order pricing prior to a re-opening following a trading halt.

<sup>2</sup> This parameter for limit orders received prior to the opening (including before a series is opened following a halt) is not applicable to limit orders of Exchange Market-Makers and away Market-Makers. The Exchange believes that Market-Makers actively evaluate the pre-opening market and utilize their own risk management parameters when entering, maintaining and cancelling orders prior to the opening, minimizing the likelihood of a Market-Maker order resulting from an error from being entered and continuing to rest prior to the opening of trading. In that regard, while the Exchange believes that the application of its limit order price parameters serve to promote a fair and orderly market, the parameters are not a substitute for a broker-dealer’s compliance with Rule 15c3-5 under the Securities Exchange Act of 1934 (the “Act”), 17 CFR 240.15c3-5 (commonly referred to as the “Market Access Rule”).

(such ATD will be as determined by the Exchange on a series by series and premium basis and announced to TPHs by Regulatory Circular).<sup>3</sup> The Exchange will not apply pre-opening limit order price parameters to limit orders of Exchange Market-Makers or away Market-Makers, or to Intermarket Sweep Orders (“ISOs”) as such cannot be entered prior to the opening on the System.<sup>4</sup> Once a series has opened, limit order price parameters will be applied to ISOs in all classes in which the limit order price parameter is activated.<sup>5</sup> The Exchange may determine on a class by class basis and announce via

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<sup>3</sup> The Exchange notes that with respect to simple orders, limit order price parameters will be applied a series by series basis with ATDs to be applied to the series that is the subject of the simple order execution as only one series is involved in a simple order execution. With respect to complex orders, limit order price parameters will be applied on a class by class basis with ATDs to be applied to both (each) of the individual legs of both (each) series comprising the complex order as well as the net derived premium price (“net premium basis”) of the complex order as a whole. These parameters will be applied on a class by class basis for complex orders as multiple series in a class are involved in a complex order execution. The Exchange notes that the ATDs determined by the Exchange on a series by series and premium basis (i.e. simple order executions) and class by class and net premium basis (i.e. complex order executions) under Rules 6.17 and 6.13 will be announced via Regulatory Circular at least one day in advance.

<sup>4</sup> Under Rule 1.1, the term “System” means the automated trading system used by the Exchange for the trading of options contracts.

<sup>5</sup> For all classes where the limit order price parameter is activated, it is currently applied to ISOs. ISOs are oftentimes used to capture size on the Exchange that is not available on other markets. As a result, ISOs tend to be large orders and thus, the consequences of order entry errors may be great. In an effort to protect market participants from the consequences of such order entry errors and prevent market disruptions that may be caused by erroneously placed orders, the Exchange has determined to apply limit order price parameters to ISOs on the Exchange. The Exchange believes that applying limit order price parameters to ISOs serves to protect investors and is consistent with Section 6(b) of the Act. The Exchange has in place rules and surveillances to ensure that ISOs are used in an appropriate manner consistent with the Options Order Protection and Locked/Crossed Market Plan, C2 Rules, and Federal Securities laws. See Section E of Chapter 6 (incorporating by reference CBOE’s rules relating to the Options Order Protection and Locked/Crossed Market Plan), relating to Intermarket Linkage and corresponding Chicago Board Options Exchange, Incorporated (“CBOE”) Rule 6.80(8) defining an ISO as a Limit Order for an options series that,

Regulatory Circular whether to apply the parameters in (i) and/or (ii) above to immediate-or-cancel orders if doing so would be necessary or appropriate in furtherance of the interests of investors and the promotion of fair and orderly markets.<sup>6</sup>

For purposes of this limit order price parameter: An “acceptable tick distance” or “ATD”<sup>7</sup> is to be determined by the Exchange on a series by series and premium basis and

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simultaneously with the routing of the ISO, one or more additional ISOs, as necessary, are routed to execute against the full displayed size of any Protected Bid, in the case of a limit order to sell, or any Protected Offer, in the case of a limit order to buy, for the options series with a price that is superior to the limit price of the ISO and noting that a Trading Permit Holder may submit an ISO to the Exchange only if it has simultaneously routed one or more additional ISOs to execute against the full displayed size of any Protected Bid, in the case of a limit order to sell, or Protected Offer, in the case of a limit order to buy, for an options series with a price that is superior to the limit price of the ISO. Should the Exchange, in the future, determine that, in the interests of fair and orderly markets or, in furtherance of the objectives of the Options Order Protection and Locked/Crossed Market Plan, limit order price parameters should be applied to ISOs (or another order type) in a different manner as other order types, the Exchange may determine to widen or narrow the ATDs with respect to ISOs (or another order type), which would be announced via Regulatory Circular. Should the Exchange, in the future, determine that, in the interests of fair and orderly markets or, in furtherance of the objectives of the Options Order Protection and Locked/Crossed Market Plan, limit order price parameters should not apply to ISOs, a further rule filing would be required.

<sup>6</sup> For all classes where the limit order price parameter is activated, it is not currently applied to immediate-or-cancel orders. Immediate-or-cancel orders are oftentimes used by Market-Makers and sophisticated investors to hit existing books as orders become available. Although the Exchange also believes that there is less of a need to protect Market-Makers and sophisticated investors from potential order entry errors, the Exchange is interested in the protection of all market participants from unintended order entry errors. As a result, in furtherance of the interests of investors and the promotion of fair and orderly markets, the Exchange is considering applying limit order price parameters to immediate-or-cancel orders in the future. Any such determination would be made pursuant to proposed Rules 6.13.04(g) and 6.17(b) and announced via Regulatory Circular

<sup>7</sup> The Exchange notes that, for a given series, the applicable ATDs for the limit order price parameters (which may not be less than five minimum increment ticks) may differ from the ATDs for the drill through parameters (which may not be less than two minimum increment ticks). For example, the Exchange may determine that the drill through ATD for all series of a given class trading in \$0.01 increments is \$0.02 and the limit order price ATD settings for the same class are as described in note 6, infra. The

shall be no less than five minimum increment ticks.<sup>8</sup> The senior official in the Help Desk might widen or inactivate the limit order price parameters on an intra-day basis in the

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settings may differ because the limit order price parameters and the drill through parameters are intended to provide reasonability checks that address various trading scenarios (e.g., marketable orders that would otherwise drill through multiple price points and limit orders that are priced significantly through the disseminated Exchange bid/offer or the prior day's close). The Exchange believes use of multiple reasonability checks helps to prevent the entry and execution of orders at potentially erroneous prices, which should promote a fair and orderly market.

<sup>8</sup> For example, currently the Exchange has determined for all classes where the limit order price parameter is activated that the Exchange would not accept the following limit orders for execution: (i) if the market quote is less than or equal to \$3, limit orders to buy priced more than \$0.50 above the offer and limit orders to sell priced more than \$0.50 below the bid; (ii) if the market quote is greater than \$3 and less than or equal to \$10, limit orders to buy priced more than \$1.00 above the offer and limit orders to sell priced more than \$1.00 below the bid; (iii) if the market quote is greater than \$10 and less than or equal to \$30, limit orders to buy priced more than \$1.50 above the offer and limit orders to sell priced more than \$1.50 below the bid; (iv) if the market quote is greater than \$30 and less than or equal to \$50, limit orders to buy priced more than \$2.00 above the offer and limit orders to sell priced more than \$2.00 below the bid; or (v) if the market quote is equal to or greater than \$50, limit orders to buy priced more than \$3.00 above the offer and limit order to sell priced more than \$3.00 below the bid. See C2 Regulatory Circular RG13-059, which is available at [http://www.c2exchange.com/publish/RegCir\\_C2/C2RG13-059.pdf](http://www.c2exchange.com/publish/RegCir_C2/C2RG13-059.pdf). For the same classes, the Exchange has determined that limit orders received before a series is in opened will be checked against the previous trading day's closing price using the same parameters noted above. Exchange Market Maker and away Market Maker orders received pre-open are excluded from this pre-open limit order price parameter. The foregoing limit order price parameters are in effect in all classes except options on Apple Inc. (AAPL). There are no limit order price parameters currently activated for option class AAPL. See *id.* According to the Exchange, volume for options class AAPL is higher and trading is more volatile, while the price of the underlying stock is higher (e.g., Apple Inc. closed at \$125.69 on July 7, 2015). The Exchange believes that application of the limit order price parameter in these circumstances may serve as more of a hindrance to the orderly processing orders (e.g., application of the parameter may result in an inordinate number of orders being excepted from automated process and instead routing for manual handling) and, as a result, has determined to not apply the parameters to option class AAPL for the time being. However, the Exchange may evaluate whether to apply the parameters to the option class and any determination to do so would be announced via Regulatory Circular.

interest of a fair and orderly market.<sup>9</sup> The limit order price parameter takes precedence over another parameter to the extent that both are applicable to an incoming limit order.<sup>10</sup>

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<sup>9</sup> For example, if an underlying stock is high priced or volatile and is experiencing significant price movement and the existing parameters would result in an inordinate number of limit orders not being accepted, the senior official in the Help Desk may determine to widen the parameters on an intra-day basis in the overlying or related options series. See C2 Rule 6.17(B); see also C2 Regulatory Circular RG13-059, which is available at [http://www.c2exchange.com/publish/RegCir\\_C2/C2RG13-059.pdf](http://www.c2exchange.com/publish/RegCir_C2/C2RG13-059.pdf). As another example, if the overall market is experiencing significant volatility, the senior official in the Help Desk may determine to widen the limit order price parameters for a series. In that regard, the Exchange has determined that on any trading day where the front-month E-mini S&P 500 Futures (symbol ES/1) are trading more than 20 points above or below the previous day's closing values by 8:00 a.m. (all times noted are Central Time), the Exchange will widen the limit order price parameter levels from \$0.50, \$1.00, \$1.50, \$2.00 and \$3.00 as set out in note 8, supra, to \$1.00, \$2.00, \$3.00, \$4.00 and \$6.00, respectively, for the trading day for all series where the limit order price parameter is activated (referred to herein as the "Standing Intraday Relief Condition"). See C2 Regulatory Circular C2 RG13-059. The next trading day, the limit order price parameter levels would revert back to the normal setting, unless the E-mini S&P 500 Future is more than 20 points above or below the previous day's closing values by 8:00 a.m.

Example of Standing Intraday Relief Condition: If on Monday the E-mini S&P 500 Futures close at 1700 and by 8:00 a.m. on Tuesday the E-mini S&P 500 Future is trading at 1730 (30 points above the prior day's close of 1700), then the Exchange would adjust the limit order price parameters to the wider levels noted above. If the E-mini S&P 500 Futures close on Tuesday at 1725 and by 8:00 a.m. on Wednesday are trading at 1720 (only 5 points below the prior day's close of 1725), then the limit order price parameter settings would revert back to the levels that were in place on Monday. However, if by 8:00 a.m. on Wednesday the E-mini S&P 500 Futures are trading at 1700 (25 points below the prior day's close of 1725), then the limit order price parameter settings would remain at the levels that were in place on Tuesday.

The Exchange notes that these examples are non-exhaustive and for illustrative purposes only. The Exchange also notes that it may determine for the parameters to differ among series and between pre-open and intra-day.

<sup>10</sup> For example, assume the Exchange has established drill through and limit order price ATD settings as prescribed in notes 8 and 9, supra. If the market quote in a given series is \$2.15 - \$2.55 and an incoming limit order to buy is priced at \$3.50 (more than \$0.50 above the offer), the limit order price ATD will be triggered and the Exchange will not accept the limit order for execution. The drill through parameter would not apply (the drill through ATD parameter would only be considered if the limit order price ATD parameter is not triggered).

The Exchange is also proposing to codify a limit order price parameter for complex orders within Rule 6.13 under proposed Interpretation and Policy .04(g). This limit order price parameter, which is comparable to the limit order price parameters applicable to simple orders described above, is not currently in use. Under this complex order limit order price parameter the Exchange will return a limit priced complex order to the order entry firm where the order is (i) prior to the opening (including before a series is opened following a halt), priced at a net debit that is more than an acceptable tick distance above the derived net market using the Exchange's previous day's close in the individual series legs comprising the complex order or priced at a net credit that is more than an acceptable tick distance below the derived net market using the Exchange's previous day's close in the individual series legs comprising the complex order (such ATD will be as determined by the Exchange on a class by class and net premium basis and announced via Regulatory Circular); or (ii) once a series has opened, priced at a net debit that is more than an acceptable tick distance above the opposite side derived net market using the Exchange's best bid or offer in the individual series legs comprising the complex order or priced at a net credit that is more than an acceptable tick distance below the opposite side derived net market using the Exchange's best bid or offer in the individual series legs comprising the complex order (such ATD will be as determined by the Exchange on a class by class and net premium basis and announced via Regulatory Circular).<sup>11</sup> Similar to simple orders, this parameter for limit priced complex orders received prior to the opening would not be applicable to limit orders of Exchange

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<sup>11</sup> In accordance with the existing provisions of Rule 6.13.01, all pronouncements regarding determinations by the Exchange pursuant to proposed Rule 6.13.04(g) will be announced via Regulatory Circular.

Market-Makers or away Market-Makers, or to ISOs as such cannot be entered prior to the opening on the System. Once a series has opened, limit order price parameters will be applied to ISOs in all classes in which the limit order price parameter is activated.<sup>12</sup> The Exchange may determine on a class by class basis and announce via Regulatory Circular whether to apply the parameters in (i) and/or (ii) above to immediate-or-cancel complex orders (similar to the discussion above for simple orders). The Exchange also notes that the limit order price parameter will not be applicable to stock-option orders.<sup>13</sup> The Exchange also proposes several non-substantive changes within Interpretation and Policy .04 to Rule 6.13 to abbreviate the terms “acceptable price range” and “acceptable tick distance” where appropriate for consistency purposes.

Similar to simple orders, the ATD for the limit order price parameter for complex orders will be no less than 5 minimum net price increment ticks (where the “minimum net price increment” is the minimum increment for net priced bids and offers for the given complex order strategy). For example, if the minimum net price increment for complex orders in a given series in a class is \$0.01, then the ATD would be no less than

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<sup>12</sup> Should the Exchange, in the future, determine that, in the interests of fair and orderly markets or, in furtherance of the objectives of the Options Order Protection and Locked/Crossed Market Plan, limit order price parameters should be applied to ISOs (or another order type) in a different manner as other order types, the Exchange may determine to widen or narrow the ATDs with respect to ISOs (or another order type), which would be announced via Regulatory Circular. Should the Exchange, in the future, determine that, in the interests of fair and orderly markets or, in furtherance of the objectives of the Options Order Protection and Locked/Crossed Market Plan, limit order price parameters should not apply to ISOs, a further rule filing would be required.

<sup>13</sup> Stock-options orders are excluded from the calculation because the individual component stock leg is not traded on the Exchange and, as a result, calculation of a derived net market by the Exchange’s automated system would be a more complicated function. If in the future the Exchange would decide to enhance the limit order price parameter functionality to address stock-option orders, the Exchange would file a rule change to address stock-option orders.

\$0.05 (5 X \$0.01). If the minimum net price increment is \$0.05, then the ATD would be no less than \$0.25 (5 X \$0.05). Also similar to simple orders, the Exchange might widen or inactivate limit order price parameter for complex orders for one or more classes on an intra-day basis in the interest of a fair and orderly market.<sup>14</sup> The limit order price parameter will take precedence over another complex order parameter to the extent that both are applicable to an incoming limit order.<sup>15</sup>

The Exchange is also proposing a miscellaneous change to Rule 6.13.04 to specifically identify the price check parameters that are not applicable to stock-option orders in the introductory text to this provision. The particular parameters to which stock-option orders may be subjected are already identified within the rule text. This proposed change is simply to include a list of those parameters which are not applicable to stock-option orders in the introductory paragraph for ease of reference.<sup>16</sup>

The Exchange notes that the limit order price parameter for simple and complex is intended to protect market participants from executions of limit orders at prices that are

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<sup>14</sup> See also note 9, *supra*.

<sup>15</sup> Rule 6.13.04 sets forth various price check parameters applicable to complex orders. For each price check parameter that may be applicable to incoming limit orders - except the market width parameter - the system will not accept or will return the order back to the order entry firm if the parameter is triggered. If the market width parameter is triggered, an incoming (or resting) marketable limit order will be held in the system, displayed in the complex order book if applicable, and not be eligible for automatic execution until the market width condition is resolved. See Rule 6.13.04. In the instance where both the limit order price parameter and another parameter are applicable, the limit order price parameter takes precedence (i.e., is applied first) before the other parameter is applied.

<sup>16</sup> Specifically, paragraphs (b)(credit-to-debit parameters), (c)(same expiration strategy parameters), (e)(percentage distance parameters) and proposed paragraph (g)(limit order price parameters) of Rule 6.13.04 are not applicable to stock-option orders.

significantly through the Exchange's market (i.e., no less than five minimum increment ticks for simple orders and no less than five minimum net price increment ticks for complex orders). The Exchange believes that TPHs that submit orders on C2 generally intend to receive executions of their orders at or near the Exchange's market. A limit order that is priced significantly through the Exchange's market could be indicative of an error (e.g., mistake in intended price, series, put/call) and could result in executions occurring at prices that have little or no relation to the theoretical price of the option. Accordingly, the Exchange believes the limit order price parameter is a mechanism that will help prevent the entry of erroneous orders, dramatic price swings and, potentially, executions qualifying as obvious errors<sup>17</sup> on C2. The Exchange also believes that orders that are significantly priced through the market have the potential to create market volatility by trading at different price levels until executed in their entirety. As such, the Exchange believes the limit order price parameter may also help limit volatility.

Second, the Exchange is proposing various miscellaneous changes to the existing text in Rule 6.17. In particular, the Exchange is proposing to include a title for each type of price check parameter within the rule text (i.e., for the existing market width parameters, the existing drill through parameters, and the proposed limit order price parameters). The addition of these titles is non-substantive and is intended for ease of reference only. In addition, the Exchange is proposing to replace the "class-by-class basis" reference in proposed Rule 6.17(c) with "series by series and premium basis" to provide consistency within the Rules and reflect the fact that the APR for a simple order will apply on a series by series basis to the single series involved in the order and be

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<sup>17</sup> See C2 Rule 6.15.

determined on a premium basis in relation to the bid-ask differential in that series. For the same reasons, the Exchange proposes to add the term “and premium” to proposed Rule 6.17(a)(1) regarding market width parameters. The Exchange is also renumbering Rule 6.17 and clarifying existing references to APR and ATD as references to the existing market width APR and drill through ATD for ease of reference.

The existing text of Rule 6.17 also provides that the senior official in the Help Desk may grant intra-day relief by widening the APR or ATD settings for one or more option series and that notification of intraday relief will be announced via message to Trading Permit Holders that request to receive such messages. The Exchange is proposing to amend this provision to add that such intra-day relief may be granted in the interest of a fair and orderly market. The Exchange is also proposing to amend this provision to make clear that the senior official in the Help Desk can grant relief by widening or inactivating the applicable APR and/or ATD setting. The Exchange believes including the reference to inactivating the applicable settings is not substantive because an applicable APR or ATD parameter could be widened to such a level that it would be in effect inactive. The Exchange is also proposing to provide within the rule text that the intra-day relief granted by the senior official in the Help Desk will not extend beyond the trade day on which it is granted, unless a determination to extend such relief is announced to TPHs via Regulatory Circular.<sup>18</sup> The Exchange is also proposing to provide within the

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<sup>18</sup> The Exchange notes that conditions when the Standing Intraday Relief will be instituted and the particular form of relief have been announced via Regulatory Circular. See note 9, *supra*. The announcement of the pre-established conditions and relief is intended to serve the circular notification requirement and, as such, a separate circular would not be issued if this relief is instituted over multiple days. However, if the Exchange would determine to modify the conditions for Standing Intraday Relief, then the Exchange would announce those changes by issuing another Regulatory Circular.

rule text that the Exchange will make and keep records to document all determinations to grant intra-day relief under Rule 6.17, and shall maintain those records in accordance with Rule 17a-1 under the Act.<sup>19</sup> The rule text will also provide that the Exchange will periodically review determinations to grant intra-day relief for consistency with the interest of a fair and orderly market. Finally, the Exchange notes that the same intra-day relief provisions are proposed to apply to the limit order price parameter provisions for complex orders in proposed Rule 6.13.04(g).

(b) Statutory Basis

The proposed rule change is consistent with Section 6(b) of the Act<sup>20</sup> in general and furthers the objectives of Section 6(b)(5) of the Act<sup>21</sup> in particular, which requires that the rules of an exchange be designed to promote just and equitable principles of trade, to prevent fraudulent and manipulative acts, to remove impediments to and to perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest.

The Exchange believes the proposed rule change furthers the objective of Section 6(b)(5) of the Act in that it permits the Exchange to address the entry of simple and complex limit orders that are priced significantly away from the market that are likely to

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<sup>19</sup> 17 CFR 240.17a-1. The Exchange notes that determinations to grant intra-day relief under Rule 6.17 will be made in compliance with the provisions of the Act and the rules thereunder, including, but not limited to, the requirements in Section 6(b)(5) of the Act, 15 U.S.C. 78f(b), that the rules of a national securities exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

<sup>20</sup> 15 U.S.C. 78f(b).

<sup>21</sup> 15 U.S.C. 78f(b)(5).

have resulted from human or operational error.<sup>22</sup> By being able to quickly and efficiently reject orders that likely resulted from such error, the proposed use of the limit order price parameter would promote a fair and orderly market. Additionally, by having the flexibility to determine the series or classes where the limit order price parameter would be applied (or not applied) and the levels at which the ATD settings would be applied, and to grant relief on an intra-day basis, the Exchange is able to effectively structure and efficiently react to particular option characteristics and market conditions - including (without limitation) price, volatility, and significant price movements - which contributes to its ability to maintain a fair and orderly market. Accordingly, the Exchange believes that this proposal is designed to promote just and equity principles of trade, remove impediments to, and perfect the mechanism of, a free and open market.<sup>23</sup>

The Exchange also believes that the other proposed changes to Rule 6.17 (e.g., to

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<sup>22</sup> The Exchange believes that these principles are equally applicable to ISOs. In an effort to protect market participants from the consequences of such order entry errors and prevent market disruptions that may be caused by erroneously placed orders, the Exchange has determined to apply limit order price parameters to ISOs on the Exchange. The Exchange believes that applying limit order price parameters to ISOs serves to protect investors and is consistent with Section 6(b) of the Act.

<sup>23</sup> The Exchange notes that limit order price parameters are in effect in all classes except options on Apple Inc. (AAPL). There are no limit order price parameters currently activated for option class AAPL. See C2 Regulatory Circular RG13-059, which is available at [http://www.c2exchange.com/publish/RegCir\\_C2/C2RG13-059.pdf](http://www.c2exchange.com/publish/RegCir_C2/C2RG13-059.pdf). According to the Exchange, volume for options class AAPL is higher and trading is more volatile, while the price of the underlying stock is higher (e.g., Apple Inc. closed at \$125.69 on July 7, 2015). The Exchange believes that application of the limit order price parameters in these circumstances may serve as more of a hindrance to the orderly processing orders (e.g., application of the parameter may result in an inordinate number of orders being excepted from automated process and instead routing for manual handling) and, as a result, has determined to not apply the parameters to option class AAPL for the time being. The Exchange believes that because of these factors different treatment of the AAPL class is warranted. However, the Exchange may evaluate whether to apply the parameters to the option class and any determination to do so would be announced via Regulatory Circular.

include titles for the various price check parameters; to change a reference from class by class to series by series; to make clear that intra-day relief may be granted in the interest of a fair and orderly market and may include widening or inactivating the applicable APR and/or ATD; and to include provisions indicating that intra-day relief may not extend beyond the trade day on which it is granted, unless a determination to extend such relief is announced to Trading Permit Holders via Regulatory Circular, and that the Exchange will make and keep records to document determinations to grant intra-day relief under Rule 6.17) should also serve to further these objectives by more clearly and fully describing certain aspects of the operation of these price check parameters and addressing determinations to modify the operation of the price check parameters on an intra-day basis as provided within Rule 6.17. For the same reason, Exchange believes the substantially similar intra-day relief provisions for complex orders in proposed Rule 6.13.04(g) should also serve to further these objectives. The Exchange also believes that the proposed change to the introductory paragraph to Rule 6.13.04 to specifically identify the price check parameters that are not applicable to stock-option orders should also serve to further these objectives by making the rule easier to read and navigate.

Item 4. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange 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 Exchange believes that the proposed rule change will promote competition in that the limit order price parameters provide market participants with additional protection from anomalous trading. Thus, the Exchange does not believe the proposal creates any significant impact on competition.

The price check parameter features are intended to prevent executions at potentially erroneously prices, which should serve to promote a fair and orderly market and promote trading activity on the Exchange to the benefit of the Exchange, its TPHs, and market participants. The Exchange notes that the limit order price parameters are applied equally to all eligible limit orders, with the limited exception that the parameters do not apply to limit orders for Exchange Market-Makers and away Market-Makers entered prior to the opening. The Exchange believes this does not place an undue burden on competition as the Exchange believes that Market-Makers actively evaluate the pre-opening market and utilize their own risk management parameters when entering, maintaining (and cancelling) orders prior to the opening, minimizing the likelihood of a Market-Maker order resulting an error from being entered and continuing to rest prior to the opening of trading.

Item 5. Self-Regulatory Organization’s Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

No written comments were solicited or received with respect to the proposed rule change.

Item 6. Extension of Time Period for Commission Action

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 has taken effect upon filing pursuant to Section 19(b)(3)(A) of the Act.<sup>24</sup>

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<sup>24</sup> 15 U.S.C. 78s(b)(3)(A).

(b) The Exchange asserts that the proposed rule change (i) will not significantly affect the protection of investors or the public interest, (ii) will not impose any significant burden on competition, and (iii) will not become operative for 30 days after the date of this filing. For the foregoing reasons, this rule filing qualifies as a “non-controversial” rule change under paragraph (f)(6) of Rule 19b-4 under the Act.<sup>25</sup>

The Exchange believes that codification of the limit order price parameter for simple and complex orders should permit the Exchange to address the entry of limit orders significantly away from the market that are likely to have resulted from human or operational error. By being able to not accept orders that likely resulted from such error quickly and efficiently, the proposed use of the limit order price parameter should promote a fair and orderly market. Additionally, by having the flexibility to determine the series or classes where the limit order price parameters would be applied (or not applied) and the levels at which the ATD settings would be applied, and to grant relief on an intra-day basis, the Exchange is able to effectively structure and efficiently react to particular option characteristics and market conditions - including (without limitation) price, volatility, and significant price movements - which contributes to its ability to maintain a fair and orderly market. The Exchange also believes that the other proposed changes (to include titles for the various price check parameters; to change a reference from class by class to series by series; to make clear that intra-day relief may include widening or inactivating the applicable APR and/or ATD; and to include provisions indicating that intra-day relief may not extend beyond the trade day on which it is granted, unless a determination to extend such relief is announced to Trading Permit Holders via Regulatory Circular, and that the Exchange will make and keep records to

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<sup>25</sup> 17 CFR 240.19b-4(f)(6).

document determinations to grant intra-day relief under Rule 6.17 (or proposed Rule 6.13.04(g), as applicable)) would more clearly and fully describe certain aspects of the operation of these price check parameters and include additional requirements regarding determinations to modify the operation of the price check parameters on an intra-day basis as provided within Rule 6.17 (and proposed Rule 7.13.04(g), as applicable), which also should promote a fair and orderly market. The Exchange also believes that the proposed change to the introductory paragraph to Rule 6.13.04 to specifically identify the parameters which are not applicable to stock-option orders should also make the rule easier to read and navigate. Lastly, the Exchange provided the Commission with 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 days prior to the date of the filing of the proposed rule change.

To the extent applicable, the Exchange requests that the Commission waive the 30-day operative delay period after which a proposed rule change under Rule 19b-4(f)(6) becomes effective. As indicated above, the Exchange is including additional detail in its rules on an existing limit order price parameter that is currently in use but not expressly covered in the rules and making other clarifying changes and including additional requirements on the part of the Exchange regarding intra-day relief. No changes to the process for simple orders are being contemplated by this rule change filing, other than to include additional requirements applicable to the Exchange's determinations to grant intra-day relief under Rule 6.17. The Exchange believes that the proposed rule change should provide additional clarity and avoid any confusion on the current operation of the limit order price parameter for simple orders, which the Exchange believes serves to

promote a fair and orderly market. Waiving the 30-day operative delay will enable the Exchange to implement these clarifying changes to the text as soon as possible and for market participants to derive the benefits of having the text updated sooner. The Exchange believes that the limit order price parameter feature benefits investors and market participants by providing additional protection from certain executions under all market conditions, especially for limit orders that are priced significantly away from the Exchange market. The Exchange notes that the proposed addition of a new limit order price parameter feature for complex orders is substantially similar to the parameter feature that has been in operation for simple orders and it would afford a substantially similar limit order price parameter for complex orders. Waiver of the 30-day operative delay in the case of the complex order limit order price parameter would allow the Exchange to implement this feature sooner and for market participants to derive the benefits sooner. In addition, the Exchange believes that the proposed rule change does not present any new, unique or substantive issues that make the 30-day operative delay specified in Rule 19b-4(f)(6) necessary.<sup>26</sup> Further, the Exchange believes that waiver of the 30-day operative delay requirements is consistent with the protection of investors and the public interest.

(c) Not applicable.

(d) Not applicable.

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

The Exchange believes that the proposed rule change as it relates to the limit order price parameter is consistent with the principles underlying Rule 15c3-5 under the

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<sup>26</sup> See e.g., note 25, *infra*, and surrounding discussion.

Act (which, as noted above, is also referred to as the “Market Access Rule.”), which is designed to ensure that broker-dealers appropriately control the risks associated with market access, so as not to jeopardize their own financial condition, that of other market participants, the integrity of trading on the securities markets, and the stability of the financial system.<sup>27</sup> While C2’s price check parameters are not a substitute for a broker-dealer’s compliance with the Market Access Rule, the Exchange believes that the application of its price check parameters serve to promote a fair and order market.

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. Form of Notice of Proposed Rule Change for publication in the Federal Register.

Exhibit 5 Text of the Proposed Rule Change.

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<sup>27</sup> See Securities Exchange Act Release No. 63241 (November 3, 2010), 75 FR 68792 (November 15, 2010). See also Securities Exchange Act Release Nos. 64798 (June 27, 2011), 76 FR 38293 (June 30, 2011) and 65132 (August 15, 2011), 76 FR 51457 (August 18, 2011).

EXHIBIT 1

**SECURITIES AND EXCHANGE COMMISSION**

Release No. 34- ; File No. SR-C2-2015-021

[Insert date]

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

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 July 17, 2015, 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 Rules 6.13 and 6.17 relating to price check parameters on the Exchange. The text of the proposed rule change is provided in Exhibit 5 and 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

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

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

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

Under Rule 6.17, C2 does not automatically execute eligible orders that are marketable if (i) the width between the national best bid and offer (the "NBBO") is not within an acceptable price range (as established by the Exchange on a series by series basis for market orders and/or marketable limit orders within certain parameters and announced to Trading Permit Holders ("TPHs") via Regulatory Circular) (the "market width parameter"), or (ii) the execution would follow an initial partial execution on the Exchange and would be at a subsequent price that is not within an acceptable tick distance ("ATD") from the initial execution (as determined by the Exchange on a series by series and premium basis for market order and/or marketable limit orders and announced to TPHs by Regulatory Circular)(the "drill through parameter").

The purpose of this proposed rule change is, first, to codify another price reasonability check within Rule 6.17. The reasonability check is currently in use but not expressly covered in the rules. Specifically, under this reasonability check, referred to as the "limit order price parameter," the Exchange will not accept for execution eligible limit orders if (i) prior to the opening (including before a series is opened following a halt),<sup>3</sup> the order is to buy are at more than an acceptable tick distance above the

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<sup>3</sup> This includes halts that may occur at any time after the opening of trading on a particular trading day. The Exchange notes that this is the manner in which the limit order price parameter functionality currently operates. The Exchange believes that this

Exchange's previous day's close or the order is to sell are at more than an acceptable tick distance below the Exchange's previous day's close (such ATD will be as determined by the Exchange on a series by series and premium basis and announced to TPHs by Regulatory Circular);<sup>4</sup> or, (ii) once a series has opened, the order is to buy are at more than an acceptable tick distance above the disseminated Exchange offer or the order to sell are at more than an acceptable tick distance below the disseminated Exchange bid (such ATD will be as determined by the Exchange on a series by series and premium basis and announced to TPHs by Regulatory Circular).<sup>5</sup> The Exchange will not apply

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functionality provides an additional safeguard to consider the reasonableness of limit order pricing prior to a re-opening following a trading halt.

<sup>4</sup> This parameter for limit orders received prior to the opening (including before a series is opened following a halt) is not applicable to limit orders of Exchange Market-Makers and away Market-Makers. The Exchange believes that Market-Makers actively evaluate the pre-opening market and utilize their own risk management parameters when entering, maintaining and cancelling orders prior to the opening, minimizing the likelihood of a Market-Maker order resulting from an error from being entered and continuing to rest prior to the opening of trading. In that regard, while the Exchange believes that the application of its limit order price parameters serve to promote a fair and orderly market, the parameters are not a substitute for a broker-dealer's compliance with Rule 15c3-5 under the Act, 17 CFR 240.15c3-5 (commonly referred to as the "Market Access Rule").

<sup>5</sup> The Exchange notes that with respect to simple orders, limit order price parameters will be applied a series by series basis with ATDs to be applied to the series that is the subject of the simple order execution as only one series is involved in a simple order execution. With respect to complex orders, limit order price parameters will be applied on a class by class basis with ATDs to be applied to both (each) of the individual legs of both (each) series comprising the complex order as well as the net derived premium price ("net premium basis") of the complex order as a whole. These parameters will be applied on a class by class basis for complex orders as multiple series in a class are involved in a complex order execution. The Exchange notes that the ATDs determined by the Exchange on a series by series and premium basis (i.e. simple order executions) and class by class and net premium basis (i.e. complex order executions) under Rules 6.17 and 6.13 will be announced via Regulatory Circular at least one day in advance.

pre-opening limit order price parameters to limit orders of Exchange Market-Makers or away Market-Makers, or to Intermarket Sweep Orders (“ISOs”) as such cannot be entered prior to the opening on the System.<sup>6</sup> Once a series has opened, limit order price parameters will be applied to ISOs in all classes in which the limit order price parameter is activated.<sup>7</sup> The Exchange may determine on a class by class basis and announce via

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<sup>6</sup> Under Rule 1.1, the term “System” means the automated trading system used by the Exchange for the trading of options contracts.

<sup>7</sup> For all classes where the limit order price parameter is activated, it is currently applied to ISOs. ISOs are oftentimes used to capture size on the Exchange that is not available on other markets. As a result, ISOs tend to be large orders and thus, the consequences of order entry errors may be great. In an effort to protect market participants from the consequences of such order entry errors and prevent market disruptions that may be caused by erroneously placed orders, the Exchange has determined to apply limit order price parameters to ISOs on the Exchange. The Exchange believes that applying limit order price parameters to ISOs serves to protect investors and is consistent with Section 6(b) of the Act. The Exchange has in place rules and surveillances to ensure that ISOs are used in an appropriate manner consistent with the Options Order Protection and Locked/Crossed Market Plan, C2 Rules, and Federal Securities laws. See Section E of Chapter 6 (incorporating by reference CBOE’s rules relating to the Options Order Protection and Locked/Crossed Market Plan), relating to Intermarket Linkage and corresponding Chicago Board Options Exchange, Incorporated (“CBOE”) Rule 6.80(8) defining an ISO as a Limit Order for an options series that, simultaneously with the routing of the ISO, one or more additional ISOs, as necessary, are routed to execute against the full displayed size of any Protected Bid, in the case of a limit order to sell, or any Protected Offer, in the case of a limit order to buy, for the options series with a price that is superior to the limit price of the ISO and noting that a Trading Permit Holder may submit an ISO to the Exchange only if it has simultaneously routed one or more additional ISOs to execute against the full displayed size of any Protected Bid, in the case of a limit order to sell, or Protected Offer, in the case of a limit order to buy, for an options series with a price that is superior to the limit price of the ISO. Should the Exchange, in the future, determine that, in the interests of fair and orderly markets or, in furtherance of the objectives of the Options Order Protection and Locked/Crossed Market Plan, limit order price parameters should be applied to ISOs (or another order type) in a different manner as other order types, the Exchange may determine to widen or narrow the ATDs with respect to ISOs (or another order type), which would be announced via Regulatory Circular. Should the Exchange, in the future, determine that, in the interests of fair and orderly markets or, in furtherance of the objectives of the Options Order Protection and Locked/Crossed Market Plan, limit order price parameters should not apply to ISOs, a further rule filing would be required.

Regulatory Circular whether to apply the parameters in (i) and/or (ii) above to immediate-or-cancel orders if doing so would be necessary or appropriate in furtherance of the interests of investors and the promotion of fair and orderly markets.<sup>8</sup>

For purposes of this limit order price parameter: An “acceptable tick distance” or “ATD”<sup>9</sup> is to be determined by the Exchange on a series by series and premium basis and shall be no less than five minimum increment ticks.<sup>10</sup> The senior official in the Help

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<sup>8</sup> For all classes where the limit order price parameter is activated, it is not currently applied to immediate-or-cancel orders. Immediate-or-cancel orders are oftentimes used by Market-Makers and sophisticated investors to hit existing books as orders become available. Although the Exchange also believes that there is less of a need to protect Market-Makers and sophisticated investors from potential order entry errors, the Exchange is interested in the protection of all market participants from unintended order entry errors. As a result, in furtherance of the interests of investors and the promotion of fair and orderly markets, the Exchange is considering applying limit order price parameters to immediate-or-cancel orders in the future. Any such determination would be made pursuant to proposed Rules 6.13.04(g) and 6.17(b) and announced via Regulatory Circular

<sup>9</sup> The Exchange notes that, for a given series, the applicable ATDs for the limit order price parameters (which may not be less than five minimum increment ticks) may differ from the ATDs for the drill through parameters (which may not be less than two minimum increment ticks). For example, the Exchange may determine that the drill through ATD for all series of a given class trading in \$0.01 increments is \$0.02 and the limit order price ATD settings for the same class are as described in note 8, infra. The settings may differ because the limit order price parameters and the drill through parameters are intended to provide reasonability checks that address various trading scenarios (e.g., marketable orders that would otherwise drill through multiple price points and limit orders that are priced significantly through the disseminated Exchange bid/offer or the prior day’s close). The Exchange believes use of multiple reasonability checks helps to prevent the entry and execution of orders at potentially erroneous prices, which should promote a fair and orderly market.

<sup>10</sup> For example, currently the Exchange has determined for all classes where the limit order price parameter is activated that the Exchange would not accept the following limit orders for execution: (i) if the market quote is less than or equal to \$3, limit orders to buy priced more than \$0.50 above the offer and limit orders to sell priced more than \$0.50 below the bid; (ii) if the market quote is greater than \$3 and less than or equal to \$10, limit orders to buy priced more than \$1.00 above the offer and limit orders to sell

Desk might widen or inactivate the limit order price parameters on an intra-day basis in the interest of a fair and orderly market.<sup>11</sup> The limit order price parameter takes

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priced more than \$1.00 below the bid; (iii) if the market quote is greater than \$10 and less than or equal to \$30, limit orders to buy priced more than \$1.50 above the offer and limit orders to sell priced more than \$1.50 below the bid; (iv) if the market quote is greater than \$30 and less than or equal to \$50, limit orders to buy priced more than \$2.00 above the offer and limit orders to sell priced more than \$2.00 below the bid; or (v) if the market quote is equal to or greater than \$50, limit orders to buy priced more than \$3.00 above the offer and limit order to sell priced more than \$3.00 below the bid. See C2 Regulatory Circular RG13-059, which is available at [http://www.c2exchange.com/publish/RegCir\\_C2/C2RG13-059.pdf](http://www.c2exchange.com/publish/RegCir_C2/C2RG13-059.pdf). For the same classes, the Exchange has determined that limit orders received before a series is in opened will be checked against the previous trading day's closing price using the same parameters noted above. Exchange Market Maker and away Market Maker orders received pre-open are excluded from this pre-open limit order price parameter. The foregoing limit order price parameters are in effect in all classes except options on Apple Inc. (AAPL). There are no limit order price parameters currently activated for option class AAPL. See id. According to the Exchange, volume for options class AAPL is higher and trading is more volatile, while the price of the underlying stock is higher (e.g., Apple Inc. closed at \$125.69 on July 7, 2015). The Exchange believes that application of the limit order price parameter in these circumstances may serve as more of a hindrance to the orderly processing orders (e.g., application of the parameter may result in an inordinate number of orders being excepted from automated process and instead routing for manual handling) and, as a result, has determined to not apply the parameters to option class AAPL for the time being. However, the Exchange may evaluate whether to apply the parameters to the option class and any determination to do so would be announced via Regulatory Circular.

<sup>11</sup> For example, if an underlying stock is high priced or volatile and is experiencing significant price movement and the existing parameters would result in an inordinate number of limit orders not being accepted, the senior official in the Help Desk may determine to widen the parameters on an intra-day basis in the overlying or related options series. See C2 Rule 6.17(B); see also C2 Regulatory Circular RG13-059, which is available at [http://www.c2exchange.com/publish/RegCir\\_C2/C2RG13-059.pdf](http://www.c2exchange.com/publish/RegCir_C2/C2RG13-059.pdf). As another example, if the overall market is experiencing significant volatility, the senior official in the Help Desk may determine to widen the limit order price parameters for a series. In that regard, the Exchange has determined that on any trading day where the front-month E-mini S&P 500 Futures (symbol ES/1) are trading more than 20 points above or below the previous day's closing values by 8:00 a.m. (all times noted are Central Time), the Exchange will widen the limit order price parameter levels from \$0.50, \$1.00, \$1.50, \$2.00 and \$3.00 as set out in note 10, supra, to \$1.00, \$2.00, \$3.00, \$4.00 and \$6.00, respectively, for the trading day for all series where the limit order price parameter is activated (referred to herein as the "Standing Intraday Relief Condition").

precedence over another parameter to the extent that both are applicable to an incoming limit order.<sup>12</sup>

The Exchange is also proposing to codify a limit order price parameter for complex orders within Rule 6.13 under proposed Interpretation and Policy .04(g). This limit order price parameter, which is comparable to the limit order price parameters applicable to simple orders described above, is not currently in use. Under this complex order limit order price parameter the Exchange will return a limit priced complex order to the order entry firm where the order is (i) prior to the opening (including before a series is opened following a halt), priced at a net debit that is more than an acceptable tick

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See C2 Regulatory Circular C2 RG13-059. The next trading day, the limit order price parameter levels would revert back to the normal setting, unless the E-mini S&P 500 Future is more than 20 points above or below the previous day's closing values by 8:00 a.m.

Example of Standing Intraday Relief Condition: If on Monday the E-mini S&P 500 Futures close at 1700 and by 8:00 a.m. on Tuesday the E-mini S&P 500 Future is trading at 1730 (30 points above the prior day's close of 1700), then the Exchange would adjust the limit order price parameters to the wider levels noted above. If the E-mini S&P 500 Futures close on Tuesday at 1725 and by 8:00 a.m. on Wednesday are trading at 1720 (only 5 points below the prior day's close of 1725), then the limit order price parameter settings would revert back to the levels that were in place on Monday. However, if by 8:00 a.m. on Wednesday the E-mini S&P 500 Futures are trading at 1700 (25 points below the prior day's close of 1725), then the limit order price parameter settings would remain at the levels that were in place on Tuesday.

The Exchange notes that these examples are non-exhaustive and for illustrative purposes only. The Exchange also notes that it may determine for the parameters to differ among series and between pre-open and intra-day.

<sup>12</sup> For example, assume the Exchange has established drill through and limit order price ATD settings as prescribed in notes 10 and 11, supra. If the market quote in a given series is \$2.15 - \$2.55 and an incoming limit order to buy is priced at \$3.50 (more than \$0.50 above the offer), the limit order price ATD will be triggered and the Exchange will not accept the limit order for execution. The drill through parameter would not apply (the drill through ATD parameter would only be considered if the limit order price ATD parameter is not triggered).

distance above the derived net market using the Exchange's previous day's close in the individual series legs comprising the complex order or priced at a net credit that is more than an acceptable tick distance below the derived net market using the Exchange's previous day's close in the individual series legs comprising the complex order (such ATD will be as determined by the Exchange on a class by class and net premium basis and announced via Regulatory Circular); or (ii) once a series has opened, priced at a net debit that is more than an acceptable tick distance above the opposite side derived net market using the Exchange's best bid or offer in the individual series legs comprising the complex order or priced at a net credit that is more than an acceptable tick distance below the opposite side derived net market using the Exchange's best bid or offer in the individual series legs comprising the complex order (such ATD will be as determined by the Exchange on a class by class and net premium basis and announced via Regulatory Circular).<sup>13</sup> Similar to simple orders, this parameter for limit priced complex orders received prior to the opening would not be applicable to limit orders of Exchange Market-Makers or away Market-Makers, or to ISOs as such cannot be entered prior to the opening on the System. Once a series has opened, limit order price parameters will be applied to ISOs in all classes in which the limit order price parameter is activated.<sup>14</sup> The

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<sup>13</sup> In accordance with the existing provisions of Rule 6.13.01, all pronouncements regarding determinations by the Exchange pursuant to proposed Rule 6.13.04(g) will be announced via Regulatory Circular.

<sup>14</sup> Should the Exchange, in the future, determine that, in the interests of fair and orderly markets or, in furtherance of the objectives of the Options Order Protection and Locked/Crossed Market Plan, limit order price parameters should be applied to ISOs (or another order type) in a different manner as other order types, the Exchange may determine to widen or narrow the ATDs with respect to ISOs (or another order type), which would be announced via Regulatory Circular. Should the Exchange, in the future, determine that, in the interests of fair and orderly markets or, in furtherance of the

Exchange may determine on a class by class basis and announce via Regulatory Circular whether to apply the parameters in (i) and/or (ii) above to immediate-or-cancel complex orders (similar to the discussion above for simple orders). The Exchange also notes that the limit order price parameter will not be applicable to stock-option orders.<sup>15</sup> The Exchange also proposes several non-substantive changes within Interpretation and Policy .04 to Rule 6.13 to abbreviate the terms “acceptable price range” and “acceptable tick distance” where appropriate for consistency purposes.

Similar to simple orders, the ATD for the limit order price parameter for complex orders will be no less than 5 minimum net price increment ticks (where the “minimum net price increment” is the minimum increment for net priced bids and offers for the given complex order strategy). For example, if the minimum net price increment for complex orders in a given series in a class is \$0.01, then the ATD would be no less than \$0.05 (5 X \$0.01). If the minimum net price increment is \$0.05, then the ATD would be no less than \$0.25 (5 X \$0.05). Also similar to simple orders, the Exchange might widen or inactivate limit order price parameter for complex orders for one or more classes on an intra-day basis in the interest of a fair and orderly market.<sup>16</sup> The limit order price

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objectives of the Options Order Protection and Locked/Crossed Market Plan, limit order price parameters should not apply to ISOs, a further rule filing would be required.

<sup>15</sup> Stock-options orders are excluded from the calculation because the individual component stock leg is not traded on the Exchange and, as a result, calculation of a derived net market by the Exchange’s automated system would be a more complicated function. If in the future the Exchange would decide to enhance the limit order price parameter functionality to address stock-option orders, the Exchange would file a rule change to address stock-option orders.

<sup>16</sup> See also note 11, supra.

parameter will take precedence over another complex order parameter to the extent that both are applicable to an incoming limit order.<sup>17</sup>

The Exchange is also proposing a miscellaneous change to Rule 6.13.04 to specifically identify the price check parameters that are not applicable to stock-option orders in the introductory text to this provision. The particular parameters to which stock-option orders may be subjected are already identified within the rule text. This proposed change is simply to include a list of those parameters which are not applicable to stock-option orders in the introductory paragraph for ease of reference.<sup>18</sup>

The Exchange notes that the limit order price parameter for simple and complex is intended to protect market participants from executions of limit orders at prices that are significantly through the Exchange's market (i.e., no less than five minimum increment ticks for simple orders and no less than five minimum net price increment ticks for complex orders). The Exchange believes that TPHs that submit orders on C2 generally intend to receive executions of their orders at or near the Exchange's market. A limit order that is priced significantly through the Exchange's market could be indicative of an

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<sup>17</sup> Rule 6.13.04 sets forth various price check parameters applicable to complex orders. For each price check parameter that may be applicable to incoming limit orders - except the market width parameter - the system will not accept or will return the order back to the order entry firm if the parameter is triggered. If the market width parameter is triggered, an incoming (or resting) marketable limit order will be held in the system, displayed in the complex order book if applicable, and not be eligible for automatic execution until the market width condition is resolved. See Rule 6.13.04. In the instance where both the limit order price parameter and another parameter are applicable, the limit order price parameter takes precedence (i.e., is applied first) before the other parameter is applied.

<sup>18</sup> Specifically, paragraphs (b)(credit-to-debit parameters), (c)(same expiration strategy parameters), (e)(percentage distance parameters) and proposed paragraph (g)(limit order price parameters) of Rule 6.13.04 are not applicable to stock-option orders.

error (e.g., mistake in intended price, series, put/call) and could result in executions occurring at prices that have little or no relation to the theoretical price of the option. Accordingly, the Exchange believes the limit order price parameter is a mechanism that will help prevent the entry of erroneous orders, dramatic price swings and, potentially, executions qualifying as obvious errors<sup>19</sup> on C2. The Exchange also believes that orders that are significantly priced through the market have the potential to create market volatility by trading at different price levels until executed in their entirety. As such, the Exchange believes the limit order price parameter may also help limit volatility.

Second, the Exchange is proposing various miscellaneous changes to the existing text in Rule 6.17. In particular, the Exchange is proposing to include a title for each type of price check parameter within the rule text (i.e., for the existing market width parameters, the existing drill through parameters, and the proposed limit order price parameters). The addition of these titles is non-substantive and is intended for ease of reference only. In addition, the Exchange is proposing to replace the “class-by-class basis” reference in proposed Rule 6.17(c) with “series by series and premium basis” to provide consistency within the Rules and reflect the fact that the APR for a simple order will apply on a series by series basis to the single series involved in the order and be determined on a premium basis in relation to the bid-ask differential in that series. For the same reasons, the Exchange proposes to add the term “and premium” to proposed Rule 6.17(a)(1) regarding market width parameters. The Exchange is also renumbering

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<sup>19</sup> See C2 Rule 6.15.

Rule 6.17 and clarifying existing references to APR and ATD as references to the existing market width APR and drill through ATD for ease of reference.

The existing text of Rule 6.17 also provides that the senior official in the Help Desk may grant intra-day relief by widening the APR or ATD settings for one or more option series and that notification of intraday relief will be announced via message to Trading Permit Holders that request to receive such messages. The Exchange is proposing to amend this provision to add that such intra-day relief may be granted in the interest of a fair and orderly market. The Exchange is also proposing to amend this provision to make clear that the senior official in the Help Desk can grant relief by widening or inactivating the applicable APR and/or ATD setting. The Exchange believes including the reference to inactivating the applicable settings is not substantive because an applicable APR or ATD parameter could be widened to such a level that it would be in effect inactive. The Exchange is also proposing to provide within the rule text that the intra-day relief granted by the senior official in the Help Desk will not extend beyond the trade day on which it is granted, unless a determination to extend such relief is announced to TPHs via Regulatory Circular.<sup>20</sup> The Exchange is also proposing to provide within the rule text that the Exchange will make and keep records to document all determinations to grant intra-day relief under Rule 6.17, and shall maintain those records in accordance

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<sup>20</sup> The Exchange notes that conditions when the Standing Intraday Relief will be instituted and the particular form of relief have been announced via Regulatory Circular. See note 11, *supra*. The announcement of the pre-established conditions and relief is intended to serve the circular notification requirement and, as such, a separate circular would not be issued if this relief is instituted over multiple days. However, if the Exchange would determine to modify the conditions for Standing Intraday Relief, then the Exchange would announce those changes by issuing another Regulatory Circular.

with Rule 17a-1 under the Act.<sup>21</sup> The rule text will also provide that the Exchange will periodically review determinations to grant intra-day relief for consistency with the interest of a fair and orderly market. Finally, the Exchange notes that the same intra-day relief provisions are proposed to apply to the limit order price parameter provisions for complex orders in proposed Rule 6.13.04(g).

## 2. Statutory Basis

The proposed rule change is consistent with Section 6(b) of the Act<sup>22</sup> in general and furthers the objectives of Section 6(b)(5) of the Act<sup>23</sup> in particular, which requires that the rules of an exchange be designed to promote just and equitable principles of trade, to prevent fraudulent and manipulative acts, to remove impediments to and to perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest.

The Exchange believes the proposed rule change furthers the objective of Section 6(b)(5) of the Act in that it permits the Exchange to address the entry of simple and complex limit orders that are priced significantly away from the market that are likely to have resulted from human or operational error.<sup>24</sup> By being able to quickly and efficiently

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<sup>21</sup> 17 CFR 240.17a-1. The Exchange notes that determinations to grant intra-day relief under Rule 6.17 will be made in compliance with the provisions of the Act and the rules thereunder, including, but not limited to, the requirements in Section 6(b)(5) of the Act, 15 U.S.C. 78f(b), that the rules of a national securities exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

<sup>22</sup> 15 U.S.C. 78f(b).

<sup>23</sup> 15 U.S.C. 78f(b)(5).

<sup>24</sup> The Exchange believes that these principles are equally applicable to ISOs. In an effort to protect market participants from the consequences of such order entry errors and prevent market disruptions that may be caused by erroneously placed orders, the Exchange has determined to apply limit order price parameters to ISOs on the Exchange.

reject orders that likely resulted from such error, the proposed use of the limit order price parameter would promote a fair and orderly market. Additionally, by having the flexibility to determine the series or classes where the limit order price parameter would be applied (or not applied) and the levels at which the ATD settings would be applied, and to grant relief on an intra-day basis, the Exchange is able to effectively structure and efficiently react to particular option characteristics and market conditions - including (without limitation) price, volatility, and significant price movements - which contributes to its ability to maintain a fair and orderly market. Accordingly, the Exchange believes that this proposal is designed to promote just and equity principles of trade, remove impediments to, and perfect the mechanism of, a free and open market.<sup>25</sup>

The Exchange also believes that the other proposed changes to Rule 6.17 (e.g., to include titles for the various price check parameters; to change a reference from class by class to series by series; to make clear that intra-day relief may be granted in the interest of a fair and orderly market and may include widening or inactivating the applicable APR

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The Exchange believes that applying limit order price parameters to ISOs serves to protect investors and is consistent with Section 6(b) of the Act.

<sup>25</sup> The Exchange notes that limit order price parameters are in effect in all classes except options on Apple Inc. (AAPL). There are no limit order price parameters currently activated for option class AAPL. See C2 Regulatory Circular RG13-059, which is available at [http://www.c2exchange.com/publish/RegCir\\_C2/C2RG13-059.pdf](http://www.c2exchange.com/publish/RegCir_C2/C2RG13-059.pdf). According to the Exchange, volume for options class AAPL is higher and trading is more volatile, while the price of the underlying stock is higher (e.g., Apple Inc. closed at \$125.69 on July 7, 2015). The Exchange believes that application of the limit order price parameters in these circumstances may serve as more of a hindrance to the orderly processing orders (e.g., application of the parameter may result in an inordinate number of orders being excepted from automated process and instead routing for manual handling) and, as a result, has determined to not apply the parameters to option class AAPL for the time being. The Exchange believes that because of these factors different treatment of the AAPL class is warranted. However, the Exchange may evaluate whether to apply the parameters to the option class and any determination to do so would be announced via Regulatory Circular.

and/or ATD; and to include provisions indicating that intra-day relief may not extend beyond the trade day on which it is granted, unless a determination to extend such relief is announced to Trading Permit Holders via Regulatory Circular, and that the Exchange will make and keep records to document determinations to grant intra-day relief under Rule 6.17) should also serve to further these objectives by more clearly and fully describing certain aspects of the operation of these price check parameters and addressing determinations to modify the operation of the price check parameters on an intra-day basis as provided within Rule 6.17. For the same reason, Exchange believes the substantially similar intra-day relief provisions for complex orders in proposed Rule 6.13.04(g) should also serve to further these objectives. The Exchange also believes that the proposed change to the introductory paragraph to Rule 6.13.04 to specifically identify the price check parameters that are not applicable to stock-option orders should also serve to further these objectives by making the rule easier to read and navigate.

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange 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 Exchange believes that the proposed rule change will promote competition in that the limit order price parameters provide market participants with additional protection from anomalous trading. Thus, the Exchange does not believe the proposal creates any significant impact on competition.

The price check parameter features are intended to prevent executions at potentially erroneously prices, which should serve to promote a fair and orderly market and promote trading activity on the Exchange to the benefit of the Exchange, its TPHs, and market participants. The Exchange notes that the limit order price parameters are

applied equally to all eligible limit orders, with the limited exception that the parameters do not apply to limit orders for Exchange Market-Makers and away Market-Makers entered prior to the opening. The Exchange believes this does not place an undue burden on competition as the Exchange believes that Market-Makers actively evaluate the pre-opening market and utilize their own risk management parameters when entering, maintaining (and cancelling) orders prior to the opening, minimizing the likelihood of a Market-Maker order resulting an error from being entered and continuing to rest prior to the opening of trading.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

No written comments were solicited or received with respect to the proposed rule change.

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

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>26</sup> and Rule 19b-4(f)(6)<sup>27</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

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<sup>26</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>27</sup> 17 CFR 240.19b-4(f)(6).

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-C2-2015-021 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-C2-2015-021. 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-C2-2015-021 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>28</sup>

Secretary

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<sup>28</sup> 17 CFR 200.30-3(a)(12).

EXHIBIT 5

Text of the Proposed Rule Change

(additions are underlined; deletions are [bracketed])

\* \* \* \* \*

**C2 Options Exchange, Incorporated  
Rules**

\* \* \* \* \*

Rule 6.13. Complex Order Execution

(a) – (c) No change.

*... Interpretations and Polices:*

**.01 - .03** No change.

**.04** Price Check Parameters: On a class-by-class basis, the Exchange may determine (and announce via Regulatory Circular) which of the following price check parameters will apply to eligible complex orders. Paragraphs (b), (c), (e) and (g) will not be applicable to stock-option orders. To the extent a price check parameter is applicable, the Exchange [that COB] will not automatically execute an eligible complex order that is:

(a) Market Width Parameters: An order that is marketable if (i) the width between the Exchange’s best bid and best offer in any individual series leg is not within an acceptable price range or (ii) the width between the Exchange’s best net priced bid and best net priced offer in the individual series legs comprising the complex order is not within an acceptable price range. For purpose of this paragraph (a):

(1) An “acceptable price range” (“APR”) shall be determined by the Exchange (and announced to via Regulatory Circular) on a series-by-series basis for market orders and/or marketable limit orders for each series comprising the complex order (or, in the case of subparagraph (a)(ii), based on the sum of each individual series leg of a complex order) and be no less than 0.375 for each option contract for which the bid is less than \$2, \$0.60 for each option contract for which the bid is at least \$2 but does not exceed \$5, \$0.75 for each option contract for which the bid is at least \$5 but does not exceed \$10, \$1.20 for each option contract for which the bid is at least \$10 but does not exceed \$20, and \$1.50 for each option contract for which the bid is more than \$20; and

(2) The Help Desk may grant intra-day relief by widening the APR [acceptable price range].

(3) A market order under this paragraph (a) will be cancelled. A marketable limit order under this paragraph (a) will be held in the system, displayed in the COB if applicable, and not be eligible for automatic execution until the market width condition is resolved.

(4) Notwithstanding paragraph (a) above, if part of a marketable order may be executed within an APR [acceptable price range], that part of the order will be executed automatically and the part of the order that would execute at a price outside the APR [acceptable price range] will be cancelled.

(5) The Exchange may also determine on a class-by-class basis to make the price check parameter in paragraph (a)(i) above available for stock-option orders. Such a stock-option order will be subject to the processing described in this paragraph (a).

(b) – (e) No change.

(f) Stock-Option Derived Net Market Parameters: A stock-option order that is marketable if, following COA, the execution would not be within the acceptable derived net market for the strategy that existed at the start of COA.

(1) An “acceptable derived net market” for a 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 plus/minus an acceptable tick distance. An “acceptable tick distance” (“ATD”) will be determined by the Exchange on a class-by-class and premium basis.

(2) Such a stock-option order will be cancelled.

(3) To the extent that any non-marketable order resting at the top of the COB is priced within the [acceptable tick distance] ATD of the derived net market, the full order will be subject to COA (and the processing described in this paragraph (f)). The Exchange may also determine on a class-by-class and strategy basis to limit the frequency of COAs initiated for non-marketable stock-option orders resting in COB.

In classes where this price check parameter is available, it will also be available for COA responses under Rule 6.13(c), AIM and Solicitation Auction Mechanism stock-option orders and responses under Rule 6.51 and 6.52, and customer-to-customer immediate cross stock-option orders under Rule 6.51.08. Such paired stock-option orders and responses under these provisions will not be accepted except that, to the extent that only a paired contra-side order subject to an auction under Rule 6.51 or 6.52 exceeds this price check parameter, the contra-side order will not be accepted and the paired original Agency Order will not be accepted or, at the order entry firm’s discretion, continue processing as an unpaired stock-

option order. To the extent that a contra-side order or response is marketable, its price will be capped at the price inside the acceptable derived net market.

(g) Limit Order Price Parameters: The Exchange will not accept for execution eligible limit orders if:

(1) prior to the opening (including before a series is opened following a halt), the order is priced at a net debit that is more than an ATD above the derived net market using the Exchange's previous day's close in the individual option series legs comprising the complex order or the order is priced at a net credit that is more than an ATD below the derived net market using the Exchange's previous day's close in the individual series legs comprising the complex order (as determined by the Exchange on a class by class and net premium basis); or

(2) once a series has opened, the order is priced at a net debit that is more than an ATD above the opposite side derived net market using the Exchange's best bid or offer in the individual option series legs comprising the complex order or the order is priced at a net credit that is more than an ATD below the opposite side derived net market using the Exchange's best bid or offer in the individual option series legs comprising the complex order (as determined by the Exchange on a class by class and net premium basis).

Paragraph (g)(1) is not applicable to limit orders of Exchange Market-Makers or away Market-Makers or Intermarket Sweep Orders ("ISOs") as ISOs cannot be entered prior to the opening on the System. Paragraph (g)(2) is applicable to ISOs for all classes where the limit order price parameter is activated. The Exchange may determine on a class by class basis and announce via Regulatory Circular whether to apply paragraphs (g)(1) and/or (g)(2) to immediate-or-cancel complex orders if doing so would be necessary or appropriate in furtherance of the interests of investors and the promotion of fair and orderly markets. The Exchange may determine to widen or narrow the ATDs with respect to particular order types, in the interests of fair and orderly markets or, in furtherance of the objectives of the Options Order Protection and Locked/Crossed Market Plan, as announced via Regulatory Circular.

(3) For purposes of this paragraph (g):

(i) An ATD shall be no less than 5 minimum net price increment ticks (where the "minimum net price increment" is the minimum increment for net priced bids and offers for the given complex order strategy).

(ii) The senior official in the Help Desk may grant intra-day relief by widening or inactivating one or more of the applicable ATD parameter settings for complex orders in the interest of a fair and orderly market.

(A) Notification of intra-day relief will be announced via electronic message to Trading Permit Holders that request to

receive such messages. Such intra-day relief will not extend beyond the trade day on which it is granted, unless a determination to extend such relief is announced to Trading Permit Holders via Regulatory Circular. The Exchange will make and keep records to document all determinations to grant intra-day relief under this Rule, and shall maintain those records in accordance with Rule 17a-1 under the Exchange Act.

(B) The Exchange will periodically review determinations to grant intra-day relief for consistency with the interest of a fair and orderly market.

If a limit order is not accepted for execution because the limit order price ATD has not been met, the order will be returned to the order entry firm. The limit order price parameter will take precedence over another price check parameter to the extent that both are applicable to an incoming limit order.

.05 - .07 No change.

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#### Rule 6.17. Price Check Parameters

(a) Market Width and Drill Through Parameters: The Exchange will not automatically execute eligible orders that are marketable if:

(1) Market-Width Parameters: T[t]he width between the national best bid and national best offer is not within an acceptable price range (as determined by the Exchange on a series by series and premium basis for market orders and/or marketable limit orders and announced to the Trading Permit Holders via Regulatory Circular), or

(2) Drill-Through Parameter: T[t]he execution would follow an initial partial execution on the Exchange and would be at a subsequent price that is not within an acceptable tick distance from the initial execution (as determined by the Exchange on a series by series and premium basis for market orders and/or marketable limit orders and announced to the Trading Permit Holders via Regulatory Circular).

(b) Limit Order Price Parameters: The Exchange will not accept for execution eligible limit orders if:

(1) prior to the opening (including before a series is opened following a halt), the order is to buy at more than an acceptable tick distance above the Exchange's previous day's close or the order is to sell at more than an acceptable tick distance below the Exchange's previous day's close (as determined by the Exchange on a

series by series and premium basis and announced to the Trading Permit Holders via Regulatory Circular); or

(2) once a series has opened, the order is to buy at more than an acceptable tick distance above the disseminated Exchange offer or the order is to sell at more than an acceptable tick distance below the disseminated Exchange bid (as determined by the Exchange on a series by series and premium basis and announced to the Trading Permit Holders via Regulatory Circular).

Paragraph (b)(1) is not applicable to limit orders of Exchange Market-Makers or away Market-Makers or Intermarket Sweep Orders (“ISOs”) as ISOs cannot be entered prior to the opening on the System. Paragraph (b)(2) is applicable to ISOs for all classes where the limit order price parameter is activated. The Exchange may determine on a class by class basis and announce via Regulatory Circular whether to apply paragraph (b)(1) and/or (b)(2) to immediate-or-cancel orders if doing so would be necessary or appropriate in furtherance of the interests of investors and the promotion of fair and orderly markets. The Exchange may determine to widen or narrow the ATDs with respect to particular order types, in the interests of fair and orderly markets or, in furtherance of the objectives of the Options Order Protection and Locked/Crossed Market Plan, as announced via Regulatory Circular.

(c) For purposes of this [subparagraph] Rule:

([A] 1) An “acceptable price range” (“APR”) shall be determined by the Exchange on a [class] series [-]by[-class] series and premium basis and shall be no less than: \$0.375 between the bid and offer for each option contract for which the bid is less than \$2, \$0.60 where the bid is at least \$2 but does not exceed \$5, \$0.75 where the bid is more than \$5 but does not exceed \$10, \$1.20 where the bid is more than \$10 but does not exceed \$20, and \$1.50 where the bid is more than \$20. An “acceptable tick distance” (“ATD”) for the drill through price parameter shall be no less than 2 minimum increment ticks. An ATD for the limit order price parameter shall be no less than 5 minimum increment ticks.

([B] 2) The senior official in the Help Desk may grant intra-day relief by widening or inactivating one or more of the applicable APR and/or ATD parameter settings [for one or more option series] in the interest of a fair and orderly market.

(A) Notification of intra-day relief will be announced via electronic message to Trading Permit Holders that request to receive such messages. Such intra-day relief will not extend beyond the trade day on which it is granted, unless a determination to extend such relief is announced to Trading Permit Holders via Regulatory Circular. The Exchange will make and keep records to document all determinations to grant intra-day relief under this Rule, and shall maintain those records in accordance with Rule 17a-1 under the Exchange Act.

(B) The Exchange will periodically review determinations to grant intra-day relief for consistency with the interest of a fair and orderly market.

If an execution is suspended because the market width APR has not been met, the order will be cancelled.

If an execution is suspended because executing the remaining portion of an order would exceed the drill through ATD, then such remaining portion will be cancelled.

If a limit order is not accepted for execution because the limit order price ATD has not been met, the order will be returned to the order entry firm. The limit order price parameter will take precedence over another price check parameter to the extent that both are applicable to an incoming limit order.

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