

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁷

Kevin M. O'Neill,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-70846; File No. SR-C2-2013-038]

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

November 12, 2013.

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 28, 2013, 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 Rule 6.15 (Obvious Error and Catastrophic Errors). 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's Public Reference Room.

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

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of

the most significant aspects of such statements.

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

1. Purpose

Exchange Rule 6.15 (Obvious Error and Catastrophic Errors) governs the nullification and adjustment of options transactions. The Exchange is proposing to amend Rule 6.15(b)(2) to modify how the Exchange will nullify or adjust an obvious error. The Exchange believes this proposal will also harmonize its rules to more closely align with other options exchanges.³

Under the current rule 6.15(b)(2)(A), the Exchange will adjust the price of an erroneous transaction to the Theoretical Price when the transaction is between two market-makers unless such parties agree to adjust the transaction to a different price or bust the trade within ten minutes of being notified by the Help Desk of the error. Pursuant to current Exchange Rule 6.15(b)(2)(B), transactions involving at least one non-C2 market-maker will be nullified unless both parties agree to adjust the transaction within thirty minutes of being notified by the Help Desk of the error.

The Exchange is now proposing to amend Rule 6.15(b)(2) to modify the Exchange obvious error procedures by nullifying trades for transactions involving at least one non-broker-dealer customer and adjusting all other trades between groups that do not fall into this category including for example, a market maker or a broker-dealer.⁴ The Exchange believes that the proposal will protect investors by eliminating some uncertainty in the current rule.

More specifically, the Exchange is first proposing to include all transactions in which neither party is a non-broker-dealer customer in the current Rule 6.15(b)(2)(A) instead of only including transactions between C2 market-makers. Next, the Exchange is proposing to add a provision to nullify all erroneous transactions between non-broker-dealer customers unless both parties agree to an adjusted price within thirty minutes.

³ See, e.g., International Securities Exchange, LLC ("ISE") Rule 720(b)(2).

⁴ The Exchange is also proposing to add text to Exchange Rule 1.1(ff) [sic] (Voluntary Professional) and Rule 1.1(ggg) [sic] (Professional) to include a reference to Rule 6.15. These designations are done on the Exchange on an order by order basis. Thus, through reference, professional orders will be treated as broker-dealer orders. In addition certain non-broker-dealer customers may have their orders treated as broker-dealer orders rather than as public customer orders for purposes of Rule 6.15.

The Exchange believes that the proposal will limit obvious error trade nullification only to transactions involving non-broker-dealer customers. The Exchange believes that this approach will limit the number of nullifications while assuring that non-broker-dealer customers will not have their erroneous trades adjusted through their limit price forcing such customer to spend (receive) more (less) money on erroneous transactions. In addition, the proposed changes to the rule will allow any non-professional customer orders to be subject to professional standards if that customer decides to designate an order as such.⁵

Non-broker-dealer customers are typically far less familiar with the day-to-day trading of the markets and are also less likely to be watching trading activity in a particular option throughout the day. Therefore, given the potential for drastic market swings, the Exchange believes that it is fair and reasonable and consistent with statutory standards to change the procedure for obvious errors involving at least one non-broker-dealer customer, and not for other market participants so as not to expose these customers to any additional risk. In addition, as stated above, these customers have the option of indicating they would like the treatment of their orders as if they originated from a professional.⁶

The proposed rule change is a fair way to address the issue of a trade executing through a non-broker-dealer customer's limit order price while balancing the competing interest of certainty that trades stand versus dealing with the true errors. The proposed rule change would continue to entail specific and objective procedures. Furthermore, the proposed rule change more fairly balances the potential windfall to one market participant against the potential reconsidering of a trading decision under the guise of an error. The Exchange also believes it is fair and reasonable to treat all professional market participants equally, e.g. market-makers, broker-dealers, etc.

As stated above, the Exchange believes that non-broker-dealer customers are far less familiar with the day-to-day trading of the markets and are also less likely to be watching trading activity in a particular option throughout the day. Therefore, the Exchange believes that it is fair and reasonable and consistent with statutory standards to change the procedure for obvious errors involving non-broker-

⁵ See note 4 *supra*.

⁶ *Id.*

¹⁷ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

dealer customers, and not for other market participants so as not to expose these customers to any additional risk. In addition, as stated above, these customers have the option of indicating they would like the treatment of their orders as if they were from professionals.⁷

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the Securities Exchange Act of 1934 (the "Act") and the rules and regulations thereunder applicable to the Exchange and, in particular, the requirements of Section 6(b) of the Act.⁸ Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)⁹ requirements that the rules of an exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest. Additionally, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)¹⁰ requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

In particular, the proposal to nullify all erroneous transactions in which at least one non-broker-dealer customer is a party to the transaction and adjusting all other trades will help market participants to better hedge risk associated with these potentially erroneous transactions. By nullifying erroneous transactions which involve a non-broker-dealer customer, the Exchange is assuring that these non-professional customers will not receive a trade at a higher (lower) price than a limit price placed upon the transaction. In addition, the proposal is requiring trades in most circumstances to be honored. The proposal also allows for all parties to nullify any erroneous transaction as long as the two parties come to an agreement.

The Exchange believes that adjusting all transactions that do not involve a non-broker-dealer customer is just and equitable because professional customers are more sophisticated and

familiar with the day to day trading swings. Though, as proposed, a professional that is not a market-maker may be adjusted through its limit price, the Exchange believes these professionals have adequate resources in place to manage this adjustment and would prefer the certainty of the proposed changes and to adjust these transactions (rather than nullify) to continue to hedge their risk. In addition, the Exchange believes that market-makers and other professionals are similarly situated, and, thus, it is consistent to treat these groups in the same manner. Moreover, the market benefits from the least amount of nullifications because parties have more certainty about their executions. The Exchange also believes that assessing an adjustment penalty will encourage professionals to adjust and nullify a lesser amount of transactions which will benefit the market as a whole. Thus, the Exchange believes that the treatment of all professional orders in the same manner is consistent with the Act as it will allow the market to suffer fewer disruptions, in the form of adjustments or nullifications of trades after the fact, and treats similarly situated groups, namely market-makers and other professionals, in the same manner. The Exchange also notes that aligning the Exchange with other options exchanges will ensure less disruption to market participants as they will be treated consistently across the markets.¹¹

Though the proposal will treat different groups of market participants differently, the Exchange believes that the proposal is not unfairly discriminating because it treats similarly situated groups in the same manner. More specifically, all professionals will be treated in a similar manner while non-professional customers will also be left with the choice to designate an order as professional, under Exchange Rule 1.1 and thus have the ability to be treated in the same manner as a professional. With this choice, all groups may be treated in the same manner. In addition, the proposal creates a safeguard for a non-professional customer that may not be as familiar with the specifics of every day trading (and does not choose to be treated as a professional) by nullifying all erroneous transactions in which they are a party.

The Exchange acknowledges that the proposal may allow for some uncertainty to regarding whether a trade will be adjusted or nullified depending upon the nature of the parties to the transaction. More specifically, the

contra party will not know the category of the other party. Nonetheless, the Exchange believes the proposal continues to promote just and equitable principles of trade and protect investors and the public interest because it eliminates a more serious uncertainty of price uncertainty which is inherent in the current Exchange rule because the current rule takes the non-broker-dealer customer's limit price into consideration while this proposal does not as it will be nullified unless agreed upon by the two parties. The Exchange also notes that this rule is substantially similar to another option exchange.¹² Thus, market participants will receive similar treatment in the [sic] across the markets which eliminates confusion and promotes just and equitable principles of trade.

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

C2 does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. Specifically, the proposal is meant to eliminate market participant confusion along with help market participants to better hedge the risk associated with erroneous options trades. C2 believes that the proposed rule change will relieve any burden on, or otherwise promote, competition because it creates less uncertainty about the treatment of erroneous trades which may encourage market participants to trade on the Exchange.

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

The Exchange neither solicited nor received comments on the proposed rule change.

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

Because the foregoing proposed rule change does not:

A. Significantly affect the protection of investors or the public interest;

B. impose any significant burden on competition; and

C. become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act¹³ and Rule 19b-4(f)(6)¹⁴ thereunder. At any time within 60 days

⁷ *Id.*

⁸ 15 U.S.C. 78f(b).

⁹ 15 U.S.C. 78f(b)(5).

¹⁰ *Id.*

¹¹ See note 3 *supra*.

¹² See note 3 *supra*.

¹³ 15 U.S.C. 78s(b)(3)(A).

¹⁴ 17 CFR 240.19b-4(f)(6).

of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission will institute proceedings to determine whether the proposed rule change should be approved or disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an email to rule-comments@sec.gov. Please include File Number SR-C2-2013-038 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 Number SR-C2-2013-038. 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 10:00 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-C2-2013-038 and should be submitted on or before December 9, 2013.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁵

Kevin M. O'Neill,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-70850; File No. SR-Phlx-2013-109]

Self-Regulatory Organizations; NASDAQ OMX PHLX LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Regarding Box Spread Strategies

November 12, 2013.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ and Rule 19b-4 thereunder,² notice is hereby given that on October 30, 2013, NASDAQ OMX PHLX LLC ("Phlx" or "Exchange") filed with the Securities and Exchange Commission ("SEC" or "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 adopt a strategy fee cap applicable to box spreads.

While the changes proposed herein are effective upon filing, the Exchange has designated that the amendments be operative on November 1, 2013.

The text of the proposed rule change is available on the Exchange's Web site at <http://nasdaqomxphlx.cchwallstreet.com/>, at the principal office of the Exchange, and at the Commission's Public Reference Room.

¹⁵ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

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

1. Purpose

The purpose of this filing is to amend the strategy fee caps which are currently located in Section II, entitled "Multiply Listed Options."³ Today, the Exchange caps fees on certain dividend, merger, short stock interest, reversal and conversion and jelly roll strategy floor option transactions. The Exchange is proposing to also cap fees on box spread strategy transactions.

A box spread strategy synthesizes long and short stock positions to create a profit. Specifically, a long call and short put at one strike is combined with a short call and long put at a different strike to create synthetic long and synthetic short stock positions, respectively. The Exchange proposes to include this definition in Section II of the Pricing Schedule in the section entitled "Strategies Defined."

The Exchange proposes to offer a strategy cap for box spreads. Today, Specialist,⁴ Market Maker,⁵ Professional,⁶ Firm⁷ and Broker-Dealer⁸

³ This includes options overlying equities, ETFs, ETNs and indexes which are Multiply Listed.

⁴ A "Specialist" is an Exchange member who is registered as an options specialist pursuant to Rule 1020(a).

⁵ A "market maker" includes Registered Options Traders (Rule 1014(b)(i) and (ii)), which includes Streaming Quote Traders (*see* Rule 1014(b)(ii)(A)) and Remote Streaming Quote Traders (*see* Rule 1014(b)(ii)(B)). Directed Participants are also market makers.

⁶ The term "Professional" means any person or entity that (i) is not a broker or dealer in securities, and (ii) places more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s). *See* Rule 1000(b)(14).

⁷ The term "Firm" applies to any transaction that is identified by a member or member organization for clearing in the Firm range at OCC.

⁸ The term "Broker-Dealer" applies to any transaction which is not subject to any of the other transaction fees applicable within a particular category.