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SECURITIES AND EXCHANGE COMMISSION  
[Release No. 34-73833; File No. SR-C2-2014-027]

Self-Regulatory Organizations; C2 Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend Exchange Rules Regarding Trade Nullification and Price Adjustment

December 12, 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 December 11, 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, 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 rules related to trade nullification and price adjustment. The text of the proposed rule change is provided below.

(additions are italicized; deletions are [bracketed])

\* \* \* \* \*

**C2 Options Exchange, Incorporated  
Rules**

\* \* \* \* \*

**Rule 6.20. Trade Nullification and Price Adjustment Procedure**

A trade on the Exchange may be nullified or adjusted if the parties to the trade agree to the nullification or adjustment. A trade may be nullified or adjusted on the terms that all parties to a particular transaction agree, provided, however, that any trade that is nullified or adjusted pursuant to this Rule must be authorized by the Exchange prior to the nullification or adjustment.

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

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

In addition, any trade that is adjusted pursuant to this Rule must be adjusted to a price that was permissible and in compliance with all Exchange and Securities and Exchange Commission Rules, as amended, at the time the original transaction was executed. The format and information required by the Exchange for this submission will be released by the Exchange via Regulatory Circular.

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The text of the proposed rule change is also available on the Exchange's website (<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 Exchange is proposing to add Rule 6.20, "Trade Nullification and Price Adjustment Procedure."<sup>3</sup> As proposed, Rule 6.20 will allow for transactions to be nullified if both parties to the transaction agree to the nullification and allow the price of executions to be adjusted if the

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<sup>3</sup> The Exchange notes that this proposal is only intended to be effective until the joint efforts by the exchanges to create uniform trade nullification and adjustment rules are approved and in effect. Once the uniform rule has been approved and is effective, the Exchange will amend its rules appropriately.

price adjustment is agreed to by both parties to the transaction and authorized by the Exchange.<sup>4</sup>

Currently, Exchange Rules do not allow parties to nullify or adjust the price on an execution, unless there is an obvious error or catastrophic error pursuant to Rule 6.15. The Exchange is proposing to add Rule 6.20, “Trade Nullification and Price Adjustment Procedure,” which would: (a) allow for any trades on the Exchange to be nullified if both parties to the trade agree to such nullification, and (b) allow for prices of executions to be adjusted if the price adjustment is agreed upon by both parties of the trade and authorized by the Exchange.

As stated above, the Exchange currently allows for trades to be nullified or prices adjusted when there is an obvious error or catastrophic error.<sup>5</sup> The Exchange is also proposing, however, to add a provision to allow TPHs to mutually agree to nullify a transaction or adjust a price of an execution. The Exchange believes allowing parties to adjust the price of a transaction is necessary given the benefits of adjusting a trade price rather than nullifying the trade completely. Because options trades are used to hedge transactions in other markets, including securities and futures, many TPHs, and their customers, would rather adjust prices of executions rather than nullify the transactions and, thus, lose a hedge altogether. As such, the Exchange believes it is in the best interest of investors to allow for price adjustments as well as nullifications. In addition, the Exchange believes it is in the nature of a fair and orderly market to allow for price adjustments rather than only cancellations because an adjustment will result in the least amount of disruption to the overall market.

As proposed, Rule 6.20 expressly states that trades may be subject to nullification or

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<sup>4</sup> The Exchange notes that, as proposed, Rule 6.20 will only apply to trades that were executed on the Exchange and, as such, any orders that were either fully or partially routed to, or executed, on another Exchange will not be subject to the proposed Rule 6.20.

<sup>5</sup> See Exchange Rule 6.15.

price adjustment only if such trades are authorized by the Exchange. The Exchange notes that proposed Rule 6.20 is based on Chicago Board Options Exchange, Inc. (“CBOE”) Rule 6.19<sup>6</sup> and that the process that C2 TPHs follow to nullify or adjust the price of a transaction pursuant to proposed rule 6.20 will be similar to how CBOE TPHs nullify or adjust the price of a transaction pursuant to CBOE Rule 6.19. Additionally, as with CBOE Rule 6.19, proposed C2 Rule 6.20 requires Exchange authorization prior to the effectuation of such nullification or price adjustment. As part of the authorization process, in the case of a mutual nullification or mutual price adjustment, the Exchange will only authorize if the Exchange received verification from both parties to the trade that a mutual agreement has been made. In addition, prior to an authorization for a mutual price adjustment, the Exchange will ensure the agreed upon price would have been permissible and in compliance with all Exchange and Securities and Exchange Commission Rules, as amended, at the time the original transaction was executed.<sup>7</sup> Finally, the proposed rule will state that the format and information required by the Exchange for this submission will be released by the Exchange via Regulatory Circular. As such, prior to Rule 6.20 becoming operative, the Exchange will provide TPHs with specific requirements via an Exchange Regulatory Circular. The circular will, among other things, state specific timeframes required for requests and the format in which the requests will be accepted by the Exchange.

To conclude, the Exchange believes that the proposed changes are in furtherance of the Act because the proposed Rule 6.20 will allow TPHs to agree to nullify transactions or adjust prices of transactions to maintain a fair and orderly market. As stated above, the Exchange intends to release a Regulatory Circular to announce the implementation of the Rule and other

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<sup>6</sup> Securities Exchange Act Release No. 34-72970 (September 3, 2014), 79 FR 53498 (September 9, 2014) (SR-CBOE-2014-066).

<sup>7</sup> For example, the Exchange would ensure that the mutually agreed upon price would not have traded through resting interest at the time of the initial execution.

specifics surrounding the procedures of the implementation. In addition, prior to implementation, the Exchange will ensure it has proper policies and procedures in place to correctly administer the Rule.

## 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>8</sup> Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>9</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>10</sup> requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

More specifically, the Exchange believes that the proposed changes are consistent with the Act as they are designed to promote just and equitable principles of trade and protect investors and the public interest. Because options trades are used to hedge transactions in other markets, including securities and futures, many market participants would rather adjust prices of executions rather than nullify the transactions and, thus, lose a hedge altogether. As such, the

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<sup>8</sup> 15 U.S.C. 78f(b).

<sup>9</sup> 15 U.S.C. 78f(b)(5).

<sup>10</sup> Id.

Exchange believes it is in the best interest of investors to allow for price adjustments as well as nullifications. In addition, the Exchange believes it is in the nature of a fair and orderly market to allow for price adjustments rather than only cancellations because an adjustment will result in the least amount of disruption to the overall market. In addition, the Exchange does not believe that the proposed changes are unfairly discriminatory because they will be applied to all Trading Permit Holders equally. Finally, as noted above, proposed Rule 6.20 is based on CBOE Rule 6.19.

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. In fact, the Exchange believes that the proposed rule change will foster competition as it will allow for less overall disruption to the market and encourage participation on the Exchange.

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>11</sup> and Rule 19b-4(f)(6)<sup>12</sup> thereunder. At any time within 60 days of the filing of the

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<sup>11</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>12</sup> 17 CFR 240.19b-4(f)(6).

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 e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-C2-2014-027 on the subject line.

##### Paper comments:

- Send paper comments in triplicate to Brent J. Fields, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-C2-2014-027. 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, 100 F Street, NE, Washington, D.C. 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-C2-2014-027, 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.<sup>13</sup>

Kevin M. O'Neill,  
Deputy Secretary.

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<sup>13</sup> 17 CFR 200.30-3(a)(12).