

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-65380; File No. SR-C2-2011-017]

### Self-Regulatory Organizations; C2 Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change To Adopt a Market-Maker Trade Prevention Order

September 22, 2011.

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 September 15, 2011, 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 and II below, which Items have been prepared by the Exchange. The Exchange filed 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 Substance of the Proposed Rule Change

The Exchange proposes to adopt a Market-Maker Trade Prevention Order. The text of the proposed rule change is available on the Exchange's Web site (<http://www.cboe.org/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 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 the Statutory Basis for, the Proposed Rule Change

##### 1. Purpose

The Exchange proposes to adopt a Market-Maker Trade Prevention ("MMTP") Order. The proposed MMTP Order is an immediate-or-cancel order containing a designation that prevents incoming orders for a Market-Maker from executing against resting quotes and orders for the same Market-Maker.

The MMTP Order type designation is intended to prevent a Market-Maker from trading on both sides of the same transaction. Orders would be marked with the MMTP designation on an order-by-order basis. An incoming MMTP Order cannot interact with interest resting on the book from the same Market-Maker. An MMTP Order that would trade against a resting quote or order for the same Market-Maker will be cancelled, as will the resting quote or order. The MMTP Order will trade against other tradable orders and quotes entered by or on behalf of another market participant (other than those entered by or on behalf of the same Market-Maker) in accordance with the execution process described in Exchange Rule 6.12 (Order Execution and Priority).

However, if the MMTP is received while an order for the same Market-Maker is subject to Rule 6.14, SAL, Rule 6.51, *Automated Improvement Mechanism* ("AIM"), and Rule 6.52, *Solicitation Auction Mechanism* (each an "auction"), only the MMTP Order will be cancelled. The order being represented in the auction will not be cancelled. This is because the order being represented in the auction will still be able to execute via the auction mechanism against orders originating from other market participants. As auctions are designed to achieve price improvement, the Exchange does not want to interfere with the auction process and cancel an order that is already up for auction, since it can achieve price improvement with an order from another market participant.

For example, assume the Exchange's best bid and offer is \$1.00-\$1.20, 100 contracts on each side. A Market-Maker marks an order to buy 100 contracts at \$1.20 with the MMTP distinction, making it an MMTP Order. The MMTP Order is submitted to the Exchange and it would trade with a resting quote from the same Market-Maker for 100 contracts offered at \$1.20, then both the order to buy and the resting offer quote would be canceled. However, if the resting offer quote from the same

Market-Maker was for only 60 contracts, then 60 contracts from the order to buy would be canceled (as would the resting quote), but the other 40 contracts could trade with the resting offer interest of the other market participants.

As another example, assume a sell order entered on behalf of a Market-Maker is subject to a HAL auction. A Market-Maker marks an order to buy with the MMTP distinction, making it an MMTP Order. If this incoming MMTP Order is received while the auction is in progress and the MMTP Order would otherwise trade with the order that is subject to the HAL auction, then only the MMTP Order would be cancelled. The order being represented in the auction would not be canceled.

At this time, the Exchange intends to identify an incoming MMTP Order as being for the same Market-Maker if the MMTP Order and resting quote or order share any of the following: (1) User acronym, (2) login ID, or (3) sub-account code. Each Market-Maker is assigned its own acronym (sometimes multiple acronyms). However, a Market-Maker may have multiple different login IDs or sub-account codes. A login ID is the session through which a Market-Maker routes orders to the Exchange. A Market-Maker may elect to use different login IDs to route different types of communications to the Exchange. For example, a Market-Maker may choose to use login ID #1 for all orders it sends to the Exchange and login ID #2 for all quotes it sends to the Exchange. Or the Market-Maker may be much more specific, and use different login IDs for different types of orders and quotes. A sub-account code is simply a field on each order or quote that lists the account into which a trade clears at the Options Clearing Corporation ("OCC"). A Market-Maker may have different sub-account codes for each trader it employs, so that the Market-Maker may track each trader's activity. Finally, Market-Makers sometimes use different acronyms but clear into the same accounts (thereby using the same sub-accounts codes).

Allowing Market-Makers to designate orders as MMTP Orders is intended to allow firms to better manage order flow and prevent unwanted executions resulting from the interaction of executable buy and sell trading interest for the same Market-Maker, as well as prevent the potential for (or appearance of) "wash sales" that may occur as a result of the velocity of trading in today's high speed marketplace. When a Market-Maker is preparing to submit an order, the Market-Maker may not know whether or not his order is going to trade against his own resting quote.

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

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

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

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

Further, many Market-Makers have multiple connections into the Exchange due to capacity- and speed-related demands. Orders routed by the same Market-Makers via different connections may, in certain circumstances, trade against each other. Finally, the Exchange notes that offering the MMTP modifiers will streamline certain regulatory functions by reducing false positive results that may occur on Exchange-generated wash trading surveillance reports when orders are executed by the same Market-Maker. For these reasons, the Exchange believes the MMTP Order provides Market-Makers enhanced order processing functionality to prevent potentially unwanted trades from occurring.

## 2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the Act<sup>5</sup> and the rules and regulations thereunder and, in particular, the requirements of Section 6(b) of the Act.<sup>6</sup> Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>7</sup> requirements 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 for a free and open market and a national market system, and, in general, to protect investors and the public interest. The proposed rule change advances these objectives by making available to Market-Makers a type of order that will assist Market-Makers in preventing unwanted executions against themselves.

### 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 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

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

The proposed rule change is filed for immediate effectiveness pursuant to

Section 19(b)(3)(A)<sup>8</sup> of the Securities Exchange Act of 1934 and Rule 19b-4(f)(6)<sup>9</sup> thereunder because it effects a change that (i) Does not significantly affect the protection of investors or the public interest; (ii) does not impose any significant burden on competition; and (iii) by its terms, 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.

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 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 e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File No. SR-C2-2011-017 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-C2-2011-017. 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 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 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 No. SR-C2-2011-017 and should be submitted on or before October 19, 2011.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>10</sup>

Elizabeth M. Murphy,  
Secretary.

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-65381; File No. SR-NASDAQ-2011-128]

### Self-Regulatory Organizations; The NASDAQ Stock Market LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Customer Rebates To Add Liquidity

September 22, 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 September 15, 2011, The NASDAQ Stock Market LLC ("NASDAQ" or "Exchange") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by NASDAQ. 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 modify Exchange Rule 7050 governing pricing for NASDAQ members using the NASDAQ Options Market ("NOM"), NASDAQ's facility for executing and

<sup>5</sup> 15 U.S.C. 78s(b)(1).

<sup>6</sup> 15 U.S.C. 78f(b).

<sup>7</sup> 15 U.S.C. 78f(b)(5).

<sup>8</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>9</sup> 17 CFR 240.19b-4(f)(6).

<sup>10</sup> 17 CFR 200.30-3(a)(12).

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

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