

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 such filing will also 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-BATS-2016-02 and should be submitted on or before February 17, 2016.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹¹⁴

Brent J. Fields,
Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-76959; File No. SR-C2-2015-033]

Self-Regulatory Organizations; C2 Options Exchange, Incorporated; Notice of Filing of Amendment No. 2 and Order Granting Accelerated Approval of Proposed Rule Change, as Modified by Amendment Nos. 1 and 2 Thereto, Relating to Price Protection Mechanisms for Quotes and Orders

January 21, 2016.

I. Introduction

C2 Options Exchange, Incorporated (the "Exchange" or "C2") filed on November 25, 2015, with the Securities and Exchange Commission (the "Commission"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹ and Rule 19b-4 thereunder,² a proposal to enhance its current price protection mechanisms and adopt certain new price protection functionality for orders and quotes. On December 4, 2015, the Exchange filed Amendment No. 1 to the proposed rule change. The proposed rule change, as modified by Amendment No. 1, was published for comment in the **Federal Register** on December 11, 2015.³ On

December 29, 2015, the Exchange filed Amendment No. 2 to the proposed rule change.⁴ The Commission received no substantive comment letters on the proposal. This order approves the proposed rule change, as modified by Amendment Nos. 1 and 2, on an accelerated basis.

II. Description of the Proposed Rule Change, as Modified by Amendment Nos. 1 and 2

The Exchange proposes to adopt new Exchange Rules 6.17(d) and (e) and to amend Exchange Rule 6.13, Interpretation and Policy .04, to enhance its current price protection mechanisms for orders and quotes in order to help prevent potentially erroneous executions.⁵

A. Put Strike Price and Call Underlying Value Checks

Proposed Exchange Rule 6.17(d) will provide a new price protection functionality pursuant to which the Exchange's automated trading system ("System") will reject back to the Participant a quote or buy limit order for (i) a put if the price of the quote bid or order is equal to or greater than the strike price of the option or (ii) a call if the price of the quote bid or order is equal to or greater than the consolidated last sale price of the underlying security, with respect to equity and exchange-traded fund options, or the last disseminated underlying index value, with respect to index options.⁶

⁴ In Amendment No. 2, the Exchange amended the proposed rule language to (i) clarify that it will notify Trading Permit Holders by electronic message if the Exchange determines that the put strike price or call underlying value check should not apply in the interest of maintaining a fair and orderly market under proposed Exchange Rule 6.17(d)(ii) and (ii) limit the potential range of the percentage amount used to calculate the maximum value acceptable price range check in proposed Exchange Rule 6.13, Interpretation and Policy .04(b)(1)(iii). In Amendment No. 2, C2 also represented that it will document, retain, and periodically review any Exchange decision to not apply the put check or call check under proposed Exchange Rule 6.17(d)(ii), including the reason for the decision. See Amendment No. 2 to File No. SR-C2-2015-033, dated December 29, 2015 ("Amendment No. 2"). To promote transparency of its proposed amendment, when C2 filed Amendment No. 2 with the Commission, it also submitted Amendment No. 2 as a comment letter to the file, which the Commission posted on its Web site and placed in the public comment file for SR-C2-2015-033. The Exchange also posted a copy of its Amendment No. 2 on its Web site (<http://www.c2exchange.com/legal/rulefilings.aspx>) when it filed the amendment with the Commission.

⁵ For a more detailed description of each proposed price protection mechanism, see Notice, *supra* note 3.

⁶ If the System rejects a Market Maker's quote pursuant to either proposed price check, the Exchange will cancel any resting quote of the Market Maker in the same series. See proposed Exchange Rule 6.17(d); see also Notice, *supra* note

The Exchange may determine not to apply this proposed price protection mechanism if a senior official at the Exchange's Help Desk determines the applicable check should not apply in the interest of maintaining a fair and orderly market.⁷

B. Quote Inverting NBBO Check

Proposed Exchange Rule 6.17(e) will apply new a price reasonability check to Market Maker quotes based on the national best bid or offer ("NBBO") or the Exchange's best bid or offer if the NBBO is unavailable.⁸ Specifically, if C2 is at the NBBO, the System will reject a quote back to a Market Maker if the quote bid or offer crosses the opposite side of the NBBO by more than a number of ticks specified by the Exchange.⁹ If C2 is not at the NBBO, the System will reject a quote back to a Market-Maker if the quote bid or offer locks or crosses the opposite side of the NBBO.¹⁰ The Exchange may determine not to apply this check to quotes entered during the pre-opening, a trading rotation, or a trading halt, and would announce to Participants any such determination thorough a Regulatory Circular.¹¹

C. Debit/Credit Price Reasonability Checks

The Exchange proposes to amend its price check parameters applicable to complex orders that are contained in current Exchange Rule 6.13,

3, at 77048. These proposed checks also will apply to buy auction responses in the same manner as it does to orders and quotes, as well as pairs of orders submitted to the Exchange's Automated Improvement Mechanism ("AIM") or Solicitation Auction Mechanism ("SAM"). See *id.*

⁷ See proposed Exchange Rule 6.17(d)(ii); see also Notice, *supra* note 3, at 77048. The Exchange represented that it will document, retain, and periodically review any decision to not apply the put check or call check, including the reason for the decision. See Amendment No. 2, *supra* note 4.

⁸ See proposed Exchange Rule 6.17(e); see also Notice, *supra* note 3, at 77049-50.

⁹ The Exchange states that the number of ticks will be no less than three minimum increment ticks and announced to Participants by Regulatory Circular. See proposed Exchange Rule 6.17(e); see also Notice, *supra* note 3, at 77049. In addition, proposed Exchange Rule 6.17(e)(iii) addresses situations where C2 accepts a quote that locks or crosses the NBBO.

¹⁰ See proposed Exchange Rule 6.17(e)(i); see also Notice, *supra* note 3, at 77050. As an additional risk control feature, if a Market Maker submits a quote in a series in which the Market Maker already has a resting quote and the Exchange rejects that quote pursuant to this proposed check, the Exchange will cancel the Market Maker's resting quote in the series. See Notice, *supra* note 3, at 77049.

¹¹ See proposed Exchange Rule 6.17(e)(ii); see also Notice, *supra* note 3, at 77049-50. Additionally, this proposed check will not apply if a senior official at the Exchange's Help Desk determines it should not apply in the interest of maintaining a fair and orderly market. See *id.*

¹¹⁴ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 76584 (December 8, 2015), 80 FR 77047 (December 11, 2015) ("Notice").

Interpretation and Policy .04, to prevent the automatic execution of complex orders that appear to be erroneously priced based on general options volatility and pricing principles.¹² Under current Exchange Rule 6.13, Interpretation and Policy .04, the System will not automatically execute (i) a limit order for a debit strategy with a net credit price that should have been entered at a net debit price, (ii) a limit order for a credit strategy with a net debit price that should have been entered at a net credit price, and (iii) a market order for a credit strategy that would be executed at a net debit price when it should execute at a net credit price.¹³ The amended rule expands this check to certain complex orders which the System can determine are credits or debits.¹⁴

D. Maximum Value Acceptable Price Range Check

Finally, the Exchange proposes to amend Exchange Rule 6.13, Interpretation and Policy .04(h), to add an additional price check for complex orders. The new price check would apply to vertical, true butterfly, and box spreads, and would block executions of such strategies at prices that exceed their quantifiable maximum possible values by more than a reasonable amount.¹⁵ Under the proposed rule, the Exchange will determine the acceptable price range for these strategies and will reject back to the Participant any limit order and cancel any market order that does not satisfy this proposed check.¹⁶

III. Discussion and Commission Findings

After careful review, the Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange and, in particular,

¹² See proposed Exchange Rule 6.13, Interpretation and Policy .04; see also Notice, *supra* note 3, at 77050–53.

¹³ See Notice, *supra* note 3, at 77050.

¹⁴ See *id.* at 77050. The proposed rule contains new definitions of vertical spread, butterfly spread and box spread, and states how the System will define a complex order as a debit or credit. See *id.* at 77050–51; see also proposed Exchange Rule 6.13, Interpretation and Policy .04. These checks will also apply to buy auction responses and pairs of orders submitted to AIM or SAM. See proposed Exchange Rule 6.13, Interpretation and Policy .04(c)(4)–(5); see also Notice, *supra* note 3, at 77053.

¹⁵ See proposed Exchange Rule 6.13, Interpretation and Policy .04(h); see also Notice, *supra* note 3, at 77053.

¹⁶ See Notice, *supra* note 3, at 77053. The proposed check will also apply to auction responses and pairs of orders submitted to AIM or SAM. See *id.*

with Section 6(b) of the Act.¹⁷ In particular, the Commission finds that the proposed rule change is consistent with Sections 6(b)(5) of the Act,¹⁸ which requires, among other things, that the rules of a national securities 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.

The Commission believes that the proposed new price protection mechanisms are reasonably designed to promote just and equitable principles of trade to the extent they are able to mitigate potential risks associated with market participants entering orders at what C2 believes are clearly unintended prices and executing trades at prices that are both extreme and potentially erroneous.¹⁹ Specifically, the Commission believes that the proposed price protection for simple orders to buy put and call options based on the strike price or underlying value, respectively, is designed to promote fair and orderly markets and protect investors by rejecting quotes and orders that exceed the strike price for puts and the value of the underlying for calls, which may likely have occurred due to human or operational error. The Commission also believes that the proposed quote inverting NBBO check is reasonably designed to promote just and equitable principles of trade by preventing potential price dislocation that could result from erroneous Market Maker quotes sweeping through multiple price points.²⁰

In addition, the proposed enhanced price checks that would apply to complex orders, including the debit and credit price reasonability checks and the maximum value acceptable price range checks, are designed to mitigate the potential risks associated with complex orders trading at prices that likely are inconsistent with their strategies and could potentially result in erroneous executions.²¹ Furthermore, the Commission believes that the proposed

¹⁷ 15 U.S.C. 78f(b). In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

¹⁸ 15 U.S.C. 78f(b)(5).

¹⁹ See Notice, *supra* note 3, at 77054.

²⁰ See Notice, *supra* note 3, at 77055.

²¹ See *id.* at 77055–56.

maximum value acceptable price range adds a second layer of price protection to complex strategies that is reasonably designed to mitigate the potential risks associated with orders that have complex strategies with quantifiable maximum values trading at prices that are potentially erroneous.²²

Accordingly, for the reasons discussed above, the Commission believes that the proposed rule change, as modified by Amendment Nos. 1 and 2, is consistent with the Act.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether Amendment No. 2 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–C2–2015–033 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–C2–2015–033. 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;

²² *Id.*

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-C2-2015-033 and should be submitted on or before February 17, 2016.

V. Accelerated Approval of Proposed Rule Change, as Modified by Amendment Nos. 1 and 2

The Commission finds good cause, pursuant to Section 19(b)(2) of the Act, to approve the proposed rule change, as modified by Amendment Nos. 1 and 2, prior to the 30th day after the date of publication of Amendment No. 2 in the **Federal Register**. As discussed above, Amendment No. 2 clarified that the Exchange will notify Trading Permit Holders by electronic message if the Exchange determines that the put strike price or call underlying value check should not apply in the interest of maintaining a fair and orderly market under proposed Exchange Rule 6.17(d)(ii).²³ C2 also represented in Amendment No. 2 that the Exchange will document, retain, and periodically review any Exchange decision to not apply the put check or call check under proposed Exchange Rule 6.17(d)(ii), including the reason for the decision.²⁴ Lastly, in Amendment No. 2, C2 clarified that the potential range of the percentage amount it will use to calculate the maximum value acceptable price range check in proposed Exchange Rule 6.17, Interpretation and Policy .04(h)(1)(iii), is between 1% and 5%.²⁵ The Commission believes that these changes provide greater clarity and remove any possible uncertainty regarding the potential exercise of Exchange discretion with regard to the proposed price protection mechanisms. In particular, the representation about documenting, retaining, and periodically reviewing decisions to suspend a price check will enable C2 to monitor the actions of its senior Help Desk personnel and assure that the suspension of any price check is appropriate and consistent with C2's responsibilities as a self-regulatory organization and the principles articulated in the Act that are applicable to exchanges. Further, clarifying the possible range of the maximum value acceptable price range provides valuable information to Trading Permit Holders to help them better understand and evaluate this price protection functionality. Accordingly, the

Commission finds good cause for approving the proposed rule change, as modified by Amendment Nos. 1 and 2, on an accelerated basis, pursuant to Section 19(b)(2) of the Act.

VI. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) of the Act²⁶ that the proposed rule change (SR-C2-2015-033), as modified by Amendment Nos. 1 and 2, be, and hereby is, approved on an accelerated basis.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²⁷

Brent J. Fields,

Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-76957; File No. SR-ISE-2016-03]

Self-Regulatory Organizations; International Securities Exchange, LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Amend the Schedule of Fees

January 21, 2016.

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 January 13, 2016, the International Securities Exchange, LLC (the "Exchange" or "ISE") filed with the Securities and Exchange Commission the proposed rule change, as described in Items I, II, and III below, which items have been prepared by the self-regulatory organization. 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

ISE proposes to amend the Schedule of Fees as described in more detail below. The text of the proposed rule change is available on the Exchange's Internet Web site at <http://www.ise.com>, at the principal office of the Exchange, and at the Commission's Public Reference Room.

²⁶ 15 U.S.C. 78f(b)(2).

²⁷ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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 self-regulatory organization 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 the proposed rebate is to amend the Schedule of Fees to introduce a new set of rebates to the Qualified Contingent Cross ("QCC") and/or other solicited crossing orders, including solicited orders executed in the Solicitation, Facilitation or Price Improvement Mechanisms, pricing initiative that offers rebates to members that execute a specified volume of QCC and other solicited crossing orders in a month. The proposed rebates apply to QCC and solicited orders between two Priority Customers³ ("Customer to Customer" Orders) executed by members that (1) execute a specified volume of QCC and solicited orders in a given month and (2) have a total unsolicited originating Facilitation contract side volume of 175,000 or more per month. The Exchange notes it is not proposing any change to how volume is calculated for the current volume tiers. Thus, members will continue to obtain the tier level based on all QCC and/or solicited crossing orders' originating side volume. Members will also continue to receive the Non-"Customer to Customer" Order⁴ rebate for their Non-"Customer to Customer" Orders and the "Customer to Customer" Order rebate for their "Customer to Customer" Orders.

Currently, the Exchange offers members rebates in QCC and/or other solicited crossing orders (including "Customer to Customer" Orders), *i.e.*

³ The term "Priority Customer" means a person or entity that (i) is not a broker or dealer in securities, and (ii) does not place more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s).

⁴ "Non-'Customer to Customer' Orders" are QCC and/or other solicited crossing orders, including solicited orders executed in the Solicitation, Facilitation or Price Improvement Mechanisms, and excluding "Customer to Customer" Orders.

²³ See Amendment No. 2, *supra* note 4.

²⁴ *Id.*

²⁵ *Id.*