SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–68155; File No. SR–CBOE–2012–100]

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to System Access, Connectivity, and Testing

November 5, 2012.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the ''Act''),[1] and Rule 19b–4 thereunder,[2] notice is hereby given that on October 23, 2012, Chicago Board Options Exchange, Incorporated (the ''Exchange'' or ''CBOE'') 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 the Substance of the Proposed Rule Change

The Exchange proposes to amend its rules regarding Hybrid Trading System (the ''System'')[3] access, connectivity, and testing by Trading Permit Holders. The text of the proposed rule change is available on the Exchange's Web site (*http://www.cboe.com/AboutCBOE/CBOELegalRegulatoryHome.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 Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these

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[1] 15 U.S.C. 78s(b)(1).

[2] 17 CFR 240.19b–4.

[3] The System is a trading platform that allows automatic executions to occur electronically and open outcry trades to occur on the floor of the Exchange. To operate in this ''hybrid'' environment, the Exchange has a dynamic order handling system that has the capability to route orders to the trade engine for automatic execution and book entry, to Trading Permit Holder and PAR Official workstations located in the trading crowds for manual handling, and/or to other order management terminals generally located in booths on the trading floor for manual handling. Where an order is routed for processing by the Exchange order handling system depends on various parameters configured by the Exchange and the order entry firm itself.

statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

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

1. Purpose

The Exchange proposes to amend its rules regarding System access, connectivity, and testing by Trading Permit Holders. The Exchange makes available to Trading Permit Holders various application programming interfaces (''APIs''),[4] such as CBOE Market Interface (''CMi'') and Financial Information eXchange (''FIX'') Protocol, for authorized Trading Permit Holders to use to access the System.[5] Trading Permit Holders may select which of these APIs they would like to use to connect to the System when registering with the Exchange for System access. The Exchange believes it is important to provide Trading Permit Holders with this flexibility so that they can determine the API that will be most compatible with their systems and maximize the efficiency of their systems' connection to the System. Connection to the System allows authorized Trading Permit Holders to enter and execute orders, as well as submit certain order and trade data to the Exchange, which data the Exchange uses to conduct surveillances of its markets and Trading Permit Holders.

After a Trading Permit Holder registers with the Exchange to use a specific API, the Exchange may require the Trading Permit Holder to use a specific connectivity protocol that, among other things, may require the input of certain information (e.g. trading acronym, category of Trading Permit

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[4] APIs are computer programs that allow Trading Permit Holders to interface with the Exchange.

[5] Only Trading Permit Holders may access the System. The Commission adopted Rule 15c3–5 under the Act, which, among other things, requires broker-dealers providing others with access to an exchange or alternative trading system to establish, document, and maintain a system of risk management controls and supervisory procedures reasonably designed to manage the financial, regulatory, and other risks of providing such access. *See* Securities Exchange Act Release No. 63241 (November 3, 2010), 75 FR 69792 (November 15, 2010). Rule 15c3–5 effectively eliminated ''naked access'' (i.e. ''Sponsored Users'') to the Exchange by non-Trading Permit Holders and effectively requires Trading Permit Holders to filter all non-Trading Permit Holder orders prior to being sent to the Exchange. The Exchange expects to eliminate the concept of Sponsored Users under its Rules in connection with the adoption of Rule 15c3–5 in a separate rule filing.

Holder) during the connectivity process in accordance with technical specifications established by the Exchange. The Exchange may prescribe a specific connectivity protocol for all Trading Permit Holders, or for certain categories of similarly situated Trading Permit Holders (e.g. Floor Brokers, Designated Primary Market-Makers (''DPMs''), or Market-Makers).

It is imperative for the Exchange to receive during the connectivity process information regarding a Trading Permit Holder's identification so that the Exchange can ensure that the connecting party is a Trading Permit Holder authorized to access the System and that the Exchange is aware of what type of Trading Permit Holder the connecting party is. Requiring a specific connectivity protocol allows the Exchange to receive this information in a uniform manner for all Trading Permit Holders, or categories of similarly situated Trading Permit Holders, as the Exchange deems necessary. This information allows the Exchange to, among other things, perform the necessary surveillances applicable to the Trading Permit Holder and determine whether the Trading Permit Holder is complying with all relevant Exchange Rules. Many of the Exchange's surveillances are conducted by type of Trading Permit Holders, as different types have different responsibilities they must meet under the Exchange rules.[6] The Exchange believes that receiving trade data in an organized and uniform format from all Trading Permit Holders, or types of Trading Permit Holders, allows it to efficiently identify Trading Permit Holders and monitor and conduct surveillances of its markets and Trading Permit Holder, and thus effectively fulfill its regulatory responsibilities. Additionally, the Exchange believes that prescribing connectivity protocols on either all Trading Permit Holders or categories of similarly situated Trading Permit Holders ensures that the Exchange makes these prescriptions in an objective manner.

The Exchange also periodically requires Trading Permit Holders that have been authorized to access the System to conduct or participate in the testing of their computer systems to ascertain the compatibility of these systems with the System. The Exchange believes that it is critical that Trading

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[6] For example, a DPM must satisfy quoting obligations that are different than those that a Market-Maker must satisfy, and the Exchange reviews their quoting activity to determine whether they have satisfied their respective obligations. *See* Rule 8.85 (obligations of DPMs) and Rule 8.7 (obligations of Market-Makers).

Permit Holders work closely with the Exchange in testing new software releases and other System changes. System testing allows the Exchange to ensure that Trading Permit Holders' systems are continuously compatible with the System in the event of System changes and that the Exchange continues to receive all necessary data from Trading Permit Holders in a timely manner and efficient format. Additionally, System testing allows Trading Permit Holders to make any necessary adjustments to their systems in the event of System changes to ensure that their connections to the System are functioning properly and that they are able to submit order and trade information in compliance with all applicable Exchange Rules.

The Exchange proposes to codify these current Exchange practices and requirements related to System access and connectivity. Proposed Rule 6.23A(c) clarifies in the Rules that only Trading Permit Holders (and their associated persons) may be authorized to access the System to enter and execute orders. This proposed provision also provides that the Exchange will require a Trading Permit Holder to enter into a software user or license agreement with the Exchange in a form or forms prescribed by the Exchange in order to obtain authorized access to the System if the Trading Permit Holder elects to use an API for which the Exchange has determined that this type of an agreement is necessary. In other words, whether the Exchange requires a Trading Permit Holder to enter into a user or license agreement will depend solely on the objective criteria of what type of API the Trading Permit Holder opts to use.[7] The proposed rule change also amends Rule 6.23A(a) to clarify that the term API means application programming interface.

Proposed Rule 6.23A(d) provides that the Exchange may prescribe technical specifications pursuant to which all Trading Permit Holders, or categories of similarly situated Trading Permit Holders (e.g., Floor Brokers, DPMs, Market-Makers), may establish an electronic connection to the System and its facilities. The Exchange will announce to Trading Permit Holders via

Regulatory Circular any connectivity protocol prescription.

Proposed Rule 6.23A(e)(i) provides that each Trading Permit Holder that the Exchange designates as required to participate in a system test must conduct or participate in the testing of its computer systems to ascertain the compatibility of such systems with the System in the manner and frequency prescribed by the Exchange. The Exchange will designate Trading Permit Holders as required to participate in a system test based on: (1) The category of the Trading Permit Holder (e.g. Floor Broker, DPM, Market-Maker); (2) the computer system(s) the Trading Permit Holder uses; and (3) the manner in which the Trading Permit Holder connects to the System. The Exchange will give Trading Permit Holders reasonable notice of any mandatory systems test, which notice will specify the nature of the test and Trading Permit Holders' obligations in participation in the test.

In connection with this mandatory system testing, proposed Rule 6.23A(e)(ii) provides that every Trading Permit Holder required by the Exchange to conduct or participate in testing of computer systems must provide to the Exchange any reports relating to the testing as the Exchange may prescribe. Trading Permit Holders must maintain adequate documentation of tests required by this Rule and results of this testing for examination by the Exchange.

Proposed Rule 6.23A(e)(iii) states that a Trading Permit Holder that fails to conduct or participate in mandatory systems tests, fails to file the required reports, or fails to maintain the required documentation, as required by proposed Rule 6.23A(e)(i) and (ii), may be subject to summary suspension or other action taken pursuant to Chapter XVI (Summary Suspension) and/or disciplinary action pursuant to Chapter XVII (Discipline) of the Exchange Rules. Disciplinary action may include fines pursuant to proposed Rule 17.50(g)(19), which provides that Trading Permit Holders that violate proposed Rule 6.23A(e) may be subject to fines under the Exchange's minor rule violation plan.[8] As with all other violations in the Exchange's minor rule violation plan, the Exchange retains the ability to refer a violation of the system testing requirements to its Business Conduct Committee should the circumstances warrant such a referral. The Exchange

believes that violations of the proposed mandatory system testing provision are suitable for its minor rule violation plan because they are generally technical in nature. Further, including these violations into the minor rule violation plan will allow the Exchange to carry out its regulatory responsibilities more quickly and efficiently.

The proposed rule change also amends Rule 50.2(a) in the CBOE Stock Exchange, LLC ("CBSX")[9] Rules to clarify that references to "Hybrid Trading System," "Hybrid System," and "System" in Exchange Rules that are applicable to trading on CBSX should be read to mean "CBSX System." Additionally, the proposed rule change amends Appendix A to the CBSX Rules to provide that Rule 6.23A(c) through (e) applies to the trading of equity securities on CBSX. This change clarifies that the Exchange may similarly require CBSX Trading Permit Holders, or categories of CBSX Trading Permit Holders (e.g. Remote Market-Makers), to connect to the Exchange in accordance with a specific connectivity protocol and to participate in system testing as the Exchange deems necessary.

Codification of these requirements gives the Exchange the ability to discipline any Trading Permit Holders that fail to comply with these requirements. While Trading Permit Holders generally comply with these requirements, their inclusion in the Rules (and the resulting potential for discipline for noncompliance) may enhance Trading Permit Holders' overall compliance with them.

Codification of these requirements is also consistent with the Rules of other exchanges. Proposed Rule 6.23A(c) is substantially similar to: BATS Exchange, Inc. ("BATS") Rule 11.3(a); BOX Options Exchange LLC ("BOX") Rule 7000(a); EDGA Exchange, Inc. ("EDGA") Chapter XI, Rule 11.3(a); EDGX Exchange, Inc. ("EDGX") Chapter XI, Rule 11.3(a); International Securities Exchange, LLC ("ISE") Rule 706(a); NASDAQ Option Market ("NOM") Chapter V, Section 1(a); NYSE Arca, Inc. ("NYSE Arca") Rule 6.2A(a); and NYSE MKT LLC ("NYSE MKT") Rule 902.1NY(a). Proposed Rule 6.23A(e) is substantially similar to: BATS Rule 18.13; BOX Rule 3180; ISE Rule 419; and NOM Chapter III, Section 13. BOX Rule 12140(d)(7) and ISE Rule 1614(d)(8) also allow those exchanges to fine their members for violations of their respective mandatory system provisions

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[7] For example, the Exchange developed CMi and currently requires all Trading Permit Holders that opt to connect to the System using CMi to enter into a software license agreement with the Exchange to use CMi. The Exchange has determined that Trading Permit Holders that opt to connect to the System using FIX do not currently have to enter into any type of software user or license agreement, which is a universally available application for which the developer does not require a user agreement.

[8] These fines are as follows: $250 for the first offense, $500 for the second offense, $1,000 for the third offense, $2,000 for the fourth offense, and referral to the Business Conduct Committee for any subsequent offenses. The fines are based on the number of offenses in one calendar year.

[9] CBSX is a stock trading facility of the Exchange.

pursuant to their respective minor rule violation plans.[10]

Additionally, proposed Rule 6.23A(c) is consistent with Rule 15c3–1 [sic] under the Act.[11]

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the Act and the rules and regulations thereunder applicable to the Exchange and, in particular, the requirements of Section 6(b) of the Act.[12] Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5) requirements that the rules of an exchange be designed to promote just and equitable principles of trade, to prevent fraudulent and manipulative acts, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and to perfect the mechanism for a free and open market and a national market system, and, in general, to protect investors and the public interest.[13] Additionally, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5) requirement that the rules of a national securities exchange be designed to not permit unfair discrimination between customer, issuers, brokers or dealers.[14] The Exchange also believes the proposed rule change is consistent with the Section 6(b)(6)[15] requirement that the rules of an exchange provide that its members and persons associated with its members be appropriately disciplined for violation of the provisions of the Act, the rules and regulations thereunder, or the rules of the exchange, by expulsion, suspension, limitation of activities, functions, and operations, fine, censure, being suspended or barred from being associated with a member, or any other fitting sanction.

The proposed rule change codifies current Exchange requirements that enhance CBOE's market surveillances and System functionality. Proposed Rule 6.23A(c) is consistent with Rule 15c3–5 under the Act, and the Exchange believes the proposed rule change promotes compliance by Trading Permit Holders with the market access requirements under that rule. The

Exchange believes that proposed Rule 6.23A(d) allows the Exchange to receive from Trading Permit Holders, or categories of similarly situated Trading Permit Holders, information in a uniform format, which aids the Exchange's efforts to monitor and regulate CBOE's markets and Trading Permit Holders and helps prevent fraudulent and manipulative practices. This also helps coordinate the ability of Trading Permit Holders to electronically trade on the Exchange with the Exchange's ability to receive the necessary information to regulate those transactions. Proposed Rule 6.23A(e) allows the Exchange to ensure that Trading Permit Holders' connections to the System function correctly, which promotes efficiency and enhances compliance by Trading Permit Holders with Exchange Rules. The proposed changes to the CBSX Rules clarify for CBSX Trading Permit Holders that they are subject to and must comply with the requirements in proposed Rule 6.23A.

In addition, codification of these requirements is consistent with the Act because it gives the Exchange the ability to discipline Trading Permit Holders that fail to comply with these requirements, which may enhance overall Trading Permit Holder compliance with these requirements. This proposed rule change will also promote consistency in the minor rule violation programs of other exchanges and allow the Exchange to carry out its regulatory responsibilities more quickly and efficiently by including violations of the mandatory system testing provision in the Exchange's minor rule violation plan.

The Exchange believes that the proposed rule change is designed to not permit unfair discrimination among Trading Permit Holders, as the proposed rule change provides for the Exchange to impose requirements on Trading Permit Holders in an objective manner. For example, under proposed Rule 6.23A(d), the Exchange may impose connectivity protocol requirements on all Trading Permit Holders, or similarly situated Trading Permit Holders. Additionally, under proposed Rule 6.23A(c), whether the Exchange requires a Trading Permit Holder to enter into a software user or license agreement depends solely on what type of API the Trading Permit Holder opts to use to connect to the System.

Finally, the proposed rule change will help remove impediments to and promote a free and open market and a national market system because it is consistent with rules in place at other exchanges and imposes substantially similar requirements on Trading Permit

Holders as those rules do on those exchanges' members.

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

CBOE 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 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)[16] of the Act and Rule 19b–4(f)(6)[17] thereunder.

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

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 email to *rule-comments@sec.gov.* Please include File Number SR–CBOE–2012–100 on the subject line.

Paper Comments

• Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission,

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[10] The proposed fine amounts in proposed Rule 17.50(g)(19) are the same as the fine amounts in the corresponding BOX and ISE rules.

[11] *See supra* note 5.

[12] 15 U.S.C. 78f(b).

[13] 15 U.S.C. 78f(b)(5).

[14] *Id.*

[15] 15 U.S.C. 78f(b)(6).

[16] 15 U.S.C. 78s(b)(3)(A).

[17] 17 CFR 240.19b–4(f)(6).

100 F Street NE., Washington, DC 20549–1090.

All submissions should refer to File Number SR–CBOE–2012–100. 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 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the principal offices 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–CBOE–2012–100, and should be submitted on or before November 30, 2012.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[18]

Kevin M. O'Neill,
Deputy Secretary.

[FR Doc. 2012–27361 Filed 11–8–12; 8:45 am]

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–68154; File No. SR–C2–2012–036]

Self-Regulatory Organizations; C2 Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to System Access, Connectivity, and Testing

November 5, 2012.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"),[1] and Rule 19b–4 thereunder,[2]

[18] 17 CFR 200.30–3(a)(12).
[1] 15 U.S.C. 78s(b)(1).
[2] 17 CFR 240.19b–4.

notice is hereby given that on October 23, 2012, 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 the Substance of the Proposed Rule Change

The Exchange proposes to amend its rules regarding System[3] access, connectivity, and testing by Participants. The text of the proposed rule change is available on the Exchange's Web site (*http://www.c2exchange.com/Legal/*), 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 Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

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

1. Purpose

The Exchange proposes to amend its rules regarding System access, connectivity, and testing by Participants. The Exchange makes available to Participants various application programming interfaces ("APIs"),[4] such as CBOE Market Interface ("CMi") and Financial Information eXchange ("FIX") Protocol, for authorized Participants to use to access the System.[5] Participants may

[3] The System means the automated trading system used by the Exchange for the trading of options products.
[4] APIs are computer programs that allow Participants to interface with the Exchange.
[5] Only Participants may access the System. The Commission adopted Rule 15c3–5 under the Act, which, among other things, requires broker-dealers providing others with access to an exchange or alternative trading system to establish, document,

select which of these APIs they would like to use to connect to the System when registering with the Exchange for System access. The Exchange believes it is important to provide Participants with this flexibility so that they can determine the API that will be most compatible with their systems and maximize the efficiency of their systems' connection to the System. Connection to the System allows authorized Participants to enter and execute orders, as well as submit certain order and trade data to the Exchange, which data the Exchange uses to conduct surveillances of its markets and Participants.

After a Participant registers with the Exchange to use a specific API, the Exchange may require the Participant to use a specific connectivity protocol that, among other things, may require the input of certain information (e.g. trading acronym, category of Participant) during the connectivity process in accordance with technical specifications established by the Exchange. The Exchange may prescribe a specific connectivity protocol for all Participants, or for certain categories of similarly situated Participants (e.g. Market-Makers, Designated Primary Market-Makers ("DPMs")).

It is imperative for the Exchange to receive during the connectivity process information regarding a Participant's identification so that the Exchange can ensure that the connecting party is a Participant authorized to access the System and that the Exchange is aware of what type of Participant the connecting party is. Requiring a specific connectivity protocol allows the Exchange to receive this information in a uniform manner for all Participants, or categories of similarly situated Participants, as the Exchange deems necessary. This information allows the Exchange to, among other things, perform the necessary surveillances applicable to the Participant and determine whether the Participant is complying with all relevant Exchange Rules. Many of the Exchange's surveillances are conducted by type of Participants, as different types have

and maintain a system of risk management controls and supervisory procedures reasonably designed to manage the financial, regulatory, and other risks of providing such access. *See* Securities Exchange Act Release No. 63241 (November 3, 2010), 75 FR 69792 (November 15, 2010). Rule 15c3–5 effectively eliminated "naked access" (i.e. "Sponsored Users") to the Exchange by non-Participants and effectively requires Participants to filter all non-Participant orders prior to being sent to the Exchange. The Exchange expects to eliminate the concept of sponsored use under its Rules in connection with the adoption of Rule 15c3–5 in a separate rule filing.