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SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-66075; File No. SR-C2-2011-042)

December 30, 2011

Self-Regulatory Organizations; C2 Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Related to the Exchange's Automated Improvement Mechanisms

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 December 22, 2011, the C2 Options Exchange, Incorporated ("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 Exchange has designated the proposal as a "non-controversial" proposed rule change pursuant to Section 19(b)(3)(A)(iii) of the Act³ and Rule 19b-4(f)(6) thereunder.⁴ 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 C2 Rules 6.51, Automated Improvement Mechanism.

The text of the proposed rule change is available on the Exchange's website

(<http://www.c2exchange.com/Legal/RuleFilings.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 the Statutory Basis for, the Proposed Rule Change

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A)(iii).

⁴ 17 CFR 240.19b-4(f)(6).

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 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 purpose of the proposed rule change is to amend C2 Rule 6.51 to eliminate the requirement that there be at least three market-makers quoting in the relevant series in order for an Auction to commence.

This proposed rule change is based on the current rules of the Boston Options Exchange Group, LLC ("BOX")⁵ and the International Securities Exchange, LLC ("ISE")⁶ relating to the Price Improvement Period ("PIP") and Price Improvement Mechanism ("PIM"), respectively, which are automated price improvement mechanisms similar to AIM.⁷

AIM allows a TPH to submit an Agency Order along with a contra-side second order (a principal order or a solicited order for the same size as the Agency Order) into an Auction where other participants could compete with the Initiating TPH's second order to execute against the

⁵ See BOX Rules Chapter V, Section 18.

⁶ See ISE Rule 723.

⁷ AIM, PIP and PIM have certain characteristics in common with each other. All three mechanisms (a) provide for the opportunity for customer price improvement, (b) have certain periods where the initial orders are exposed for potential price improvement, (c) have certain guidelines regarding the types of orders that may be eligible for price improvement, and (d) have certain defined rules related to the allocation of trades within price improvement auctions, although there are differences in the way orders are allocated.

Agency Order, which guarantees that the Agency Order will receive an execution. Once an Auction commences, the Initiating TPH cannot cancel it.⁸

C2 Rule 6.51(a)(4) currently requires that there be at least three market-makers quoting in the relevant series for an Auction to commence. The Exchange is proposing to eliminate this requirement. The Exchange does not believe that customer orders should be denied the benefits of AIM simply because there may be less than three market-makers quoting in a relevant options class at a specific point in time. Any concern regarding an Auction starting with a lower number of market-makers quoting in a relevant series is offset by the broad participation and competition that would be present once an Auction commenced.

In support of this proposal, the Exchange notes that both PIP⁹ and PIM¹⁰ permit auctions to commence without the condition that there be a minimum number of market-makers quoting in the particular series. Further, like PIP and PIM, responding to C2 AIM auctions is open to all permit holders. The Exchange believes that AIM, and in turn the customers that benefit from AIM, would be disadvantaged if the three market-maker requirement remained as a condition to start an Auction because this requirement potentially reduces the number of Auctions and, as a result, opportunities for price improvement. Because BOX and ISE are currently able to offer their customers price improvement without a minimum quoter requirement in PIP and PIM, respectively, the Exchange

⁸ See C2 Rule 6.51(b)(1)(A).

⁹ See supra note 5; see also Securities Exchange Act Release No. 34-58999 (November 21, 2008), 73 FR 72536 (November 28, 2008) (SR-BSE-2008-54) (order approving proposed rule change to eliminate requirement that there be at least three market-makers quoting in the relevant series for an auction to commence).

¹⁰ See supra note 6; see also Securities Exchange Act Release No. 34-58710 (October 1, 2008), 73 FR 59008 (October 8, 2008) (SR-ISE-2008-63) (order approving proposed rule change to eliminate requirement that there be at least three market-makers quoting in the relevant series for an auction to commence).

believes it is important for competitive purposes that it be able to offer the same opportunities for price improvement on C2 through AIM.

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the Securities Exchange Act of 1934 (the “Act”)¹¹ and the rules and regulations thereunder and, in particular, the requirements of Section 6(b) of the Act.¹² Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)¹³ 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.

In particular, the Exchange believes this proposed rule change is a reasonable modification designed to provide additional flexibility for TPHs to obtain executions on behalf of their customers while continuing to provide meaningful, competitive Auctions. The Exchange also believes that that proposed rule change will ultimately enhance competition in the AIM Auctions and provide customers with additional opportunities for price improvement. The rule change is consistent with changes made by other exchanges and it serves to remove impediments to and to perfect the mechanism for a free and open market and a national market system by allowing more price improvement auctions to occur on C2.

B. Self-Regulatory Organization’s Statement on Burden on Competition

The Exchange 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.

¹¹ 15 U.S.C. 78s(b)(1).

¹² 15 U.S.C. 78f(b).

¹³ 15 U.S.C. 78f(b)(5).

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 proposal.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Because the foregoing rule 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 from the date on which it was filed, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest, provided that the self-regulatory organization has given the Commission written notice of its intent to file 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 proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act¹⁴ and Rule 19b-4(f)(6) thereunder.¹⁵ At any time within 60 days of the filing of such 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

¹⁴ 15 U.S.C. 78s(b)(3)(A).

¹⁵ 17 CFR 240.19b-4(f)(6).

- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-C2-2011-042 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-C2-2011-042. 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 website (<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 website viewing and printing in the Commission's Public Reference Room 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 offices 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-C2-2011-042, and should be submitted on or before [insert date 21 days from publication in the Federal Register].

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

Kevin M. O'Neill
Deputy Secretary

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¹⁶ 17 CFR 200.30-3(a)(12).