SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–79315; File No. SR–C2–2016–021]

Self-Regulatory Organizations; C2 Options Exchange, Incorporated; Notice of Filing of a Proposed Rule Change Relating to Opening of Series for Trading on the Exchange

November 15, 2016.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act''),[1] and Rule 19b–4 thereunder,[2] notice is hereby given that on November 4, 2016, C2 Options Exchange, Incorporated (''Exchange'' or ''C2'') 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 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

C2 proposes to amend its rules related to the opening of series for trading on the Exchange. 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 the Statutory Basis for, the Proposed Rule Change

1. Purpose

C2 proposes to amend its rules related to the opening of series for trading on the Exchange. Rule 6.11 describes the process the automated trading system used by the Exchange for the trading of options contracts (the ''System'') uses to open series on the Exchange each trading day. The Exchange may also use this same process for closing series or opening series after a trading halt. The Exchange proposes to make various changes to this rule to reorganize and simplify the rule as well as make other changes to the opening procedures in order to reflect current System functionality.

Opening (and Sometimes Closing) Procedures

The Exchange proposes to amend Rule 6.11 by reorganizing the provisions of the rule to describe the opening (and sometimes closing) procedures in a more sequential manner, clarifying the timing of each stage of the process and enhancing or modifying the description of certain provisions within the rule. The System generally processes the opening of each series as follows:

(1) *Pre-Opening Period:* During the pre-opening period, the System will accept orders and quotes and disseminate messages that contain information based on resting orders and quotes in the book, which may include the expected opening price (''EOP''), expected opening size (''EOS''), any reason why a series may not open and imbalance information, including the size and side of an imbalance (''expected opening information'' or ''EOIs'').

(2) *Initiation of the Opening Rotation:* At this time, the System initiates the opening rotation procedure and distributes a rotation notice to market participants.

(3) *Opening Rotation Period:* During the opening rotation period, the System matches and executes orders and quotes against each other in order to establish an opening Exchange best bid and offer (''BBO'') and trade price for each series while continuing to disseminate expected opening information.

(4) *Opening of Trading:* At this time, the System opens series for trading, subject to the satisfaction of certain conditions.

The proposed rule change more clearly organizes the provisions of Rule 6.11 in this order and makes the additional following changes.

Pre-Opening Period

Rule 6.11(a) currently provides for a period of time before the opening of trading in the underlying security or, in the case of index options, prior to 8:30 a.m.[3] (as determined by the Exchange on a class-by-class basis), the System will accept orders and quotes (the System will not accept certain orders during the pre-opening period, as discussed below). The times specified in the current rule are not the times at which series open for trading, but rather the times at which the System initiates opening rotations, which is described later in the rule (see description of proposed paragraph (b)(1) below). The Exchange proposes to amend Rule 6.11(a) to provide the pre-opening period begins no later than 15 minutes prior to the expected initiation of an opening rotation (the Exchange determines the specific time at which the pre-opening period will begin).[4] The Exchange believes it is repetitive to include a description of the time at which series open in this paragraph. The proposed rule change adds the pre-opening period will begin no earlier than 2:00 a.m. to provide additional information regarding when the Exchange may begin the pre-opening period. Additionally, the System begins the pre-opening period at the same time for each class within each type of option (equity, index and exchange-traded products (''ETP'')), so the proposed rule change deletes the provision of the rule that says the Exchange will determine the time on a class-by-class basis. The Exchange believes indicating a minimum and maximum time for the pre-opening period provides Trading Permit Holders with more specific information regarding the timeframe of the pre-opening period.

The proposed rule change amends Rule 6.11(a)(1) by deleting the provision that indicates the Exchange will designate eligible order size, order type and order origin code as order terms for which the Exchange may designate eligibility for submission during the pre-opening period on a class-by-class basis. The Exchange currently does not, and does not intend to, restrict the size or origin code of orders that may be submitted during the pre-opening period, so this provision is no longer necessary. Additionally, the System currently accepts all quotes and all order types during the pre-opening period except for immediate-or-cancel, fill-or-fill [sic], intermarket sweep orders, and Market-Maker trade prevention orders, as acceptance of those order types during the pre-opening period would be inconsistent with their terms.[5] The proposed rule

[1] 15 U.S.C. 78s(b)(1).

[2] 17 CFR 240.19b–4.

[3] All times are central time.

[4] Currently, the pre-opening period begins at approximately 6:30 a.m.

[5] *See* Rule 6.10 for definitions of these order types. For example, an immediate-or-cancel order is

Continued

change lists these few exceptions in the rule. As discussed below, not all of these orders may participate in the opening rotation.

The proposed rule change proposes to amend Rule 6.11(a)(2) in several ways. First, the proposed rule change amends the description of when the System begins disseminating expected opening information. Currently, the rule states, at specified intervals of time determined by the Exchange, the System will disseminate information about resting orders in the book that remain from the prior business day and orders and quotes submitted before the opening, which may include the EOP and EOS. The Exchange proposes to revise this provision to state beginning at a time (determined by the Exchange) no earlier than three hours prior to the expected initiation of an opening rotation for a series, the System disseminates EOIs to all market participants that have elected to receive them at regular intervals of time (the length of which is determined by the Exchange) or less frequently if there are no updates to the opening information since the previously disseminated EOI. This revised rule text clarifies the time at which the System will begin disseminating expected opening information, which may be different (and generally later) than the beginning of the pre-opening period, as the Exchange believes recipients generally want to receive EOIs closer to the opening of trading.[6] Additionally, this proposed rule change indicates EOIs are generally sent out regularly, but if there have been no changes (for example, the EOS and EOP have not changed because there are no new orders or quotes), then the System does not disseminate a duplicate message to users at the next regular interval time.

Second, the proposed rule change also amends Rule 6.11(a)(2) to more specifically describe the information regarding the expected opening of a series that the System disseminates. Currently, subparagraph (a)(2) provides the System will disseminate information about resting orders in the book that remain from the prior business day and any orders and quotes submitted before the opening, including the expected opening price and size. The Exchange proposes to simplify this provision by stating that the expected opening information will be based on resting orders in the book (which includes orders remaining from the prior trading day and orders entered during the pre-opening period) and quotes submitted prior to the opening of trading. Additionally, in addition to the EOP and EOS, these messages may include additional information based on the circumstances, such as a description of the reason why a series may not or did not open (*e.g.,* no quote or opening trade) and imbalance information, including the size and side of the imbalance (see discussion below regarding opening conditions), which reasons are described in current Rule 6.11(e) and proposed Rule 6.11(d). The Exchange proposes to add a definition of EOIs, which may include not only the EOP and EOS but also these other types of information. The Exchange proposes to incorporate this definition in other parts of the rule (as further discussed below).

Third, the proposed rule change amends the provision about what the EOP is and when it is calculated. Currently, Rule 6.11(a)(2) states the EOP is the price at which the greatest number of orders and quotes in the book are expected to trade and an EOP may only be calculated if (a) there are market orders in the book, or the book is crossed or locked and (b) at least one quote is present. The proposed rule change revises this language to state the EOP is the price at which any opening trade is expected to execute. The EOS is the size of any expected opening trade. As further discussed below, the definition of opening price is included in proposed paragraph (c), so the proposed rule change deletes that definition from paragraph (a)(2) and only includes the definition in proposed paragraph (c), as the Exchange believes it is less confusing to include the opening price definition in the rules only one time. Additionally, the proposed rule change deletes the language the EOP may only be calculated if there are market orders in the book or the book is crossed. Because the EOP is a price of an expected opening trade, it is only possible to have a trade if there are market orders or a locked or crossed market, so the Exchange believes this language is unnecessary. Further, the proposed rule change states the System will only disseminate EOP and EOS messages if the width between the highest quote bid and lowest quote offer on the Exchange or disseminated by other exchanges is no wider than the OEPW range (as defined below).[7] As discussed below, the Exchange's opening quote width must be no wider than OEPW range for a series to open, and this revised language is consistent with that opening condition.

Opening Rotation Initiation and Notice

Rule 6.11(b) currently provides, unless unusual circumstances exist, at a randomly selected time within a number of seconds after the opening trade and/or the opening quote is disseminated in the market for the underlying security[8] (or after 8:30 a.m. for index options), the System initiates the opening rotation procedure and sends a notice (''Rotation Notice'') to Participants. It further provides the Rotation Notice will be sent following the opening trade or opening quote or which occurs first (as determined by the Exchange on a class-by-class basis). The Exchange proposes to amend Rule 6.11(b) to provide in proposed subparagraph (1) the System initiates the opening rotation procedure on a class-by-class basis:

- With respect to equity and ETP options, after the opening trade or the opening quote is disseminated in the market for the underlying security, or at 8:30 for classes determined by the Exchange (including over-the-counter equity classes); or
- with respect to index options, at 8:30 a.m., or at the later of 8:30 a.m. and the time the Exchange receives a disseminated index value for classes determined by the Exchange.

intended to execute immediately once represented on the Exchange or be cancelled. As there is no trading during the pre-opening period, an immediate-or-cancel order submitted during the pre-opening period would never execute and always be cancelled; thus, the Exchange determined to not permit this order type during the pre-opening period. Rule 6.10(c)(7) defines opening rotation orders, and the proposed rule change amends this definition to include limit orders (as well as to make another nonsubstantive change). The Exchange does not believe it is necessary to restrict limit orders from being entered to participate in the opening rotation, as they will execute during the opening rotation pursuant to the opening procedures in the same manner as market orders.

[6] Currently, the System begins disseminating EOIs at approximately 7:30 a.m. The System disseminates EOIs at 30-second intervals during the pre-open period and 1-second intervals during the opening rotation period (see discussion below for additional information regarding the dissemination of EOIs during the opening rotation). *See* Regulatory Circular RG15–039.

[7] Because this proposed language implies there must be a quote, the proposed rule change also deletes the language that the EOP may only be calculated if at least one quote is present, as it would be duplicative.

[8] The ''market for the underlying security'' is currently the primary listing market, the primary volume market (defined as the market with the most liquidity in that underlying security for the previous two calendar months) or the first market to open the underlying security. The Exchange does not designate the primary volume market as the market for the underlying security for any class, and thus the proposed rule change deletes that option. The proposed rule change also changes the term ''market'' to ''exchange,'' as the primary listing market or first market to open is a national securities exchange. The proposed rule change clarifies the Exchange determines on a class-by-class basis which market is the market for the underlying security.

The proposed rule change also deletes the phrase regarding the initiation of the opening rotation procedure at a randomly selected time within a number of seconds after the triggering event.

The Exchange believes this proposed change more accurately describes the timing at which the System initiates the opening rotation procedure for each type of option, which generally occurs immediately after the triggering event rather than a randomly selected number of seconds after the event. The proposed rule change provides, while the dissemination of the opening trade or quote in the market for the underlying security is generally the trigger to initiate the opening rotation for an equity or ETP class, the Exchange may determine to open certain equity and ETP classes at 8:30 a.m. instead if it does not have access to underlying information for those classes. The Exchange does not receive underlying information regarding the opening of certain equities.[9] The proposed rule change provides the Exchange with the necessary flexibility to ensure it can open trading in options overlying these equities in such circumstances. Similarly, the proposed rule change provides the Exchange with flexibility to open certain index options at the later of 8:30 a.m. and the time the Exchange receives a disseminated index value, in addition to at 8:30 a.m., to address circumstances in which this may be a more useful opening trigger.

In addition, the Exchange proposes to amend current Rule 6.11(b)(1), which is proposed Rule 6.11(b)(2), to state the System notifies market participants of the opening rotation initiation upon initiating the opening rotation procedure (defined as the ''Rotation Notice'') rather than following the opening trade or quote. The initiation of the opening rotation for a series triggers the dissemination of the notice, so the Exchange believes this proposed change more accurately and simply describes when market participants will receive the rotation notice.

Opening Rotation Period

Current Rule 6.11(c) provides after the rotation notice is sent, the System will enter into a rotation period, during which the opening price will be established for each series. During the rotation period,[10] the System will continue to calculate and provide the EOP and EOS given the current resting orders and quotes. The System will process the series of a class in a random order, and the series will begin opening after a period following the rotation notice, which period will not exceed 60 seconds and will be established on a class-by-class basis.

The proposed rule change reorganizes paragraph (c) to describe when the opening rotation period begins (which is after the System initiates the opening rotation procedure and sends the rotation notice) (proposed introduction to paragraph (c)), what happens during the period (proposed subparagraph (c)(1)), the handling of EOIs during the period (proposed subparagraph (c)(2)), and when the period ends (proposed subparagraph (c)(3)). The Exchange believes this will more clearly describe for investors the opening rotation process.

The proposed rule change adds detail regarding what occurs during the opening rotation period. Specifically, while the rules currently state the System establishes the opening trade price for a series during the opening rotation period, the proposed rule change adds proposed subparagraph (c)(1), which states the System does this (as well as establish the opening BBO) by matching and executing resting orders and quotes against each other. The proposed rule change moves the definition of opening trade price to proposed subparagraph (c)(1)(A) from current subparagraph (g)(1) (which references the ''single clearing price'' at which orders and quotes are matched at the open) so the rules include discussions of the opening trade price in a single location within the rules. The proposed rule change amends the definition of the opening trade price of a series to be the ''market-clearing'' price, which is the single price at which the largest number of contracts in the book can execute, leaving bids and offers that cannot trade with each other. The Exchange believes it is more appropriate to clear the largest size from the book at the open, even if that size is comprised of a smaller number of orders and quotes (as stated in proposed Rule 6.11(a)(2)). The EOS is the size of any expected opening trade. This is consistent with the change to the definition of EOP, as discussed above. The proposed rule change adds if there are multiple prices at which the same number of contracts would clear, the System uses the price at or nearest to the midpoint of the range consisting of the higher of the opening NBB and widest bid point of the OEPW range, and the lower of the opening NBO and widest offer point of the OEPW range.

The proposed rule change also adds proposed paragraph (c)(1)(B), which states all orders (except complex orders) and quotes in a series in the book prior to the opening rotation period participate in the opening rotation for a series. Contingency orders that participate in the opening rotation may execute during the opening rotation period only if their contingencies are triggered. The proposed rule change also notes complex orders do not participate in the opening rotation. While the System accepts those orders prior to the open, the Exchange believes it would complicate the opening rotation if they participated in the opening rotation and attempted to execute against the leg markets. Because proposed subparagraph (c)(1)(B) describes the matching process that occurs during the opening rotation period, the proposed rule change moves the rule provision regarding the priority order of orders and quotes during this matching process from current subparagraph (g)(1) to proposed subparagraph (c)(1)(C).[11]

The proposed rule change also revises the language regarding the messages disseminated during the opening rotation period to provide the System will continue to disseminate EOIs (not just the EOP and EOS). This proposed revision is consistent with the proposed language described above regarding dissemination of EOIs during the pre-opening period (and incorporates the proposed definition of EOIs). The proposed rule change provides the Exchange with the authority to determine a shorter interval length for the dissemination of EOIs during the opening rotation period than during the pre-opening period, as the Exchange believes market participants may want to receive these messages more frequently closer to the opening. This flexibility is intended to ensure the Exchange may disseminate these messages to market participants as frequently as it deems necessary to ensure a fair and orderly opening.

Proposed subparagraph (c)(3) updates the description of the length of the opening rotation period and how the System processes series to open

[9] For example, with respect to pink sheet stocks, the Exchange does not receive underlying information from the over-the-counter market (''OTC'') and believes it is in the interest of a fair and orderly market to initiate the opening rotation at 8:30 for those stocks rather than take additional time to confirm the OTC market for those stocks opened.

[10] Under the proposed rule change, rotation period is no longer a defined term. The proposed rule change, therefore, makes references to the term rotation period throughout Rule 6.11 lower-cased.

[11] The System prioritizes orders in the following order: (1) Market orders, (2) limit orders and quotes whose prices are better than the opening price, and (3) resting orders and quotes at the opening price. The proposed rule change also notes contingency orders are prioritized as set forth in Rule 6.12(c).

following the opening rotation period. Current subparagraph (c)(2) states the System will process the series of a class in a random order and the series will begin opening after a period following the Rotation Notice, which period may not exceed sixty seconds and will be established on a class-by-class basis by the Exchange. Proposed subparagraph (c)(3) states after a period of time determined by the Exchange for all classes, the System opens series of a class in a random order, staggered over regular intervals of time (the Exchange determines the length and number of these intervals for all classes).[12] Subject to satisfaction of opening conditions described below (in proposed paragraph (d)), the opening rotation period (including these intervals) may not exceed 60 seconds. The Exchange believes this change more clearly and accurately describes how the System opens series for trading, which it does randomly as set forth in the current rule but in a staggered manner over regular intervals. These intervals are intended to manage the number of series that will open during a short time period to ensure a fair and orderly opening.

Opening Quote and Trade Price

The proposed rule change deletes the language in current paragraph (d) stating as the opening price is determined by series, the System will disseminate through OPRA the opening quote and the opening trade price, if any. The System disseminates all quote and trade price information to OPRA once a series opens pursuant to the OPRA plan, including opening quote and trade price information, so the Exchange believes it is unnecessary to include this provision specifically in the opening rule.

Opening Conditions

Current Rule 6.11(e) provides the System will not open a series if one of the following conditions is met:

(1) There is no quote present in the series;

(2) the opening price is not within an acceptable range (as determined by the Exchange) compared to the lowest quote offer and the highest quote bid;

(3) the opening trade would be at a price that is not the national best bid or offer; or

(4) the opening trade would leave a market order imbalance (*i.e.,* there are more market orders to buy or to sell for the particular series than can be satisfied by the limit order, quotes and market orders on the opposite side); however, in series that will open at a minimum price increment, the System will open even if a sell market order imbalance exists.

Current paragraph (f) describes what happens when each of these conditions is present:

(1) If the condition in paragraph (e)(1) is present (*i.e.,* there is no quote), the System will check to see if there is an NBBO quote on another market that falls within the acceptable opening range. If such an NBBO quote is present, the series will open and expose the marketable order(s) at the NBBO price. If such an NBBO quote is not present, the System will not open the series and will send a notification to Participants indicating the reason.

(2) If the condition in paragraph (e)(2) is present (*i.e.,* the opening price is not within an acceptable range), the System will match orders and quotes to the extent possible at a single clearing price within the acceptable range, then expose the remaining marketable order(s) at the widest price point within the acceptable opening range or the NBBO price, whichever is better.

(3) If the condition in paragraph (e)(3) is present (*i.e.,* the opening trade would not be at the NBBO), the System will match orders and quotes to the extent possible at a single clearing price within the acceptable opening range or the NBBO price, whichever is better, then expose the remaining marketable order(s) at the NBBO price.

(4) If the condition in paragraph (e)(4) is present (*i.e.,* the opening trade would leave market order imbalance), the System will match orders and quotes to the extent possible at a single clearing price, then expose the remaining marketable order(s) at the widest price point within the acceptable opening range or the NBBO price, whichever is better.

The proposed rule change amends the opening conditions to provide in proposed paragraph (d) as follows: [13]

(1) If there are no quotes on the Exchange or disseminated from at least one away exchange present in the series, the System does not open the series. There are no exceptions to this opening condition. The Exchange generally requires an opening quote to ensure there will be liquidity in a series when it opens;

(2) if the width between the best quote bid and best quote offer, which may consist of Market-Makers quotes or bids and offers disseminated from an away exchange (for purposes of proposed paragraph (d), the ''opening quote''), is wider than an acceptable opening price range (as determined by the Exchange on a class-by-class and premium basis) (the ''Opening Exchange Prescribed Width range'' or ''OEPW range'') [14] and there are orders or quotes marketable against each other or that lock or cross the OEPW range, the System does not open the series. However, if the opening quote width is no wider than the intraday acceptable price range for the series (''IEPW range'') [15] and there are no orders or quotes marketable against each other or that lock or cross the OEPW range, the System opens the series. If the opening quote width is wider than the IEPW range, the System does not open the series. If the opening quote for a series consists solely of bids and offers disseminated from an away exchange(s), the System opens the series by matching orders and quotes to the extent they can trade and reports the opening trade, if any, at the opening trade price. The System then exposes any remaining marketable buy (sell) orders at the widest offer (bid) point of the OEPW range or NBO (NBB), whichever is lower (higher). The proposed rule change only makes nonsubstantive, simplifying changes to the exception to this opening condition. Because the proposed definition of opening quote width includes bids and offers from away exchanges, opening quote width incorporates those bids and offers. If there are no Market-Maker quotes on C2 but other exchanges have disseminated bids and offers in a series, those away quotes constitute the NBBO for the series. Thus, the proposed rule change clarifies the System will open a series if the opening quote width, which is comprised of the best quotes on C2 and other exchanges (essentially, the

[12] Currently, the Exchange has set the period of time that must pass before the System begins processing series to open at one second, and the Exchange has set the number of intervals to one and the length of the intervals to one second. As a result, the opening rotation period currently lasts one to two seconds (the proposed rule change clarifies that the various time periods and intervals combine to form the opening rotation period). *See* Regulatory Circular RG11–008. In other words, after one second, the System randomly selects a group of series to open; and after the one-second interval, the System opens the remaining group of series.

[13] The proposed rule change combines the exceptions in current paragraph (f) with the applicable opening conditions in current paragraph (e) into single proposed paragraph (d) for ease of review.

[14] Current OEPW settings are set forth in Regulatory Circular RG14–020. The acceptable price range is determined by taking the midpoint of the highest quote bid and lowest quote offer plus/minus half of the designated OEPW. The rules currently permit C2 to set the OEPW on a class-by-class basis. The proposed rule change also clarifies the Exchange may set the OEPW on a premium basis; as options with higher premiums may have wider spreads, the Exchange believes it is appropriate to have OEPW settings to reflect that. This is consistent with the Exchange's authority to set the IEPW pursuant to Rule 6.17(a).

[15] *See* Rule 6.17(a).

NBBO) is no wider than the OEPW range. The OEPW range is a price protection measure intended to prevent orders from executing at extreme prices on the open. If that market is no wider than the OEPW range, the Exchange believes it is appropriate to open a series under these circumstances and provide marketable orders on the Exchange with the opportunity to execute at the NBBO. If the opening quote width is no wider than the OEPW range, then the Exchange believes the risk of execution at an extreme risk is not present. With respect to the exception to this opening condition, if the best market (whether the Exchange or national market) would satisfy the price check parameter the Exchange uses for intraday trading, and there are no orders that can execute on the open, then there is no risk that an order will execute at an extreme price on the open. Because the risk that the OEPW range is intended to address is not present in this situation, the Exchange believes it is appropriate to open a series given these conditions. Other proposed changes make the language (*e.g.,* language regarding matching orders and quotes and reporting the opening trade, and regarding the opening price being that which clears the largest number of contracts) in this paragraph consistent with language used in the other opening conditions and exceptions in proposed paragraph (d).[16]

(3) if the opening trade price would be outside the OEPW range or the NBBO, the System opens the series by matching orders and quotes to the extent they can trade and reports the opening trade, if any, at an opening trade price not outside either the OEPW range or NBBO. The System then exposes any remaining marketable buy (sell) orders at the widest offer (bid) point of the OEPW range or NBO (NBB), whichever is lower (higher). The Exchange believes using the term OEPW range with respect to the acceptable range for opening price in the rules is a more accurate description of the appropriate range for opening prices (as this is the term used in circulars and among Participants). The OEPW range is used as a price protection measure. Additionally, the proposed rule change clarifies that a series will open if the opening trade price is at the widest part of the OEPW range (it will expose orders if it is outside the OEPW range). The proposed rule change makes nonsubstantive, simplifying changes to this opening condition and clarifies that the opening trade price must be something not outside the OEPW range or the NBBO (including the ends of the applicable range). Other proposed changes make the language in this paragraph consistent with language used in the other conditions in proposed paragraphs (d);

(4) if the opening trade would leave a market order imbalance, which means there are more market orders to buy or to sell for the particular series than can be satisfied by the orders and quotes on the opposite side, the System opens the series by matching orders and quotes to the extent they can trade and reports the opening trade, if any, at the opening trade price. The System then exposes any remaining marketable buy (sell) orders at the widest offer (bid) point of the OEPW range or NBO (NBB), whichever is lower (higher). The proposed rule change deletes language stating a series will open at a minimum price increment even if there is a sell market order imbalance. Because the System will open by matching orders and quotes, then exposing remaining orders, when there is a market order imbalance for any series, including those that will open at a minimum price increment as the rule currently states, there is no reason to highlight this situation in the rule. The proposed rule change also makes nonsubstantive, simplifying changes to this provision. Other proposed changes make the language in this paragraph consistent with language used in the other conditions in proposed paragraph (d); or

(5) if the opening quote bid (offer) or the NBB (NBO) crosses the opening quote offer (bid) or the NBO (NBB) by more than an amount determined by the Exchange on a class-by-class and premium basis, the System does not open the series.[17] The System currently does not open a series if this condition exists to prevent executions at extreme prices, and the Exchange proposes to codify this condition in the rules so that market participants are aware of all circumstances under which a series may not open. There are no exceptions to this opening condition. If the opening quote bid (offer) or NBO (NBO) crosses the opening quote offer (bid) or NBO (NBB) by no more than the specified amount, the System will open the series by matching orders and quotes to the extent they can trade and report the opening trade, if any, at the opening trade price. The System then exposes any remaining marketable buy (sell) orders at the widest offer (bid) point of the OEPW range or NBO (NBB), whichever is lower (higher). If the best away market bid and offer are inverted by no more than the specified amount, there is a marketable order on each side of the series, and the System opens the series, the System will expose the order on the side with the larger size and route for execution the order on the side with the smaller size to an away exchange that is at the NBBO. Only one order in a series may be exposed in a HAL auction, so this provision is consistent with this limitation and is intended to address the situation in which there may be a marketable order on each side of the market so that both orders have a possibility for execution. This exception is consistent with the other exceptions in proposed paragraph (d) as well as with current System functionality.

Generally, the purpose of these opening conditions and exceptions is to ensure that series open in a fair and orderly manner and at prices consistent with the current market conditions for the series and not at extreme prices, while taking into consideration the markets of other exchanges that may be better than the Exchange's at the open. The exceptions provide the opportunity for orders to execute through a HAL auction or at an away exchange when that is the case.

The proposed rule change moves provisions related to the exposure of orders at the open from current subparagraph (g)(2) and Interpretation and Policy .04 to proposed paragraph (d) to eliminate duplicative language and to include all provisions regarding the opening exposure process are including in the same place within the rules.[18] The proposed rule change deletes the provision regarding the matching period of the HAL openings. The Exchange no longer uses matching period and just uses the exposure period, which may not exceed 1.5 seconds. There is no allocation period for the HAL exposure process described in Rule 6.18, and the Exchange does not believe it is necessary to include one for HAL on the openings. As provided in current Interpretation and Policy .04

[16] Regulatory Circular RG14–020 sets forth the current OEPW range. This is the term with which Participants are familiar for the acceptable opening, and the Exchange believes it will be beneficial for investors if the rules refer to the same term.

[17] Currently, this amount is $0.25 for options with prices less than $3.00 and $0.50 for options with prices of $3.00 or more. *See* Regulatory Circular RG10–005.

[18] Proposed paragraph (d) states the acceptable tick distance the Exchange may set to prevent execution of orders following exposure on the opening priced ''too far away'' from the exposure price will be determined on a class-by-class and premium basis rather than series-by-series and premium basis, as current paragraph (g)(2) and Interpretation and Policy .04 state. The Exchange sets this amount by class rather than by series and proposes to reflect that in the rules.

and proposed paragraph (d), the exposure process will be conducted via HAL pursuant to Rule 6.18 for an exposure period designated by the Exchange for a class (which period of time will not exceed 1.5 seconds), so the Exchange believes the process for HAL on the openings should be consistent with the standard HAL process.[19]

The Exchange also proposes to add to paragraph (d) if the System does not open a series pursuant paragraphs (d), notwithstanding proposed paragraph (c) (which states the opening rotation period may not last more than 60 seconds), the opening rotation period continues (including the dissemination of EOIs, which is consistent with language the Exchange proposes to delete regarding the notifications sent to market participants if one of the opening conditions is present) until the condition causing the delay is satisfied or the Exchange otherwise determines it is necessary to open a series in accordance with proposed paragraph (e). This is currently how the System operates, and the Exchange believes it will benefit investors to explicitly state this in the rules, particularly because, under these circumstances, the opening rotation period will last longer than the standard length of time determined by the Exchange. The Exchange believes it is important for Participants to continue to receive EOIs, particularly those describing why a series is not open, so they have close to real-time information regarding the potential opening of a series.[20]

Other Changes

The proposed rule change amends Rule 6.11 as follows:

- Current Rule 6.11 provides in various places the Help Desk may deviate from the opening procedures, including paragraphs (b)(2) and (h). The Exchange believes it is simpler to have one single rule provision within Rule 6.11 that applies to the entire rule stating the Help Desk may determine whether to modify the opening procedures when they deem necessary. The Exchange proposes to delete these references and combine them into current paragraph (h) and proposed paragraph (e). The proposed rule change lists examples of actions the Help Desk has flexibility to take when necessary in the interests of commencing or maintaining a fair and orderly market (some of which are listed throughout current Rule 6.11), in the event of unusual market conditions or in the public interest, including delaying or compelling the opening of any series in any options class and modifying timers or settings described in Rule 6.11. The proposed rule change adds the Exchange will make and maintain records to document all determinations to deviate from the standard manner of the opening procedure, and periodically review these determinations for consistency with the interests of a fair and orderly market.
- The proposed rule change also amends current Rule 6.11(i) and proposed Rule 6.11(f) to indicate the procedure described in Rule 6.11 may be used to reopen a series, in addition to a class, after a trading halt. This proposed changes addresses a potential situation in which only certain series are subjected to halt. As series open on an individual basis, the Exchange does not believe this to be a significant change. The proposed rule change also adds detail regarding notice of use of this opening procedure following a trading halt and clarifies the procedure would be the same, however, based on then-existing facts and circumstances, there may be no pre-opening period or a shorter pre-opening period than the regular pre-opening period. Specifically, proposed paragraph (f) states the Exchange will announce the reopening of a class or series after a trading halt as soon as practicable via electronic message to Participants that request to receive such messages.[21] C2 believes it is in investors' best interests to reopen a class or series as soon as possible after a trading halt, which may make advance notice in certain situations impractical. The proposed rule change provides the Exchange with the ability to re-open as quickly as possible following a halt.
- The Exchange proposes to amend Interpretation and Policy .01, which states the Exchange may determine on a class-by-class basis which electronic algorithm from Rule 6.12 applies to the class during rotations. The proposed rule change makes the electronic algorithm that applies to a class intraday the algorithm that applies to a class during rotations, but still leaves the Exchange with the same flexibility to apply a different algorithm to a class during rotations if it deems necessary or appropriate. This proposed change merely makes the intraday algorithm the default opening algorithm for a class. The Exchange believes it is important to maintain this flexibility so that it can facilitate a robust opening with sufficient liquidity in all classes.
- The Exchange proposes to amend Interpretation and Policy .02, which states all pronouncements regarding determinations by the Exchange pursuant to Rule 6.11 and the Interpretations and Policies thereunder will be announced to Participants via Regulatory Circular. In addition to nonsubstantive changes to make the language more plain English, the proposed rule change adds determinations will be made via Regulatory Circular with appropriate advanced notice to ensure Trading Permit Holders are aware of these determinations and have sufficient time to make any necessary changes in response to the determinations. The proposed rule change also adds notice of determinations may be made as otherwise provided, as other parts of Rule 6.11 state certain notifications will be made in a different manner (for example, via electronic message).

The proposed rule change makes numerous nonsubstantive and clerical changes throughout Rule 6.11 (including its Interpretations and Policies), including adding or amending headings and defined terms, updating cross-references, adding introductory and clarifying language, using consistent language and punctuation, replacing terms such as ''option series'' with series (all series listed for trading on the Exchange are for options, making it unnecessary to include ''option''), and using more plain English.

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.[22] Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5) [23] requirements that the rules of an exchange be designed to prevent fraudulent and manipulative acts and

[19] The proposed rule change deletes from current paragraph (g)(2) and Interpretation and Policy .04 the provision stating the size of a response may not exceed the size of the exposed order. This language is included in Rule 6.18(b) and applies to all exposures via HAL. Because proposed Rule 6.11(d) provides exposures under that paragraph will occur pursuant to Rule 6.18, it is not necessary (and duplicative) to include this language in Rule 6.11.

[20] Current Rule 6.11(j) and proposed Rule 6.11(g) provides the opening procedures described in the rule may also be used after the close of a trading session for series that open pursuant to Rule 6.11. The proposed rule change makes nonsubstantive changes to proposed paragraph (g) to more clearly and simply state the potential applicability of the opening procedures to a closing rotation for series that open pursuant to Rule 6.11 and to include additional detail regarding the notification to Participants regarding the decision to conduct a closing rotation.

[21] The proposed rule change also notes the Exchange may reopen a class after a trading halt as otherwise set forth in the Rules, including Rules 6.32.

[22] 15 U.S.C. 78f(b).

[23] 15 U.S.C. 78f(b)(5).

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) [24] requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

In particular, the proposed rule change enhances the description of the opening procedures in the rules to reflect how the System opens series, which perfects the mechanism of a free and open market and ultimately protects investors. The Exchange believes the proposed rule changes to reorganize and enhance the description of the opening (and sometimes) closing procedures will benefit investors, because the rule as amended more accurately and clearly describes how the System opens series on the Exchange. Thus, investors will have a better understanding of how their quotes and orders will be handled during opening rotations if they elect to submit quotes and orders during the pre-opening period or if they have orders resting on the book from the prior trading day. Similarly, the Exchange believes the deletion of duplicative provisions from Rule 6.11 will benefit investors by eliminating potential confusion about the applicability of those provisions. The nonsubstantive and clerical changes will create more consistency and clarity throughout and otherwise simplify the rule. Further, the Exchange believes the additional information regarding notification of the use of the opening procedure following a trading halt will clarify for Participants when and how they will know from the Exchange such use is occurring.

The revised opening conditions are intended to promote just and equitable principles of trade, as they ensure that series open in a fair and orderly market with sufficient liquidity in the series and opportunities for execution at prices that are consistent with then-current market conditions rather than potentially extreme prices. These proposed changes ensure that market participants are aware of all circumstances under which the System may not open a series.

[24] *Id.*

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 opening procedures as revised by the proposed rule change will still apply to all market participants in the same manner as they do today. The proposed rule change more accurately describes the opening procedures that are currently in place on the Exchange, which procedures are designed to open series on the Exchange in a fair and orderly manner. These changes have no impact on competition. The purposes of the opening conditions are to ensure there is sufficient liquidity in a series when it opens and the series opens at prices consistent with the current market conditions (at the Exchange and other exchanges) rather than extreme prices that could result in unfavorable executions to market participants. The nonsubstantive changes and clerical changes have no impact on competition, as they are intended to eliminate confusion within and simplify the rules.

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

Within 45 days of the date of publication of this notice in the **Federal Register** or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the Exchange consents, the Commission will:

A. By order approve or disapprove such proposed rule change, or

B. institute proceedings to determine whether the proposed rule change should be 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.* Please include File Number SR–C2–2016–021 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–C2–2016–021. 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–C2–2016–021, and should be submitted on or before December 12, 2016.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[25]

Brent J. Fields,

Secretary.

[FR Doc. 2016–27895 Filed 11–18–16; 8:45 am]

BILLING CODE 8011–01–P

[25] 17 CFR 200.30–3(a)(12).