

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-72741; File No. SR-C2-2014-015]

### Self-Regulatory Organizations; C2 Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating To Amend Market-Maker Quoting Obligations

August 1, 2014.

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 July 22, 2014, 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 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 its rules regarding Market-Maker continuous quoting obligations.

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'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

The purpose of the proposed rule change is to amend Rules 8.5, 8.13 and

8.17: (i) To provide that compliance with continuous quoting obligations apply to Market-Makers' appointed classes collectively and (ii) to provide that the Exchange will determine Market-Makers' compliance with continuous quoting obligations on a monthly basis. These changes do not substantially change Market-Makers' quoting obligations and make C2's Market-Maker obligations more consistent with market-maker obligations at other options exchanges. The proposed rule change only changes how and when the Exchange determines a Market-Maker's compliance with continuous quoting obligations.

#### Collective Application

Rules 8.5, 8.13, 8.17 impose the following continuous electronic quoting obligations on Market-Makers, Preferred Market-Makers ("PMMs"), and Designated Primary Market-Makers ("DPMs"), respectively (collectively, "Market-Makers" unless the context otherwise requires):

- Rule 8.7(a)(1) requires Market-Makers to maintain a continuous two-sided market in 60% of the non-adjusted option series of each registered class that have a time to expiration of less than nine months, with continuous meaning 90% of the time;<sup>3</sup>

- Rule 8.13(d) requires PMMs to provide continuous electronic quotes in at least 90% of the non-adjusted option series of each class for which it receives Preferred Market-Maker orders, with continuous meaning 99% of the time;<sup>4</sup> and

- Rule 8.17(a)(1) requires DPMs to provide continuous quotes in at least the lesser of 99% of the non-adjusted option series or 100% of the non-adjusted option series minus one call-

<sup>3</sup> Rule 8.7(a)(1) also provides that if a technical failure or limitation of the System prevents a Market-Maker from maintaining, or communicating to the Exchange, timely and accurate quotes in a series, the duration of such failure will not be considered in determining whether the Market-Maker has satisfied the 90% quoting standard with respect to that series. The Exchange may consider other exceptions to this continuous electronic quote obligation based on demonstrated legal or regulatory requirements or other mitigating circumstances. It further provides that this quoting obligation does not apply to intra-day add-on series on the day during which such series are added for trading.

<sup>4</sup> Rule 8.13(d) also provides that if a technical failure or limitation of the System prevents a Market-Maker from maintaining, or communicating to the Exchange, timely and accurate quotes in a series, the duration of such failure will not be considered in determining whether the Market-Maker has satisfied the 90% quoting standard with respect to that series. The Exchange may consider other exceptions to this continuous electronic quote obligation based on demonstrated legal or regulatory requirements or other mitigating circumstances.

put pair<sup>5</sup> in each of their allocated classes, with continuous meaning 90% of the time.<sup>6</sup>

C2 proposes to amend Rules 8.7(a)(1), 8.13(d), and 8.17(a)(1) to provide that the continuous quoting obligation for Market-Makers will be applied collectively across all classes in which the Market-Maker has appointments<sup>7</sup>, rather than on a class-by-class basis.<sup>8</sup> The Exchange believes that applying the continuous quoting requirements for Market-Makers collectively across all classes is a fair and efficient way for the Exchange and market participants to evaluate compliance with the continuous quoting obligation.

<sup>5</sup> A "call-put" pair refers to one call and one put that cover the same underlying instrument and have the same expiration date and exercise price.

<sup>6</sup> Rule 8.17(a)(1) also provides that if a technical failure or limitation of the System prevents a Market-Maker from maintaining, or communicating to the Exchange, timely and accurate quotes in a series, the duration of such failure will not be considered in determining whether the Market-Maker has satisfied the 90% quoting standard with respect to that series. It further provides that this quoting obligation does not apply to intra-day add-on series on the day during which such series are added for trading. The proposed rule change adds that the Exchange may consider other exceptions to this continuous electronic quote obligation based on demonstrated legal or regulatory requirements or other mitigating circumstances, consistent with the Exchange's ability to do so for Market-Makers and PMMs. This language was previously and inadvertently omitted from [sic] the rules. The Exchange believes it is reasonable and fair to DPMs to have this authority for all Market-Makers.

<sup>7</sup> As this rule filing demonstrates, the Exchange has several types of Market-Makers, each of which has separate quoting obligations. The Exchange notes that proposed rule change to apply the quoting obligation collectively applies with respect to each Market-Maker type as the Market-Maker is approved to act. Thus, the collective application of the continuous quoting obligation applies to classes for each Market-Maker type (*i.e.* classes for which the Market-Maker has the same quoting obligation). For example, if a Market-Maker is a Permit Holder organization with appointments in ten classes, with 100 series in each, for a total of 1,000 series (with an obligation to quote in 60% of the series in those classes 90% of the time it is quoting in those classes) and acts as a DPM in three classes, with 100 series in each, for a total of 300 series (with an obligation to quote 99% (or 100% minus one call-put pair) of the series in those classes 90% of the time), for purposes of compliance with the continuous quoting obligation, the Permit Holder must quote in 600 series (or 60% of the series) in the ten Market-Maker classes collectively for 90% of the time it is quoting in those classes and 297 series (or 99% of the series) in the three DPM classes collectively for 90% of the trading day. The Exchange believes this is consistent with the application of those exchanges' rules, as it would not be possible to apply the collective standard across classes for which a Market-Maker has different quoting obligations.

<sup>8</sup> The proposed rule change makes corresponding changes to Rule 8.13(d) to delete rule text that a PMM must quote the specified percentage of series in each class it receives PMM orders and to Rule 8.17(a)(1) to delete rule text that a DPM must quote the specified percentage of series in each class allocated to it. This language is no longer applicable given the proposed collectively application of the continuous quoting obligation.

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

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

Applying the continuous electronic quoting requirements collectively across all classes rather than on a class-by-class basis is beneficial to Market-Makers by providing some flexibility to choose which series in their appointed classes they will continuously quote—increasing the continuous quoting in the series of one class while allowing for a decrease in the continuous quoting in the series of another class. This flexibility, however, does not diminish the Market-Maker's obligation to continuously quote in a significant percentage of series for a significant part of the trading day. This flexibility is especially important for classes that have relatively few series and may prevent a Market-Maker from reaching the continuous quoting obligation when failing to quote 90% or 99% of the trading day, as applicable, in more than one series in an appointed class. The Exchange believes that the proposed rule change will not diminish, and may in fact increase, market-making activity on the Exchange, by applying continuous quoting obligations in a reasonable manner, which is already in place on other options exchanges.<sup>9</sup>

#### Monthly Compliance

The continuous quoting obligations described above apply on a daily basis. C2 proposes to amend Rules 8.7(a)(1), 8.13(d), and 8.17(a)(1) to provide that the Exchange will determine compliance by Market-Makers with continuous quoting obligations on a monthly basis.<sup>10</sup> Determining compliance with these quoting obligations does not relieve Market-Makers from meeting these quoting obligations on a daily basis, nor does it prohibit the Exchange from taking disciplinary action against Market-

Makers for failing to meet any of these requirements each trading day.

Similar to the proposed rule change to apply continuous quoting obligations to all classes collectively, the Exchange believes that reviewing compliance on a monthly basis is a fair and more efficient way for the Exchange and market participants to evaluate compliance with these quoting obligations. Reviewing compliance on a monthly basis allows the Exchange to review a Market-Maker's daily compliance in the aggregate and determine the appropriate disciplinary action for single or multiple compliance failures during a one-month period. C2 believes that the proposed rule change will not diminish, and in fact may increase, market-making on the Exchange by establishing quoting compliance standards that are reasonable and already in place on other options exchanges.<sup>11</sup> C2 also believes that determining compliance by Market-Makers with quoting obligations on a monthly basis will facilitate C2's determination of appropriate penalties or other remedial measures for violation(s) of these obligations.

The Exchange will announce the implementation date of the proposed rule change in a Regulatory Circular to be published no later than 90 days following the effective date. The implementation date will be no later than 180 days following the effective date. Because the proposed change provides for a monthly compliance standard, the Exchange believes it is appropriate for implementation of the proposed rule change to occur on the first trading day of a month. Additionally, the implementation date will provide sufficient time for the Exchange to make any necessary changes to its surveillances with respect to continuous quoting obligations and for Market-Makers to make any system changes in connection with the proposed collective standard.

#### 2. Statutory Basis

The Exchange believes the proposed rule change is consistent with Act and the rules and regulations thereunder applicable to the Exchange and, in particular, the requirements of Section 6(b) of the Act.<sup>12</sup> Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>13</sup> 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)<sup>14</sup> requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The proposed rule change removes impediments to and perfects the mechanisms of a free and open market and a national market system because it is consistent with standards currently in place on other options exchanges. With respect to the application of continuous electronic quoting obligations collectively, the Exchange believes that providing Market-Makers with flexibility to satisfy their continuous quoting obligations collectively across their appointed classes will not diminish Market-Makers' obligations to provide continuous quotes in a significant percentage of series for a significant part of the trading day. With respect to the monthly compliance standard, the Exchange believes that the proposed rule change will enhance compliance efforts by Market-Makers and the Exchange. The Exchange believes that determining compliance with continuous quoting obligations on a monthly basis will prevent fraudulent and manipulative acts and practices and to promote just and equitable principles of trade, because it will increase regulatory efficiency to the benefit of both the Exchange and market participants. The Exchange believes that the proposed rule change will not diminish, and in fact may increase, market-making activity and liquidity on the Exchange by establishing a quoting compliance standard that is reasonable and is already in place on other options exchanges.

C2 continues to believe that the balance between the obligations imposed on and benefits provided to Market-Makers under the rules is appropriate. The proposed rule change does not diminish any of the obligations imposed on Market-Makers. Rather, it merely changes how the continuous quoting obligation is applied and when the Exchange determines compliance with continuous quoting obligations. The Exchange notes that Market-Makers

<sup>9</sup> See, e.g., Box Options Exchange, LLC ("BOX") Rule 8050(e); International Securities Exchange, LLC ("ISE") Rule 804, Supplementary Material .01; Miami International Securities Exchange, LLC ("MIAX") Rule 604(e); NYSE Arca, Inc. ("NYSE Arca") Options Rules 6.37B(b) and (c) and 6.88(iv); and NYSE MKT LLC ("NYSE MKT") Options Rules 925.1NY(b) and (c) and 964.1NY(iv).

<sup>10</sup> The Exchange will continue to provide to Market-Makers daily reports to enable them to monitor their compliance with their quoting obligations. On the basis of these daily reports, the Exchange will continue to monitor Market-Maker compliance on a daily basis and inform Market-Makers if they are failing to satisfy their quoting obligations. Additionally, on the basis of this daily monitoring activity, the Exchange can determine whether Market-Makers violated any other Exchange rules, such as Chicago Board Options Exchange, Incorporated (CBOE) Rule 4.1 (which is incorporated into C2 Rules pursuant to Chapter 4) regarding just and equitable principles of trade. This daily monitoring will allow the Exchange to investigate unusual activity and to take appropriate regulatory action.

<sup>11</sup> See, e.g., BOX Rule 8050(e); ISE Rule 804(e), Supplementary Material .01; and MIAX Rule 604(e).

<sup>12</sup> 15 U.S.C. 78f(b).

<sup>13</sup> 15 U.S.C. 78f(b)(5).

<sup>14</sup> *Id.*

are subject to many obligations under the rules, including the obligation to contribute to the maintenance of a fair and orderly market in their appointed classes, which the Exchange believes will ensure continued liquidity on the Exchange. C2 believes that its proposed rule change is consistent with the Act in that providing flexibility does not detract from the overall market-making obligations of Market-Makers. The proposed rule change better supports a Market-Maker's continuous obligation to engage in dealings for its own account. Accordingly, any benefits of the proposed rule change to provide flexibility to Market-Makers are offset by the continued responsibilities to provide significant liquidity to the market to the benefit of all market participants.

#### *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. The proposed rule change applies to all Market-Makers. All Market-Makers may benefit from the flexibility provided by the proposed rule change, which benefit is offset by the continued responsibilities to provide significant liquidity to the market to the benefit of all market participants. The proposed rule change to the compliance standard does not change the obligations imposed on Market-Makers; it merely changes the time at which the Exchange will determine compliance with these obligations. The proposed rule change is substantially similar to rules in place at other options exchanges, which the Exchange believes may enhance, rather than burden, competition among the options exchanges. C2 is better able to compete for liquidity providers when its Market-Maker obligations are consistent with those of other options exchanges, which may increase competition and liquidity on C2. Market participants on other exchanges are welcome to trade at C2 if they determine that this proposed rule change has made C2 more attractive or favorable to them.

#### *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**

The Exchange has filed the proposed rule change pursuant to paragraph (A) of section 19(b)(3) of the Exchange Act<sup>15</sup> and Rule 19b-4(f)(6) thereunder.<sup>16</sup> Because the proposed rule change does not: (i) Significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) 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>17</sup> and Rule 19b-4(f)(6)(iii) thereunder.<sup>18</sup>

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. 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](mailto:rule-comments@sec.gov). Please include File Number SR-C2-2014-015 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.

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

<sup>16</sup> 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6)(iii) requires the Exchange to give the Commission written notice of the Exchange's intent to file the proposed rule change along with a brief description and the 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. The Exchange has satisfied this pre-filing requirement.

<sup>17</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>18</sup> 17 CFR 240.19b-4(f)(6)(iii).

All submissions should refer to File Number SR-C2-2014-015. 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-C2-2014-015 and should be submitted on or before August 28, 2014.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>19</sup>

**Jill M. Peterson,**

*Assistant Secretary.*

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## **SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34-72739; File No. SR-ISEGemini-2014-15]

### **Self-Regulatory Organizations; ISE Gemini, LLC; Order Approving Proposed Rule Change on Bid/Offer Differentials for In-The-Money Option Series**

August 1, 2014.

#### **I. Introduction**

On June 4, 2014, the ISE Gemini, LLC ("ISE Gemini") filed with the Securities and Exchange Commission ("Commission"), pursuant to Section 19(b)(1) of the Securities Exchange Act

<sup>19</sup> 17 CFR 200.30-3(a)(12).