

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>16</sup>

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Deputy Secretary.

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**SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34-78508; File No. SR-C2-2016-016]

**Self-Regulatory Organizations; C2 Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of a Proposed Rule To Amend the Fees Schedule**

August 9, 2016.

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 August 1, 2016, 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 Fees Schedule. 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**

The Exchange proposes to amend its Fees Schedule. Specifically, the Exchange proposes to establish a fee scale for the purchase of Market Maker Quoting and Order Bandwidth Packets (“Bandwidth Packets”), provide for an allotment scale of CMI CAS Servers, and adopt a fee for extra CMI CAS Servers.

The Exchange first proposes to adopt a fee scale for Bandwidth Packets. Particularly, the Exchange proposes to provide that the first through ninth Bandwidth Packets obtained by a Trading Permit Holder (“TPH”) would cost \$1,000 per packet per month, the tenth through fourteenth Bandwidth Packets obtained by that TPH would cost \$500 per packet per month, and the fifteenth and each additional Bandwidth Packet obtained by that TPH would cost \$250 per packet per month. The Exchange believes the proposed fee scale will encourage Market Makers to purchase additional Bandwidth Packets which will allow them to quote and trade more on the Exchange, thereby providing more trading opportunities for all market participants.

The Exchange next proposes to amend its Fees Schedule with respect to Connectivity Charges. By way of background, in order to connect to CBOE Command, which allows a TPH to trade on the C2 System, a TPH must connect via either a CMI or FIX interface (depending on the configuration of the TPH’s own systems). For TPHs that connect via a CMI interface, they must use CMI CAS Servers. Currently each TPH is provided one CAS Server plus access to a pool of shared backup CAS Servers. In order to ensure that a CAS Server is not overburdened by quoting activity for Market Makers, the Exchange proposes to allot each Market Maker a certain number of CASs (in addition to the shared backups) based on the amount of quoting bandwidth that they have. Quoting Bandwidth would be determined by the number of Bandwidth Packets the TPH holds in addition to 5 times the number of Market Maker Trading Permits it holds.<sup>3</sup>

<sup>3</sup> The Exchange notes that a C2 Market Maker Quoting and Order Entry Bandwidth Packet is equivalent to 1/5th of a Market Maker Trading Permit. As such, each Market-Maker Trading Permit a TPH holds is equivalent to 5 Quoting and Order Entry Bandwidth Packet for purposes of bandwidth. Therefore, if a TPH has 2 Market Maker Trading Permits and 16 Quoting and Order Entry Bandwidth Packets, the TPH has an equivalent of 26 Bandwidth Packets. The Exchange proposes to

Additionally, the Exchange will aggregate the Market Maker Trading Permits and Market Maker Quoting and Order Entry Bandwidth Packets from affiliated TPHs (TPHs with at least 75% common ownership between the firms as reflected on each firm’s Form BD, Schedule A) for purposes of determining the number of Trading Permits and Market Maker Quoting and Order Entry Bandwidth Packets a TPH holds. Particularly, the Exchange proposes to add a chart listing the amounts of equivalent Bandwidth Packets and corresponding CAS Servers:

Total bandwidth packets equivalency	CAS Servers
1-25 .....	1 + shared backup.
26-50 .....	2 + shared backup.
51-75 .....	3 + shared backup.
76-100 .....	4 + shared backup.
100+ .....	5 + shared backup.

Next, the Exchange proposes to provide that if a Market Maker wishes to connect via an extra CMI CAS Server (in order to segregate TPH users for business or availability purposes) beyond the TPH’s allotted number of CMI CAS Servers (described above), that TPH will be assessed a fee of \$2,000 per month for each extra CMI CAS Server. The purpose of this proposed change is to manage the allotment of CMI CAS Servers in a fair manner and to prevent the Exchange from being required to expend large amounts of resources (the provision and management of the CMI CAS Servers can be costly) in order to provide TPHs with an unlimited amount of CMI CAS Servers. The purpose of the fee for extra CMI CAS Servers is to cover the costs related to the provision, management and upkeep of such CMI CAS Servers.

**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.<sup>4</sup> Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>5</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,

include this example in the Fees Schedule to provide additional clarity.

<sup>4</sup> 15 U.S.C. 78f(b).

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

<sup>16</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.

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 Section 6(b)(4) of the Act,<sup>6</sup> which requires that Exchange rules provide for the equitable allocation of reasonable dues, fees, and other charges among its Trading Permit Holders and other persons using its facilities.

The Exchange believes the proposed rule change is reasonable because the proposed change provides the opportunity to have lower fees for the Market Maker Quoting and Order Entry Bandwidth Packets than previously. The proposed change is also equitable and not unfairly discriminatory because the fee scale will apply to all Market Makers uniformly. The Exchange believes it's equitable and not unfairly discriminatory to establish a discounted fee scale for Market Maker Quoting and Order Entry Bandwidth Packets because Market Makers, unlike other C2 market participants, take on a number of obligations, including quoting obligations that other market participants do not have. Further, the proposed change is intended to incent Market Makers to quote and trade more on the Exchange, thereby providing more trading opportunities for all market participants.

The Exchange believes that the proposed change regarding CMI CAS Servers is reasonable because each CMI CAS Server should be capable of handling the bandwidth needs of at least the equivalent of 25 Bandwidth Packets. This proposed allotment is equitable and not unfairly discriminatory because it will be applied to all Market Makers accessing CBOE Command via a CMI connection. It is equitable and not unfairly discriminatory to provide allotment of CASs for Market Makers only, because the impact of non-quoting activity does not result in the need for more than one CAS. The proposed fee of \$2,000 for each extra CMI CAS Server that a Market Maker requests is reasonable because it allows the Exchange to recoup the costs related to the provision, maintenance and upkeep of such Servers, and is equitable and not unfairly discriminatory because the fee will be applied to all Market Makers that request an extra CMI CAS Server.

#### *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 Exchange does not believe that the proposed rule change will impose any burden on intramarket competition that is not necessary or appropriate in furtherance of the purposes of the Act because, while different fees apply to Market-Maker Quoting and Order Bandwidth Packets, Market-Makers have different obligations and different circumstances (as described in the "Statutory Basis" section above). Additionally, the proposed change is intended to encourage Market Makers to quote more, which provides more trading opportunities for all market participants. The Exchange does not believe that the proposed allotment of one CMI CAS Server for every equivalent 25 Market Maker Bandwidth Packets that a TPH holds (plus one shared backup) and the proposed fee of \$2,000 for each extra CMI CAS Server that a TPH requests will cause an unnecessary burden on intramarket competition because while such allotment and fee will only be applied to Market Makers accessing CBOE Command via a CMI connection, Market Makers have different obligations and different circumstances (as described in the "Statutory Basis" section above) and because market participants that do not quote would not need additional CASs.

The Exchange does not believe that the proposed change will impose any burden on intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act because it only applies to trading on the Exchange. Additionally the Exchange does not believe such proposed bandwidth scale, CAS allotment and fee will cause an unnecessary burden on intermarket competition because different exchanges have different systemic setups for connection to such exchanges and are likely not comparable or competitive. Should the proposed change make C2 a more attractive trading venue for market participants at other exchanges, such market participants may elect to become market participants at C2.

#### *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 foregoing rule change has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>7</sup> and paragraph (f) of Rule 19b-4<sup>8</sup> thereunder. 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-C2-2016-016 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-C2-2016-016. 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

<sup>6</sup> 15 U.S.C. 78f(b)(4).

<sup>7</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>8</sup> 17 CFR 240.19b-4(f).

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 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-C2-2016-016, and should be submitted on or before September 6, 2016.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>9</sup>

**Robert W. Errett,**

*Deputy Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-78525; File No. SR-NSCC-2016-002]

### Self-Regulatory Organizations; National Securities Clearing Corporation; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change To Add a Clearing Fund Maintenance Fee

August 9, 2016.

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 July 29, 2016, National Securities Clearing Corporation (“NSCC”) 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 the clearing agency. NSCC filed the proposed rule change pursuant to Section 19(b)(3)(A) of the Act<sup>3</sup> and Rule 19b-4(f)(2) thereunder.<sup>4</sup> The proposed rule change was effective upon filing with the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

#### I. Clearing Agency’s Statement of the Terms of Substance of the Proposed Rule Change

The proposed rule change consists of modifications to the Addendum A (Fee

Structure) of the Rules and Procedures (“Rules”) of NSCC in order to add a new fee that will be charged to Members and certain Limited Members<sup>5</sup> in connection with the maintenance of the Clearing Fund, as described in greater detail below.<sup>6</sup> Members and applicable Limited Members are collectively referred to herein as “members.”

#### II. Clearing Agency’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the clearing agency 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 clearing agency has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

##### (A) Clearing Agency’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

###### 1. Purpose

The proposed rule change will add a fee that will be charged to members in connection with the maintenance of the Clearing Fund.

###### Clearing Fund Maintenance Fee

Pursuant to the proposed rule change, NSCC proposes to introduce a new fee, to be known as the Clearing Fund Maintenance Fee, which will be charged to members in arrears on a monthly basis.

The proposed rule change will (i) diversify NSCC’s revenue sources and mitigate NSCC’s dependence on revenues driven by trading volumes and (ii) add a stable revenue source that will contribute to NSCC’s operating margin by offsetting increasing costs and expenses, as further described below.

###### Diversify Revenue Sources

NSCC’s current revenues are highly variable due to the nature of the clearing services, which are primarily driven by trading volumes, but, as a utility, NSCC’s expenses are largely fixed. The combination of fixed costs and variable revenues represents a financial risk for NSCC. To mitigate such financial risk,

<sup>5</sup> The proposed new fee will be imposed on Limited Members that are required to make deposits to the Clearing Fund. Currently, those Limited Members are Mutual Fund/Insurance Services Members and Fund Members organized under the laws of the Republic of Ireland.

<sup>6</sup> Capitalized terms not defined herein are defined in the Rules, available at [www.dtcc.com/~media/Files/Downloads/legal/rules/nsc\\_rules.pdf](http://www.dtcc.com/~media/Files/Downloads/legal/rules/nsc_rules.pdf).

NSCC is seeking to diversify its variable revenue base with the proposed new fee, which will introduce a revenue source that is not dependent on trading volumes. The Clearing Fund Maintenance Fee will be ratably based on the member’s Clearing Fund average cash deposit.

###### Offset Increasing Costs and Expenses

NSCC seeks to achieve a target operating margin to cover operating expenses and fund capital expenditures as well as investments in its clearing services and risk management infrastructure; however, NSCC faces continued increasing risk management costs as well as regulatory and compliance-related expenses that need to be offset by revenue growth in order to meet the target operating margin. Such increased costs and expenses, if not offset by revenue growth, could weaken NSCC’s financial position over time. As such, NSCC is seeking to implement the Clearing Fund Maintenance Fee to add an additional revenue source to offset increasing costs and expenses.

Proceeds of the Clearing Fund Maintenance Fee will be used primarily to offset risk management costs, regulatory and compliance expenses and for general operating expenses.

###### Calculation

The amount of the monthly Clearing Fund Maintenance Fee for a member will be calculated monthly, in arrears, as the product of 0.25% and the average of the member’s actual cash deposit to the Clearing Fund as of the end of each day of the month, multiplied by the number of days in that month and divided by 360; provided that, the investment rate of return on investment by NSCC of cash in the Clearing Fund for that month is equal to or greater than 0.25%. No fee will be charged to any member for a month in which the monthly rate of return on investment of cash in the Clearing Fund is less than 0.25%.

Based on the 2015 average actual cash deposits to the Clearing Fund, the expected annual revenue to be generated by the Clearing Fund Maintenance Fee is approximately \$16 million.

###### Member Impact

The proposed rule change will impose the Clearing Fund Maintenance Fee on all members that are required to make deposits to the Clearing Fund.

The Clearing Fund Maintenance Fee is a monthly fee based ratably upon the amount of the member’s daily actual cash deposited to the Clearing Fund; it

<sup>9</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.

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

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