

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-70508; File No. SR-C2-2013-034]

### Self-Regulatory Organizations; C2 Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to Message Types, Connectivity and Bandwidth Allowance

September 26, 2013.

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 16, 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 codify certain definitions, practices and requirements related to System connectivity, message types and bandwidth allowance to promote transparency and maintain clarity in the rules. 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

C2 proposes to codify certain definitions, practices and requirements related to System connectivity, message types and bandwidth allowance to promote transparency and maintain clarity in the rules. Specifically, the Exchange is proposing to (i) amend Rule 1.1 (Definitions) to define “API” and “Order”; (ii) amend Rule 6.34 (Participant Electronic Connectivity) to clarify that authorized market participants connect electronically to the Exchange via an “Application Programming Interface” (“API”) and specify which APIs are available; (iii) amend Rule 6.35 (Message Packets) to clarify that a Trading Permit shall entitle the holder to a maximum number of orders and quotes per second(s) as determined by the Exchange and that the Exchange may expand bandwidth limitations in certain situations; and, adopt new Rule 6.19 (Types of Order Formats) to describe the types of order formats available to Permit Holders to facilitate order entry.

C2 first proposes to define “Application Programming Interface” (“API”) and “Order” in its rules. While there are various references to these two terms throughout the C2 Rules, nowhere in the rules are the definitions codified. Therefore, C2 believes it would be useful to explicitly define these terms within the rule text to reduce confusion. First, C2 proposes to define “API” as a computer interface that allows market participants with authorized access to interface electronically with C2. This proposed definition is substantially similar to the definition of API previously adopted by the Chicago Board Options Exchange, Incorporated (“CBOE”) and the CBOE Stock Exchange, LLC (“CBSX”).<sup>3</sup> Additionally, C2 will define the term “order” as a firm commitment to buy or sell option contracts. The proposed definition of the term “order” is similar to the definition previously adopted by CBOE.<sup>4</sup>

Next, C2 believes it would be useful to codify how authorized market participants may access the C2 System. Specifically, the Exchange will make clear that authorized market participants access C2 via an API. Currently, C2 offers two APIs: (1) CBOE Market Interface (“CMI”) and (2)

Financial Information eXchange (“FIX”) Protocol. Multiple versions of each API may exist and be made available to all authorized market participants. Authorized market participants may select which of the available APIs they would like to use to connect to the System. C2 believes it is important to provide market participants with this flexibility so that they can determine the API that will be most compatible with their systems and maximize the efficiency of their interface. Connection to the System allows authorized market participants to engage in order and quote entry, as well as auction participation.

C2 believes that while information relating to connectivity and available APIs for C2 is already widely available to all market participants via technical specifications, codifying this information within the rule text will provide additional transparency.

C2 also seeks to codify and describe the types of order formats that are available for order entry in new Rule 6.19 (Types of Order Formats). Order formats are message types that are used to send new orders into CBOE Command<sup>5</sup> through a user’s selected API. C2 currently offers one order format, C2 Order Format 1 (“OF1”). In addition to C2 OF1, C2 seeks to make another order format available to Permit Holders, namely, C2 Order Format 2 (“C2 OF2”).<sup>6</sup> C2 will announce the implementation date of the proposed rule change as it relates to the availability of C2 OF2 in a Regulatory Circular to be published no later than 90 days following the effective date of this rule filing. The implementation date will be no later than 180 days following the effective date of this rule filing. Once C2 OF2 is available, Permit Holders may elect to use either order format, provided that the order format selected supports the given order type. The Exchange believes it is important to provide market participants with this flexibility so that they can determine the order format that will be most compatible with their needs.

Orders using the C2 OF1 format must pass through various processes, including validation checks which occur in the trade engine. Examples of such validation checks include validating an order’s origin code or contingency type. C2 OF1 supports all

<sup>5</sup> CBOE Command is the trading engine platform for CBOE, C2, CBSX and CBOE Futures Exchange (“CFE”). CBOE Command incorporates both order handling and trade processing on the same platform.

<sup>6</sup> C2 Order Format 2 was previously offered and available to all C2 Permit Holders.

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

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

<sup>3</sup> See CBSX Rule 50.1 (Definitions) and CBOE Rule 1.1 (Definitions).

<sup>4</sup> See CBOE Rule 1.1 (Definitions).

order types, including auction responses.

Orders using the C2 OF2 format will also be subject to various processes, including validation checks similar to C2 OF1 validation checks (e.g., validating an order's origin code). These validation checks will occur in the trade engine. Additionally, fewer fields will be required for order entry using C2 OF2 compared to using C2 OF1. The utilization of fewer fields results in a smaller message size, thereby increasing efficiency. C2 OF2 will support only Immediate-Or-Cancel, ISO, ISO-Book and C2-Only orders. Accordingly, orders using the C2 OF2 format will not route to other market centers.

Although C2 OF1 is currently offered by C2 and is detailed in technical specifications available to all Permit Holders, it has never been codified in the C2 rules.<sup>7</sup> Therefore, C2 is proposing to introduce new C2 Rule 6.19 to make it absolutely clear that C2 OF1 and C2 OF2 will be available to users and to provide transparency and certainty with respect to how orders using these order formats are processed.

The Exchange next proposes to amend Rule 6.35 (Message Packets). Rule 6.35 currently provides that a Trading Permit shall entitle the holder to a maximum number of orders and quotes per second as determined by the Exchange, that only Market-Makers may submit quotes, and that Participants seeking to exceed that number of messages per second may purchase additional message packets at prices set forth in the Exchange's Fees Schedule.<sup>8</sup> The Exchange first seeks to amend Rule 6.35 to clarify that a Trading Permit shall entitle the holder to a maximum number of orders and quotes per second(s) (i.e., bandwidth is set at x messages per 1 second or over the course of multiple seconds). C2 next proposes to provide that C2 may set a different maximum number of orders per second(s) for each of the available order formats under proposed Rule 6.19. Next, C2 seeks to provide that C2 shall, upon request and where good cause is shown, temporarily increase a Permit Holder's order entry bandwidth allowance at no additional cost. All determinations to temporarily expand bandwidth allowances will be made in a non-discriminatory manner and on a fair and equal basis. C2 also seeks to provide that no bandwidth limits shall be in effect during the pre-opening prior to 8:15 a.m. CT, which

shall apply to all Permit Holders. Finally, C2 seeks to amend Rule 6.35 to provide that C2 may determine times periods for which there shall temporarily be no bandwidth limits in effect for all Permit Holders. Any such determination shall be made in the interest of maintaining a fair and orderly market. C2 shall notify all Permit Holders of any such determination.

C2 does not have unlimited system bandwidth capacity to support an unlimited number of order and quote entry per second. For this reason, C2 limits each Trading Permit to a maximum number of messages per second(s). C2 however, also recognizes that different Permit Holders have different needs and affords any Permit Holder the opportunity to purchase additional bandwidth packets at prices set forth in C2's Fee Schedule. C2 first seeks to amend Rule 6.35 to clarify that a Trading Permit shall entitle the holder to a maximum number of orders and quotes per second(s). For example, C2 notes that a Permit Holder may have the option of choosing to have its bandwidth set at x orders per 1 second or 5x orders per 5 seconds. Currently, all Permit Holders may choose to have its bandwidth set at x orders per one second or 5x orders per 5 seconds for C2 OF1 orders only. Bandwidth for C2 OF2 orders will be set at x orders per one second. To illustrate, if the maximum number of orders per second is 5 orders, a user may choose to have its bandwidth set for C2 OF1 orders so that it may send in 5 orders per 1 second, or send in 25 orders over the course of 5 seconds. Additionally, continuing with the above illustration (i.e., "x" equals 5), if a Permit Holder purchased one (1) additional Order Entry bandwidth packet, pursuant to the current Fees Schedule, the Permit Holder would have the ability to submit, depending on how its bandwidth is set, either a total of 10 C2 OF1 or OF2 orders per 1 second or a total of 50 C2 OF1 orders over the course of 5 seconds. As for quotes, a Permit Holder is limited to x quote messages ("blocks") per 1 second. C2 notes that each block is limited to a maximum number of quotes. Additionally, C2 has set a maximum number of total quotes per 3 seconds. For example, if the Exchange limited each Trading Permit to 100 quotes per 1 block, 10 blocks per 1 second and 200 quotes per 3 seconds, then a user cannot, for example, enter 11 blocks per 1 second. The Exchange will reject the entire block of quotes that puts the user over the threshold. If a user in the above example were to enter, 10 blocks comprised of 10 quotes (i.e., total of 100

quotes) in the first second and 5 blocks comprised of 20 quotes (i.e., total of 100 quotes) in the following second, then the user would not be able to enter any more blocks (and therefore quotes) in the third second, as the user would exceed the 200 quotes per 3 second threshold. C2 believes that adding "(s)" to the end of "per second" will clarify that a Trading Permit entitles the holder to a maximum number of orders and quotes per 1 second or per multiple seconds.

C2 next proposes to provide that it may set a different maximum number of orders per second(s) for each of the order formats discussed above. As noted above, C2 OF2 will utilize fewer fields resulting in a smaller message size and increased efficiency. The System can therefore better accommodate increased bandwidth capacity due to this smaller message size. Accordingly, the Exchange may implement a higher maximum number of orders per second for orders using C2 OF2 as compared to C2 OF1. C2 proposes to increase the maximum numbers of orders per second for all orders submitted using message format C2 OF2. Any Permit Holder sending orders using C2 OF2 would be entitled to this increased bandwidth allowance for C2 OF2 orders only. To illustrate, C2 may determine to set the maximum number of orders per second for C2 OF1 orders at 5 (i.e., 5 OF1 orders per 1 second or 25 OF1 orders per 5 seconds) and the maximum number of orders per second for C2 OF2 orders at 15 (i.e., 15 OF2 orders per 1 second). Additionally, continuing with the illustration, if a Permit Holder purchased one (1) additional Order Entry bandwidth packet, the Permit Holder would have the ability to submit, depending on how its bandwidth is set, a total of 10 OF1 orders per 1 second or a total of 50 OF1 orders over the course of 5 seconds and 30 OF2 orders per 1 second. The Exchange notes that each Permit Holder will be subject to the same maximum number of orders per second(s) set for each order format. Additionally, any change to the maximum number of orders per second(s) for any order format will be applicable to all Permit Holders.

The Exchange next seeks to amend Rule 6.35 to make clear that under certain circumstances and upon request, C2 may determine to temporarily waive the maximum number of orders per second(s) and expand the bandwidth settings at no additional cost to the requesting Permit Holder. One such example in which bandwidth may be temporarily increased is in situations where a Permit Holder's system is experiencing technical problems,

<sup>7</sup> The Exchange notes that C2 Order Format 2 was previously available to all Permit Holders and was detailed in technical specifications which were available to all Permit Holders.

<sup>8</sup> See C2 Rule 6.35.

resulting in a large order queue. Once the problem is resolved, the queue has to be drained. In these instances, it may be necessary to temporarily expand the bandwidth limits for that particular Permit Holder to accommodate the accumulation of orders in its system and to drain the queue of orders. Another example is when another exchange declares a trading halt and a Permit Holder that has orders resting at that exchange redirects that order flow to C2. The redirected order flow may at times consist of thousands of orders. To enter such a large quantity of orders, the Permit Holder's bandwidth allowance would require a temporary expansion, which, upon request and demonstrated need, C2 could provide at no additional charge.

All determinations to temporarily expand bandwidth allowances shall be made in a non-discriminatory manner and on a fair and equal basis. Additionally, all Permit Holders who make such request and demonstrate a need shall be entitled to a temporary expansion. C2 shall document all requests for a temporary expansion of bandwidth, including whether each request was granted or denied, along with the reasons for each grant or denial. Also, temporary increases of bandwidth generally are in effect for not longer than a few seconds or for as long as is necessary to accommodate an order queue.

Next, C2 notes that no bandwidth limits shall be in effect for any Permit Holder during pre-opening, prior to 8:15 a.m. CT. This allows Permit Holders to release, and C2 to absorb, order flow that has accumulated overnight and pre-opening. C2 also notes that prior to the opening of trading, such bandwidth restrictions are unnecessary. C2 may also determine times periods for which there shall temporarily be no bandwidth limits in effect for any Permit Holder. Any such determination shall be made in the interest of maintaining a fair and orderly market. C2 shall notify all Permit Holders of any such determination and shall keep a record of any such notification.

C2 finally notes that the proposed changes to Rule 6.35 are based off a substantially similar rule previously adopted on CBOE. Specifically, CBOE recently adopted Rule 6.23B (Bandwidth Packets), which provides that a Trading Permit shall entitle the holder to a maximum number of orders and quotes per second(s) as determined by CBOE, that only Market-Makers may submit quotes, and that a Trading Permit Holder seeking to exceed that number of messages per second may purchase additional message packets at

prices set forth in the CBOE's Fees Schedule. Additionally, CBOE Rule 6.23B provides that CBOE shall, upon request and where good cause is shown, temporarily increase a Trading Permit Holder's order entry bandwidth allowance at no additional cost and that all such determinations will be made in a non-discriminatory manner and on a fair and equal basis. CBOE Rule 6.23B also provides that no bandwidth limits shall be in effect during the pre-opening prior to 8:25 a.m. CT, which shall apply to all Trading Permit Holders. Finally, CBOE Rule 6.23B may determine times periods for which there shall temporarily be no bandwidth limits in effect for all Trading Permit Holders and that any such determination shall be made in the interest of maintaining a fair and orderly market.<sup>9</sup>

## 2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the Act and the rules and regulations thereunder applicable to the Exchange and, in particular, the requirements of Section 6(b)<sup>10</sup> of the Act. Specifically, the Exchange believes the proposed rule change is consistent with the requirements under Section 6(b)(5)<sup>11</sup> 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.

First, clearly defining in the rules two key terms (i.e., API and Order) informs market participants. Next, codifying in the rules how authorized market participants access C2 electronically and specifying the manner in which inbound orders are submitted and processed provides additional transparency in the rules and provides market participants an additional avenue to easily understand the system and processes C2 offers. C2 believes additional transparency removes a potential impediment to and perfecting the mechanism for a free and open market and a national market system, and, in general, protecting investors and the public interest. Additionally, C2 believes that the order formats being codified in proposed Rule 6.19 allows C2 to receive from Permit Holders information in a uniform format, which aids C2's efforts to monitor and regulate C2's markets and Permit Holders and

helps prevent fraudulent and manipulative practices.

C2 also believes that the proposed rule changes are designed to not permit unfair discrimination among market participants. For example, under proposed Rule 6.34(a), all authorized market participants may access C2 via an available API of their choosing. Additionally, under proposed C2 Rule 6.35, all holders of a Trading Permit are limited to maximum number of orders and quotes per second(s) and all holders of Trading Permits are afforded the opportunity to exceed that number by purchasing additional message packets. Any determinations to temporarily expand bandwidth allowances would also be made on a non-discriminatory basis. Finally, proposed Rule 6.19 is applicable to all Permit Holders and provides that any Permit Holder may elect to use either one of the two available order formats.

## 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. Specifically, C2 believes the proposed rule change will not impose any burden because C2 is merely harmonizing its Rules with current functionalities and practices. Therefore, the proposed rule change promotes transparency in the rules without adding any burden on market participants.

## 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 Act<sup>12</sup> and Rule 19b-4(f)(6)<sup>13</sup> thereunder. At any time within 60 days of the filing of the proposed rule change,

<sup>9</sup> See CBOE Rule 6.23B.

<sup>10</sup> 15 U.S.C. 78f(b).

<sup>11</sup> 15 U.S.C. 78f(b)(5).

<sup>12</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>13</sup> 17 CFR 240.19b-4(f)(6).

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-C2-2013-034 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-C2-2013-034. 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 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-C2-2013-034, and should be submitted on or before October 23, 2013.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>14</sup>

**Kevin M. O'Neill,**

*Deputy Secretary.*

[FR Doc. 2013-23999 Filed 10-1-13; 8:45 am]

**BILLING CODE 8011-01-P**

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-70518; File No. SR-NYSEArca-2013-100]

### Self-Regulatory Organizations; NYSE Arca, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Extending the Pilot Program for Certain Clearly Erroneous Executions Under Rule 7.10 and Removing References to Individual Security Trading Pauses Contained in Rule 7.10(c)(4)

September 26, 2013.

Pursuant to Section 19(b)(1)<sup>1</sup> of the Securities Exchange Act of 1934 (the "Act")<sup>2</sup> and Rule 19b-4 thereunder,<sup>3</sup> notice is hereby given that, on September 24, 2013, NYSE Arca, Inc. (the "Exchange" or "NYSE Arca") 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 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

The Exchange proposes to extend the pilot program for certain clearly erroneous executions under Rule 7.10 and remove references to individual security trading pauses contained in Rule 7.10(c)(4). The text of the proposed rule change is available on the Exchange's Web site at [www.nyse.com](http://www.nyse.com), at the principal office of the Exchange, and at the Commission's Public Reference Room.

<sup>14</sup> 17 CFR 200.30-3(a)(12).

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

<sup>2</sup> 15 U.S.C. 78a.

<sup>3</sup> 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 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 Statutory Basis for, the Proposed Rule Change

###### 1. Purpose

The Exchange proposes to extend the pilot program for certain clearly erroneous executions under Rule 7.10 and remove references to individual security trading pauses contained in Rule 7.10(c)(4). Portions of Rule 7.10, explained in further detail below, are currently operating as a pilot program set to expire on September 30, 2013.<sup>4</sup> The Exchange proposes to extend the pilot program to April 8, 2014.

On September 10, 2010, the Securities and Exchange Commission ("Commission") approved, on a pilot basis, changes to Rule 7.10 to provide for uniform treatment: (1) Of clearly erroneous execution reviews in multi-stock events involving twenty or more securities; and (2) in the event transactions occur that result in the issuance of an individual security trading pause by the primary listing market and subsequent transactions that occur before the trading pause is in effect on the Exchange.<sup>5</sup> The Exchange also adopted additional changes to Rule 7.10 that reduced the ability of the Exchange to deviate from the objective standards set forth in Rule 7.10,<sup>6</sup> and in 2013, adopted a provision designed to address the operation of the Plan to Address Extraordinary Market Volatility Pursuant to Rule 608 of Regulation NMS under the Act (the "Limit Up-Limit Down Plan" or the "Plan").<sup>7</sup> The

<sup>4</sup> See Securities Exchange Act Release No. 68809 (February 1, 2013), 78 FR 9081 (February 7, 2013) (SR-NYSEArca-2013-12).

<sup>5</sup> See Securities Exchange Act Release No. 62886 (September 10, 2010), 75 FR 56613 (September 16, 2010) (SR-NYSEArca-2010-58).

<sup>6</sup> *Id.*

<sup>7</sup> See Securities Exchange Act Release No. 68809 (February 1, 2013), 78 FR 9081 (February 7, 2013) (SR-NYSEArca-2013-12); Securities Exchange Act Release No. 67091 (May 31, 2012), 77 FR 33498