

number should be included on the subject line if email 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 Web site (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed plan amendment that are filed with the Commission, and all written communications relating to the proposed plan amendment between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for Web site viewing and printing in the Commission's Public Reference Room, 100 F Street NE., Washington, DC 20549, on official business days between the hours of 10 a.m. and 3 p.m. Copies of such filing also will be available for inspection and copying at the principal office of OPRA. 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-OPRA-2011-03 and should be submitted on or before December 19, 2011.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>13</sup>

**Kevin M. O'Neill,**  
Deputy Secretary.

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-65800; File No. SR-C2-2011-035]

### Self-Regulatory Organizations; C2 Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Related to a Temporary Quote Risk Monitor Mechanism Rule

November 21, 2011.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on November 18, 2011, the C2 Options Exchange, Incorporated ("Exchange" or "C2") filed

with the Securities and Exchange Commission (the "Commission") the proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. The Exchange has designated the proposal as a "non-controversial" proposed rule change pursuant to Section 19(b)(3)(A)(iii) of the Act<sup>3</sup> and Rule 19b-4(f)(6) thereunder.<sup>4</sup> 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 the Substance of the Proposed Rule Change

The Exchange proposes to adopt Rule 8.12A *Pilot Quote Risk Monitor Mechanism*. The text of the proposed rule change is available on the Exchange's Web site (<http://www.c2exchange.com/Legal/RuleFilings.aspx>), at the Exchange's Office of the Secretary and at the Commission.

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

In its filing with the Commission, the self-regulatory organization included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of those 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 parts of such statements.

##### A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

###### 1. Purpose

On November 7, 2011, the Exchange filed to adopt a Quote Risk Monitor (QRM) rule.<sup>5</sup> That rule change was immediately effective upon filing, but will not be operative until December 7, 2011. C2 submitted the filing to codify C2's QRM functionality which has been available and in use on C2 since C2 commenced trading listed options.<sup>6</sup> On November 17, 2011 C2 announced that it would be deactivating the QRM functionality until December 7, 2011

when the new rule becomes operational.<sup>7</sup> The anticipated deactivation has caused considerable concern among C2 Market-Makers, and some have taken steps to cease acting as C2 Market-Makers. Out of concern that a decrease in quotes and a decrease in quote quality will have an adverse effect on the C2 market, this filing proposes to adopt a temporary C2 QRM rule that would be immediately effective and operative until December 7, 2011 when the above-referenced QRM rule will become operative.

C2 Rules require Market-Makers to maintain continuous electronic quotes.<sup>8</sup> To comply with this requirement, each Market-Maker can employ its own proprietary quotation and risk management systems to determine the prices and sizes at which it quotes.

A Market-Maker's risk in an options class is not limited to the risk in a single series of that class. Rather, a Market-Maker typically is active in quoting in multiple option classes, and each such option class can comprise dozens of individual option series. On C2, trades are automatically effected against a Market-Maker's then current quote. As a result, a Market-Maker faces exposure in all series of a class, requiring that the Market-Maker off-set or otherwise hedge its overall position in a class. The QRM functionality helps Market-Makers limit this overall exposure and risk. Specifically, the functionality permits a Market-Maker to establish parameters in the system to cancel its electronic quotes in all series of an option class until the Market-Maker refreshes those electronic quotes.

Under proposed Rule 8.12A, each Market-Maker that elects to use the functionality would be required to specify two parameters that the QRM Mechanism would use to determine when that Market-Maker's quotes should be cancelled. In particular, each Market-Maker is required to specify a maximum number of contracts for each option class (the "Contract Limit") and a rolling time period in seconds during which such Contract Limit is to be measured (the "Measurement Interval").

When the QRM Mechanism determines that the Market-Maker has traded more than the Contract Limit for any option class during any rolling Measurement Interval, the QRM Mechanism automatically cancels all of the Market-Maker's quotes in any series of that option class. By limiting its exposure across series, a Market-Maker is better able to quote aggressively in an option, knowing that the QRM

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

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

<sup>5</sup> See Securities Exchange Act Release No. 65744 (November 14, 2011) (SR-C2-2011-034).

<sup>6</sup> The Exchange inadvertently did not include a QRM rule in its initial rulebook and did not realize the omission until very recently.

<sup>7</sup> See C2 Regulatory Circular RG11-035.

<sup>8</sup> See C2 Rule 8.5(a)(1).

<sup>13</sup> 17 CFR 200.30-3(a)(29).

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

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

Mechanism will automatically cancel all its quotations in a class when its exposure limit is hit.

The Exchange notes that the proposed rule would not relieve a Market-Maker of its obligations to provide continuous electronic quotes under the Exchange rules<sup>9</sup> nor to provide “firm” quotes pursuant to the requirements of Exchange Rule 8.6. The Exchange also notes that the proposed rule is based on Chicago Board Options Exchange, Incorporated (“CBOE”) Rule 8.18 (Quote Risk Monitor Mechanism).

## 2. Statutory Basis

The basis under the Securities Exchange Act of 1934 (the “Act”) for this proposed rule change is the requirement under Section 6(b)(5)<sup>10</sup> that an exchange have rules that are designed to promote just and equitable principles of trade, and to remove impediments to and perfect the mechanism for a free and open market and a national market system, and, in general, to protect investors and the public interest. In particular, the Exchange believes the proposed change is designed to promote just and equitable principles of trade, and to remove impediments to and perfect the mechanism for a free and open market and national market system because the rule change would provide a mechanism that would allow C2 Market-Makers to more effectively and efficiently manage their quotations. Knowing that a helpful quote management tool is in place would, in turn, allow those Market-Makers to quote more aggressively which removes impediments to a free and open market and benefits all C2 users.

### 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.

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

The Exchange neither solicited nor received comments on the proposal.

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

Because the proposed rule change: (i) Does not significantly affect the protection of investors or the public

interest; (ii) does not impose any significant burden on competition; and (iii) does not become operative for 30 days after the date of the filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>11</sup> and Rule 19b-4(f)(6) thereunder.<sup>12</sup>

A proposed rule change filed pursuant to Rule 19b-4(f)(6) under the Act<sup>13</sup> normally does not become operative for 30 days after the date of its filing. However, Rule 19b-4(f)(6)(iii)<sup>14</sup> permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange has requested that the Commission waive the 30-day operative delay.

The Commission believes that waiving the 30-day operative delay is consistent with the protection of investors and the public interest. Waiver of the operative delay will allow market makers to continue to use the QRM to manage risk associated with providing continuous quotes across a multitude of series and classes and thereby avoid a potentially adverse effect on the C2 market. For these reasons, the Commission designates that the proposed rule change become operative immediately upon filing.<sup>15</sup>

At any time within 60 days of the filing of such proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

## IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act.

<sup>11</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>12</sup> 17 CFR 240.19b-4(f)(6). Pursuant to Rule 19b-4(f)(6)(iii) under the Act, the Exchange is required to give the Commission written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. C2 has requested that the Commission waive the five-day pre-filing notice requirement in Rule 19b-4(f)(6)(iii). The Commission has determined to waive the five day pre-filing notice requirement.

<sup>13</sup> 17 CFR 240.19b-4(f)(6).

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

<sup>15</sup> For purposes only of waiving the 30-day operative delay, the Commission has considered the proposed rule’s impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

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 email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File No. SR-C2-2011-035 on the subject line.

### Paper Comments

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street NE., Washington, DC 20549-1090.

All submissions should refer to File No. SR-C2-2011-035. This file number should be included on the subject line if email 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 Web site (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for Web site viewing and printing in the Commission’s Public Reference Room, 100 F Street NE., Washington, DC 20549, on official business days between the hours of 10 a.m. and 3 p.m. Copies of such filing also will be available for inspection and copying at the principal office of the C2. 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 No. SR-C2-2011-035 and should be submitted on or before December 19, 2011.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>16</sup>

**Kevin M. O’Neill,**

*Deputy Secretary.*

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<sup>16</sup> 17 CFR 200.30-3(a)(12).

<sup>9</sup> See C2 Rule 8.5(a)(1).

<sup>10</sup> 15 U.S.C. 78f(b)(5).