

# C2 OPTIONS EXCHANGE, INCORPORATED

## RULES

(May 3, 2017)

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## **CHAPTER 1**

### **Definitions**

#### **Rule 1.1. Definitions**

##### **Affiliate and Affiliated with**

The term “affiliate” of or a person “affiliated with” another person means a person who, directly or indirectly, controls, is controlled by, or is under common control with, such other person.

##### **Aggregate Exercise Price**

The term “aggregate exercise price” means the exercise price of an option contract multiplied by the number of units of the underlying security covered by the option contract.

##### **American-style Option**

The term “American-style option” means an option contract that, subject to the provisions of Rule 11.1 (relating to the cutoff time for exercise instructions) and to the Rules of the Clearing Corporation, can be exercised on any business day prior to its expiration date and on its expiration date.

##### **API**

The term “Application Programming Interface” or “API” means the computer interface that allows market participants with authorized access to interface electronically with the Exchange.

##### **Associated Person or Person Associated with a Participant**

The term “associated person” or “person associated with a participant” means any partner, officer, director, or branch manager of a Participant (or any person occupying a similar status or performing similar functions), any person directly or indirectly controlling, controlled by, or under common control with a Participant, or any employee of a Participant.

##### **BBO**

The term “BBO” means the best bid or offer disseminated on the Exchange.

##### **Board**

The term “Board” shall mean the Board of Directors of the Exchange.

##### **Book**

The term “Book” means the electronic book of buy and sell orders and quotes maintained by the System.

##### **Bylaws**

The term “Bylaws” means the Bylaws of the Exchange as the same may be amended from time to time.

**Call**

The term “call” means an option contract under which the holder of the option has the right, in accordance with the terms of the option, to purchase from the Clearing Corporation the number of shares of the underlying security covered by the option contract.

**Capped-style Option**

The term “capped-style option” means an option contract that is automatically exercised when the cap price is reached. If this does not occur prior to expiration, it can be exercised, subject to the provisions of Rule 11.1 (relating to the cutoff time for exercise instructions) and to the Rules of the Clearing Corporation, only on its expiration date. CAPS™ refers to capped-style options traded on the Exchange.

**CBOE**

The term “CBOE” means the Chicago Board Options Exchange, Incorporated.

**CBOE Trading Permit**

For purposes of C2’s Rules, the term “CBOE Trading Permit” means a “Trading Permit” as such term is defined in CBOE’s Bylaws and Rules.

**CBOE Trading Permit Holder**

For purposes of C2’s Rules, the term “CBOE Trading Permit Holder” means a “Trading Permit Holder” as such term is defined in CBOE’s Bylaws and Rules.

**Class of Options**

The term “class of options” means all option contracts of the same type covering the same underlying security.

**Clearing Corporation**

The term “Clearing Corporation” means The Options Clearing Corporation.

**Clearing Participant**

The term “Clearing Participant” means a Permit Holder that has been admitted to membership in the Clearing Corporation pursuant to the provisions of the rules of the Clearing Corporation.

**Closing Purchase Transaction**

The term “closing purchase transaction” means an Exchange transaction which will reduce or eliminate a short position in an option contract.

**Closing Writing Transaction**

The term “closing writing transaction” means an Exchange transaction which will reduce or eliminate a long position in an option contract.

**Commission**

The term “Commission” means the United States Securities and Exchange Commission.

**Control**

The term “control” means the power to exercise a controlling influence over the management or policies of a person, unless such power is solely the result of an official position with such person. Any person who owns beneficially, directly or indirectly, more than 20% of the voting power in the election of directors of a corporation, or more than 25% of the voting power in the election of directors of any other corporation which directly or through one or more affiliates owns beneficially more than 25% of the voting power in the election of directors of such corporation, shall be presumed to control such corporation.

**Covered**

The term “covered” in respect of a short position in a call option contract means that the writer’s obligation is secured by a “specific deposit” or an “escrow deposit” meeting the conditions of Rule 610(f) or 610(h), respectively, of the Rules of the Clearing Corporation, or the writer holds in the same account as the short position, on a share-for-share basis, a long position either in the underlying security or in an option contract of the same class of options where the exercise price of the option contract in such long position is equal to or less than the exercise price of the option contract in such short position. The term “covered” in respect of a short position in a put option contract means that the writer holds in the same account as the short position, on a share-for-share basis, a long position in an option contract of the same class of options where the exercise price of the option contract in such long position is equal to or greater than the exercise price of the option contract in such short position.

**Designated Primary Market-Maker**

The term “Designated Primary Market-Maker” or “DPM” means a Participant organization that is approved by the Exchange to function in allocated securities as a Market-Maker (as defined in Rule 1.1) and is subject to the obligations under Rule 8.17 or as otherwise provided under the Rules.

**European-style Option**

The term “European-style option” means an option contract that, subject to the provisions of Rule 11.1 (relating to the cutoff time for exercise instructions) and to the rules of the Clearing Corporation, can be exercised only on its expiration date.

**Exchange**

The term “Exchange” means the national securities exchange known as C2.

**Exchange Act**

The term “Exchange Act” means the Securities Exchange Act of 1934, as amended.

**Exercise Price**

The term “exercise price” means the specified price per unit at which the underlying security may be purchased or sold upon the exercise of an option contract.

**Expiration Date**

Unless separately defined elsewhere in C2's Rules, the term "expiration date" means: (i) in the case of such an option expiring prior to February 1, 2015, the Saturday immediately following the third Friday of the expiration month of such option contract; and (ii) in the case of such an option expiring on or after February 1, 2015, the third Friday of the expiration month of such option contract, or if such Friday is a day on which the exchange on which such option is listed is not open for business, the preceding day on which such exchange is open for business. Notwithstanding the foregoing, in the case of certain options expiring on or after February 1, 2015 that the Clearing Corporation has designated as grandfathered, the term "expiration date" shall mean the Saturday immediately following the third Friday of the expiration month.

**Exchange Spread Market**

The term "Exchange spread market" means the derived net market based on the BBOs in the individual series legs comprising a complex order and, if a stock-option order, the NBBO of the stock leg.

**Federal Reserve Board**

The term "Federal Reserve Board" means the Board of Governors of the Federal Reserve System.

**Foreign Broker-Dealer**

The term "foreign broker-dealer" means any person or entity that is registered, authorized or licensed by a foreign governmental agency or foreign regulatory organization (or is required to be so registered, authorized or licensed) to perform the function of a broker or dealer in securities, or both. For the purposes of this definition, the terms "broker" and "dealer" have the same meaning as provided in Section 3(a)(4) and 3(a)(5) of the Exchange Act, except that a "broker" or "dealer" may be a bank.

**Help Desk**

The term "Help Desk" means the Exchange's control room consisting of Exchange staff authorized to make certain trading determinations on behalf of the Exchange.

**Index Portfolio Receipts**

The term index portfolio receipts or "IPRs" means securities that (a) represent an interest in a unit investment trust ("Trust") which holds the securities that comprise an index on which a series of IPRs is based; (b) are issued by the Trust in a specified aggregate minimum number in return for a "Portfolio Deposit" consisting of specified numbers of shares of stock plus a cash amount; (c) when aggregated in the same specified minimum number, may be redeemed from the Trust which will pay to the redeeming holder the stock and cash then comprising the Portfolio Deposit; and (d) pay holders a periodic cash payment corresponding to the regular cash dividends or distributions declared and paid with respect to the component securities of the stock index on which the IPRs are based, less certain expenses and other charges as set forth in the Trust prospectus. IPRs are "UIT interests" within the meaning of the Rules of the Exchange.



**Index Portfolio Shares**

The term “Index Portfolio Shares” or IPSs means securities that (a) are issued by an open-end management investment company based on a portfolio of stocks or fixed income securities designed to provide investment results that correspond generally to the price and yield performance of a specified foreign or domestic stock index or fixed income securities index; (b) are issued by such an open-end management investment company in a specified aggregate minimum number in return for a deposit of specified number of shares of stock and/or a cash amount, or a specified portfolio of fixed income securities and/or a cash amount, with a value equal to the next determined net asset value; and (c) when aggregated in the same specified minimum number, may be redeemed at a holder’s request by such open-end management investment company which will pay to the redeeming holder stock and/or cash, or a specified portfolio of fixed income securities and/or cash with a value equal to the next determined net asset value.

**Index-Linked Exchangeable Note**

The term Index-Linked Exchangeable Note means an exchangeable debt security that is exchangeable at the option of the holder (subject to the requirement that the holder in most circumstances exchange a specified minimum amount of notes), on call by the issuer, or at maturity for a cash amount based on the reported market prices of the underlying stocks of an underlying index.

**Long Position**

The term “long position” means a person’s interest as the holder of one or more units of trading of a given option contract.

**Market Maker**

The term “Market-Maker” means a Participant registered with the Exchange for the purpose of making markets in options contracts traded on the Exchange and that is vested with the rights and responsibilities specified in Chapter 8 of these Rules.

**National Spread Market**

The term “national spread market” means the derived net market based on the NBBOs in the individual series legs comprising a complex order and, if a stock-option order, the NBBO of the stock leg.

**NBBO**

The term “NBBO” means the national best bid or offer as calculated by the Exchange based on market information received by the Exchange from OPRA.

**Opening Purchase Transaction**

The term “opening purchase transaction” means an Exchange transaction which will create or increase a long position in an option contract.

**Opening Writing Transaction**

The term “opening writing transaction” means an Exchange transaction which will create or increase a short position in an option contract.

**Option Contract**

The term “option contract” means a put or a call issued, or subject to issuance, by the Clearing Corporation pursuant to the rules of the Clearing Corporation.

**Options Principal**

The term “Options Principal” means a person engaged in the management and supervision of the Participant’s business pertaining to options contracts that has responsibility for the overall oversight of the Participant’s options related activities on the Exchange.

**Order**

The term “order” means a firm commitment to buy or sell option contracts.

**Outstanding**

The term “outstanding” in respect of an option contract means an option contract which has been issued by the Clearing Corporation and has neither been the subject of a closing writing transaction nor has reached its expiration date.

**Participant**

The term “Participant” means a Permit Holder.

**Permit Holder**

The term “Permit Holder” means the Exchange recognized holder of a Trading Permit. A Permit Holder is also known as a Trading Permit Holder under the Bylaws. Permit Holders are deemed “members” under the Exchange Act.

**Principal Shareholder**

(i) The term “principal shareholder” means any person beneficially owning, directly or indirectly, equity securities representing 5% of the voting power in elections of directors, or 5% of the net worth, or a 5% participation in the net profits, of a corporation.

**Professional**

The term “Professional” means any person or entity that (i) is not a broker or dealer in securities, and (ii) places more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s). A Professional will be treated in the same manner as a broker or dealer in securities for purposes of Rules 6.11, 6.12, 6.13(b)(1), 6.13(c)(5), 6.14, 6.15, 6.51, 6.52, 8.13, and 8.19. All Professional orders shall be marked with the appropriate origin code as determined by the Exchange.

*. . . Interpretations and Policies:*

**.01** Except as noted below, each order of any order type counts as one order for Professional order counting purposes.

(a) Complex Orders:

- (1) A complex order comprised of eight (8) legs or fewer counts as a single order.
  - (2) A complex order comprised of nine (9) legs or more counts as multiple orders with each option leg counting as its own separate order.
- (b) “Parent”/”Child” Orders:
- (1) Same Side and Same Series: A “parent” order that is placed for the beneficial account(s) of a person or entity that is not a broker or dealer in securities that is broken into multiple “child” orders on the same side (buy/sell) and series as the “parent” order by a broker or dealer, or by an algorithm housed at a broker or dealer or by an algorithm licensed from a broker or dealer, but which is housed with the customer, counts as one order even if the “child” orders are routed across multiple exchanges.
  - (2) Both Sides and/or Multiple Series: A “parent” order (including a strategy order) that is broken into multiple “child” orders on both sides (buy/sell) of a series and/or multiple series counts as multiple orders, with each “child” order counting as a new and separate order.
- (c) Cancel/Replace:
- (1) Except as provided in paragraph (c)(2) below, any order that cancels and replaces an existing order counts as a separate order (or multiple new orders in the case of a complex order comprised of nine (9) legs or more).
  - (2) Same Side and Same Series: An order that cancels and replaces any “child” order resulting from a “parent” order that is placed for the beneficial account(s) of a person or entity that is not a broker, or dealer in securities that is broken into multiple “child” orders on the same side (buy/sell) and series as the “parent” order by a broker or dealer, by an algorithm housed at a broker or dealer, or by an algorithm licensed from a broker or dealer, but which is housed with the customer, does not count as a new order.
  - (3) Both Sides and/or Multiple Series: An order that cancels and replaces any “child” order resulting from a “parent” order (including a strategy order) that generates “child” orders on both sides (buy/sell) of a series and/or in multiple series counts as a new order.
  - (4) Pegged Orders: Notwithstanding the provisions of paragraph (c)(2) above, an order that cancels and replaces any “child” order resulting from a “parent” order being “pegged” to the BBO or NBBO or that cancels and replaces any “child” order pursuant to an algorithm that uses BBO or NBBO in the calculation of “child” orders and attempts to move with or follow the BBO or NBBO of a series counts as a new order each time the order cancels and replaces in order to attempt to move with or follow the BBO or NBBO.

**Public Customer**

The term “Public Customer” means a person that is not a broker or dealer in securities.

**Put**

The term “put” means an option contract under which the holder of the option has the right, in accordance with the terms and provisions of the option, to sell to the Clearing Corporation the number of shares of the underlying security covered by the option contract.

**Quarterly Options Series**

A Quarterly Option Series is a series in an options class that is approved for listing and trading on the Exchange in which the series is opened for trading on any business day and that expires at the close of business on the last business day of a calendar quarter.

**Quote**

The term “quote” or “quotation” means a bid or offer entered by a Market-Maker that is firm and that updates the Market-Maker’s previous quote, if any.

**Responsible Person**

The term “Responsible Person” shall mean an individual designated by an organization that is the holder of a Trading Permit to represent the organization with respect to that Trading Permit in all matters relating to the Exchange. The Responsible Person must be a United States-based officer, director or management-level employee of the Permit Holder, who is responsible for the direct supervision and control of Associated Persons of that Permit Holder.

**Rules**

The term “Rules” means the Rules of the Exchange as the same may be in effect from time to time.

**Rules of the Clearing Corporation**

The term “rules of the Clearing Corporation” means the Certificate of Incorporation, the By-laws and the Rules of the Clearing Corporation, and all written interpretations thereof, as the same may be in effect from time to time.

**Security Future-Option Order**

A security future-option order is an order to buy or sell a stated number of units of a security future or a related security convertible into a security future (“convertible security future”) coupled with either (a) the purchase or sale of option contract(s) on the opposite side of the market representing either the same number of the underlying for the security future or convertible security future or the number of units of the underlying for the security future or convertible security future necessary to create a delta neutral position or (b) the purchase or sale of an equal number of put and call option contracts, each having the same exercise price, expiration date and each representing the same number of the underlying for the security future or convertible security future, as and on

the opposite side of the market from, the underlying for the security future or convertible security future portion of the order.

**Series of Options**

The term “series of options” means all option contracts of the same class having the same exercise price and expiration date.

**Short Position**

The term “short position” means a person’s interest as the writer of one or more units of trading of a given option contract.

**System**

The term “System” means the automated trading system used by the Exchange for the trading of options contracts.

**Trading Permit**

The term “Trading Permit” means a permit issued by the Exchange that confers the ability to transact on the Exchange.

**Trading Permit Holder**

The term “Trading Permit Holder” means a Permit Holder.

**Trust Issued Receipt**

The term “Trust Issued Receipt” means a security (a) that is issued by a trust (“Trust”) which holds specific securities deposited with the Trust; (b) that, when aggregated in some specified minimum number, may be surrendered to the Trust by the beneficial owner to receive the securities; and (c) that pays beneficial owners dividends and other distributions on the deposited securities, if any are declared and paid to the trustee by an issuer of the deposited securities.

**Type of Option**

The term “type of option” means the classification of an option contract as either a put or a call.

**Uncovered**

The term “uncovered” in respect of a short position in an option contract means that the short position is not covered.

**Underlying Security**

The term “underlying security” in respect of an option contract means the security which the Clearing Corporation shall be obligated to sell (in the case of a call option contract) or purchase (in the case of a put option contract) upon the valid exercise of the option contract.

**Voluntary Professional**

The term “Voluntary Professional” means any person or entity that is not a broker or dealer in securities that elects, in writing, to be treated in the same manner as a broker or

dealer in securities for purposes of Rules 6.11, 6.12, 6.13(b)(1), 6.13(c)(5), 6.14, 6.15, 6.51, 6.52, 8.13, 8.19 and for cancellation fee treatment.

[Adopted December 10, 2009; Amended June 17, 2010 (SR-C2-2010-002); Amended September 30, 2010 (SR-C2-2010-004); Amended October 22, 2010 (SR-C2-2010-005); Amended November 3, 2010 (SR-C2-2010-008); Amended October 18, 2012 (SR-C2-2012-024); Amended August 19, 2013 (SR-C2-2013-031); Amended September 26, 2013 (SR-C2-2013-034); Amended October 28, 2013 (SR-C2-2013-038); Amended June 23, 2016 (SR-C2-2016-009); Amended June 29, 2016 (SR-C2-2016-010); Amended March 6, 2017 (SR-C2-2017-010)]

## **CHAPTER 2**

### **Administration**

#### **Rule 2.1. Participant Fees**

The fees payable by Participants shall be fixed from time to time by the Exchange. Fees shall be payable in full on the first day of each month on a nonrefundable basis and shall be applied to the month beginning on that day.

[Adopted December 10, 2009]

#### **Rule 2.2. Exchange's Costs of Defending Legal Proceedings**

Any Participant or person associated with a Participant who fails to prevail in a lawsuit or other legal proceeding instituted by such person against the Exchange or any of its directors, officers, committee members, other officials, employees, contractors, or agents, or any subsidiaries or affiliates of the Exchange or any of their directors, officers, committee members, other officials, employees, contractors, or agents, and related to the business of the Exchange, shall pay to the Exchange all reasonable expenses, including attorneys' fees, incurred by the Exchange in the defense of such proceeding, but only in the event that such expenses exceed Fifty Thousand Dollars (\$50,000.00). This provision shall not apply to disciplinary actions by the Exchange, to administrative appeals of Exchange actions or in any specific instance where the Board has granted a waiver of this provision.

[Adopted December 10, 2009; Amended June 4, 2015 (SR-C202015-010)]

#### **Rule 2.3 Regulatory Revenues**

Any revenues received by the Exchange from fees derived from its regulatory function or regulatory fines will not be used for non-regulatory purposes, but rather, shall be applied to fund the legal and regulatory operations of the Exchange (including surveillance and enforcement activities), or, as the case may be, shall be used to pay restitution and disgorgement of funds intended for customers.

[Adopted December 10, 2009]

### CHAPTER 3 Access

#### **Rule 3.1. Trading Permits**

(a) *Issuance.* The Exchange shall issue Trading Permits that confer the ability to transact on the Exchange. There is no limit on the number of Trading Permits that may be issued by the Exchange, however the Exchange shall have the authority to limit or decrease the number of Trading Permits it has determined to issue. The Exchange shall announce in advance any limitation or decrease it plans to impose pursuant to this Rule. In the event the Exchange imposes a limitation or decrease pursuant to this Rule, the Exchange, in doing so, may not eliminate the ability of an existing Permit Holder or CBOE Trading Permit Holder to trade on C2 unless the Exchange is permitted to do so pursuant to a rule filing submitted to the Commission under Section 19(b) of the Exchange Act. In addition, in no event shall the Exchange act in a manner under this subparagraph that does not comply with the provisions of Section 6(c)(4) of the Exchange Act.

(b) *Qualification Requirements.* A Permit Holder must be registered as a broker-dealer pursuant to Section 15 of the Exchange Act. If a Permit Holder intends to transact a business with the public, it must obtain approval to transact business with the public pursuant to Rule 9.1 or be approved to transact business with the public by another national securities exchange.

(c) *Application Process.*

(1) *CBOE Trading Permit Holders.* A CBOE Trading Permit Holder in good standing is eligible to receive one Trading Permit (regardless of the number of CBOE Trading Permits held by that CBOE Trading Permit Holder). CBOE Trading Permit Holder applicants are not required to complete and submit an Exchange application. Instead, only Exchange forms concerning electing to trade on the Exchange, submitting to Exchange jurisdiction, and operational matters need be completed and tendered.

(2) *Non-CBOE Trading Permit Holders.* All non-CBOE Trading Permit Holders seeking to hold a Trading Permit (“Applicant”) must submit an application to the Exchange in accordance with such procedures as shall be established by the Exchange via regulatory circular including submission deadlines and payment of any applicable application fees. In addition, the following shall apply:

(A) Each Applicant shall promptly update the application materials submitted to the Exchange if any of the information provided in these materials becomes inaccurate or incomplete after the date of submission of the application to the Exchange and prior to any approval of the application.

- (B) The Exchange shall investigate each Applicant applying to be a Permit Holder (with the exception of any Applicant that was a Permit Holder within 9 months prior to the date of receipt of that Applicant's application by the Exchange, and any Applicant that was investigated by the Exchange within 9 months prior to the date of receipt of that Applicant's application by the Exchange). The Exchange may investigate any Applicant that is not required to be investigated pursuant to this paragraph. In connection with an investigation conducted pursuant to this paragraph, the Exchange may (i) conduct a fingerprint based criminal records check of the Applicant and its Responsible Person; or (ii) utilize the results of a fingerprint based criminal records check of the Applicant and its Responsible Person conducted by the Exchange or another self-regulatory organization within the prior year.
- (C) The Exchange may approve an application submitted pursuant to this Rule only if any investigation pursuant to paragraph (B) above has been completed, and any applicable orientation and/or exam requirements established by the Exchange have been satisfied.
- (D) Each Applicant that submits an application pursuant to paragraph (c)(2) of this Rule shall submit to the Exchange any additional information requested by the Exchange in connection with the Exchange's review of the application and may be required to appear before the Exchange for an in-person interview or interviews.
- (E) Upon completion of the application process, the Exchange shall determine whether to approve or disapprove the application, unless there is just cause for delay. One such just cause for delay is when an Applicant is the subject of an inquiry, investigation, or proceeding conducted by a self-regulatory organization or governmental authority that involves the Applicant's fitness to be a Permit Holder. In such an instance, the Exchange need not act on any application submitted by that Applicant until the matter has been resolved.
- (F) Written notice of the action regarding an application to become a Permit Holder, specifying in the case of disapproval of an application the grounds thereof, shall be provided to the Applicant.
- (G) Every Applicant must have and maintain membership in another options exchange registered under the Exchange Act and that is not registered solely under Section 6(g) of the Exchange Act.
- (d) *Rights of Permit Holder.* No rights shall be conferred upon a Permit Holder except those set forth in the Bylaws or Rules as amended from time to time. A Trading Permit shall not convey any ownership interest in the Exchange. Trading Permits may not be leased and are not transferable except in the event of a change in control or corporate reorganization involving a Permit Holder. In such a case, Permit Holder status may be transferred to a qualified affiliate or successor upon written notice to the Exchange.



(e) *Fees and Charges for Trading Permits.* Trading Permits shall be subject to such fees and charges as are established by the Exchange from time to time pursuant to Rule 2.1 and the Exchange Fee Schedule. The entire fee for a Trading Permit shall be due and payable in accordance with the Exchange Fee Schedule. An organization holding a Trading Permit in its name shall be responsible for paying all fees and charges for that Trading Permit. An individual holding a Trading Permit in his or her name shall be responsible for paying all fees and charges for that Trading Permit.

(f) *Exchange Jurisdiction over Trading Permit Holders.* Every Permit Holder shall be subject to the regulatory jurisdiction of the Exchange under the Exchange Act, the Bylaws and the Rules, including without limitation the Exchange's disciplinary jurisdiction under Chapter 17 of the Rules.

(g) *Types and Terms of Trading Permits.* The Exchange shall have the authority to issue different types of Trading Permits that allow holders to trade one or more products authorized for trading on the Exchange, and to act in one or more trading functions authorized by the Rules. Trading Permits shall be for terms as shall be determined by the Exchange from time to time. The Exchange shall announce the types and terms of the Trading Permits that the Exchange has determined to issue.

(h) *Limiting or Reducing the Number of Types of Trading Permits.* The Exchange shall have the authority to limit or reduce the number of any type of Trading Permit it has determined to issue. The Exchange shall announce any limitation or reduction it imposes pursuant to this subparagraph. In the event the Exchange imposes such a limitation or reduction, the Exchange may not eliminate or reduce the ability to trade one or more product(s) of a person currently trading such product(s), and may not eliminate or reduce the ability to act in one or more trading function(s) of a person currently acting in such trading function(s), unless the Exchange is permitted to do so pursuant to a rule filing submitted to Commission under Section 19(b) of the Act. In no event shall the Exchange act in a manner under this subparagraph that does not comply with the provisions of Section 6(c)(4) of the Act.

(i) *Increasing the Number of Types of Trading Permits.* The Exchange shall have the authority to increase the number of any type of Trading Permit it has determined to issue by issuing additional Trading Permits of that type. The Exchange shall announce any increase it implements pursuant to this subparagraph.

(j) *Objective Standards for Trading Permits.* The Exchange shall have the authority, pursuant to a rule filing submitted to the Commission under Section 19(b) of the Act, to establish objective standards that must be met to be issued, or to have renewed, a Trading Permit.

(k) *Preservation of Exchange's Authority.* Notwithstanding any other provision in this Rule 3.1, as well as any provision in Rule 3.1A, nothing in those rules shall eliminate or restrict the Exchange's authority to delist any product or to take any action (remedial or otherwise) under the Act, the Bylaws and the Rules, including without limitation the Exchange's authority to take disciplinary or market performance actions against a person

with respect to which the Exchange has jurisdiction under the Act, the Bylaws and the Rules.

[Adopted December 10, 2009; Amended June 17, 2010 (SR-C2-2010-002); Amended September 30, 2010 (SR-C2-2010-004); Amended January 3, 2011 (SR-C2-2011-02)]

**Rule 3.2. Denial of and Conditions to Being a Permit Holder or an Associated Person**

(a) The Exchange may deny or condition an Applicant (as defined in Rule 3.1(c)(2)) from becoming a Permit Holder or a person from becoming associated with a Permit Holder for the same reasons that the Commission may deny or revoke a broker-dealer registration and for those reasons required or allowed under the Exchange Act.

(b) The Exchange also may deny or condition an Applicant from becoming a Permit Holder or a person from becoming associated with a Permit Holder when the applicant:

(1) is a broker-dealer and (A) has a net worth (excluding personal assets) below \$25,000 if the applicant is an individual, (B) has a net worth (excluding personal assets) below \$50,000 if the applicant is an organization, (C) has financial difficulties involving an amount that is more than 5% of the applicant's net worth, or (D) has a pattern of failure to pay just debts;

(2) is unable satisfactorily to demonstrate a capacity to adhere to all applicable Exchange, Commission, Clearing Corporation, and Federal Reserve Board policies, rules, and regulations, including those concerning record-keeping, reporting, finance, and trading procedures;

(3) would bring the Exchange into disrepute; or

(4) for such other cause as the Exchange reasonably may decide, including failure of any required qualification examinations.

(c) The Exchange may determine not to permit a Permit Holder or a person associated with a Permit Holder to continue being a Permit Holder (or associated person) or may condition such continuance as a Permit Holder (or association) if the Permit Holder or associated person:

(1) fails to meet any of the qualification requirements for being a Permit Holder or associated person after approval;

(2) fails to meet any condition placed by the Exchange on being a Permit Holder or associated person; or

(3) violates any agreement with the Exchange.

(d) Any decision made by the Exchange pursuant to this Rule must be consistent with both the provisions of this Rule and the provisions of the Exchange Act.

(e) Any applicant who has been denied from becoming a Permit Holder (associated person) or has condition(s) imposed on becoming a Permit Holder (associated person) pursuant to paragraph (a) or (b) of this Rule, and any Permit Holder (associated person) who is not permitted to continue being a Permit Holder (associated person) or whose continuance as a Permit Holder (associated person) is conditioned pursuant to paragraph (c) of this Rule, may appeal the Exchange's decision under Chapter 19. No determination of the Exchange to discontinue or condition a Permit Holder (associated person) pursuant to paragraph (c) of this Rule shall take effect until the review procedures under Chapter 19 have been exhausted or the time for review has expired.

(f) Without prior Commission approval, the Exchange or any entity with which it is affiliated shall not directly acquire or maintain an ownership interest in an Exchange Permit Holder. In addition, without prior Commission approval, no Permit Holder shall be or become affiliated with (i) the Exchange; or (ii) any affiliate of the Exchange. Nothing herein shall prohibit a Permit Holder from (i) acquiring or holding an equity interest in the CBSX LLC; or (ii) being affiliated with OneChicago, LLC, provided the Exchange's or any Exchange affiliate's proportionate share of OneChicago, LLC's gross revenues does not exceed 5% of the Exchange (or the relevant affiliate's) gross revenue.

[Adopted December 10, 2009]

### **Rule 3.3. Persons Associated with Permit Holder**

(a) Persons associated with Permit Holders shall be bound by the Bylaws and Rules of the Exchange and of the Clearing Corporation. The Exchange may bar a person from becoming or continuing to be associated with a Permit Holder if such person does not agree in writing, in a manner and form prescribed by the Exchange, to furnish the Exchange with information with respect to such person's relationship and dealings with the Permit Holder, and information reasonably related to such person's other securities business, as may be required by the Exchange, and to permit the examination of its books and records by the Exchange to verify the accuracy of any information so supplied.

(b) Each associated person of a Permit Holder that is required to be disclosed on Exchange Act Form BD as a direct owner or executive officer is required to submit to the Exchange an application for approval to become associated with the Permit Holder in that capacity. No person may become associated with a Permit Holder in the capacity of a direct owner or executive officer that is required to be disclosed on Form BD unless and until the Exchange approves that association.

(c) A claim of any associated person required to be approved by the Exchange pursuant to paragraph (b) of this Rule against the Permit Holder with which that person is associated shall be subordinate in right of payment to customers and other Permit Holders.

[Adopted December 10, 2009; Amended June 17, 2010 (SR-C2-2010-002)]

**Rule 3.4. Qualification and Registration**

*(a) Registration of Permit Holders and Associated Persons Engaged in the Securities Business.*

(1) Permit Holders that are individuals (“PHI”) and associated persons of Permit Holders engaged or to be engaged in the securities business of a Permit Holder shall be registered with the Exchange in the category of registration appropriate to the function to be performed in a form and manner prescribed by the Exchange. Before the registration can become effective, the PHI or individual associated person shall pass a qualification examination appropriate to the category of registration in a form and manner prescribed by the Exchange and submit any required registration and examination fees. A Permit Holder shall not maintain a registration with the Exchange for any person (1) who is no longer active in the Permit Holder’s securities business or (2) who is no longer functioning in the registered capacity; or (3) where the sole purpose is to avoid an examination requirement. A Permit Holder shall not make application for the registration of any person where there is no intent to employ that person in the Permit Holder’s securities business. A Permit Holder may, however, maintain or make application for the registration of an individual who performs legal, compliance, internal audit, back-office operations, or similar responsibilities for the Permit Holder, or a person who performs administrative support functions for registered personnel, or a person engaged in the securities business of a foreign securities affiliate or subsidiary of the Permit Holder.

*(2) Persons Exempt from Registration.* The following PHIs and individual associated persons of Permit Holders are exempt from the registration requirements set forth in paragraph (1):

(A) individual associated persons whose functions are solely and exclusively clerical or ministerial;

(B) PHIs and individual associated persons who are not actively engaged in the securities business;

(C) individual associated persons whose functions are related solely and exclusively to the Permit Holder’s need for nominal corporate officers or for capital participation;

(D) individual associated persons that are restricted from accessing the Exchange and that do not engage in the securities business of the Permit Holder relating to activity that occurs on the Exchange; or

(E) individual associated persons whose functions are related solely and exclusively to:

- (i) transactions in commodities;
- (ii) transactions in security futures; and/or
- (iii) effecting transactions on the floor of another national securities exchange and who are registered as floor members with such exchange.

(b) *Financial/Operations Principal.* Each Permit Holder subject to Exchange Act Rule 15c3-1 shall designate a Financial/Operations Principal. The duties of a Financial/Operations Principal shall include taking appropriate actions to assure that the Permit Holder complies with applicable financial and operational requirements under the Rules and the Exchange Act, including but not limited to those requirements relating to the submission of financial reports and the maintenance of books and records. Each Financial/Operations Principal is required to have successfully completed the Financial and Operations Principal Examination (Series 27 Exam). Each Financial/Operations Principal designated by a Permit Holder shall be registered in that capacity with the Exchange in a form and manner prescribed by the Exchange. A Financial/Operations Principal of a Permit Holder may be a full-time employee, a part-time employee or independent contractor of the Permit Holder. Permit Holders for which the Exchange is the Designated Examining Authority (“DEA”) must provide prompt written notice to the Exchange for each person designated as a Financial/Operations Principal reporting whether such person is a full-time employee, part-time employee, independent contractor or has any outside business affiliations.

(c) *Chief Compliance Officer.* Each Permit Holder shall designate a Chief Compliance Officer on Schedule A of Form BD. An individual designated as a Chief Compliance Officer is required to register with the Exchange and pass the appropriate heightened qualification examination(s) as prescribed by the Exchange. A person who has been designated as a Chief Compliance Officer on Schedule A of Form BD for at least two years immediately prior to January 1, 2002, and who has not been subject within the last ten years to any statutory disqualification as defined in Section 3(a)(39) of the Act; a suspension; or the imposition of a fine of \$5,000 or more for a violation of any provision of any securities law or regulation, or any agreement with, rule or standard of conduct of any securities governmental agency, securities self-regulatory organization, or as imposed by any such regulatory or self-regulatory organization in connection with a disciplinary proceeding shall be required to register in the category of registration appropriate to the function to be performed as prescribed by the Exchange, but shall be exempt from the requirement to pass the heightened qualification examination as prescribed by the Exchange.

(d) *Registration Required Under Chapter IX.* Individual associated persons of a TPH organization that conducts a public customer business must also comply with the registration requirements set forth in Chapter IX. These additional registration categories include: (i) Registered Options Principal; and (ii) Registered Representative.

(e) *Requirement for Examination on Lapse of Registration.* Any person whose registration has been revoked by the Exchange as a disciplinary sanction or whose most recent registration has been terminated for two or more years immediately preceding the date of receipt of the Exchange of a new application shall be required to pass a qualification examination appropriate to the category of registration as prescribed by the Exchange.

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**.01** Each individual required to register under this rule shall, electronically submit to the FINRA's Web Central Registration Depository ("CRD") System a Uniform Application for Securities Industry Registration ("Form U4") and any required amendments to Form U-4.

**.02** Any Permit Holder that discharges or terminates the employment or retention of an individual required to register under this Rule shall comply with the termination filing requirements set forth in Rule 9.3(b) and Rule 9.3(c).

**.03** Each individual required to register under this Rule is required to satisfy the continuing education requirements set forth in Rule 9.3A and any other applicable continuing education requirements as prescribed by the Exchange.

**.04** The Exchange may, in exceptional cases and where good cause is shown, waive the applicable qualification examination and accept other standards as evidence of an applicant's qualifications for registration. Advanced age or physical infirmity will not individually of themselves constitute sufficient grounds to waive a qualification examination. Experience in fields ancillary to the securities business may constitute sufficient grounds to waive a qualification examination.

**.05** For purposes of paragraph (a)(1) above, the Exchange shall consider an individual Permit Holder or an individual associated person to be engaged in the securities business of a Permit Holder if:

(a) the individual Permit Holder or individual associated person engages in one or more of the following activities in the capacity of a Permit Holder or on behalf of the associated Permit Holder:

- (1) proprietary trading;
- (2) market-making;
- (3) effecting transactions on behalf of a broker-dealer;
- (4) supervision or monitoring of proprietary trading, market-making, or brokerage activities;

(5) supervision or training of those engaged in proprietary trading, market-making, or brokerage activities with respect to those activities; or

(b) the individual Permit Holder or individual associated person engages in the management of one or more of the activities enumerated in subparagraphs (1) through (5) above as an officer, partner or a director.

**.06** Each Permit Holder must register with the Exchange in a heightened capacity each individual acting in any of the following capacities: (i) officer; (ii) partner; (iii) director; (iv) supervisor of proprietary trading, market-making or brokerage activities; and/or (v) supervisor of those engaged in proprietary trading, market-making or brokerage activities with respect to those activities. Each Permit Holder must register with the Exchange at least two individuals acting in one or more of the capacities described in (i)-(v) above. The Exchange may waive this requirement if a Permit Holder demonstrates conclusively that only one individual acting in one or more of the capacities described in (i) through (v) above should be required to register. In addition, a Permit Holder that conducts proprietary trading only and has 25 or fewer registered persons shall instead be required to have a minimum of one officer or partner who is registered in this capacity.

For purposes of this Interpretation and Policy .06 to Rule 3.4, a Permit Holder shall be considered to conduct only proprietary trading if the Permit Holder has the following characteristics:

(a) The Permit Holder is not required by Section 15(b)(8) of the Exchange Act to become a FINRA member but is a member of another registered securities exchange not registered solely under Section 6(g) of the Exchange Act;

(b) All funds used or proposed to be used by the Permit Holder are the Permit Holder's own capital, traded through the Permit Holder's own accounts;

(c) The Permit Holder does not, and will not, have customers; and

(d) All persons registered on behalf of the Permit Holder acting or to be acting in the capacity of a trader must be owners of, employees of, or contractors to the Permit Holder.

**.07** (a) An individual Permit Holder or individual associated person who:

(1) is engaged in proprietary trading, market-making and/or effecting transactions on behalf of a broker-dealer is required to register and qualify as a Securities Trader (TD) in WebCRD;

(2) (i) supervises or monitors proprietary trading, market-making and/or brokerage activities for broker-dealers; (ii) supervises or trains those engaged in proprietary trading, market-making and/or effecting transactions on behalf of a broker-dealer, with respect to those activities; and/or (iii) is an officer, partner or director of a Permit

Holder is required to register and qualify as a Securities Trader Principal (TP) in WebCRD and satisfy the prerequisite registration and qualification requirements; and

(3) is a Chief Compliance Officer (or performs similar functions) for a Permit Holder that engages in proprietary trading, market-making or effecting transactions on behalf of a broker-dealer is required to register and qualify as a Securities Trader Compliance Officer (CT) in WebCRD and satisfy the prerequisite registration and qualification requirements.

(b) The following sets forth the qualification requirements for each of the required registration categories described in paragraph (a) to Interpretation and Policy .07:

CATEGORY OF REGISTRATION	QUALIFICATION EXAMINATION(S)	ALTERNATIVE ACCEPTABLE QUALIFICATIONS
Securities Trader (TD)	Series 57	
Securities Trader Principal (TP)**	Series 24	General Securities Sales Supervisor Registration and General Securities Principal - Sales Supervisor Module Registration (Series 9/10 and Series 23)*
Securities Trader Compliance Officer (CT)	Series 14	General Securities Principal Registration (GP) or Securities Trader Principal (TP) (Series 24)

\*Because the Series 23 is not available in WebCRD, each applicant must provide documentation of a valid Series 23 license upon request for the Series 24 registration in WebCRD.

\*\*Securities Trader Principals' (TP) supervisory authority is limited to supervision of the securities trading functions of TPHs, as described in paragraph (a)(2) of Interpretation and Policy .07 to Rule 3.4 and officers, partners, and directors of a Permit Holder.

**.08** An individual Permit Holder or individual associated person who is required to register pursuant to Rule 3.4 must satisfy all registration and qualification requirements in WebCRD prior to acting in such registered capacity on behalf of a Permit Holder.

[Adopted December 10, 2009; Amended June 17, 2010 (SR-C2-2010-002); Amended April 21, 2014 (SR-C2-2014-002)]



**Rule 3.5. Permit Holders and Persons Associated with a Permit Holder Who Are or Become Subject to a Statutory Disqualification**

(a) The Exchange may determine in accordance with the provisions of this Rule not to allow a Permit Holder or associated person of a Permit Holder to continue being a Permit Holder or associated with a Permit Holder, or to condition such continuance as a Permit Holder or associated person, if the Permit Holder or associated person is or becomes subject to a statutory disqualification under the Exchange Act.

(b) If a Permit Holder or associated person of a Permit Holder who is or becomes subject to a statutory disqualification under the Exchange Act wants to continue being a Permit Holder or associated with a Permit Holder, the Permit Holder or associated person must, within 10 days of becoming subject to a statutory disqualification, submit an application to the Exchange, in a form and manner prescribed by the Exchange, seeking to continue being a Permit Holder or associated with a Permit Holder notwithstanding the statutory disqualification. The application shall be accompanied by copies of all documents that are contained in the record of the underlying proceeding that triggered the statutory disqualification.

(c) Following the receipt of an application submitted pursuant to paragraph (b) of this Rule, or in the event the Exchange becomes aware that a Permit Holder or associated person of a Permit Holder is subject to a statutory disqualification and has failed to submit an application pursuant to paragraph (b) of this Rule within the required time period, the Exchange shall appoint a panel composed of three Permit Holders or persons associated with Permit Holders to conduct a hearing concerning the matter pursuant to paragraph (f) of this Rule.

(d) Any person who is the subject of a proceeding under this Rule is entitled to be accompanied, represented, and advised by counsel at all stages of the proceeding.

(e) Any person who is the subject of a proceeding under this Rule and any Permit Holder or associated person of a Permit Holder shall promptly submit any information requested by the Exchange or hearing panel in connection with the proceeding.

(f) The hearing panel shall hold a hearing to determine whether to permit the Permit Holder or associated person of a Permit Holder who is the subject of a proceeding under this Rule to continue being a Permit Holder or associated with a Permit Holder, and if so, whether to condition such continuance as a Permit Holder or associated person. The hearing shall be held 14 or more days following the receipt of an application, or the initiation of a proceeding, pursuant to paragraph (c) of this Rule. The Exchange shall notify the subject of the proceeding in writing of the date, time, and location of the hearing. Both the subject of the proceeding and Exchange staff will be afforded an opportunity to present relevant information, arguments, and witnesses during the hearing. The hearing panel shall regulate the conduct of the hearing, and formal rules of evidence shall not apply. The subject of the proceeding shall be required to attend the hearing, and the Exchange or hearing panel may require any Permit Holder or associated person of a Permit Holder to testify at the hearing. A verbatim record of the hearing shall be kept.

(g) Following the hearing, the hearing panel shall prepare a decision. Failure to timely file an application pursuant to paragraph (b) of this Rule is a factor that may be taken into consideration in rendering the decision. The decision shall be in writing and set forth the basis for the decision. The decision shall be promptly provided to the subject of the proceeding under this Rule and to the Board. The Board or its designee may determine within 7 days after the issuance of the hearing panel's decision to order review of the decision. If the Board or its designee does not order review of the hearing panel's decision, the hearing panel's decision shall become the final decision of the Exchange.

(h) If the Board or its designee orders review of the hearing panel's decision, the review shall be conducted by the Board or its designee or a panel thereof composed of at least 3 members of the Board. Unless the Board or its designee shall decide to open the record for the introduction of additional information or argument, any determination to order review of the hearing panel's decision and any review of the decision shall be based solely on the record of the proceeding. The decision of the Board or its designee shall be in writing, shall be promptly provided to the subject of the proceeding, and shall be the final decision of the Exchange.

(i) No determination to discontinue or condition a person as a Permit Holder or associated person pursuant to this Rule shall take effect until the review procedures under paragraph (h) of this Rule have been exhausted or the time for review has expired.

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**.01** The Exchange may waive the provisions of this Rule when a proceeding is pending before another self-regulatory organization to determine whether to permit a Permit Holder or an associated person of a Permit Holder to continue being a Permit Holder or associated with the Permit Holder notwithstanding a statutory disqualification. In the event the Exchange determines to waive the provisions of this Rule with respect to a Permit Holder or associated person, the Exchange shall determine whether it will concur in any Exchange Act Rule 19h-1 filing made by another self-regulatory organization with respect to the Permit Holder or associated person.

**.02** If a Permit Holder or an associated person of a Permit Holder is or becomes subject to a statutory disqualification under the Exchange Act, the Permit Holder shall immediately provide written notice to the Exchange of the name of the Permit Holder or associated person, the associated person's capacity with the Permit Holder, and the nature of the statutory disqualification.

**.03** The Exchange may waive the hearing provisions of Rule 3.5 with respect to an associated person or Permit Holder if the Exchange intends to grant the associated person's application for continued association or the Permit Holder's application to continue holding a Trading Permit and either:

- (i) Exchange Act Rule 19h-1(a)(2) or Exchange Act Rule 19h-1(a)(3) does not require the Exchange to make a notice filing with the Commission to permit the

associated person to continue in association with a Permit Holder or to permit the Permit Holder to continue holding a Trading Permit; or

(ii) the Exchange determines that it is otherwise appropriate to waive the hearing provisions of Rule 3.5 under the circumstances.

[Adopted December 10, 2009; Amended September 30, 2010 (SR-C2-2010-004)]

### **Rule 3.6. Dissolution and Liquidation of Permit Holders**

Every Permit Holder shall promptly provide written notice to the Exchange of any adoption of a plan of liquidation or dissolution of the Permit Holder and of any actual liquidation or dissolution of the Permit Holder. Upon receipt of such a notice, the Permit Holder may be suspended in accordance with Chapter 16 of the Rules.

[Adopted December 10, 2009]

### **Rule 3.7. Obligations of Terminating Permit Holders**

Each terminating Permit Holder shall promptly (i) make any outstanding filings required under Exchange Rules, and (ii) pay any outstanding fees, assessments, charges, fines, or other amounts due to the Exchange, the Commission, or the Securities Investor Protection Corporation.

[Adopted December 10, 2009]

### **Rule 3.8. Responsible Person**

Each organization that is the holder of a Trading Permit must designate an individual as the Responsible Person (as defined in Rule 1.1) for the Permit Holder. The Responsible Person must be affiliated with the Permit Holder.

[Adopted December 10, 2009]

### **Rule 3.9. Integrated Billing System**

Every Permit Holder must designate a Clearing Participant for the payment of the Permit Holder's Exchange invoices and vendor invoices for Exchange-related services designated by the Exchange by means of the Exchange's integrated billing system ("IBS"). The designated Clearing Participant shall pay to the Exchange on a timely basis any amount that is not disputed pursuant to IBS procedures by the Permit Holder who is directly involved. Such payments shall be drafted by the Exchange against the designated Clearing Participant's account at the Clearing Corporation. The Clearing Corporation shall have no liability in connection with its forwarding to the Exchange each month a check representing the total amount that the Exchange advises the Clearing Corporation is owed to the Exchange.

[Adopted December 10, 2009]

**Rule 3.10. Letters Of Guarantee and Authorization**

(a) Each Permit Holder shall provide a letter of guarantee or authorization for the Permit Holder's trading activities on the Exchange from a Clearing Participant in a form and manner prescribed by the Exchange.

(b) A Permit Holder may not engage in any trading activities on the Exchange if an effective letter of guarantee or authorization required to engage in those activities is not on file with the Exchange. If a Permit Holder does not have an effective letter of guarantee or authorization on file with the Exchange, the Exchange may prevent access and connectivity to the Exchange by that Permit Holder.

(c) Letters of guarantee and authorization filed with the Exchange shall remain in effect until a written notice of revocation has been filed with the Permit Holder Department and the revocation becomes effective or until such time that the letter of guarantee or authorization otherwise becomes invalid pursuant to Exchange rules. A written notice of revocation shall become effective as soon as the Exchange is able to process the revocation. A revocation shall in no way relieve a Clearing Participant of responsibility for transactions guaranteed prior to the effectiveness of the revocation.

(d) If the Clearing Corporation restricts the activities of a Clearing Participant or suspends a Clearing Participant as a Clearing Member of the Clearing Corporation, the Exchange may take action as necessary to give effect to the restriction or suspension. For example, if the Clearing Corporation restricts transactions cleared by a Clearing Participant to "closing only" transactions, the Exchange may similarly restrict transactions on the Exchange for clearance by that Clearing Participant as a Clearing Member of the Clearing Corporation to "closing only" transactions. Similarly, if the Clearing Corporation suspends a Clearing Participant, the Exchange may prevent access and connectivity to the Exchange by the suspended Clearing Participant.

(e) If a Clearing Participant's status as a Clearing Member of the Clearing Corporation or as an Exchange Permit Holder is terminated, all letters of guarantee and authorization on file with the Exchange from that Clearing Participant shall no longer be valid, effective as soon as the Exchange is able to process the invalidation of these letters of guarantee and authorization.

(f) If a Clearing Participant has been suspended as a Clearing Member of the Clearing Corporation or as an Exchange Permit Holder, all existing letters of guarantee and authorization from that Clearing Participant shall be invalid during the period of the suspension, effective as soon as the Exchange is able to process the invalidation of those letters of guarantee and authorization.

(g) The invalidation of a letter of guarantee or authorization shall in no way relieve the Clearing Participant that issued the letter of guarantee or authorization of responsibility from transactions guaranteed prior to the effectiveness of the invalidation.

(h) If a Permit Holder does not have a required letter of guarantee or authorization for period of ninety consecutive days, the Permit Holder's trading permit(s) and status as a Permit Holder shall automatically be terminated.

[Adopted December 10, 2009; Amended April 19, 2013 (SR-C2-2013-018)]

### **Rule 3.11 C2 Pledge**

In a manner and form prescribed by the Exchange, each Applicant, Permit Holder, and associated person required to be approved by the Exchange pursuant to Rule 3.3(b) shall pledge to abide by the Rules of the Exchange, as from time to time amended, and by all circulars, notices, directives, or decisions adopted pursuant to or made in accordance with the Rules.

[Adopted December 10, 2009]

### **Rule 3.12 Maintaining Current Address**

Each Permit Holder shall maintain with the Exchange its current (i) business address and (ii) address where notices may be served.

[Adopted December 10, 2009]

### **Rule 3.13 Educational Classes**

Trading Permit Holders and persons associated with Trading Permit Holders are required to attend such educational classes as the Exchange may require from time to time. Failure to attend Exchange mandated continuing educational classes may subject Trading Permit Holders and persons associated with Trading Permit Holders to sanctions pursuant to the Exchange's Minor Rule Violation Plan provided in Exchange Rule 17.50. Any action taken hereunder shall not preclude further disciplinary action under Chapter XVII of the Rules.

[Adopted November 3, 2010 (SR-C2-2010-008)]

### **Rule 3.14 Effectiveness of a Permit Holder**

(a) Each applicant to be a Permit Holder must become effective in that status within 90 days of the date of the applicant's approval for that status.

(b) An applicant to be a Permit Holder shall become an effective Permit Holder upon (i) satisfying the applicable requirements to obtain a Trading Permit and (ii) release of a Trading Permit to that Permit Holder by the Registration Services Department.

[Adopted June 4, 2015 (SR-C2-2015-011)]

**Rule 3.15. Sponsored Users**

(a) General. This Rule governs electronic access for the entry and execution of orders by Sponsored Users with authorized access to the System and the applicable requirements that Sponsored Users and Sponsoring Participants are required to satisfy in order to engage in a Sponsoring Participant/Sponsored User relationship. For purposes of this Rule, a “Sponsored User” is a person or entity that has entered into a sponsorship arrangement with a Sponsoring Participant for purposes of receiving access to the System.

(b) Sponsored User. A Sponsored User may obtain and maintain authorized access to the System, only if such access is authorized in advance by one or more Sponsoring Participants as follows:

(1) Sponsored Users must enter into a sponsorship arrangement with a “Sponsoring Participant,” which is defined as a Permit Holder that agrees to sponsor the Sponsored User’s access to the System. The sponsorship arrangement consists of three separate components:

(A) The Sponsored User must enter into and maintain a customer agreement(s) with its Sponsoring Participant(s), establishing a proper relationship(s) and account(s) through which the Sponsored User will be permitted to trade on the System.

(B) For a Sponsored User to obtain and maintain authorized access to the System, the Sponsored User and its Sponsoring Participant must enter into a written agreement that incorporates the following sponsorship provisions:

(i) The Sponsored User and its Sponsoring Participant must have entered into and maintained a Sponsored User Agreement with the Exchange.

(ii) The Sponsoring Participant acknowledges and agrees that:

(I) all orders entered by its Sponsored User, any person acting on behalf of such Sponsored User ( *e.g.*, employees or agents of the Sponsored User), or any person acting in the name of such Sponsored User ( *e.g.*, customers of the Sponsored User) and any executions occurring as a result of such orders are binding in all respects on the Sponsoring Participant; and

(II) the Sponsoring Participant is responsible for any and all actions taken by such Sponsored User and any person acting on behalf of or in the name of such Sponsored User.

(iii) The Sponsoring Participant agrees that it will be bound by and comply with the Exchange’s Certificate of Incorporation, Bylaws, Rules and

procedures, as well as any other equivalent documents pertaining to the System (collectively, the “Exchange Rules”), and the Sponsored User agrees that it will be bound by and comply with the Exchange Rules as if the Sponsored User were a Permit Holder.

(iv) The Sponsored User agrees that it will maintain, keep current and provide to the Sponsoring Participant a list of persons who have been granted access to the System on behalf of the Sponsored User (“Authorized Traders”).

(v) The Sponsored User agrees that it will familiarize its Authorized Traders with all of the Sponsored User’s obligations under this Rule and will assure that they receive appropriate training prior to any use of or access to the System.

(vi) The Sponsored User agrees that it will not permit anyone other than Authorized Traders to use or obtain access to the System.

(vii) The Sponsored User agrees that it will take reasonable security precautions to prevent unauthorized use of or access to the System, including unauthorized entry of information into the System, or the information and data made available therein. The Sponsored User understands and agrees that it is responsible for any and all orders, trades and other messages and instructions entered, transmitted or received under identifiers, passwords and security codes of the Sponsored User and any person acting on behalf of or in the name of such Sponsored User, and for the trading and other consequences thereof.

(viii) The Sponsored User acknowledges its responsibility for establishing adequate procedures and controls that permit it to effectively monitor use of and access to the System by any person acting on behalf of or in the name of Sponsored User for compliance with the terms of these sponsorship provisions.

(ix) The Sponsored User agrees that it will pay when due all amounts, if any, payable to the Sponsoring Participant, the Exchange or any other third parties that arise from the Sponsored User’s use of or access to the System. Such amounts include, but are not limited to, applicable Exchange and regulatory fees.

(C) The Sponsored User and Sponsoring Participant must provide the Exchange with a Sponsored User Agreement acknowledging and agreeing to the requirements of this Rule, including an acknowledgement by the Sponsoring Participant of its responsibility for the orders, executions and actions of its Sponsored User. To the extent the Sponsoring Participant is not a clearing firm, the Sponsoring Participant’s clearing firm, which must be a Permit Holder, must provide the Exchange with a Letter of Authorization, which specifically accepts responsibility for the clearance of the Sponsored User’s transactions. Upon

approval by the Clearing Corporation, if applicable, and filing with the Exchange, an existing Letter of Authorization may be amended to include the Sponsoring Participant/Sponsored User relationship. Sponsored User Agreements and Letters of Authorization filed with the Exchange will remain in effect until a written notice of revocation has been filed with the Exchange. If such a written notice of revocation has not been filed with the Exchange at least one hour prior to the opening of trading on the particular business day, such revocation shall not become effective until the close of trading on such day. A revocation shall in no way relieve the Sponsoring Participant or, if applicable, the Sponsored Participant's clearing firm of responsibility for transactions guaranteed prior to the effective date of the revocation.

(2) Each Sponsoring Participant must maintain an up-to-date list of persons who may obtain access to the System on behalf of its Sponsored Users (*i.e.*, Authorized Traders) and must provide that list to the Exchange upon request. In addition, each Sponsoring Participant must have reasonable procedures to ensure that Sponsored User and all of its Sponsored Users' Authorized Traders: (i) maintain the physical security of the Exchange and the System, which includes, but is not limited to, the equipment for accessing the facilities of the Exchange and the System, to prevent the unauthorized use or access to the Exchange or the System, including the unauthorized entry of information into the Exchange or the System, or the information and data made available therein; and (ii) otherwise comply with the Exchange Rules. If the Exchange determines that a Sponsored User or an Authorized Trader has caused a Sponsoring Participant to violate the Exchange Rules, the Exchange may direct the Sponsoring Participant to suspend or withdraw the Sponsored User's status as a Sponsored User or the person's status as an Authorized Trader and, if so directed, the Sponsoring Participant must suspend or withdraw such status.

[Adopted December 10, 2009]

#### **CHAPTER 4** **Business Conduct**

The rules contained in CBOE Chapter IV, as such rules may be in effect from time to time, shall apply to C2 and are hereby incorporated into this Chapter. C2 Participants shall comply with CBOE Chapter IV as if such rules were part of the C2 Rules. Unless the context dictates otherwise, the following terms, or any variations of these terms, from CBOE Chapter IV shall have the following meanings for purposes of this Chapter: "Exchange" and "CBOE" shall mean C2; "Trading Permit Holder" (*i.e.*, CBOE Trading Permit Holder) shall mean "Participant" or "Permit Holder"; "trading crowd" shall mean "Exchange"; and "Clearing Firms" shall mean "Clearing Participants."

Notwithstanding the above paragraph, with respect to applicability to C2 only, Interpretation and Policy .06 to CBOE Rule 4.11 is not applicable to C2.



**...Supplemental Rules to C2 Chapter 4:**

(a) Proxy Voting: In addition to the CBOE Chapter IV rules incorporated by reference, C2 also has the following rule pertaining to proxy voting.

(1) No Permit Holder shall give a proxy to vote stock that is registered in its name, unless: (i) such Permit Holder is the beneficial owner of such stock; (ii) pursuant to the written instructions of the beneficial owner; or (iii) pursuant to the rules of any national securities exchange or association of which it is a member provided that the records of the Permit Holder clearly indicate the procedure it is following.

(2) Notwithstanding the foregoing, a Permit Holder that is not the beneficial owner of a security registered under Section 12 of the Exchange Act is prohibited from granting a proxy to vote the security in connection with a shareholder vote on the election of a member of the board of directors of an issuer (except for a vote with respect to uncontested election of a member of the board of directors of any investment company registered under the Investment Company Act of 1940), executive compensation, or any other significant matter, as determined by the Commission, by rule, unless the beneficial owner of the security has instructed the Permit Holder to vote the proxy in accordance with the voting instructions of the beneficial owner.

[Adopted December 10, 2009; Amended June 17, 2010 (SR-C2-2010-002); Amended February 16, 2011 (SR-C2-2011-005); Amended September 4, 2012 (SR-C2-2012-031)]

**CHAPTER 5  
Securities Dealt In**

The rules contained in CBOE Chapter V, as such rules may be in effect from time to time, shall apply to C2 and are hereby incorporated into this Chapter. C2 Participants shall comply with CBOE Chapter V as if such rules were part of the C2 Rules. Unless the context dictates otherwise, the following terms, or any variations of these terms, from CBOE Chapter V shall have the following meanings for purposes of this Chapter: “Exchange” and “CBOE” shall mean C2; and, “Trading Permit Holder” (i.e., CBOE Trading Permit Holder) shall mean “Participant” or “Permit Holder.”

[Adopted December 10, 2009; Amended June 17, 2010 (SR-C2-2010-002)]

**CHAPTER 6  
Trading on the Exchange**

**Section A: General**

**Rule 6.1. Days and Hours of Business**

The hours during which option transactions may be made on the Exchange shall be from 8:30 a.m. Chicago Time to 3:00 p.m. Chicago Time except for option contracts on Index Options, Index Portfolio Shares, Index Portfolio Receipts, and Trust Issued Receipts which may remain open for trading beyond 3:00 p.m. but in no case later than 3:15 p.m. Chicago Time, as designated by the Exchange.

*. . . Interpretations and Policies:*

**.01** The Board of Directors has resolved that, except under unusual conditions as may be determined by the Board or its designee, hours during which transactions in options on individual stocks may be made on the Exchange shall correspond to the normal hours for business established by the exchanges currently trading the stocks underlying Exchange options.

**.02** The Board of Directors has determined that the Exchange will not be open for business on New Year's Day, Martin Luther King, Jr. Day, Presidents' Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day or Christmas Day. The Board has also determined that, when any holiday observed by the Exchange falls on a Saturday, the Exchange will not be open for business on the preceding Friday, and that when any holiday observed by the Exchange falls on a Sunday, the Exchange will not be open for business on the following Monday, unless unusual business conditions exist at the time.

**.03** On the last trading day, transactions in expiring Quarterly Index Expirations (QIXs) may be effected on the Exchange between the hours of 8:30 a.m. and 3:00 p.m. (Chicago time).

[Adopted December 10, 2009; Amended July 30, 2013 (SR-C2-2013-027); Amended May 9, 2015 (SR-C2-2015-008)]

**Rule 6.2. Unit of Trading**

The unit of trading in each series of options dealt in on the Exchange shall be the unit of trading established for that series by the Clearing Corporation pursuant to the Rules of the Clearing Corporation and the agreements of the Exchange with the Clearing Corporation.

[Adopted December 10, 2009]

**Rule 6.3. Meaning of Premium Bids and Offers**

(a) *General.* Except as provided in paragraph (b), bids and offers shall be expressed in terms of dollars per unit of the underlying security. (*e.g.*, a bid of "7" shall represent a bid of \$700 for an option contract having a unit of trading consisting of 100 shares of an underlying security, or a bid of \$770 for an option contract having a unit of trading consisting of 110 shares of an underlying security.)

(b) *Special cases.* Bids and offers for an option contract for which an adjusted unit of trading has been established in accordance with Rule 5.7 shall be expressed in terms of dollars per .01 part of the total securities and/or other property constituting such adjusted unit of trading. (e.g., an offer of “6” shall represent an offer of \$600 on an option contract having a unit of trading consisting of 100 shares of an underlying security plus 10 rights.)

(c) *Mini-options.* Bids and offers for an option contract overlying 10 shares shall be expressed in terms of dollars per 1/10th part of the total value of the contract. An offer of “.50” shall represent an offer of \$5.00 for an option contract having a unit of trading consisting of 10 shares.

[Adopted December 10, 2009; Amended March 18, 2013 (SR-C2-2013-014)]

#### **Rule 6.4. Minimum Increments for Bids and Offers**

The Board of Directors may establish minimum quoting increments for options traded on the Exchange. When the Board of Directors determines to change the minimum increments, the Exchange will designate such change as a stated policy, practice, or interpretation with respect to the administration of this Rule within the meaning of subparagraph (3)(A) of subsection 19(b) of the Exchange Act and will file a rule change for effectiveness upon filing with the Commission. Until such time as the Board of Directors makes a change to the minimum increments, the following minimum increments shall apply to options traded on the Exchange:

- (1) If the options series is quoting at less than \$3.00, five (5) cents;
- (2) if the options series is quoting at \$3 or higher, ten (10) cents; and
- (3) The decimal increments for bids and offers for all series of the option classes participating in the Penny Pilot Program are: \$0.01 for all option series quoted below \$3 (including LEAPS), and \$0.05 for all option series \$3 and above (including LEAPS). For QQQQs, IWM, and SPY, the minimum increment is \$0.01 for all option series. The Exchange may replace any option class participating in the Penny Pilot Program that has been delisted with the next most actively-traded, multiply-listed option class, based on national average daily volume in the preceding six calendar months, that is not yet included in the Pilot Program. Any replacement class would be added on the second trading day following January 1, 2017. The Penny Pilot shall expire on June 30, 2017. Also, for so long as SPDR options (SPY) and options on Diamonds (DIA) participate in the Penny Pilot Program, the minimum increments for Mini-SPX Index Options (XSP) and options on the Dow Jones Industrial Average (DJX), respectively, may be \$0.01 for all option series quoting less than \$3 (including LEAPS), and \$0.05 for all option series quoting at \$3 or higher (including LEAPS).
- (4) Except as provided in Rule 6.13, bids and offers on complex orders may be expressed in any increment regardless of the minimum increments otherwise appropriate to the individual legs of the order. Notwithstanding the foregoing

sentence, bids and offers on complex orders in options on the S&P 500 Index (SPX) or on the S&P 100 Index (OEX and XEO), except for box/roll spreads, shall be expressed in decimal increments no smaller than \$0.05 or in any increment, as determined by the Exchange on a class-by-class basis and announced via Regulatory Circular. In addition, the legs of a complex order may be executed in \$0.01 increments.

[Adopted December 10, 2009; Amended December 3, 2010 (SR-C2-2010-009); Amended December 20, 2011 (SR-C2-2011-040); Amended June 28, 2012 (SR-C2-2012-020); Amended December 31, 2012 (SR-C2-2012-045); Amended June 11, 2013 (SR-C2-2013-021); Amended December 12, 2013 (SR-C2-2013-041); Amended June 22, 2014 (SR-C2-2014-010); Amended December 12, 2014 (SR-C2-2014-026); Amended June 17, 2015 (SR-C2-2015-015); Amended June 1, 2016 (SR-C2-2016-007); Amended November 23, 2016 (SR-C2-2016-023)]

## **Section B: Trading**

### **Rule 6.10. Order Types Defined**

One or more of the following order types may be made available on a class-by-class basis. Certain order types may not be made available for all Exchange systems. The classes and/or systems for which the order types shall be available will be as provided in the Rules, as the context may indicate, or as otherwise specified via Regulatory Circular.

(a) *Market Order*. A market order is an order to buy or sell a stated number of option contracts at the best price available at the time of execution.

(b) *Limit Order*. A limit order is an order to buy or sell a stated number of option contracts at a specified price, or better.

(c) *Contingency Order*. A contingency order is a limit or market order to buy or sell that is contingent upon a condition being satisfied while the order is resident within the System.

(1) *All-or-None Order*. An all-or-none order is a market or limit order which is to be executed in its entirety or not at all.

(2) *Market-on-close order*. A market or limit order may be designated a market-on-close order to be executed as close as possible to the closing bell, or during the closing rotation, and should be near to or at the closing price for the particular series of option contracts.

(3) *Stop (stop-loss) order*. A stop order is a contingency order to buy or sell when the market for a particular option contract reaches a specified price on the Exchange. A stop order to buy becomes a market order when the option contract trades or is bid at or above the stop price on the Exchange. A stop order to sell becomes a market order

when the option contract trades or is offered at or below the stop-limit price on the Exchange.

(4) *Stop-limit order.* A stop-limit order is a contingency order to buy or sell when the market for a particular option contract reaches a specified price on the Exchange. A stop order to buy becomes a limit order when the option contract trades or is bid at or above the stop-limit price on the Exchange. A stop-limit order to sell becomes a limit order when the option contract trades or is offered at or below the stop-limit price on the Exchange.

(5) *Fill-or-Kill Order.* A fill-or-kill order is an order which is to be executed in its entirety as soon as it is received, and such order, if not so executed, is to be treated as cancelled.

(6) *Immediate-or-Cancel Order.* An immediate-or-cancel order is a market or limit order which is to be executed in whole or in part as soon as such order is received. Any portion not so executed is to be treated as cancelled.

(7) *Opening Rotation Order.* An opening rotation order is a market or limit order which is to be executed in whole or in part during the opening rotation of a series or not at all. Any portion not so executed is to be treated as cancelled.

(8) *Reserve Order.* A reserve order is a limit order that has both a displayed size as well as an additional non-displayed amount. Both the displayed and non-displayed portions of the reserve order are available for potential execution against incoming orders. If the displayed portion of a reserve order is fully executed, the System will replenish the display portion from reserve up to the size of the original display amount. A new timestamp is created for the replenished portion of the order each time it is replenished from reserve, while the reserve portion retains the time-stamp of its original entry.

(d) *Complex Order.* A complex order is an order of more than one option series components.

(1) *Spread Order.* A spread order is an order to buy a stated number of option contracts and to sell the same number of option contracts, or contracts representing the same number of shares at option, of the same class of options.

(2) *Combination Order.* A combination order is an order involving a number of call option contracts and the same number of put option contracts in the same underlying security. In the case of adjusted option contracts, a combination order need not consist of the same number of put and call contracts if such contracts both represent the same number of shares at option.

(3) *Straddle Order.* A straddle order is an order to buy a number of call option contracts and the same number of put option contracts on the same underlying

security which contracts have the same exercise price and expiration date; or an order to sell a number of call option contracts and the same number of put option contracts on the same underlying security which contracts have the same exercise price and expiration date. (e.g., an order to buy two XYZ July 50 calls and to buy two July 50 XYZ puts is a straddle order.) In the case of adjusted option contracts, a straddle order need not consist of the same number of put and call contracts if such contracts both represent the same number of shares at option.

(4) *Strangle Order*. A strangle order is an order to buy (sell) a number of call option contracts and the same number of put option contracts in the same underlying security, which contracts have the same expiration date (e.g., an order to buy two XYZ June 35 calls and to buy two XYZ June 40 puts).

(5) *Ratio Order*. A spread, straddle or combination order may consist of legs that have a different number of contracts, so long as the number of contracts differs by a permissible ratio. For purposes of this section, a permissible ratio is any ratio that is equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.00).

(6) *Butterfly Spread Order*. A butterfly spread order is an order involving three series of either put or call options all having the same underlying security and time of expiration and, based on the same current underlying value, where the interval between the exercise price of each series is equal, which orders are structured as either (A) a “long butterfly spread” in which two short options in the same series offset by one long option with a higher exercise price and one long option with a lower exercise price or (B) a “short butterfly spread” in which two long options in the same series are offset by one short option with a higher exercise price and one short option with a lower exercise price.

(7) *Box/Roll Spread Order*. Box spread means an aggregation of positions in a long call option and short put option with the same exercise price (“buy side”) coupled with a long put option and short call option with the same exercise price (“sell side”) all of which have the same aggregate current underlying value, and are structured as either: (A) a “long box spread” in which the sell side exercise price exceeds the buy side exercise price or (B) a “short box spread” in which the buy side exercise price exceeds the sell side exercise price.

(8) *Collar Orders and Risk Reversals*. A collar order (risk reversal) is an order involving the sale (purchase) of a call (put) option coupled with the purchase (sale) of a put (call) option in equivalent units of the same underlying security having a lower (higher) exercise price than, and same expiration date as, the sold (purchased) call (put) option.

(e) Time in Force.

(1) *Day*. A day order shall mean for orders so designated, that if after entry into the System, the order is not fully executed, the order (or unexecuted portion thereof) shall remain available for potential display and/or execution until market close, unless canceled by the entering party, after which it shall be returned to the entering party.

(2) *Good Til Cancelled*. A Good Til Cancelled or GTC shall mean for orders so designated, that if after entry into System, the order is not fully executed, the order (or unexecuted portion thereof) shall remain available for potential display and/or execution unless cancelled by the entering party, or until the option expires, whichever comes first.

(f) *Attributable Order*. An attributable order is a market or limit order which displays the user firm ID for purposes of electronic trading on the Exchange. Use of attributable orders is voluntary. Attributable orders may not be available for all Exchange systems. The Exchange will issue a Regulatory Circular specifying the systems (e.g. Complex Order Auction) for which the attributable order-type shall be available.

(g) *Intermarket Sweep Order*. An intermarket sweep order (ISO) shall have the meaning set forth in Section E of this Chapter 6. ISOs that are not designated as immediate or cancel shall book if not executed upon receipt.

(h) *AIM Sweep Order*. An AIM sweep order (AIM ISO) is the transmission of two orders for crossing pursuant to Rule 6.51 without regard for better priced Protected Bids/Offers (as defined in Section E of this Chapter 6) because the Trading Permit Holder transmitting the AIM ISO to the Exchange has, simultaneously with the routing of the AIM ISO, routed one or more ISOs, as necessary, to execute against the full displayed size of any Protected Bid/Offer that is superior to the starting AIM auction price and has swept all interest in the Exchange's book priced better than the proposed auction starting price. Any execution(s) resulting from such sweeps shall accrue to the AIM Agency Order.

(i) *Sweep and AIM Order*. A sweep and AIM order is the transmission of two orders for crossing pursuant to Rule 6.51 with an auction starting price that does not need to be within the Exchange's best bid and offer and where the Exchange will "sweep" all Protected Bids/Offers (as defined in Section E of this Chapter 6) by routing one or more ISOs, as necessary, to execute against the full displayed size of any Protected Bid/Offer that is superior to the starting AIM auction price, as well as sweep all interest in the Exchange's book priced better than the proposed auction starting price concurrent with the commencement of the AIM auction with any execution(s) resulting from such sweeps accruing to the AIM Agency Order.

(j) *C2-Only Order*. A C2-only order is an order to buy or sell that is to be executed in whole or in part on the Exchange without routing the order to another market center and that is to be cancelled if routing would be required under the Exchange's Rules.

(k) *Market-Maker Trade Prevention Order.* A Market-Maker Trade Prevention Order is an immediate-or-cancel order that is marked with the Market-Maker Trade Prevention designation. A Market-Maker Trade Prevention Order that would trade against a resting quote or order for the same Market-Maker will be cancelled, as will the resting quote or order (unless the Market-Maker Trade Prevention Order is received while an order for the same Market-Maker is subject to an auction under Rule 6.14, 6.51 or 6.52, in which case only the Market-Maker Trade Prevention Order will be cancelled).

*. . . Interpretations and Policies:*

**.01** Certain order types may be handled in a different manner when the underlying security is in a limit up-limit down state, as defined in Rule 6.39.

A. *Market Order.* A market order shall be returned by the System if the underlying security is in a limit up-limit down state. As an exception, market orders submitted to initiate an Automated Improvement Mechanism Auction will be accepted.

B. *Market-on-close order.* A market-on-close order shall not be elected if the underlying security is in a limit up-limit down state, as defined in Rule 6.39. If, near the conclusion of trading, the underlying security exits the limit up-limit down state, the system will attempt to re-evaluate, elect, and execute the order.

C. *Stop (stop-loss) order.* A stop order will not be triggered if the underlying security is in a limit up-limit down state. Such order will be held until the end of the limit up-limit down state, at which point the order will become eligible to be triggered if the market for the particular option contract reaches the specified contract price.

[Adopted December 10, 2009; Amended September 30, 2010 (SR-C2-2010-004); Amended February 4, 2011 (SR-C2-2011-006); Amended September 22, 2011 (SR-C2-2011-017); Amended April 8, 2013 (SR-C2-2013-013); Amended January 5, 2017 (SR-C2-2016-021)]

**Rule 6.11. Openings (and sometimes Closings)**

(a) *Pre-Opening Period.* The System begins accepting orders and quotes (subject to subparagraph (1) below) in all classes no earlier than 2:00 a.m. (all times are Central time), but no later than 15 minutes prior to the expected initiation of an opening rotation at the times set forth in paragraph (b) below (the Exchange determines the specific time at which the pre-opening period begins for all classes).

(1) During the pre-opening period, the System accepts all quotes and all order types except immediate-or-cancel, fill-or-kill, intermarket sweep orders, and Market-Maker trade prevention orders.

(2) 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



expected opening information messages (“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. EOIs contain information based on resting orders and quotes in the Book, which may include the expected opening price (“EOP”), the expected opening size (“EOS”), any reason why a series may not open pursuant to paragraph (d) below, and any imbalance information, including the size and side of the imbalance. The EOP is the price at which any opening trade is expected to execute, and the EOS is the size of any expected opening trade. Notwithstanding the foregoing, the System only disseminates 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.

(b) *Opening Rotation Notice.*

(1) Unless unusual circumstances exist, the System initiates the opening rotation procedure on a class-by-class basis:

(A) 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

(B) 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,

(2) Upon initiating the opening rotation procedure, the System notifies market participants of such opening rotation initiation (“Rotation Notice”).

(c) *Opening Rotation Period.* After the System initiates the opening rotation procedure and sends the Rotation Notice, the System begins the opening rotation period. During the opening rotation period for a series:

(1) The System matches and executes resting orders and quotes against each other in order to establish an opening BBO and trade price, if any, for the series.

(A) The opening trade price of a series is 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. 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.

(B) 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 that series.

Contingency orders that participate in the opening rotation may execute during the opening rotation period only if their contingencies are triggered.

(C) The System prioritizes orders in the following order: (i) market orders, (ii) limit orders and quotes whose prices are better than the opening price, and (iii) resting orders and quotes at the opening price. Contingency orders are prioritized as set forth in Rule 6.12(c).

(2) The System continues to disseminate EOIs (the Exchange may determine a shorter interval length for the dissemination of EOIs during the rotation period than during the pre-opening period).

(3) 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). Subject to paragraph (d) below, the opening rotation period (including these intervals) may not exceed 60 seconds.

(d) *Opening Conditions.* Notwithstanding paragraph (c) above:

(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;

(2) if the width between the best quote bid and best quote offer, which quotes may consist of Market-Maker quotes or bids and offers disseminated from an away exchange(s) (for purposes of this paragraph (d), the “opening quote”) is wider than the OEPW range 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 IEPW range 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);

(3) if the opening trade price would be outside of the OEPW range or 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);

(4) if 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 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); or

(5) if the opening quote bid (offer) or NBB (NBO) crosses the opening quote offer (bid) or NBO (NBB) by more than a specified amount determined by the Exchange on a class-by-class and premium basis, the System does not open the series. If the opening quote bid (offer) or NBB (NBO) crosses the opening quote offer (bid) or NBO (NBB) by no more than the specified amount, 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, 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 exposes the order on the side with the larger size and routes for execution the order on the side with the smaller size to an away exchange that is at the NBBO.

The exposure of any orders pursuant to this paragraph (d) 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). Any remaining balances of orders not executed after the exposure period enter the book at their limit prices (to the extent consistent with Rule 6.10). Any orders (or remaining balances of orders) exposed under this paragraph (d) that are priced or would be executed at a price not within an acceptable tick distance from the initial HAL price will be cancelled. The Exchange determines an “acceptable tick distance” on a class-by-class and premium basis, which may be no less than two minimum increment ticks and, in classes in which HAL is also activated intraday, will be the same as the acceptable tick distance established under Rule 6.17(a).

If the System does not open a series pursuant to paragraph (d), notwithstanding paragraph (c) above, the opening rotation period continues (including dissemination of EOIs) until the condition causing the delay is satisfied or if the Exchange otherwise determines it is necessary to open a series in accordance with paragraph (e).

(e) *Help Desk*. The Help Desk may deviate from the standard manner of the opening procedure in this Rule 6.11, including delaying or compelling the opening of any series in any option class and modifying timers or settings described in this rule, when necessary in the interests of commencing or maintaining a fair and orderly market, in the event of unusual market conditions or in the public interest. 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.

(f) *Trading Halts*. The procedure described in this Rule may be used to reopen a class or series after a trading halt; 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. 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. The Exchange may also reopen a class after a trading halt as otherwise set forth in the Rules, including Rule 6.32.

(g) *Closing Rotation Procedure.* For any series that opens pursuant to the procedure described in this Rule, the Help Desk may decide to conduct a closing rotation pursuant to the procedure described in this Rule after the end of the normal close of any trading session whenever the Help Desk concludes that such action is appropriate in the interests of a fair and orderly market. The factors that may be considered in holding a closing rotation procedure include, but are not limited to, whether there has been a recent opening or reopening of trading in the underlying security, or a need for a closing procedure in connection with expiring individual security options, an end of the year procedure, or the restart of a procedure which is already in progress. The Exchange will notify Participants of the decision to conduct a closing rotation procedure as soon as practicable via electronic message to Participants that request to receive such messages.

**. . . Interpretations and Policies:**

**.01 Allocation Algorithm.** The electronic allocation algorithm from Rule 6.12 that applies to a class intraday also applies to the class during rotations, unless the Exchange determines to apply a different algorithm from Rule 6.12 to a class during rotations if the Exchange deems necessary or appropriate. The Exchange may determine to apply a separate electronic allocation algorithm for series that open at a minimum price increment due to a sell market order imbalance.

**.02 Exchange Determinations.** The Exchange will announce to Participants all determinations it makes pursuant to Rule 6.11 and its Interpretations and Policies via Regulatory Circular with appropriate advanced notice or as otherwise provided.

**.03 Limit Up Limit Down States.** If the underlying security for an option class is in a limit up-limit down state as defined in Rule 6.39 when the class moves to a rotation period, then all market orders in the system will be cancelled except market orders that are considered limit orders pursuant to Rule 6.12(h) and entered the previous trading day. In addition, if the opening rotation has already begun for an options class when a limit up-limit down state initiates for the underlying security of that class, market and limit orders will continue through the end of the rotation period.

[Adopted December 10, 2009; Amended February 4, 2011 (SR-C2-2011-006); Amended September 9, 2011 (SR-C2-2011-018); Amended February 18, 2013 (SR-C2-2013-002); Amended April 8, 2013 (SR-C2-2013-013); Amended August 2, 2013 (SR-C2-2013-028); Amended May 2, 2015 (SR-C2-2015-006); Amended December 14, 2016 (SR-C2-2016-020); Amended January 5, 2017 (SR-C2-2016-021)]

**Rule 6.12. Order and Quote Execution and Priority**

System orders and quotes shall be executed consistent with the following provisions:

(a) Base Execution Algorithm. The Exchange will determine to apply, for each option class traded on the System, one of the following rules of trading priority.

(1) Price-Time Priority. Under this method, resting orders and quotes in the System are prioritized according to price and time. If there are two or more orders or quotes at the best price then priority is afforded among these orders and quotes in the order in which they were received by the System (*i.e.*, according to time).

(2) Pro Rata Priority. Under this method, resting orders and quotes in the System are prioritized according to price. If there are two or more resting orders or quotes at the best price, then the System allocates contracts from an incoming order or quote to resting orders and quotes sequentially in the order in which the System received them (*i.e.*, according to time) proportionally according to size (*i.e.*, on a pro rata basis). The System allocates contracts to the first resting order or quote proportionally according to size (based on the number of contracts to be allocated and the size of the resting orders and quotes). Then, the System recalculates the number of contracts to which each remaining resting order and quote is afforded proportionally according to size (based on the number of remaining contracts to be allocated and the size of the remaining resting orders and quotes) and allocates contracts to the next resting order or quote. The System repeats this process until it allocates all contracts from the incoming order or quote. The System rounds fractions  $\frac{1}{2}$  or greater up and fractions less than  $\frac{1}{2}$  down prior to each allocation.

(3) Price-Time with Primary Public Customer Priority and Secondary Trade Participation Right Priority. Under this method, first priority is provided to Public Customers as described in subparagraph (a)(3)(A) below; second priority is afforded to Trade Participation Right recipients as described in subparagraph (a)(3)(B) below; and remaining priority is handled in accordance with Price-Time Priority as set forth in subparagraph (a)(1) above.

(A) Public Customer. A Public Customer order is an order for an account in which no Participant, non-Participant in a joint-venture with a Participant, or non-Participant broker-dealer (including a foreign broker-dealer) has an interest (a “public customer” order). Public customer orders shall have priority over non-public customer interest. If there are two or more public customer orders at the same price, priority shall be afforded to such public customer orders in the sequence in which they are received by the System. Nondisplayed public customer orders shall not have priority over displayed orders.

(B) Trade Participation Right. Preferred Market-Makers and DPMs may be granted trade participation rights pursuant to the provisions of Chapter 8 up to the applicable participation right percentage designated pursuant to the provisions of Rule 8.13 and Rule 8.19, respectively. More than one such trade participation right may be

activated for an option class (including at different priority sequences), however in no case may more than one trade participation right be applied on the same trade. For example, the Preferred Market-Maker trade participation right of Rule 8.13 and the DPM trade participation right of Rule 8.19 may be in effect, along with other priorities that are allowed under this Rule, for an option class at different priority levels (*e.g.* Public Customer has first priority, Market Turner participation right has second priority, Preferred Market-Maker has third priority, and DPM participation right – if the Preferred Market-Maker participation right was not applied on the trade – has fourth priority). A Preferred Market-Maker or DPM may be entitled to a participation right if it satisfies the conditions in Rule 8.13 or 8.19, respectively.

(b) Additional Priority Overlays. In addition to the base allocation methodologies set forth above, the Exchange may determine to apply, on a series-by-series basis, any or all of the following designated market participant overlay priorities in a sequence determined by the Exchange. The Exchange will issue a Regulatory Circular periodically which will specify which series or classes are subject to these additional priorities as well as any time the Exchange changes these priorities.

(1) Market Turner. “Market Turner” means a party that was the first to enter an order or quote at a better price than the previous best disseminated Exchange price and the order or quote is continuously in the market until it trades. There may be a Market Turner for each price at which a particular order or quote trades. The Market Turner priority at a given price remains with the order or quote once it is earned. For example, if the market moves in the same direction as the direction in which the order or quote from the Market Turner moved the market, and then the market moves back to the Market Turner’s original price, then the Market Turner retains priority at the original price. Market Turner priority cannot be established until after the opening print and/or the conclusion of the opening rotation and, once established, shall remain in effect until the conclusion of the trading session. The Exchange may determine, on a class-by-class basis, to reduce the Market Turner priority to a percentage of each inbound order or quote that is executable against the Market Turner. In such cases, the Market Turner may participate in the balance of an order or quote, pursuant to the allocation procedure in effect, after the Market Turner priority has been applied. To the extent the Market Turner order or quote is not fully exhausted, it shall retain Market Turner priority for subsequent inbound orders or quotes until the conclusion of the trading session.

(2) Small Order Preference.

(A) Orders for five (5) contracts or fewer will be executed first by the DPM; provided, however, that, on a quarterly basis, the Exchange will evaluate what percentage of the volume executed on the Exchange (excluding volume resulting from the execution of orders in AIM (see Rule 6.51)) is comprised of orders for five (5) contracts or fewer executed by DPMs, and will reduce the size of the orders included in this provision if such percentage is over forty percent (40%).

(B) This procedure only applies to the allocation of executions among non-customer orders and Market-Maker quotes existing in the Book at the time the order is received by the Exchange. No market participant is allocated any portion of an execution unless it has an existing interest at the execution price. Moreover, no market participant can execute a greater number of contracts than is associated with the price of its existing interest. Accordingly, the small order preference contained in this allocation procedure is not a guarantee; the DPM (1) must be quoting at the execution price to receive an allocation of any size, and (2) cannot execute a greater number of contracts than the size that is associated with its quote.

(C) If a Preferred Market-Maker is not quoting at a price equal to the NBBO at the time a preferred order is received, the allocation procedure contained in subparagraphs (b)(2)(A) and (B) shall be applied to the execution of the preferred order. If a Preferred Market Maker is quoting at the NBBO at the time the preferred order is received, the allocation procedure contained in subparagraph (a) shall be applied to the execution of the preferred order. Any Market Turner status shall not apply.

(D) The small order preference contained in this allocation procedure is only applicable to automatic executions and is not applicable to auctions.

(c) *Contingency Orders.* Once a certain event or trading condition satisfies an order's contingency, an order is no longer a contingency order and is treated as a market or limit order (as applicable), prioritized in the same manner as any other market or limit order based on the time it enters the Book following satisfaction of the contingency (*i.e.*, last in time priority with respect to other orders and quotes resting in the Book at that time). If contingencies of multiple orders are satisfied at the same time, the System sends them to the Book in the order in which the System initially received them. Notwithstanding the foregoing, under any algorithm in paragraph (a) above:

(1) All displayed orders and quotes at a given price have priority over all-or-none orders and the non-displayed portions of reserve orders at the same price.

(2) Upon receipt of a reserve order, the System displays in the Book any initially display-eligible portion of the reserve order, which is prioritized in the same manner as any other order (*i.e.*, based on the time the System receives it). Once any non-displayed portion of a reserve order becomes eligible for display, the System displays in the Book that portion of the order and prioritizes it based on the time it becomes displayed in the Book (*i.e.*, last in time priority with respect to other orders and quotes resting in the Book at that time).

(3) Immediate-or-cancel and fill-or-kill orders are not placed in the Book and thus are not prioritized with respect to other resting orders and quotes in the Book. These orders execute against resting orders and quotes in the Book based on the time the System receives them (*i.e.*, the System processes these orders in the time sequence in which it receives them).

- (4) All-or-none orders are always last in priority order (including after the undisplayed portions of reserve orders). If the Exchange applies public customer priority to a class, orders trade in the following order: (A) public customer orders other than all-or-none, (B) non-public customer orders other than all-or-none and quotes, (C) public customer all-or-none orders (in time sequence), and (D) non-public customer all-or-none orders (in time sequence). If the Exchange applies pro-rata with no public customer priority or price-time to a class, orders trade in the following order: (I) orders other than all-or-none and quotes, and (II) all-or-none orders (in time sequence).
- (d) *Decrementation*. Upon execution, an order/quote shall be decremented by an amount equal to the size of that execution.
- (e) *Cancel/Replace*. Depending on how a quote or order is modified, the quote or order may change priority position as follows:
- (1) If the price of an order or quote is changed, the order/changed side of the quote loses position and is placed in a priority position as if the System received the order/quote at the time the order/quote was changed.
  - (2) If the price or quantity of one side of a quote is changed, the unchanged side retains its priority position.
  - (3) If the quantity of a quote or order is decreased, it retains its priority position.
  - (4) If the quantity of a order or quote is increased, it loses its priority position and is placed in a priority position as if the System received the order/quote at the time the quantity of the order/quote is increased.
- (f) *Price Improvement*. Unless expressly stated otherwise, any potential price improvement resulting from an execution in the System accrues to the incoming order or quote that removes liquidity previously posted in the Book.
- (g) *Complex Order Priority Exception*. A complex order as defined in Rule 6.10 may be executed at a net debit or credit price without giving priority to equivalent bids (offers) in the individual series legs that are represented in the System provided at least one leg of the order betters the best corresponding public customer bid (offer) in the System by at least one minimum trading increment as defined in Rule 6.4 ( *i.e.*, \$0.10 or \$0.05 or \$0.01, as applicable) or if COB and COA are activated for all market participants in the subject option class, a \$0.01 increment, which increment shall be determined by the Exchange on a class-by-class basis.
- (h) *No-Bid Series*. Notwithstanding Rule 6.17, if the System receives during the trading day or has resting in the Book after the opening of trading a market order to sell in an option series when the national best bid in such series is zero:



(1) if the Exchange best offer in such series is less than or equal to \$0.50, then the System will consider, for the remainder of the trading day, the market order as a limit order to sell with a limit price equal to the minimum trading increment applicable to such series and enter the order into the Book prioritized based on the time it enters the Book (*i.e.*, last in time priority with respect to other limit orders to sell and quote offers at the minimum increment resting in the Book at that time); or

(2) if the Exchange best offer in such series is greater than \$0.50, then the market order will be cancelled.

[Adopted December 10, 2009; Amended April 27, 2010 (SR-C2-2010-001); Amended October 22, 2010 (SR-C2-2010-005); August 2, 2012 (SR-C2-2012-026); Amended October 18, 2012 (SR-C2-2012-024); Amended November 21, 2014 (SR-C2-2014-020); Amended June 29, 2016 (SR-C2-2016-010)]

### **Rule 6.13. Complex Order Execution**

(a) Definitions. For purposes of this Rule, a complex order is any order for the same account as defined below:

(1) A “complex order” is any order involving the execution of two or more different options series in the same underlying security occurring at or near the same time in a ratio that is equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.00) (or such lower ratio as may be determined by the Exchange on a class-by-class basis) and for the purpose of executing a particular investment strategy. Only those complex orders with no more than the applicable number of legs, as determined by the Exchange on a class-by-class basis, are eligible for processing.

(2) A “stock-option order” is an order to buy or sell a stated number of units of an underlying stock or a security convertible into the underlying stock (“convertible security”) coupled with the purchase or sale of options contract(s) on the opposite side of the market representing either (i) the same number of units of the underlying stock or convertible security, or (ii) the number of units of the underlying stock necessary to create a delta neutral position, but in no case in a ratio greater than eight (8) options contracts per unit of trading of the underlying stock or convertible security established for that series by the Clearing Corporation (or such lower ratio as may be determined by the Exchange on a class-by-class basis). Only those stock-option orders with no more than the applicable number of legs, as determined by the Exchange on a class-by-class basis, are eligible for processing.

(b) *Complex Order Book (COB)*.

(1) Execution of Complex Orders in the COB: The Exchange will determine on a class-by-class basis whether complex orders that are submitted to the COB may be expressed on a net price basis in a multiple of the minimum increment (*i.e.*, \$0.10 or \$0.05 or \$0.01, as applicable) or in a smaller increment that may not be less than

\$0.01. Complex orders that are submitted to the COB may be executed without consideration to prices of the same complex orders that might be available on other exchanges, and the legs of a complex order may be executed in \$0.01 increments, regardless of the minimum quoting increments otherwise appropriate to the individual legs of the order. Complex orders that are submitted to the COB may trade in the following way:

- (A) Orders and Quotes in the Book: A complex order in the COB will automatically execute against individual orders or quotes residing in the Book provided the complex order can be executed in full (or in a permissible ratio) by the orders and quotes in Book.
  - (B) Orders in COB: Complex orders in the COB that are marketable against each other will automatically execute. The allocation of a complex order within the COB shall be pursuant to the rules of trading priority otherwise applicable to incoming orders in the individual component legs or another electronic allocation algorithm from Rule 6.12 as determined by the Exchange on a class-by-class basis.
- (2) Complex orders may be entered into the COB as immediate-or-cancel orders, day orders or good-til-cancelled orders.
- (c) Process for Complex Order RFR Auction. Prior to routing to the COB, eligible complex orders may be subject to an automated request for responses (“RFR”) auction process.

(1) For purposes of paragraph (c):

- (A) “COA” is the automated complex order RFR auction process.
  - (B) A “COA-eligible order” means a complex order that, as determined by the Exchange on a class-by-class basis, is eligible for a COA considering the order’s marketability (defined as a number of ticks away from the current market), size, complex order type and complex order origin types (i.e. non-broker-dealer public customer, broker-dealers that are not Market-Makers or specialists on an options exchange, and/or Market-makers or specialists on an options exchange). Complex orders processed through a COA may be executed without consideration to prices of the same complex orders that might be available on other exchanges.
- (2) Initiation of a COA: The System will send an RFR message to all Participants who have elected to receive RFR messages on receipt of a COA-eligible order. The RFR message will identify the component series, the size and side of the market of the COA-eligible order and any contingencies, if applicable. Notwithstanding the foregoing, Participants may request on an order-by-order basis that incoming COA-eligible orders not COA (a “do-not-COA” request). An order initially submitted to the

Exchange with a do-not-COA request may still COA after it has rested on the COB pursuant to Interpretation and Policy .02.

(3) Bidding and Offering in Response to RFRs: The Exchange shall determine, on a class-by-class basis, which of the following two groups of Participants may submit responses to the RFR message (“RFR Responses”) during the Response Time Interval: (a) each Market-Maker registered in the relevant option class, and each Participant acting as agent for orders resting at the top of the COB in the relevant options series; or (b) all Participants.

(A) RFR Responses must be on the opposite side of the market of the COA-eligible order and may be expressed on a net price basis in a multiple of the minimum increment (*i.e.*, \$0.10, \$0.05 or \$0.01, as applicable) or in a smaller increment that may not be less than \$0.01, as determined by the Exchange on a class-by-class basis. RFR Responses will not be visible (other than by the COA system).

(B) The “Response Time Interval” means the period of time during which responses to the RFR may be entered. The Exchange will determine the length of the Response Time Interval on a class-by-class basis; provided, however, that the duration shall not exceed three (3) seconds.

(4) Processing of COA-Eligible Orders: At the expiration of the Response Time Interval, COA-eligible orders will be allocated in accordance with subparagraph (5) below or routed in accordance with subparagraph (6) below.

(5) Execution of COA-Eligible Orders: COA-eligible orders may be executed without consideration to prices of the same complex orders that might be available on other exchanges, and the legs of a COA-eligible order may be executed in one cent increments, regardless of the minimum quoting increments otherwise appropriate to the individual legs of the order. COA-eligible orders will trade first based on the best net price(s) and, at the same net price, will be allocated in the following way:

(A) The individual orders and quotes residing in the Book shall have first priority to trade against a COA-eligible order provided the COA-eligible order can be executed in full (or in a permissible ratio) by the orders and quotes in the Book. The allocation of a COA-eligible order against the Book shall be pursuant to the rules of trading priority otherwise applicable to incoming orders in the individual component legs.

(B) Public customer complex orders resting in the COB before, or that are received during, the Response Time Interval and public customer RFR Responses shall, collectively have second priority to trade against a COA-eligible order. The allocation of a COA-eligible order against these orders and responses shall be according to time priority or another electronic allocation algorithm from Rule 6.12 as determined by the Exchange on a class-by-class basis.

- (C) Non-public customer orders resting in the COB before the Response Time Interval shall have third priority to trade against a COA-eligible order. The allocation of a COA-eligible order against non-public customer orders resting in the COB shall be pursuant to the rules of trading priority otherwise applicable to incoming orders in the individual component legs or another electronic allocation algorithm from Rule 6.12 as determined by the Exchange on a class-by-class basis.
- (D) Non-public customer orders resting in the COB that are received during the Response Time Interval and non-public customer RFR Responses shall, collectively, have fourth priority. The allocation of a COA-eligible order against these opposing orders and responses shall be pursuant to the rules of trading priority otherwise applicable to incoming orders in the individual component legs or another electronic allocation algorithm from Rule 6.12 as determined by the Exchange on a class-by-class basis.
- (6) Routing of COA-Eligible Orders: If a COA-eligible order cannot be filled in whole or in a permissible ratio, the order (or any remaining balance) will route to the COB.
- (7) Firm Quote Requirement for COA-Eligible Orders: RFR Responses represent non-firm interest that can be modified or withdrawn at any time prior to the end of the Response Time Interval. At the end of the Response Time Interval, RFR Responses shall be firm only with respect to the COA-eligible order for which it is submitted, provided that RFR Responses that exceed the size of a COA-eligible order are also eligible to trade with other incoming COA-eligible orders that are received during the Response Time Interval. Any RFR Responses not accepted in whole or in a permissible ratio will expire at the end of the Response Time Interval.
- (8) Handling of Unrelated Complex Orders and Changes in Leg Markets: Incoming complex orders that are received and changes in the leg market that occur prior to the expiration of the Response Time Interval for a COA-eligible order (the “original COA”) will impact the original COA as follows:
- (A) Incoming complex orders that are received prior to the expiration of the Response Time Interval for the original COA that are on the opposite side of the market and are marketable against the starting price of the original COA-eligible order will cause the original COA to end. The processing of the original COA pursuant to subparagraphs (c)(4) through (c)(6) remains the same. For purposes of this Rule, the “starting price”, shall mean the better of the original COA-eligible order’s limit price or the best price, on a net debit or credit basis, that existed in the Book or COB at the beginning of the Response Time Interval.
- (B) Incoming COA-eligible orders that are received prior to the expiration of the Response Time Interval for the original COA that are on the same side of the market, at the same price or worse than the original COA-eligible order and better

than or equal to the starting price will join the original COA. The processing of the original COA pursuant to subparagraphs (c)(4) through (c)(6) remains the same with the addition that the priority of the original COA-eligible order and incoming COA-eligible order(s) shall be according to time priority.

(C) Incoming COA-eligible orders that are received prior to the expiration of the Response Time Interval for the original COA that are on the same side of the market and at a better price than the original COA-eligible order will join the original COA, cause the original COA to end, and a new COA to begin for any remaining balance on the incoming COA-eligible order. The processing of the original COA pursuant to subparagraphs (c)(4) through (c)(6) remains the same with the addition that the priority of the original COA-eligible order and incoming COA-eligible order shall be according to time priority.

(D) Incoming complex orders with a do-not-COA request or that are not COA-eligible that are received prior to the expiration of the Response Time Interval for the original COA that are on the same side of the market and at a price better than or equal to the starting price will cause the original COA to end. The processing of the original COA pursuant to subparagraphs (c)(4) through (c)(6) remains the same with the addition that the priority of the original COA-eligible order and the incoming order with a do-not-COA request or that is not COA-eligible, as applicable, shall be according to time priority.

(E) If the leg markets were not marketable against a COA-eligible order when the order entered the System but become marketable with the COA-eligible order prior to the expiration of the Response Time Interval, it will cause the original COA to end. The processing of the original COA pursuant to subparagraphs (c)(4) through (c)(6) remains the same.

(9) Limit Up-Limit Down States. If during a COA of a market order, the underlying security of an option in a complex order of a COA-eligible order enters a limit up-limit down state, as defined in Rule 6.39, the COA will end upon the entering of the limit up-limit down state and the remaining portion of the order will be cancelled.

*... Interpretations and Policies:*

**.01** All pronouncements regarding determinations by the Exchange pursuant to this Rule will be announced via Regulatory Circular.

**.02** For each class where COA is activated, the Exchange may also determine to activate COA for complex orders resting in COB. For such classes, any non-marketable order resting at the top of COB may be automatically subject to COA if the order is within a number of ticks away from the opposite side of the current Exchange spread market. The Exchange may also determine on a class-by-class and strategy basis to limit the frequency of COAs initiated for complex orders resting in COB.

**.03** A pattern or practice of submitting orders that cause a COA to conclude early will be deemed conduct inconsistent with just and equitable principles of trade and a violation of Rule 4.1.

**.04 Price Check Parameters:** On a class-by-class basis, the Exchange may determine (and announce via Regulatory Circular) which of the following price check parameters will apply to eligible complex orders. Paragraphs (b) and (g)(1) will not be applicable to stock-option orders.

For purposes of this Interpretation and Policy .04:

**Vertical Spread.** A “vertical” spread is a two-legged complex order with one leg to buy a number of calls (puts) and one leg to sell the same number of calls (puts) with the same expiration date but different exercise prices.

**Butterfly Spread.** A “butterfly” spread is a three-legged complex order with two legs to buy (sell) the same number of calls (puts) and one leg to sell (buy) twice as many calls (puts), all with the same expiration date but different exercise prices, and the exercise price of the middle leg is between the exercise prices of the other legs. If the exercise price of the middle leg is halfway between the exercise prices of the other legs, it is a “true” butterfly; otherwise, it is a “skewed” butterfly.

**Box Spread.** A “box” spread is a four-legged complex order with one leg to buy calls and one leg to sell puts with one strike price, and one leg to sell calls and one leg to buy puts with another strike price, all of which have the same expiration date and are for the same number of contracts.

To the extent a price check parameter is applicable, the Exchange will not automatically execute an eligible complex order that is:

(a) **Market Width Parameters:** An order that is marketable if (i) the width between the Exchange’s best bid and best offer in any individual series leg is not within an acceptable price range or (ii) the width between the Exchange’s best net priced bid and best net priced offer in the individual series legs comprising the complex order is not within an acceptable price range. For purpose of this paragraph (a):

(1) An “acceptable price range” (“APR”) shall be determined by the Exchange (and announced to via Regulatory Circular) on a series-by-series basis for market orders and/or marketable limit orders for each series comprising the complex order (or, in the case of subparagraph (a)(ii), based on the sum of each individual series leg of a complex order) and be no less than 0.375 for each option contract for which the bid is less than \$2, \$0.60 for each option contract for which the bid is at least \$2 but does not exceed \$5, \$0.75 for each option contract for which the bid is at least \$5 but does not exceed \$10, \$1.20 for each option contract for which the bid is at least \$10 but does not exceed \$20, and \$1.50 for each option contract for which the bid is more than \$20; and

(2) The Help Desk may grant intra-day relief by widening the APR.

(3) A market order under this paragraph (a) will be cancelled. A marketable limit order under this paragraph (a) will be held in the system, displayed in the COB if applicable, and not be eligible for automatic execution until the market width condition is resolved.

(4) Notwithstanding paragraph (a) above, if part of a marketable order may be executed within an APR, that part of the order will be executed automatically and the part of the order that would execute at a price outside the APR will be cancelled.

(5) The Exchange may also determine on a class-by-class basis to make the price check parameter in paragraph (a)(i) above available for stock-option orders. Such a stock-option order will be subject to the processing described in this paragraph (a).

(b) Credit-to-Debit Parameters: Market orders that would be executed at a net debit price after receiving a partial execution at a net credit price will be cancelled.

(c) Debit/Credit Price Reasonability Checks:

(1) A limit order for a debit strategy with a net credit price, a limit order for a credit strategy with a net debit price, or a market order for a credit strategy that would be executed at a net debit price.

(2) The System defines a complex order as a debit or credit as follows:

(A) a call butterfly spread for which the middle leg is to sell (buy) and twice the exercise price of that leg is greater than or equal to the sum of the exercise prices of the buy (sell) legs is a debit (credit);

(B) a put butterfly spread for which the middle leg is to sell (buy) and twice the exercise price of that leg is less than or equal to the sum of the exercise prices of the buy (sell) legs is a debit (credit); and

(C) an order for which all pairs and loners are debits (credits) is a debit (credit). For purposes of this check, a “pair” is a pair of legs in an order for which both legs are calls or both legs are puts, one leg is a buy and one leg is a sell, and the legs have the same expiration date but different exercise prices or, for all options except European-style index options, different expiration dates and the exercise price for the call (put) with the farther expiration date is the same as or lower (higher) than the exercise price for the nearer expiration date. A “loner” is any leg in an order that the System cannot pair with another leg in the order (including legs in orders for European-style index options that have the same exercise price but different expiration dates). The System treats the stock leg of a stock-option order as a loner.

(i) The System first pairs legs to the extent possible within each expiration date, pairing one leg with the leg that has the next highest exercise price.

(ii) The System then, for all options except European-style index options, pairs legs to the extent possible across expiration dates, pairing one call (put) with the call (put) that has the next nearest expiration date and the same or next lower (higher) exercise price.

(iii) A pair of calls is a credit (debit) if the exercise price of the buy (sell) leg is higher than the exercise price of the sell (buy) leg (if the pair has the same expiration date) or if the expiration date of the sell (buy) leg is farther than the expiration date of the buy (sell) leg (if the exercise price of the sell (buy) leg is the same as or lower than the exercise price of the buy (sell) leg).

(iv) A pair of puts is a credit (debit) if the exercise price of the sell (buy) leg is higher than the exercise price of the buy (sell) leg (if the pair has the same expiration date) or if the expiration date of the sell (buy) leg is farther than the expiration date of the buy (sell) leg (if the exercise price of the sell (buy) leg is the same as or higher than the exercise price of the buy (sell) leg).

(v) A loner to buy is a debit, and a loner to sell is a credit.

The System does not apply the check in subparagraph (1) to an order for which the System cannot define whether it is a debit or credit.

(3) The System rejects back to the Participant any limit order, and cancels any market order (or any remaining size after partial execution of the order), that does not satisfy this check.

(4) This check applies to auction responses in the same manner as it does to orders.

(5) This check applies to pairs of orders submitted to AIM and SAM. If the System rejects either order in the pair pursuant to this check, then the System also cancels the paired order. Notwithstanding the foregoing, with respect to an AIM Retained (“A:AIR”) order as defined in Interpretation and Policy .10 to Rule 6.51, if the System rejects the Agency Order pursuant to this check, then the System also rejects the contra-side order; however, if the System rejects the contra-side order pursuant to this check, the System still accepts the Agency Order if it satisfies the check.

(d) Buy-Buy (Sell-Sell) Strategy Parameters: A limit order where (1) all the components of the strategy are to buy and the order is priced at zero, any net credit price, or a net debit price that is less than the number of individual option series legs in the strategy (or applicable ratio) multiplied by the applicable minimum net price increment for the complex order; or (2) all the components of the strategy are to sell and the order is priced at zero, any net debit price, or a net credit price that is less than the number of individual option series legs in the strategy (or applicable ratio) multiplied by the applicable minimum net price increment for the complex order. Such complex orders under this paragraph (d) will not be accepted. In classes where this price check parameter is available, it will also be available for stock-option orders (and the minimum net price



increment calculation above will only apply to the individual option series legs). In addition, in classes where this price check parameter is available, it will also be available for COA responses under Rule 6.13(c), COA and Solicitation Auction Mechanism complex orders and responses under Rule 6.51 or 6.52, and customer-to-customer immediate cross complex orders under Rule 6.51.08. Such paired complex orders and responses under these provisions will not be accepted except that, to the extent that only a paired contra-side order subject to an auction under Rule 6.51 or 6.52 exceeds this price check parameter, the contra-side order will not be accepted and the paired original Agency Order will not be accepted or, at the order entry firm's discretion (i.e., an AIM Retained ("A:AIR") order as defined in Interpretation and Policy .10 to Rule 6.51), continue processing as an unpaired complex order.

(e) Acceptable Percentage Range Parameter:

(i) An incoming complex order (including a stock-option order) after all leg series are open for trading that is marketable and would execute immediately upon submission to the COB or following a COA if the execution would be at a price outside an acceptable percentage range. The "acceptable percentage range" is the national spread market (or Exchange spread market if the NBBO in any leg is locked, crossed or unavailable and for pairs of orders submitted to AIM or SAM) that existed when the System received the order or at the start of COA, as applicable, plus/minus:

(A) the amount equal to a percentage (which may not be less than 3%) of the national spread market (the "percentage amount") if that amount is not less than a minimum amount or greater than a maximum amount (the Exchange will determine the percentage and minimum and maximum amounts and announce them to Trading Permit Holders by Regulatory Circular);

(B) the minimum amount, if the percentage amount is less than the minimum amount; or

(C) the maximum amount, if the percentage amount is greater than the maximum amount.

(ii) The System cancels an order (or any remaining size after partial execution of the order) that would execute or rest in the COB at a price outside the acceptable price range.

(iii) If the System rejects either order in a pair of orders submitted to AIM or SAM pursuant to this parameter, then the System also cancels the paired order. Notwithstanding the foregoing, with respect to an AIM Retained ("A:AIR") order as defined in Interpretation and Policy .10 to Rule 6.51, if the System rejects the Agency Order pursuant to this check, then the System also rejects the contra-side order; however, if the System rejects the contra-side order pursuant to this check, the System still accepts the Agency Order if it satisfies the check. To the extent a contra-side order or response is marketable against the Agency Order, the execution price will be capped at the opposite side of the acceptable price range.

(f) Reserved.

(g) Limit Order Price Parameters: The System rejects back to a Trading Permit Holder a complex limit order with a net debit (credit) price more than a specified amount above (below):

(1) prior to the opening of a series (including during any pre-opening period and opening rotation) the derived net market using the Exchange's previous day's closing prices in the individual option series legs comprising the complex order. However, this does not apply to stock-option orders, to orders for the account of Market-Makers or away Market-Makers, or if there is no Exchange previous day's closing price in any leg; or

(2) intraday, the opposite side of the national spread market. This applies to stock-option orders, but does not apply if the NBBO in any leg is locked, crossed or unavailable or if there is no Exchange spread market.

(3) For purposes of this paragraph (g):

(i) The Exchange determines the amount, which may be no less than \$0.02, on a class-by-class and net premium basis and announces the amount to Trading Permit Holders via Regulatory Circular. The Exchange may determine to apply a different amount to orders entered during the pre-opening or a trading rotation.

(ii) No limit order price parameter applies to complex orders submitted during a halt (including during any pre-opening period and opening rotation prior to re-opening following the halt) or to pairs of orders submitted to AIM or SAM. The limit order price parameter will take precedence over another price check parameter to the extent that both are applicable to an incoming limit order.

(iii) The senior official in the Help Desk may grant relief on any trading day (including prior to opening) by widening or inactivating one or more of the applicable amount parameter settings in the interest of a fair and orderly market.

(A) Notification of this relief will be announced via electronic message to Trading Permit Holders that request to receive such messages. Such relief will not extend beyond the trade day on which it is granted, unless a determination to extend such relief is announced to Trading Permit Holders via Regulatory Circular. The Exchange will make and keep records to document all determinations to grant this relief under this Rule, and shall maintain those records in accordance with Rule 17a-1 under the Exchange Act.

(B) The Exchange will periodically review determinations to grant relief on any trading day for consistency with the interest of a fair and orderly market.

If a limit order is not accepted for execution because the limit order price ATD has not been met, the order will be returned to the order entry firm. The limit order price

parameter will take precedence over another price check parameter to the extent that both are applicable to an incoming limit order.

(h) Maximum Value Acceptable Price Range: If an order is a vertical, true butterfly or box spread, a limit order for a net credit or debit price, or a market order for a debit strategy if it would execute at a net debit price, that is outside of an acceptable price range.

(1) The System determines the acceptable price range as follows:

(i) The maximum possible value of a vertical, true butterfly and box spread is the difference between the exercise prices of (A) the two legs; (B) the middle leg and the legs on either side; and (C) each pair of legs, respectively.

(ii) The minimum possible value of the spread is zero.

(iii) The System calculates the amount that is a percentage of the maximum possible value of the spread (the “percentage amount”), which percentage is between 1% and 5% and which the Exchange will determine and announce to Trading Permit Holders by Regulatory Circular.

(iv) The acceptable price range is zero to the maximum possible value of the spread plus:

(A) the percentage amount, if that amount is not outside a pre-set range (the Exchange will determine the pre-set range minimum and maximum amounts (the “pre-set minimum” and “pre-set maximum,” respectively) and announce them to Participants by Regulatory Circular);

(B) the pre-set minimum, if the percentage amount is less than the pre-set minimum; or

(C) the pre-set maximum, if the percentage amount is greater than the pre-set maximum.

(2) The System rejects back to the Participant any limit order, and cancels any market order (or any remaining size after partial execution of the order), that does not satisfy this check.

(3) This check applies to auction responses in the same manner as it does to orders.

(4) This check applies to pairs of orders submitted to AIM or SAM. If the System rejects either order in the pair pursuant to this check, then the System also cancels the paired order. Notwithstanding the foregoing, with respect to an AIM Retained (“A:AIR”) order as defined in Interpretation and Policy .10 to Rule 6.51, if the System rejects the Agency Order pursuant to this check, then the System also rejects the contra-side order;

however, if the System rejects the contra-side order pursuant to this check, the System still accepts the Agency Order if it satisfies the check.

**.05** Reserved.

**.06** Special Provisions Applicable to Stock-Option Orders: Stock-option orders may be executed against other stock-option orders through the COB and COA. Stock-option orders will not be legged against the individual component legs, except as provided in paragraph (d) below.

(a) Stock Component. Permit Holders may only submit complex orders with a stock component if such orders comply with the Qualified Contingent Trade Exemption from Rule 611(a) of Regulation NMS. Permit Holders submitting such complex orders represent that such orders comply with the Qualified Contingent Trade Exemption. To participate in stock-option order automated processing, a Permit Holder must enter into a brokerage agreement with one or more designated dealers that are not affiliated with the Exchange. The stock portion of a stock-option order shall be electronically communicated by the Exchange to a designated broker-dealer for execution on behalf of the Permit Holder. A stock-option order shall not be executed on the system unless the stock leg is executable at the price(s) necessary to achieve the desired net price.

(b) Option Component. Notwithstanding the special priority provisions contained in paragraphs (c) and (d) below, the option leg(s) of a stock-option order shall not be executed on the system (i) at a price that is inferior to the Exchange's best bid (offer) in the series or (ii) at the Exchange's best bid (offer) in that series if one or more public customer orders are resting at the best bid (offer) price on the Book in each of the component option series and the stock-option order could otherwise be executed in full (or in a permissible ratio). The option leg(s) of a stock-option order may be executed in a one-cent increment, regardless of the minimum quoting increment applicable to that series.

(1) To the extent that a marketable stock-option order cannot automatically execute in full (or in a permissible ratio) when it is routed to COB or after being subject to COA, any part of the order that may be executed will be executed automatically and the part that cannot automatically execute will be cancelled.

(2) To the extent that a stock-option order resting in COB becomes marketable against the Exchange spread market, the full order will be subject to COA (and the processing described in paragraph (b)(1) of this Interpretation and Policy).

(c) Complex Order Book. Stock-option orders in the COB that are marketable against each other will automatically execute, subject to the condition noted in paragraph (b) above. The allocation of a stock-option order within the COB shall be pursuant to the rules of trading priority otherwise applicable to incoming electronic orders in the individual component legs or another electronic allocation algorithm from Rule 6.12 as determined by the Exchange on a class-by-class basis.

(d) Complex Order Auction. Stock-Option Orders executed via COA shall trade in the sequence set forth in subparagraph (c)(5)(A)-(D) of this Rule except that subparagraph (c)(5)(A) will not be applicable and such execution will be subject to the condition noted in paragraph (b) of this Interpretation and Policy. Notwithstanding subparagraph (c)(6), on a class-by-class basis, the Exchange may determine to route eligible market orders in the following manner: If at the conclusion of COA an eligible market order cannot be filled in whole or in a permissible ratio, then any remaining balance of the option leg(s) will route to the system for processing as a simple market order(s) and any remaining balance of the stock leg will route to a designated dealer for processing as a market order. For purposes of this legging functionality, an “eligible market order” means a stock-option order that is within the designated size and order type parameters, determined by the Exchange on a class-by-class basis, and for which the NBBO is within designated size and price parameters, as determined by the Exchange for the individual leg. The designated NBBO price parameters will be determined based on a minimum bid price for sell orders. The Exchange may also determine on a class-by-class basis to limit the trading times within regular trading hours that the legging functionality will be available.

(e) Marking Requirement. If the stock leg of a stock-option order submitted to COB or COA is a sell order, then the stock leg must be marked “long,” “short,” or “short exempt” in compliance with Regulation SHO under the Exchange Act.

(f) Limit up-Limit Down States. When the underlying security on a Stock-option order is in a limit up-limit down state as defined in Rule 6.39, such order will only execute if the calculated stock price is within the permissible price bands as defined in the Plan. If the calculated price is not within the permissible price bands, the Stock-option order will be cancelled.

**.07 Execution of Complex Orders on the COB Open:**

(a) Complex orders, including stock-option orders, do not participate in opening rotations for individual component option series legs conducted pursuant to Rule 6.11. When the last of the individual component option series legs that make up a complex order strategy has opened (and, in the case of a stock-option order, the underlying stock has opened), the COB for that strategy will open. The COB will open with no trade, except as follows:

(i) The COB will open with a trade against the individual component option series legs if there are complex orders on only one side of the COB that are marketable against the opposite side of the Exchange spread market. The resulting execution will occur at the Exchange spread market price to the extent marketable pursuant to the rules of trading priority otherwise applicable to incoming electronic orders in the individual component legs. To the extent there is any remaining balance, the complex orders will trade pursuant to subparagraph (ii) below or, if unable to trade, be processed as they would on an intra-day basis under Rule 6.13. This paragraph (i) is not applicable to stock-option orders because stock-option orders do not trade against the individual component option series legs when the COB opens.

(ii) The COB will open (or continue to open with another trade if a trade occurred pursuant to subparagraph (i) above) with a trade against complex orders if there are complex orders in the COB (including any remaining balance of an order that enters the COB after a partial trade with the legs pursuant to subparagraph (i)) that are marketable against each other and priced within the Exchange spread market. The resulting execution will occur at a market clearing price that is inside the Exchange spread market and that matches complex orders to the extent marketable pursuant to the allocation algorithm from Rule 6.12, as determined by the Exchange on a class-by-class basis with the addition that the COB gives priority to complex orders whose net price is better than the market clearing price first, and then to complex orders at the market clearing price. To the extent there is any remaining balance, the complex orders will be processed as they would on an intra-day basis under Rule 6.13. This subparagraph (ii) is applicable to stock-option orders.

(b) The Exchange may also use the process described in paragraph (a) of this Interpretation and Policy .07 when the COB reopens a strategy after a time period during which trading of that strategy was unavailable.

[Adopted December 10, 2009; Amended September 9, 2011 (SR-C2-2011-018); Amended September 20, 2011 (SR-C2-2011-022); Amended December 12, 2011 (SR-C2-2011-039); Amended January 20, 2012 (SR-C2-2012-003); Amended April 6, 2012 (SR-C2-2012-004); Amended October 24, 2012 (SR-C2-2012-030); Amended February 27, 2013 (SR-C2-2013-003); Amended April 8, 2013 (SR-C2-2013-013); Amended November 14, 2014 (SR-C2-2014-024); Amended July 17, 2015 (SR-C2-2015-021); Amended December 11, 2015 (SR-C2-2015-025); Amended January 21, 2016 (SR-C2-2015-033); Amended July 27, 2016 (SR-C2-2016-014); Amended December 9, 2016 (SR-C2-2016-024); Amended March 6, 2017 (SR-C2-2017-010)]

#### **Rule 6.14. SAL**

This Rule governs the operation of the SAL system. SAL is a feature within the System that auctions marketable orders for price improvement over the NBBO.

(a) *SAL Eligibility.* The Exchange shall designate the eligible order size, eligible order type, eligible order origin code ( *i.e.* public customer orders, non-Market-Maker broker-dealer orders, and Market-Maker broker-dealer orders), and classes in which SAL shall be activated. For such classes, SAL shall automatically initiate an auction process for any non-contingency order that is marketable against the Exchange's NBBO quote ("Agency Order"), except when the Exchange's disseminated quotation on the opposite side of the market from the Agency Order does not contain sufficient Market-Maker quotation size to satisfy the entire Agency Order.

(b) *SAL Auction.* Prior to commencing the auction, SAL shall stop the Agency Order at the NBBO against Market-Maker quotations displayed at the NBBO on the opposite side of the market as the Agency Order. SAL will not allow such quotations to be cancelled or to move to an inferior price or size throughout the duration of the auction. The auction

will last for a period of time not to exceed two (2) seconds as determined by the Exchange on a class-by-class basis. Auction responses may be submitted by any Participants. With respect to responses, the following shall apply:

- (1) Responses shall not be visible to other auction participants and shall not be disseminated to OPRA.
- (2) Responses may be submitted in one-cent increments unless for the relevant option class the Exchange has determined that responses shall be submitted in standard increments.
- (3) Multiple responses are allowed.
- (4) Responses may be cancelled.
- (5) Responses cannot cross the Exchange's disseminated quotation on the opposite side of the market.

(c) *Allocation of Agency Orders.* Agency Orders may be allocated at multiple prices if necessary and shall be allocated in two rounds per price point as follows:

(1) *First Allocation Round.* The Agency Order shall first be allocated at the best response price (the "First Allocation Round") between all parties (responding at that price) that represented the Exchange's NBBO quotation at the time the auction commenced ("Original Quoters") up to the size of such quotation. During the First Allocation Round, the following shall apply:

- (A) The Agency Order shall first be allocated against Public Customer interest at the best price;
- (B) the Agency Order shall then be allocated pursuant to the matching algorithm in effect for the class; and
- (C) An Original Quoter may only participate in a First Allocation Round at each allocation price up to its size at the NBBO at the time the auction commenced.

(2) *Second Allocation Round.* If an Agency Order is not fully allocated at the best response price during the First Allocation Round, then a subsequent allocation ("Second Allocation Round") shall occur at that price point. During this round, all responses received during the auction at that price that were not eligible for the First Allocation Round shall participate in accordance with the matching algorithm in effect for the class (after Public Customer interest has been exhausted), and the size of such responses shall be capped to the size of the Agency Order for allocation purposes. If the Agency Order is not fully allocated in the Second Allocation Round then allocation of the Agency Order shall proceed at the next best response price.

(d) *Early Termination of Auction.* The auction will terminate early under the following circumstances:

(1) If the System receives an unrelated non-marketable limit order on the opposite side of the market from the Agency Order that improves any auction responses, the unrelated order will trade (after any responses that were priced better than the unrelated order have traded) to the fullest extent possible at the midpoint of the best remaining auction response and the unrelated order's limit price (rounded towards the unrelated order's limit price when necessary).

(2) If the System receives an unrelated market or marketable limit order on the opposite side of the market from the Agency Order, such unrelated order will trade to the fullest extent possible at the midpoint of the best auction response and the NBBO on the opposite side of the market from the auction responses (rounded towards the disseminated quote when necessary).

(3) If the System receives an unrelated order on the same side of the market as the Agency Order that is marketable against the NBBO, then the auction shall conclude and the Agency Order shall trade against the best auction response(s) in accordance with subparagraph (c) above.

(4) [reserved]

(5) The auction will terminate any time a response matches the Exchange's disseminated quote on the opposite side of the market from the response. If the disseminated quote on the opposite side of the market from the response does not contain a customer order then the response shall trade against the Agency Order. If the disseminated quote on the opposite side of the market from the response does contain a customer order then, unless there is sufficient size in the response to execute both the Agency Order and the booked customer order (in which case they will both execute at that price), the Agency Order will execute against the response at one cent worse than the response price and any balance shall trade against the customer order in the book at such order's limit price.

(e) Any order (or portion) that does not execute following the auction will be handled as set forth in Rule 6.17(a)(2)(C).

**. . . Interpretations and Policies:**

**.01** A pattern or practice of submitting unrelated orders that cause an auction exposure period to conclude early will be deemed conduct inconsistent with just and equitable principles of trade and a violation of Rule 4.1 and other Exchange Rules.

**.02** When the disseminated market is crossed, SAL will continue to automatically initiate auctions provided the Exchange is the NBBO for the relevant side of the market at the time a SAL-eligible order is received.



[Adopted December 10, 2009; Amended December 14, 2016 (SR-C2-2016-020)]

**Rule 6.15. Nullification and Adjustment of Options Transactions including Obvious Errors**

The Exchange may nullify a transaction or adjust the execution price of a transaction in accordance with this Rule. However, the determination as to whether a trade was executed at an erroneous price may be made by mutual agreement of the affected parties to a particular transaction. A trade may be nullified or adjusted on the terms that all parties to a particular transaction agree, provided, however, that such agreement to nullify or adjust must be conveyed to the Exchange in a manner prescribed by the Exchange prior to 7:30 a.m. Central Time on the first trading day following execution. It is considered conduct inconsistent with just and equitable principles of trade for any participant to use the mutual adjustment process to circumvent any applicable Exchange rule, the Act or any of the rules and regulations thereunder.

(a) *Definitions.*

(1) *Customer.* For purposes of this Rule, a Customer shall not include any broker-dealer, Professional Customer, or Voluntary Professional Customer.

(2) *Erroneous Sell/Buy Transactions.* For purposes of this Rule, an “erroneous sell transaction” is one in which the price received by the person selling the option is erroneously low, and an “erroneous buy transaction” is one in which the price paid by the person purchasing the option is erroneously high.

(3) *Official.* For purposes of this Rule, an Official is an Officer of the Exchange or such other employee designee of the Exchange that is trained in the application of this Rule.

(4) *Size Adjustment Modifier.* For purposes of this Rule, the Size Adjustment Modifier will be applied to individual transactions as follows:

<b>Number of Contracts per Execution</b>	<b>Adjustment – TP Plus/Minus</b>
1-50	N/A
51-250	2 times adjustment amount
251-1000	2.5 times adjustment amount
1001 or more	3 times adjustment amount

(b) *Theoretical Price.* Upon receipt of a request for review and prior to any review of a transaction execution price, the “Theoretical Price” for the option must be determined. For purposes of this Rule, if the applicable option series is traded on at least one other options exchange, then the Theoretical Price of an option series is the last NBB just prior to the trade in question with respect to an erroneous sell transaction or the last NBO just prior to the trade in question with respect to an erroneous buy transaction unless one of

the exceptions in sub-paragraphs (b)(1) through (3) below exists. For purposes of this provision, when a single order received by the Exchange is executed at multiple price levels, the last NBB and last NBO just prior to the trade in question would be the last NBB and last NBO just prior to the Exchange's receipt of the order.

(1) *Transactions at the Open.* For a transaction occurring as part of the Opening Process (as defined in Rule 6.11—Openings (and sometimes Closings)) the Exchange will determine the Theoretical Price if there is no NBB or NBO for the affected series just prior to the erroneous transaction or if the bid/ask differential of the NBB and NBO just prior to the erroneous transaction is equal to or greater than the Minimum Amount set forth in the chart contained in sub-paragraph (b)(3) below. If the bid/ask differential is less than the Minimum Amount, the Theoretical Price is the NBB or NBO just prior to the erroneous transaction.

(2) *No Valid Quotes.* The Exchange will determine the Theoretical Price if there are no quotes or no valid quotes for comparison purposes. Quotes that are not valid are all quotes in the applicable option series published at a time where the last NBB is higher than the last NBO in such series (a “crossed market”), quotes published by the Exchange that were submitted by either party to the transaction in question, and quotes published by another options exchange against which the Exchange has declared self-help.

(3) *Wide Quotes.* The Exchange will determine the Theoretical Price if the bid/ask differential of the NBB and NBO for the affected series just prior to the erroneous transaction was equal to or greater than the Minimum Amount set forth below and there was a bid/ask differential less than the Minimum Amount during the 10 seconds prior to the transaction. If there was no bid/ask differential less than the Minimum Amount during the 10 seconds prior to the transaction then the Theoretical Price of an option series is the last NBB or NBO just prior to the transaction in question, as set forth in paragraph (b) above.

<b>Bid Price at Time of Trade</b>	<b>Minimum Amount</b>
Below \$2.00	\$0.75
\$2.00 to \$5.00	\$1.25
Above \$5.00 to \$10.00	\$1.50
Above \$10.00 to \$20.00	\$2.50
Above \$20.00 to \$50.00	\$3.00
Above \$50.00 to \$100.00	\$4.50
Above \$100.00	\$6.00

(c) *Obvious Errors.*

(1) *Definition.* For purposes of this Rule, an Obvious Error will be deemed to have occurred when the Exchange receives a properly submitted filing where the execution price of a transaction is higher or lower than the Theoretical Price for the series by an amount equal to at least the amount shown below:

<b>Theoretical Price</b>	<b>Minimum Amount</b>
Below \$2.00	\$0.25
\$2.00 to \$5.00	\$0.40
Above \$5.00 to \$10.00	\$0.50
Above \$10.00 to \$20.00	\$0.80
Above \$20.00 to \$50.00	\$1.00
Above \$50.00 to \$100.00	\$1.50
Above \$100.00	\$2.00

(2) *Time Deadline.* A party that believes that it participated in a transaction that was the result of an Obvious Error must notify the Exchange’s Help Desk in the manner specified from time to time by the Exchange in a circular distributed to Participants. Such notification must be received by the Exchange’s Help Desk within the timeframes specified below:

(A) *Customer Orders.* For an execution of a Customer order, a filing must be received by the Exchange within thirty (30) minutes of the execution, subject to sub-paragraph (C) below; and

(B) *“Non-Customer” Orders.* For an execution of any order other than a Customer order, a filing must be received by the Exchange within fifteen (15) minutes of the execution, subject to sub-paragraph (C) below.

(C) *Linkage Trades.* Any other options exchange will have a total of forty-five (45) minutes for Customer orders and thirty (30) minutes for non-Customer orders, measured from the time of execution on the Exchange, to file with the Exchange for review of transactions routed to the Exchange from that options exchange and executed on the Exchange (“linkage trades”). This includes filings on behalf of another options exchange filed by a third-party routing broker if such third-party broker identifies the affected transactions as linkage trades. In order to facilitate timely reviews of linkage trades the Exchange will accept filings from either the other options exchange or, if applicable, the third-party routing broker that routed the applicable order(s). The additional fifteen (15) minutes provided with respect to linkage trades shall only apply to the extent the options exchange that originally received and routed the order to the Exchange itself received a timely filing from the entering participant (i.e., within 30 minutes if a Customer order or 15 minutes if a non-Customer order).

(3) *Official Acting on Own Motion.* An Official may review a transaction believed to be erroneous on his/her own motion in the interest of maintaining a fair and orderly market and for the protection of investors. A transaction reviewed pursuant to this paragraph may be nullified or adjusted only if it is determined by the Official that the transaction is erroneous in accordance with the provisions of this Rule, provided that the time deadlines of sub-paragraph (c)(2) above shall not apply. The Official shall act as soon as possible after becoming aware of the transaction, and ordinarily would be expected to act on the same day that the transaction occurred. In no event shall the Official act later than 7:30

a.m. Central Time on the next trading day following the date of the transaction in question. Transactions adjusted or nullified under this provision cannot be reviewed by an Obvious Error Panel under paragraph (k) but can be appealed in accordance with paragraph (m) below; however, a determination by an Official not to review a transaction or determination not to nullify or adjust a transaction for which a review was conducted on an Official's own motion is not appealable. If a transaction is reviewed and a determination is rendered pursuant to another provision of this Rule, no additional relief may be granted under this provision.

(4) *Adjust or Bust.* If it is determined that an Obvious Error has occurred, the Exchange shall take one of the actions listed below. Upon taking final action, the Exchange shall promptly notify both parties to the trade electronically or via telephone.

(A) *Non-Customer Transactions.* Where neither party to the transaction is a Customer, the execution price of the transaction will be adjusted by the Official pursuant to the table below. Any non-Customer Obvious Error exceeding 50 contracts will be subject to the Size Adjustment Modifier defined in sub-paragraph (a)(4) above.

<b>Theoretical Price (TP)</b>	<b>Buy Transaction Adjustment – TP Plus</b>	<b>Sell Transaction Adjustment – TP Minus</b>
Below \$3.00	\$0.15	\$0.15
At or above \$3.00	\$0.30	\$0.30

(B) *Customer Transactions.* Where at least one party to the Obvious Error is a Customer, the trade will be nullified, subject to sub-paragraph (C) below.

(C) If any Participant submits requests to the Exchange for review of transactions pursuant to this rule, and in aggregate that Participant has 200 or more Customer transactions under review concurrently and the orders resulting in such transactions were submitted during the course of 2 minutes or less, where at least one party to the Obvious Error is a non-Customer, the Exchange will apply the non-Customer adjustment criteria set forth in sub-paragraph (A) above to such transactions.

(d) *Catastrophic Errors.*

(1) *Definition.* For purposes of this Rule, a Catastrophic Error will be deemed to have occurred when the execution price of a transaction is higher or lower than the Theoretical Price for the series by an amount equal to at least the amount shown below:

<b>Theoretical Price</b>	<b>Minimum Amount</b>
Below \$2.00	\$0.50
\$2.00 to \$5.00	\$1.00
Above \$5.00 to \$10.00	\$1.50
Above \$10.00 to \$20.00	\$2.00

Above \$20.00 to \$50.00	\$2.50
Above \$50.00 to \$100.00	\$3.00
Above \$100.00	\$4.00

(2) *Time Deadline.* A party that believes that it participated in a transaction that was the result of a Catastrophic Error must notify the Exchange’s Help Desk in the manner specified from time to time by the Exchange in a circular distributed to Participants. Such notification must be received by the Exchange’s Help Desk by 7:30 a.m. Central Time on the first trading day following the execution. For transactions in an expiring options series that take place on an expiration day, a party must notify the Exchange’s Help Desk within 45 minutes after the close of trading that same day. Relief will not be granted under paragraph (d) if an Obvious Error Panel has previously rendered a decision with respect to the transaction(s) in question.

(3) *Adjust or Bust.* If an Official determines that a Catastrophic Error has not occurred, the Participant will be subject to a charge of \$5,000. If it is determined that a Catastrophic Error has occurred, the Exchange shall take action as set forth below. Upon taking final action, the Exchange shall promptly notify both parties to the trade electronically or via telephone. In the event of a Catastrophic Error, the execution price of the transaction will be adjusted by the Official pursuant to the table below. Any Customer order subject to this sub-paragraph will be nullified if the adjustment would result in an execution price higher (for buy transactions) or lower (for sell transactions) than the Customer’s limit price.

<b>Theoretical Price (TP)</b>	<b>Buy Transaction Adjustment – TP Plus</b>	<b>Sell Transaction Adjustment – TP Minus</b>
Below \$2.00	\$0.50	\$0.50
\$2.00 to \$5.00	\$1.00	\$1.00
Above \$5.00 to \$10.00	\$1.50	\$1.50
Above \$10.00 to \$20.00	\$2.00	\$2.00
Above \$20.00 to \$50.00	\$2.50	\$2.50
Above \$50.00 to \$100.00	\$3.00	\$3.00
Above \$100.00	\$4.00	\$4.00

(e) *Significant Market Events.*

(1) *Definition.* For purposes of this Rule, a Significant Market Event will be deemed to have occurred when: criterion (A) below is met or exceeded or the sum of all applicable event statistics, where each is expressed as a percentage of the relevant threshold in criteria (A) through (D) below, is greater than or equal to 150% and 75% or more of at least one category is reached, provided that no single category can contribute more than 100% to the sum and any category contributing more than 100% will be rounded down to 100%. All criteria set forth below will be measured in aggregate across all exchanges.

(A) Transactions that are potentially erroneous would result in a total Worst-Case Adjustment Penalty of \$30,000,000, where the Worst-Case Adjustment Penalty is computed as the sum, across all potentially erroneous trades, of:

- (i) \$0.30 (i.e., the largest Transaction Adjustment value listed in sub-paragraph (e)(3)(A) below); times
- (ii) the contract multiplier for each traded contract; times
- (iii) the number of contracts of each trades; times
- (iv) the appropriate Size Adjustment Modifier for each trade, if any, as defined in sub-paragraph (e)(3)(A) below.

(B) Transactions involving 500,000 options contracts are potentially erroneous;

(C) Transactions with a notional value (i.e., number of contracts traded multiplied by the option premium multiplied by the contract multiplier) of \$100,000,000 are potentially erroneous;

(D) 10,000 transactions are potentially erroneous.

(2) *Coordination with Other Options Exchanges.* To ensure consistent application across options exchanges, in the event of a suspected Significant Market Event, the Exchange shall initiate a coordinated review of potentially erroneous transactions with all other affected options exchanges to determine the full scope of the event. When this paragraph is invoked, the Exchange will promptly coordinate with the other options exchanges to determine the appropriate review period as well as select one or more specific points in time prior to the transactions in question and use one or more specific points in time to determine Theoretical Price. Other than the selected points in time, if applicable, the Exchange will determine Theoretical Price in accordance with paragraph (b) above.

(3) *Adjust or Bust.* If it is determined that a Significant Market Event has occurred then, using the parameters agreed as set forth in sub-paragraph (e)(2) above, if applicable, an Official will determine whether any or all transactions under review qualify as Obvious Errors. The Exchange shall take one of the actions listed below with respect to all transactions that qualify as Obvious Errors pursuant to sub-paragraph (c)(1) above. Upon taking final action, the Exchange shall promptly notify both parties to the trade electronically or via telephone.

(A) The execution price of each affected transaction will be adjusted by an Official to the price provided below unless both parties agree to adjust the transaction to a different price or agree to bust the trade. In the context of a Significant Market Event, any error exceeding 50 contracts will be subject to the Size Adjustment Modifier defined in sub-paragraph (a)(4) above.

<b>Theoretical Price (TP)</b>	<b>Buy Transaction Adjustment – TP Plus</b>	<b>Sell Transaction Adjustment – TP Minus</b>
Below \$3.00	\$0.15	\$0.15
At or above \$3.00	\$0.30	\$0.30

(B) Where at least one party to the transaction is a Customer, the trade will be nullified if the adjustment would result in an execution price higher (for buy transactions) or lower (for sell transactions) than the Customer’s limit price.

(4) *Nullification of Transactions.* If the Exchange, in consultation with other options exchanges, determines that timely adjustment is not feasible due to the extraordinary nature of the situation, then the Exchange will nullify some or all transactions arising out of the Significant Market Event during the review period selected by the Exchange and other options exchanges consistent with this paragraph. To the extent the Exchange, in consultation with other options exchanges, determines to nullify less than all transactions arising out of the Significant Market Event, those transactions subject to nullification will be selected based upon objective criteria with a view toward maintaining a fair and orderly market and the protection of investors and the public interest.

(5) *Final Rulings.* With respect to rulings made pursuant to this paragraph, the number of affected transactions is such that immediate finality is necessary to maintain a fair and orderly market and to protect investors and the public interest. Accordingly, rulings by the Exchange pursuant to this paragraph are non-appealable.

(f) *Trading Halts.* The Exchange shall nullify any transaction that occurs during a trading halt in the affected option on the Exchange pursuant to Rule 6.32.

(g) *Erroneous Print in Underlying.* A trade resulting from an erroneous print(s) disseminated by the underlying market that is later nullified by that underlying market shall be adjusted or busted as set forth in sub-paragraph (c)(4) of this Rule, provided a party notifies the Exchange’s Help Desk in a timely manner as set forth below. For purposes of this paragraph, a trade resulting from an erroneous print(s) shall mean any options trade executed during a period of time for which one or more executions in the underlying security are nullified and for one second thereafter. If a party believes that it participated in an erroneous transaction resulting from an erroneous print(s) pursuant to this paragraph it must notify the Exchange’s Help Desk within the timeframes set forth in sub-paragraph (c)(2) above, with the allowed notification timeframe commencing at the time of notification by the underlying market(s) of nullification of transactions in the underlying security. If multiple underlying markets nullify trades in the underlying security, the allowed notification timeframe will commence at the time of the first market’s notification.

(h) *Erroneous Quote in Underlying.* A trade resulting from an erroneous quote(s) in the underlying security shall be adjusted or busted as set forth in sub-paragraph (c)(4) of this

Rule, provided a party notifies the Exchange's Help Desk in a timely manner as set forth below. An erroneous quote occurs when the underlying security has a width of at least \$1.00 and has a width at least five times greater than the average quote width for such underlying security during the time period encompassing two minutes before and after the dissemination of such quote. For purposes of this paragraph, the average quote width shall be determined by adding the quote widths of sample quotations at regular 15-second intervals during the four-minute time period referenced above (excluding the quote(s) in question) and dividing by the number of quotes during such time period (excluding the quote(s) in question). If a party believes that it participated in an erroneous transaction resulting from an erroneous quote(s) pursuant to this paragraph it must notify the Exchange's Help Desk in accordance with sub-paragraph (c)(2) above.

(i) *Stop (and Stop-Limit) Order Trades Triggered by Erroneous Trades.* Transactions resulting from the triggering of a stop or stop-limit order by an erroneous trade in an option contract shall be nullified by the Exchange, provided a party notifies the Exchange's Help Desk in a timely manner as set forth below. If a party believes that it participated in an erroneous transaction pursuant to this paragraph it must notify the Exchange's Help Desk within the timeframes set forth in sub-paragraph (c)(2) above, with the allowed notification timeframe commencing at the time of notification of the nullification of transaction(s) that triggered the stop or stop-limit order.

(j) *Linkage Trades.* If the Exchange routes an order pursuant to the Intermarket Options Linkage Plan that results in a transaction on another options exchange (a "Linkage Trade") and such options exchange subsequently nullifies or adjusts the Linkage Trade pursuant to its rules, the Exchange will perform all actions necessary to complete the nullification or adjustment of the Linkage Trade.

(k) Obvious Error Panel.

(1) Composition. An Obvious Error Panel will be comprised of representatives from four (4) Participants. Two (2) of the representatives must be directly engaged in market making activity and two (2) of the representatives must be employed by non-Market-Maker Participants.

(2) Scope of Review. If a party affected by a determination made under paragraph (c) so requests within the time permitted in paragraph (k)(3) below, an Obvious Error Panel will review decisions made under this Rule, including whether an obvious error occurred, whether the correct Theoretical Price was used, and whether the correct adjustment was made at the correct price. A party may also request that the Obvious Error Panel provide relief as required in this Rule in cases where the party failed to provide the notification required in paragraph (c)(2) and an extension was not granted, but unusual circumstances must merit special consideration. A party cannot request review by an Obvious Error Panel of determinations by a CBOE Official made pursuant to paragraph (c)(3) of this Rule.



(3) Procedure for Requesting Review. A request for review must be made in writing within thirty (30) minutes after a party receives notification of a determination under paragraph (c), except that if notification is made after 2:30 p.m. Central Time (“CT”), either party has until 8:30 a.m. CT the next trading day to request review. The Obvious Error Panel shall review the facts and render a decision on the day of the transaction, or the next trade day in the case where a request is properly made the next trade day.

(4) Panel Decision. The Obvious Error Panel may overturn or modify an action taken under this Rule upon agreement by a majority of the Panel representatives. All determinations by the Obvious Error Panel may be appealed in accordance with paragraph (m) of this Rule.

(l) *Catastrophic Error Panel*

(1) Composition. A Catastrophic Error Panel will be comprised of representatives from four (4) Participants. Two (2) of the representatives must be directly engaged in market making activity and two (2) of the representatives must be employed by non-Market-Maker Participants.

(2) Scope of Review. If a party affected by a determination made under paragraph (d) so requests within the time permitted in paragraph (l)(3) below, a Catastrophic Error Panel will review decisions made under this Rule, including whether a catastrophic error occurred, whether the correct Theoretical Price was used, and whether the correct adjustment was made at the correct price.

(3) Procedure for Requesting Review. A request for review must be made in writing within thirty (30) minutes after a party receives notification of a determination under paragraph (d), except that if notification is made after 2:30 p.m. Central Time (“CT”), either party has until 8:30 a.m. CT the next trading day to request review. The Catastrophic Error Panel shall review the facts and render a decision on the day of the transaction, or the next trade day in the case where a request is properly made the next trade day.

(4) Panel Decision. The Catastrophic Error Panel may overturn or modify an action taken under this Rule upon agreement by a majority of the Panel representatives. All determinations by the Catastrophic Error Panel may be appealed in accordance with paragraph (m) of this Rule.

(m) Review. Subject to the limitations contained in (c)(3) above, a Participant affected by a determination made under this Rule may appeal such determination, in accordance with Chapter XIX of the Exchange’s rules. For purposes of this Rule, a Participant must be aggrieved as described in Rule 19.1. Notwithstanding any provision in Rule 19.2 to the contrary, a request for review must be made in writing (in a form and manner prescribed by the Exchange) no later than the close of trading on the next trade date after the Participant receives notification of such determination from the Exchange.

***...Interpretations and Policies:***

**.01** Limit Up-Limit Down State. The following policy (Rule 6.15.01) shall be in effect during a pilot period to coincide with the pilot period for the Plan to Address Extraordinary Market Volatility Pursuant to Rule 608 of Regulation NMS under the Act (the “Plan”), including any extensions to the pilot period for the Plan. An execution will not be subject to review as an Obvious Error or Catastrophic Error pursuant to paragraph (c) or (d) of this Rule if it occurred while the underlying security was in a “Limit State” or “Straddle State,” as defined in the Plan. Nothing in this provision shall prevent such execution from being reviewed on an Official’s own motion pursuant to sub-paragraph (c)(3) of this Rule, or a bust or adjust pursuant to paragraphs (e) through (j) and Interpretation .06 of this Rule.

**.02** For the purposes of this Rule, to the extent the provisions of this Rule would result in the Exchange applying an adjustment of an erroneous sell transaction to a price lower than the execution price or an erroneous buy transaction to a price higher than the execution price, the Exchange will not adjust or nullify the transaction, but rather, the execution price will stand.

**.03** To qualify as a representative of a non-Market-Maker Participant on an Obvious Error Panel or Catastrophic Error Panel, a person must (i) be employed by a Participant whose revenues from options market making activity do not exceed ten percent (10%) of its total revenues; or (ii) have as his or her primary responsibility the handling of Public Customer orders or supervisory responsibility over persons with such responsibility, and not have any responsibilities with respect to market making activities.

**.04** The Exchange shall designate at least ten (10) Market-Maker representatives and at least ten (10) non-Market-Maker representatives to be called upon to serve on Obvious Error Panels and Catastrophic Error Panels as needed. In no case shall an Obvious Error Panel or Catastrophic Error Panel include a person related to a party to the trade in question. To the extent reasonably possible, the Exchange shall call upon the designated representatives to participate on an Obvious Error Panel on an equally frequent basis.

**.05** Any determination made by an Official, an Obvious Error Panel, or a Catastrophic Error Panel under this Rule shall be rendered without prejudice as to the rights of the parties to the transaction to submit a dispute to arbitration.

**.06** Verifiable Disruptions or Malfunctions of Exchange Systems: Electronic transactions arising out of a “verifiable disruption or malfunction” in the use of operation of any Exchange automated quotation, dissemination, execution, or communication system will either be nullified or adjusted by an Official. Transactions that qualify for price adjustment will be adjusted to Theoretical Price, as defined in paragraph (b) above.

**.07** Complex Orders and Stock-Option Orders:

(a) If a complex order executes against individual legs and at least one of the legs qualifies as an Obvious Error under paragraph (c)(1) or a Catastrophic Error under paragraph (d)(1), then the leg(s) that is an Obvious or Catastrophic Error will be adjusted in accordance with paragraphs (c)(4)(A) or (d)(3), respectively, regardless of whether one of the parties is a Customer. However, any Customer order subject to this paragraph (a) will be nullified if the adjustment would result in an execution price higher (for buy transactions) or lower (for sell transactions) than the Customer's limit price on the complex order or individual leg(s). If any leg of a complex order is nullified, the entire transaction is nullified.

(b) If a complex order executes against another complex order and at least one of the legs qualifies as an Obvious Error under paragraph (c)(1) or a Catastrophic Error under paragraph (d)(1), then the leg(s) that is an Obvious or Catastrophic Error will be adjusted or busted in accordance with paragraph (c)(4) or (d)(3), respectively, so long as either: (i) the width of the National Spread Market for the complex order strategy just prior to the erroneous transaction was equal to or greater than the amount set forth in the wide quote table of paragraph (b)(3) or (ii) the net execution price of the complex order is higher (lower) than the offer (bid) of the National Spread Market for the complex order strategy just prior to the erroneous transaction by an amount equal to at least the amount shown in the table in paragraph (c)(1). If any leg of a complex order is nullified, the entire transaction is nullified. For purposes of Rule 6.15, the National Spread Market for a complex order strategy is determined by the National Best Bid/Offer of the individual legs of the strategy.

(c) If the option leg of a stock-option order qualifies as an Obvious Error under paragraph (c)(1) or a Catastrophic Error under paragraph (d)(1), then the option leg that is an Obvious or Catastrophic Error will be adjusted in accordance with paragraph (c)(4)(A) or (d)(3), respectively, regardless of whether one of the parties is a Customer. However, the option leg of any Customer order subject to this paragraph (c) will be nullified if the adjustment would result in an execution price higher (for buy transactions) or lower (for sell transactions) than the Customer's limit price on the stock-option order, and the Exchange will attempt to nullify the stock leg. Whenever a stock trading venue nullifies the stock leg of a stock-option order or whenever the stock leg cannot be executed, the Exchange will nullify the option leg upon request of one of the parties to the transaction or in accordance with paragraph (c)(3).

[Adopted December 10, 2009; Amended April 8, 2013 (SR-C2-2013-013); Amended July 3, 2013 (SR-C2-2013-024); Amended October 28, 2013 (SR-C2-2013-038); Amended April 1, 2014 (SR-C2-2014-008); Amended February 19, 2015 (SR-C2-2015-003); Amended May 7, 2015 (SR-C2-2015-012); Amended August 14, 2015 (SR-C2-2015-018); Amended October 22, 2015 (SR-C2-2015-029); Amended March 15, 2017 (SR-C2-2017-011)]

#### **Rule 6.16. Price Binding Despite Erroneous Report**

The price at which an order or quote is executed shall be binding notwithstanding that an erroneous report in respect thereto may have been rendered, or no report rendered. A report

shall not be binding if an order or quote was not actually executed but was in error reported to have been executed.

[Adopted December 10, 2009; Amended June 29, 2016 (SR-C2-2016-010)]

**Rule 6.17. Price Check Parameters and Risk Controls**

The System's acceptance and execution of orders and quotes are subject to the price protection mechanisms and risk controls in this Rule 6.17 and otherwise set forth in the Rules. The Exchange may share any Participant-designated risk settings in the System with a Clearing Participant that clears Exchange transactions on behalf of the Participant.

(a) Market Width and Drill Through Parameters:

(1) Market-Width Parameter: The System will cancel an eligible market order if the width between the national best bid and national best offer is not within an acceptable price range ("APR"). The Exchange will determine the APR on a class-by-class basis, which the Exchange will announce by Regulatory Circular and will be no less than: \$0.375 between the bid and offer for each option contract for which the bid is less than \$2, \$0.60 where the bid is at least \$2 but does not exceed \$5, \$0.75 where the bid is more than \$5 but does not exceed \$10, \$1.20 where the bid is more than \$10 but does not exceed \$20, and \$1.50 where the bid is more than \$20.

(2) Drill-Through Parameter:

(A) If a buy (sell) order not exposed via HAL (pursuant to Rule 6.18) partially executes, and the System determines the unexecuted portion of the order would execute at a subsequent price higher (lower) than the price that is an acceptable tick distance ("ATD") above (below) the NBO (NBB) ("drill through price"), the System will not automatically execute that portion and will expose that portion via HAL at the better of the NBBO and the drill through price (if eligible for HAL). The Exchange will determine the ATD on a class and premium basis (which may be no less than two minimum increment ticks), which the Exchange will announce via Regulatory Circular.

(B) If a buy (sell) order is exposed via SAL or HAL (other than pursuant to subparagraph (A)) and, following the exposure period pursuant to Rule 6.14 or 6.18, respectively, the System determines the order (or any unexecuted portion) would execute at a price higher (lower) than the drill through price, the System will not automatically execute that order (or unexecuted portion).

(C) Any order (or portion) not executed pursuant to subparagraphs (A) or (B) above will rest in the book (based on the time at which it enters the book for priority purposes) for a time period in milliseconds (which the Exchange will determine and announce via Regulatory Circular and will not exceed three seconds) with a price equal to the drill through price (except orders (or any unexecuted portions) that by

their terms cancel if they do not execute immediately (such as immediate-or-cancel, fill-or-kill, intermarket sweep, and market-maker trade prevention orders) will be cancelled). If any order (or any unexecuted portion) does not execute during that time period, the System cancels it.

(D) Notwithstanding subparagraphs (A) to (C), if the System determines a buy (sell) order (or any unexecuted portion) not eligible for SAL or HAL pursuant to Rule 6.14 or 6.18, respectively, would execute at a subsequent price higher (lower) than the drill through price, the System will cancel the order (or any executed portion).

(E) This subparagraph (a)(2) does not apply to executions of orders following an exposure via HAL at the open, which are subject to the drill through protection in Rule 6.11(g)(2) and Interpretation and Policy .04.

(b) Limit Order Price Parameters: The System rejects back to a Participant an order to buy (sell) at more than an acceptable tick distance above (below) if:

(1) prior to the opening of a series (including during any pre-opening period and opening rotation), (A) the last disseminated NBO (NBB) if a series is open on another exchange(s), or (B) the Exchange's previous day's closing price, if a series is not yet open on any other exchange; if the NBBO is locked, crossed or unavailable; or if there is no NBO (NBB) and the previous day's closing price is greater (less) than or equal to the NBB (NBO). However, this does not apply to orders of Exchange Market-Makers or away Market-Makers, or to Intermarket Sweep Orders ("ISOs"); if there is no NBO (NBB) and the Exchange's previous day's closing price is less (greater) than the NBB (NBO); or if there is no NBBO and no Exchange previous day's closing price;

(2) intraday, (A) the last disseminated NBO (NBB) or (B) the Exchange's best offer (bid), if the NBBO is locked, crossed or unavailable. However, this does not apply if there is no NBBO and no BBO; or

(3) during a halt (including during any pre-opening period or opening rotation prior to re-opening following the halt), the last disseminated NBO (NBB). However, this does not apply to a buy (sell) order if the NBBO is locked, crossed or unavailable; to ISOs; or if there is no NBO (NBB).

For purposes of this paragraph (b): An "acceptable tick distance" (which is referred to as an "ATD"), as determined by the Exchange on a class-by-class and premium basis and announced to Participants via Regulatory Circular, shall be no less than two minimum increment ticks for simple orders. The Exchange may determine to apply a different ATD to orders entered during the pre-opening, a trading rotation, or a trading halt. The checks in subparagraphs (1) through (3) do not apply to orders with a stop contingency. The limit order price parameter will take precedence over another price check parameter to the extent that both are applicable to an incoming limit order. The Exchange may determine to widen or narrow the ATDs with respect to particular order types, in the interests of fair and orderly

markets or, in furtherance of the objectives of the Options Order Protection and Locked/Crossed Market Plan, as announced via Regulatory Circular.

(c) For purposes of paragraphs (a) and (b) of this Rule,

The senior official in the Help Desk may grant intra-day relief by widening or inactivating one or more of the applicable APR and/or ATD parameter settings in the interest of a fair and orderly market, which the Exchange will announce via electronic message to Trading Permit Holders that request to receive such messages. Such intra-day relief will not extend beyond the trade day on which it is granted, unless a determination to extend such relief is announced to Trading Permit Holders via Regulatory Circular. The Exchange will make and keep records to document all determinations to grant intra-day relief under this Rule, and shall maintain those records in accordance with Rule 17a-1 under the Exchange Act. The Exchange will periodically review determinations to grant intra-day relief for consistency with the interest of a fair and orderly market.

(d) *Put Strike Price and Call Underlying Value Checks.*

(1) The System rejects back to the Participant a quote or buy order for:

(A) a put if the price of the quote bid or a buy limit order, or the price at which a buy market order (or any remaining size after partial execution), is greater than or equal to the strike price of the option; or

(B) a call if the price of the quote bid or a buy limit order, or the price at which a buy market order (or any remaining size after partial execution) would execute, is greater than or equal to the consolidated last sale price of the underlying security, with respect to equity and ETF options, or the last disseminated value of the underlying index, with respect to index options.

If the System rejects a Market-Maker's quote pursuant to either check in the above subparagraphs, the System cancels any resting quote of the Market-Maker in the same series.

(2) The Exchange may determine not to apply to a class either the put check in subparagraph (1)(A) or the call check in subparagraph (1)(B) above if a senior official at the Exchange's Help Desk determines the applicable check should not apply in the interest of maintaining a fair and orderly market, which the Exchange will announce by electronic message to Trading Permit Holders that request to receive such messages. The call check in subparagraph (1)(B) above does not apply to adjusted classes or if market data for the underlying is unavailable. The checks in subparagraphs (1)(A) and (B) do not apply to market orders executed during an opening rotation.

(3) These checks apply to buy auction responses in the same manner as it does to orders and quotes.

(4) The checks in subparagraph (1) above apply to pairs of orders submitted to AIM or SAM. If the System rejects either order in the pair pursuant to the applicable check, then the System also cancels the paired order. Notwithstanding the foregoing, with respect to an AIM order that instructs the System to process the agency order as an unpaired order if an AIM auction cannot be initiated, if the System rejects the agency order pursuant to the applicable check, then the System also rejects the contra-side order; however, if the System rejects the contra-side order pursuant to the applicable check, the System still accepts the agency order if it satisfies the applicable check.

(e) *Quote Inverting NBBO Check.* If C2 is at the NBO (NBB), the System rejects a quote back to a Market-Maker if the quote bid (offer) crosses the NBO (NBB) by more than a number of ticks specified by the Exchange (which will be no less than three minimum increment ticks and announced to Participants by Regulatory Circular). If C2 is not at the NBO (NBB), the System rejects a quote back to a Market-Maker if the quote bid (offer) locks or crosses the NBO (NBB). If the System rejects a Market-Maker's quote pursuant to this check, the System also cancels any resting quote of the Market-Maker in the same series.

(1) When a series is open for trading, if the NBBO is unavailable, locked or crossed, then this check compares the quote to the BBO (if available). If the BBO is also unavailable, then the System does not apply this check to incoming quotes.

(2) Prior to the opening of a series (including during any pre-opening period and opening rotation), the System does not apply this check to incoming quotes if the series is not open on another exchange.

(3) During a trading halt, the System does not apply this check to incoming quotes.

(4) A senior official at the Exchange's Help Desk may determine to not apply this check in the interest of maintaining a fair and orderly market.

(f) *Execution of Quotes That Lock or Cross NBBO.* If the System accepts a quote that locks or crosses the NBBO, the System executes the quote bid (offer) against quotes and orders in the Book at a price(s) that is the same or better than the best price disseminated by an away exchange(s) up to the size available on the Exchange and either (1) cancels any remaining size of the quote, if the price of the quote locks or crosses the price disseminated by the away exchange(s) or (2) books any remaining size of the quote, if the price of the quote does not lock or cross the price of the away exchange(s). If the NBBO is locked, crossed or unavailable, then the System does not apply this check to incoming quotes. Additionally, a senior official at the Exchange's Help Desk may determine not to apply this check in the interest of maintaining a fair and orderly market.

(g) *Order Entry, Execution and Price Parameter Rate Checks.* (1) Each Participant must provide to the Exchange parameters for an acronym or, if the Participant requests, a login, for each of the following rate checks. The System counts each of the following over rolling time intervals, which the Exchange will set and announce via Regulatory Circular:

(A) the total number of orders (of all order types) and auction responses entered and accepted by the System (“orders entered”);

(B) the total number of contracts (from orders and auction responses) executed on the System, which does not count stock contracts executed as part of stock-option orders (“contracts executed”);

(C) the total number of orders the System books or cancels (except orders (or any unexecuted portions) that by their terms cancel if they do not execute immediately (such as immediate-or-cancel, fill-or-kill, intermarket sweep, and market-maker trade prevention orders)) pursuant to the drill through price check parameter in subparagraph (a)(2) of this Rule (“drill through events”); and

(D) the total number of orders the System cancels due to the limit order price parameter in paragraph (b) of this Rule and in Rule 6.13, Interpretation and Policy .04(f) and (g) (“price reasonability events”).

(2) When the System determines the orders entered, contracts executed, drill through order events or price reasonability events within the applicable time interval exceeds a Participant’s parameter, the System (A) rejects all subsequent incoming orders and quotes, (B) cancels all resting quotes (if the acronym or login is for a Market-Maker), and (C) for the orders entered and contracts executed checks, if the Participant requests, cancels resting orders (either all orders, orders with time-in-force of day, or orders entered on that trading day) for the acronym or login, as applicable.

(3) The System will not accept new orders or quotes from a restricted acronym or login, as applicable, until the Exchange receives the Participant’s manual notification (in a form and manner determined by the Exchange, which will be announced by Regulatory Circular) to reactivate its ability to send orders and quotes for the acronym or login. While an acronym or login is restricted, a Participant may continue to interact with orders entered prior to its acronym or login becoming restricted, including receiving trade execution reports and canceling resting orders.

(h) *Maximum Contract Size.* The System rejects a Participant’s incoming order or quote (including both sides of a two-sided quote) if its size exceeds the maximum contract size designated by the Participant. Each Participant must provide a maximum contract size for each of simple orders, complex orders (the contract size for which equals the contract size of the largest option leg of the order) and quotes applicable to an acronym or, if the Participant requests, a login.

(1) If a Participant enters an order or quote to replace a resting order or update a resting quote, respectively, and the System rejects the incoming order or quote because it



exceeds the applicable maximum contract size, the System also cancels the resting order or any resting quote in the same series.

(2) This check also applies to pairs of orders submitted to AIM or SAM order. If the System rejects either order in the pair, then the System also rejects the paired order. Notwithstanding the foregoing, with respect to an A:AIR order, if the System rejects the Agency Order, then the System rejects the contra-side order; however, if the System rejects the contra-side order, the System still accepts the Agency Order.

(i) *Kill Switch.* (1) A Participant may send a message to the System to, or contact the Exchange Help Desk to request that the Exchange, cancel all its resting quotes (if the acronym or login is for a Market-Maker), resting orders (either all orders, orders with time-in-force of day, or orders entered on that trading day), or both, for an acronym or login. The System will send a Participant an automated message when it has processed a kill switch request for an acronym or login.

(2) Once a Participant initiates the kill switch for an acronym or login, the System rejects all subsequent incoming orders and quotes for the acronym or login, as applicable. The System will not accept new orders or quotes from a restricted acronym or login until the Exchange receives the Participant's manual notification (in a form and manner determined by the Exchange, which will be announced by Regulatory Circular) to reactivate its ability to send orders and quotes for the acronym or login. While an acronym or login is restricted, a Participant may continue to interact with orders entered prior to its acronym or login becoming restricted, including receiving trade execution reports and canceling resting orders.

[Adopted November 3, 2010 (SR-C2-2010-008); Amended July 17, 2015 (SR-C2-2015-021); Amended January 21, 2016 (SR-C2-2015-033); Amended December 14, 2016 (SR-C2-2016-020)]

### **Rule 6.18. HAL**

This Rule governs the operation of the HAL system. HAL is a feature within the System that provides automated order handling in designated classes for qualifying electronic orders that are not automatically executed by the System.

(a) *HAL Eligibility.* The Exchange shall designate eligible order size, eligible order type, eligible order origin code (*i.e.*, public customer orders, non-Market Maker broker-dealer orders, and Market Maker broker-dealer orders), and classes in which HAL shall be activated. HAL shall automatically process upon receipt:

(i) an eligible order that is marketable against the Exchange's disseminated quotation while that quotation is not the NBBO, unless the Exchange's quotation contains resting orders and does not contain sufficient Market-Maker quotation interest to satisfy the entire order;

(ii) an eligible order that would improve the Exchange's disseminated quotation and that is marketable against quotations disseminated by other exchanges that are participants in the Options Order Protection and Locked/Crossed Market Plan; or

(iii) an order (or any unexecuted portion) submitted to HAL pursuant to Rule 6.17(a)(2)(A).

(b) *Order Handling and Responses.* Upon receipt by HAL, the System will immediately expose electronically orders at the NBBO price, if received pursuant to subparagraphs (a)(i) through (ii), or at the better of the NBBO and the drill through price (as defined in Rule 6.17(a)(2)(A)), if received pursuant to subparagraph (a)(iii). The exposure shall be for a period of time determined by the Exchange on a class-by-class basis, which period of time shall not exceed 1 second.

All Trading Permit Holders may submit responses to the exposure message during the exposure period.

Responses (i) must be priced equal to or better than the Exchange's best bid/offer; (ii) must be limited to the size of the order being exposed; and (iii) may be cancelled and/or replaced any time during the exposure period.

(c) *Allocation of Exposed Orders.* Any responses priced at the prevailing NBBO or better shall immediately trade against the order (on a first come, first served basis). At the conclusion of the exposure period, the Exchange will evaluate all remaining responses as well as the disseminated best bid/offer on other exchanges and execute any remaining portion of the exposed order to the fullest extent possible at the best price(s) by first executing against responses (pursuant to the matching algorithm in effect for the class except that the participation entitlement and market turner status shall not apply to responses), and, second, routing Immediate-or-Cancel ("IOC") ISOs to other exchanges. Any portion of a routed IOC ISO that returns unfilled shall trade against the Exchange's best bid/offer unless another exchange is quoting at a better price in which case new IOC ISOs shall be generated and routed to trade against such better prices. Any executions at the Exchange's best bid/offer will first trade against interest that was resting at the price at the time the exposed order was received, and any remaining balance will trade against all new interest at that price (in both cases pursuant to the matching algorithm for that class). All executions on the Exchange pursuant to this paragraph shall comply with Rule 6.81. Executions will be subject to the price check parameter set forth in Rule 6.17(a)(2) when such price check functionality is enabled, and any unexecuted portion of an order that does not execute following the exposure period will be handled as set forth in Rule 6.17(a)(2)(C).

(d) *Early Termination of Exposure Period.* In addition to the receipt of a response to trade the entire exposed order at the NBBO or better, the exposure period will also terminate early under the following circumstances:

(i) If during the exposure period the Exchange receives an unrelated order (or quote) on the opposite side of the market from the exposed order that could trade against the exposed order at the prevailing NBBO price or better, then the orders (or order and quote) will trade at the prevailing NBBO price unless the unrelated order is a customer order in which case the orders will trade at the midpoint of the unrelated order's limit price and the prevailing NBBO. The exposure period shall not terminate if a quantity remains on the exposed order after such trade.

(ii) If during the exposure period the Exchange receives an unrelated order (or quote) on the same side of the market as the exposed order that is priced equal to or better than the exposed order, then the exposure period shall terminate and the exposed order shall be processed in accordance with paragraph (c).

(iii) If during the exposure of an order that is marketable against the Exchange's best bid/offer at the time the order was exposed ("Exchange Initial BBO"), Market-Maker interest at the Exchange Initial BBO decrements to a contract size equal to the size of the exposed order, then the exposure period shall terminate and the exposed order shall be processed in accordance with paragraph (c).

(iv) If during the exposure period of a market order the underlying security enters a limit up-limit down state, as defined in Rule 6.39, then the exposure period shall terminate and any unexecuted portion of the exposed order shall be cancelled.

*... Interpretations and Policies:*

**.01** The Exchange may determine, on a class-by-class basis, to not route ISOs to other exchanges on behalf of non-public customer orders that are exposed pursuant to this Rule. In such cases, any unexecuted balance of such non-public customer orders shall be cancelled at the conclusion of the exposure period.

**.02** All pronouncements regarding determinations by the Exchange pursuant to Rule 6.18 and the Interpretations and Policies thereunder will be announced to Trading Permit Holders via Regulatory Circular.

[Adopted February 1, 2013 (SR-C2-2012-043); Amended April 8, 2013 (SR-C2-2013-013); Amended June 29, 2016 (SR-C2-2016-010); Amended December 14, 2016 (SR-C2-2016-020)]

**Rule 6.19. Types of Order Formats**

Permit Holders shall submit orders using the following order format(s):

(i) *C2 Order Format 1.* C2 Order Format 1 orders must pass through various processes, including validation checks in the trade engine, before execution, entry into the book, or cancellation. C2 Order Format 1 supports all order types, including auction responses.

(ii) *C2 Order Format 2*. C2 Order Format 2 orders must pass through various processes, including validation checks in the trade engine, before execution, entry into the book, or cancellation. C2 Order Format 2 supports only Immediate-Or-Cancel, ISO, ISO-Book and C2-Only orders. Fewer fields are required for order entry using C2 Order Format 2 than C2 Order Format 1.

[Adopted September 26, 2013 (SR-C2-2013-034)]

#### **Rule 6.20. Reserved**

[Adopted January 10, 2015; Amended May 7, 2015 (SR-C2-2015-012)]

### **Section C: Operational and Liability Matters**

#### **Rule 6.30. Give Up of a Clearing Participant**

(a) *General*. For each transaction in which a Participant participates, a Participant must immediately give up the name of the Clearing Participant through which the transaction will be cleared (“give up”). The Clearing Participant that is given up must be a Designated Give Up or Guarantor of the Participant as set forth in paragraph (b) below. If a Designated Give Up determines to reject a trade in accordance with this Rule, the Guarantor for the executing Participant shall become the give up on the trade, unless another Clearing Participant agrees to accept the trade, in accordance with paragraph (f) below.

(b) *Designated Give Ups*.

(i) *Definition of Designated Give Up*. For purposes of this Rule, a “Designated Give Up” of a Participant shall refer to a Clearing Participant which has been identified to the Exchange by that Participant as a Clearing Participant that the Participant would like the ability to give up and which has been processed by the Exchange as a Designated Give Up.

(ii) *Definition of Guarantor*. For purposes of this Rule, a “Guarantor” of an executing Participant shall refer to a Clearing Participant that has issued a Letter of Guarantee or Letter of Authorization for the executing Participant under the Rules of the Exchange that is in effect at the time of the execution of the applicable trade.

(iii) *Identification of Designated Give Up*. Every Participant (other than a Market-Maker) must identify, in a form and manner prescribed by the Exchange and in advance of giving up any Clearing Participant that is not a Guarantor for the Participant, any Designated Give Ups. A Participant shall only give up a Clearing Participant that has previously been identified and processed by the Exchange as a Designated Give Up for that Participant, a Guarantor for that Participant, or

- another Clearing Participant that agrees to accept a trade in accordance with paragraph (f) below.
- (iv) *Non Market-Makers.* Any Participant (other than a Market-Maker) may designate, pursuant to subparagraph (b)(iii) above, any Clearing Participant other than its Guarantor, as a Designated Give Up. The Exchange will not accept any instructions, and not give effect to any previous instructions, from a Clearing Participant not to permit a Participant to designate the Clearing Participant as a Designated Give Up.
- (v) *Market-Makers.* For each transaction in which a Market-Maker participates, a Guarantor of the Market-Maker shall be the Clearing Participant through which the transaction will be cleared.
- (vi) *Guarantors.* A Guarantor for a Participant will be enabled to be given up for that Participant without any further action by the Participant.
- (vii) *Removal of Designated Give Up.* If a Participant (other than a Market-Maker) no longer wants the ability to give up a particular Designated Give Up, the Participant must notify the Exchange, in a form and manner prescribed by the Exchange.
- (c) *System.* The Exchange's trading systems shall only accept orders which identify an effective Designated Give Up or a Guarantor. The Exchange's trading systems shall reject any order entered by a Participant which designates a give up that is not at the time a Designated Give Up or Guarantor of the Participant.
- (d) *Notice to Clearing Participants.* The Exchange shall notify a Clearing Participant, in writing and as soon as practicable, of each Participant that has identified the Clearing Participant as a Designated Give Up pursuant to subparagraph (b)(iii) above.
- (e) *Acceptance of a Trade.*
- (i) *Designated Give Ups.* A Designated Give Up may determine in accordance with the provisions of this Rule not to accept a trade for which its name was given up if it believes in good faith that it has a valid reason not to accept the trade and follows the procedures set forth in paragraph (f) below.
- (ii) *Guarantors.* A Guarantor must accept a trade for which its name was given up in relation to a Participant (other than a Market-Maker) for which it is a Guarantor unless (i) another Clearing Participant agrees to be the give up on the subject trade, (ii) the Clearing Participant has first notified the Exchange and the executing Participant in writing of its intent to accept the trade, and (iii) the give up is changed to the Clearing Participant that has agreed to accept the trade in accordance with the procedures in paragraph (f) below. A Guarantor for a

Participant that is a Market-Maker must accept a trade for which its name was given up in relation to a Market-Maker trade by that Participant.

(f) *Procedures to Reject a Trade:* In the event a Designated Give Up determines to reject a trade, the following procedures shall apply:

(i) *Notification to Participant.* If a Designated Give Up decides to reject a trade, it must notify the executing Participant or its designated agent as soon as possible and should attempt to resolve the disputed give up. The notification must be in writing. A Designated Give Up may contact the Exchange and request the identity and contact information of the executing Participant or its designated agent for any trade it intends to reject.

(ii) *Change of Give Up Made On Trade Date.* A Designated Give Up may, following notification to the Participant pursuant to subparagraph (f)(i), contact the Exchange and request the ability to change the give up on the trade. Upon such a request and so long as the Exchange is able to process the request prior to the trade input cutoff time established by the Clearing Corporation (or fifteen minutes thereafter if the Exchange receives and is able to process a request to extend its time of final trade submission to the Clearing Corporation) (“Trade Date Cutoff Time”), the Exchange shall provide the Designated Give Up the ability to change the give up on the trade. The Designated Give Up can only change the give up to either (1) another Clearing Participant that has agreed to be the give up on the subject trade, so long as that Clearing Participant has first notified the Exchange and the executing Participant in writing of its intent to accept the trade or (2) a Guarantor for the executing Participant, so long as the Designated Give Up has first notified the Guarantor in writing that the Designated Give Up is changing the give up on the trade to the Guarantor. The ability to make such a change shall end at the Trade Date Cutoff Time.

(iii) *Change of Give Up Made On T+1.* A Designated Give Up may, following notification to the Participant pursuant to subparagraph (f)(i), contact the Exchange and request the ability to reject the trade on the next trading day (“T+1”). Upon such a request and so long as the Exchange is able to process the request prior to 12:00 p.m. (CT) on T+1 (“T+1 Cutoff Time”), the Exchange shall provide the Designated Give Up the ability to enter trade records into the Exchange’s systems that would effect a transfer of the trade to another Clearing Participant. The Designated Give Up can only transfer the trade to either (1) another Clearing Participant that has agreed to be the give up on the subject trade so long as that Clearing Participant has first notified the Exchange and executing Participant in writing of its intent to accept the trade or (2) a Guarantor for the executing Participant, so long as the Designated Give Up has first notified the Guarantor in writing that the Designated Give Up is transferring the give up on the trade to the Guarantor. The ability to make such a change shall end at the T+1 Cutoff Time.

- (iv) *Expiring Options Series.* For transactions in an expiring options series that take place on the last trading day prior to its expiration, no changes can be made to the give up on T+1. A Designated Give Up may only reject these transactions on the trade date until the Trade Date Cutoff Time in accordance with subparagraph (f)(ii) above.
- (v) *Notification of Change.* A Designated Give Up which changes the give up on a trade shall immediately thereafter notify, in writing, the Exchange, the Clearing Participant given up and all parties to the trade of the change.
- (g) *Other Give Up Changes.*
- (i) *Give Up Changes Made by Executing Participants:* If the executing Participant has the ability through an Exchange system to do so, the Participant may change the give up on the trade to another Designated Give Up or to its Guarantor. The ability of an executing Participant to make any give up change shall end at the Trade Date Cutoff Time.
- (ii) *Give Up Changes Made by Designated Give Ups to Affiliates and Back Office Agents:* If a Designated Give Up has the ability through an Exchange system to do so, the Designated Give Up may change the give up on a trade to (i) another Clearing Participant affiliated with the Designated Give Up or (ii) a Clearing Participant that is a back office agent for the Designated Give Up. The ability to make such a change shall end at the Trade Date Cutoff Time. The procedures in paragraph (f) above shall not apply to give up changes made pursuant to this subparagraph (g)(ii).
- (iii) *Give Up Changes Made by Designated Give Ups or Guarantors and Clearing Participants on T+1.* If a Designated Give Up (or Guarantor) and a Clearing Participant have the ability through an Exchange system to do so, the Designated Give Up (or Guarantor) and Clearing Participant may each enter trade records into the Exchange's systems on T+1 that would effect a transfer of the trade in a non-expired option series from that Designated Give Up (or Guarantor) to that Clearing Participant. The ability to make such a change shall end at the T+1 Cutoff Time. The Designated Give Up (or Guarantor) shall notify the Exchange and all the parties to the trade, in writing, of any such change. The procedures in paragraph (f) above shall not apply to give up changes made pursuant to this subparagraph (g)(iii).
- (h) *Responsibility:* For purposes of the Rules of the Exchange, a Clearing Participant shall be financially responsible for all trades for which it is the give up at the Applicable Cutoff Time. Nothing in this Rule shall preclude a different party from being responsible for the trade outside of the Rules of the Exchange pursuant to the Rules of the Clearing Corporation, any agreement between the applicable parties, other applicable rules and regulations, arbitration, court proceedings or otherwise. In processing the request to provide a Designated Give Up the ability to change the give up or to reject a trade

pursuant to this Rule, the Exchange will not, and has no obligation to, consider whether the Designated Give Up or any other party has satisfied the requirements of this Rule or any other Rule, including in relation to having a good faith belief that the Designated Give Up has a valid reason not to accept a trade or having notified the executing Participant and attempted to resolve the disputed give up prior to changing the give up or rejecting the trade. This Rule does not preclude these factors from being considered in a different forum such as is noted in the preceding sentence or by the Exchange for regulatory and disciplinary purposes. The Exchange's action to process a request to provide a Designated Give Up or Guarantor the ability to change the give up pursuant to this Rule shall not be subject to review, but a Clearing Participant that violates the provisions of this Rule in taking such an action will be subject to discipline in accordance with the Rules. For purposes of this Rule, the "Applicable Cutoff Time" shall refer to the T+1 Cutoff Time for non-expiring option series and to the Trade Date Cutoff Time for expiring option series.

*. . . Interpretations and Policies:*

**.01** Nothing herein shall be deemed to preclude the clearance of Exchange transactions by a non-Participant pursuant to the Bylaws of the Clearing Corporation so long as a Clearing Participant is also designated as having responsibility under these Rules for the clearance and comparison of such transactions.

[Adopted December 10, 2009; Amended January 9, 2017 (SR-C2-2017-004)]

**Rule 6.31. Reporting of Matched Trades to Clearing Corporation**

On each business day at or prior to such time as may be prescribed by the Clearing Corporation, the Exchange shall furnish the Clearing Corporation a report of each Clearing Participant's matched trades based on the trade information filed with the Exchange on that day. Only trades which have been matched in accordance with the provisions of these Rules shall be furnished by the Exchange to the Clearing Corporation, and the Exchange shall assume no responsibility with respect to any unmatched trade nor for any delays or errors in the reporting to it of trade information. The Exchange may delegate its responsibility in respect of trade matching to the Clearing Corporation or other facility, in which case Clearing Participants shall abide by the procedures established by the Clearing Corporation or other facility in the filing of trade information, the reconciliation of unmatched trades, and other actions pertinent to trade comparison.

[Adopted December 10, 2009]

**Rule 6.32. Trading Halts**

(a) *Halts.* The Help Desk may halt trading in any security in the interests of a fair and orderly market for a period not in excess of two consecutive business days. The Help Desk, in consultation with a designated senior executive officer of the Exchange, may halt trading in any security in the interests of a fair and orderly market for a period



exceeding two consecutive business days. Any trading halt that lasts more than two consecutive business days shall be reviewed by the President or his/her designee, who shall be authorized to determine whether, in the interests of a fair and orderly market, to terminate or modify any such trading halt that is then still in effect. Among the factors that may be considered in making the foregoing determinations are whether:

- (1) in the case of an option on a security, trading in the underlying security has been halted or suspended in one or more of the markets trading the underlying security,
- (2) in the case of an option on a security, the opening of such underlying security has been delayed because of unusual circumstances,
- (3) [reserved]
- (4) the extent to which the rotation has been completed or other factors regarding the status of the rotation, or
- (5) other unusual conditions or circumstances are present.

(b) *Resumptions.* Trading in a security that has been the subject of a halt under paragraph (a) above may be resumed upon a determination by the Help Desk that the interests of a fair and orderly market are best served by a resumption of trading. Among the factors to be considered in making this determination are whether the conditions which led to the halt are no longer present.

**. . . Interpretations and Policies:**

**.01** No Participant or person associated with a Participant shall effect a trade on the Exchange in any option class in which trading has been suspended or halted under the provisions of this Rule and its Interpretation and Policies during the time in which the suspension or halt remains in effect.

**.02** Generally, in the case of an option on a security, trading will be halted when a regulatory halt in the underlying security has occurred in the primary market for that security.

**.03** The Exchange shall halt trading in all stock options whenever a market-wide trading halt commonly known as a circuit breaker is initiated in response to extraordinary market conditions.

This Rule shall be in effect during a pilot period to coincide with the pilot period for the Regulation NMS Plan to Address Extraordinary Market Volatility. If the pilot is not either extended or approved permanently at the end of the pilot period, the prior version of Rule 6.32 shall be in effect.

(a) The Exchange will halt trading in all stock options and shall not reopen for the time periods specified in this Rule if there is a Level 1, 2, or 3 Market Decline. For purposes of this Rule:

(1) A “Market Decline” means a decline in price of the S&P 500 Index between 8:30 a.m. and 3:00 p.m. (all times are Chicago Time) on a trading day as compared to the closing price of the S&P500 Index for the immediately preceding trading day. The Level 1, Level 2, and Level 3 Market Declines that will be applicable for the trading day will be publicly disseminated before 8:30 a.m.

(2) A “Level 1 Market Decline” means a Market Decline of 7%.

(3) A “Level 2 Market Decline” means a Market Decline of 13%.

(4) A “Level 3 Market Decline” means a Market Decline of 20%.

(b) Halts in Trading:

(1) If a Level 1 or Level 2 Market Decline occurs after 8:30 a.m. and up to and including 2:25 p.m. or, in the case of an early scheduled close, 11:25 a.m., the Exchange shall halt trading in all stock options for 15 minutes after a Level 1 or Level 2 Market Decline. The Exchange shall halt trading based on a Level 1 or Level 2 Market Decline only once per trading day. The Exchange will not halt trading if a Level 1 or Level 2 Market Decline occurs after 2:25 p.m. or, in the case of an early scheduled close, 11:25 a.m.

(2) If a Level 3 Market Decline occurs at any time during the trading day, the Exchange shall halt trading in all stock options until the next trading day.

(c) Reopening of Trading:

(1) Upon reopening, a rotation shall be held in each class of options in accordance with Rule 6.11, unless the Exchange concludes that a different method of reopening is appropriate under the circumstances, including but not limited to, no rotation, an abbreviated rotation or any other variation in the manner of the rotation.

(2) If a circuit breaker is initiated in all stocks due to a Level 1 or Level 2 Market Decline:

(A) The Exchange will halt trading in each class of options on those stocks until trading has resumed on the primary listing market for the stocks or notice has been received from the primary listing market that trading may resume. If, however, trading has not resumed on the primary listing market for a stock within 15 minutes following the end of the 15-minute halt period, the Exchange may resume trading in the options if at least one market has resumed trading in the stock.

(B) The Exchange will halt trading in all other stock options not specified in subparagraph (1) above. The Exchange may resume trading in such other stock options anytime after the 15-minute halt period.

(d) Nothing in this Rule shall be construed to limit the ability of the Exchange to halt or suspend trading in any security or securities traded on the Exchange pursuant to any other Exchange rule or policy.

**.04** If a primary listing market issues an individual stock trading pause in an underlying eligible NMS stock, as defined in this Rule, the Exchange will halt trading in options on that stock until trading has resumed on the primary listing market for the stock, which generally will occur after a period of five minutes. If, however, trading has not resumed on the primary listing market for the stock after ten minutes have passed since the individual stock trading pause message has been received from the responsible single plan processor, the Exchange may resume trading in the options if at least one market has resumed trading in the stock.

(a) Upon receipt of a trading pause message from the single plan processor responsible for consolidation of information for the stock, the Exchange will automatically implement a trading halt in the overlying options traded on the Exchange.

(b) During the halt, the Exchange will maintain existing orders in the Book, accept orders, and process cancels.

(c) Upon reopening, a rotation shall be held in the options in accordance with Rule 6.11, unless the Exchange concludes that a different method of reopening is appropriate under the circumstances, including but not limited to, no rotation, an abbreviated rotation or any other variation in the manner of the rotation.

(d) Nothing in this Rule shall be construed to limit the ability of the Exchange to halt or suspend trading in any security or securities traded on the Exchange pursuant to any other Exchange rule or policy.

(e) The provisions of this Rule shall be in effect for options on eligible NMS stocks. The term “eligible NMS stocks” shall mean NMS stocks, other than rights and warrants.

**.05** The Exchange shall nullify any transaction that occurs: (a) during a trading halt in the affected option on the Exchange; or (b) with respect to equity options (including options overlying ETFs), during a regulatory halt as declared by the primary listing market for the underlying security.

[Adopted December 10, 2009; Amended September 30, 2010 (SR-C2-2010-004); Amended August 31, 2011 (SR-C2-2011-019); Amended November 23, 2011 (SR-C2-2011-036); Amended May 31, 2012 (SR-C2-2011-024); Amended July 30, 2013 (SR-C2-2013-027); Amended May 7, 2015 (SR-C2-2015-012)]

**Rule 6.33. Authority to Take Action Under Emergency Conditions**

The Chief Executive Officer, the President or such other person or persons as may be designated by the Board shall have the power to halt or suspend trading in some or all securities traded on the Exchange, to close some or all Exchange facilities, to determine the duration of any such halt, suspension or closing, to take one or more of the actions permitted to be taken by any person or body of the Exchange under Exchange rules, or to take any other action deemed to be necessary or appropriate for the maintenance of a fair and orderly market or the protection of investors, or otherwise in the public interest, due to emergency conditions or extraordinary circumstances, such as (1) actual or threatened physical danger, severe climatic conditions, natural disaster, civil unrest, terrorism, acts of war, or loss or interruption of facilities utilized by the Exchange, or (2) a request by a governmental agency or official, or (3) a period of mourning or recognition for a person or event. The person taking the action shall notify the Board of actions taken pursuant to this Rule, except for a period of mourning or recognition for a person or event, as soon thereafter as is feasible.

[Adopted December 10, 2009; Amended July 12, 2016 (SR-C2-2016-005)]

**Rule 6.34. Participant Electronic Connectivity**

(a) Market participants with authorized access may access the Exchange electronically to facilitate quote and order entry as well as auction processing via an “Application Programming Interface” (“API”) such as a CBOE Market Interface (“CMI”) API and/or the industry-standard Financial Information eXchange (“FIX”) Protocol. Multiple versions of an API may exist and be made available to all authorized market participants. Market participants may select which of these available APIs they would like to use to connect to the System.

(b) The Exchange may limit the number of messages sent by Participants accessing the Exchange electronically in order to protect the integrity of the System. In addition, the Exchange may impose restrictions on the use of a computer connected through an application programming interface (“API”) if it believes such restrictions are necessary to ensure the proper performance of the System. Any such restrictions shall be objectively determined and submitted to the Commission for approval pursuant to a rule change filing under Section 19(b) of the Exchange Act.

(c) In order to control the number of quotations the Exchange disseminates, the Exchange may utilize a mechanism so that newly-received quotations and other changes to the Exchange’s best bid and offer are not disseminated for a period of up to, but not more than one second.

(d) The System shall be available for entry and execution of orders and quotes only to Participants and persons associated with Participants with authorized access. The Exchange will require a Participant to enter into a software user or license agreement with the Exchange in such form or forms as the Exchange may prescribe in order to obtain

authorized access to the System, if the Participant elects to use an API for which the Exchange has determined such an agreement is necessary.

(e) The Exchange may prescribe technical specifications pursuant to which all Participants, or categories of similarly situated Participants (e.g., DPMs, Market-Makers), may establish an electronic connection to the System and its facilities. The Exchange will announce to Participants via Regulatory Circular any such prescription.

(f) **Mandatory Systems Testing**

(i) Each Participant that the Exchange designates as required to participate in a system test must conduct or participate in the testing of its computer systems to ascertain the compatibility of such systems with the System in the manner and frequency prescribed by the Exchange. The Exchange will designate Participants as required to participate in a system test based on: (A) the category of the Participant (e.g. Market-Maker, DPM); (B) the computer system(s) the Participant uses; and (C) the manner in which the Participant connects to the System. The Exchange will give Participants reasonable notice of any mandatory systems test, which notice will specify the nature of the test and Participants' obligations in participation in the test.

(ii) Every Participant required by the Exchange to conduct or participate in testing of computer systems shall provide to the Exchange such reports relating to the testing as the Exchange may prescribe. Participants shall maintain adequate documentation of tests required by this Rule and results of such testing for examination by the Exchange.

(iii) A Participant that is subject to this Rule, and that fails to conduct or participate in the tests, fails to file the required reports, or fails to maintain the required documentation, may be subject to summary suspension or other action taken pursuant to Chapter 16 (Summary Suspension) and/or disciplinary action pursuant to Chapter 17 (Discipline).

[Adopted December 10, 2009; Amended November 22, 2012 (SR-C2-2012-036); Amended September 26, 2013 (SR-C2-2013-034); Amended June 29, 2016 (SR-C2-2016-010)]

**Rule 6.35. Bandwidth Packets**

Each Trading Permit shall entitle the holder to a maximum number of orders and quotes per second(s) as determined by the Exchange. The Exchange may determine to set different maximum numbers of orders per second(s) for each order format identified in Rule 6.19. Only Market-Makers may submit quotes to the System. Participants seeking to exceed that number of messages per second(s) may purchase additional message packets at prices set forth in the Exchange's Fee Schedule. The Exchange shall, upon request and where good cause is shown, temporarily increase a Participant's order entry bandwidth allowance at no additional cost. All determinations to temporarily expand bandwidth allowance shall be made in a non-discriminatory manner and on a fair and equal basis.

No bandwidth limits shall be in effect during pre-opening prior to 8:15 a.m. CT, which shall apply to all Participants. The Exchange may also determine time periods for which there shall temporarily be no bandwidth limits in effect for all Participants. Any such determination shall be made in the interest of maintaining a fair and orderly market. The Exchange shall notify all Participants of any such determination.

[Adopted December 10, 2009; Amended September 26, 2013 (SR-C2-2013-034)]

**Rule 6.36. Order Routing to Other Exchanges**

The Exchange may automatically route intermarket sweep orders to other exchanges under certain circumstances. In connection with such services, the following shall apply:

(a) Routing services will be provided in conjunction with one or more routing brokers that are not affiliated with the Exchange. For each routing broker used by the Exchange, an agreement will be in place between the Exchange and the routing broker that will, among other things, restrict the use of any confidential and proprietary information that the routing broker receives to legitimate business purposes necessary for routing orders at the direction of the Exchange.

(b) The Exchange shall establish and maintain procedures and internal controls reasonably designed to adequately restrict the flow of confidential and proprietary information between the Exchange and the routing broker, and any other entity, including any affiliate of the routing broker, and, if the routing broker or any of its affiliates engages in any other business activities other than providing routing services to the Exchange, between the segment of the routing broker or affiliate that provides the other business activities and the segment of the routing broker that provides the routing services.

(c) The Exchange may not use a routing broker for which the Exchange or any affiliate of the Exchange is the designated examining authority.

(d) The Exchange will provide its routing services in compliance with the provisions of the Act and the rules thereunder, including, but not limited to, the requirements in Section 6(b)(4) and (5) of the Act that the rules of a national securities exchange provide for the equitable allocation of reasonable dues, fees, and other charges among its members and issuers and other persons using its facilities, and not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

(e) For all routing services, the Exchange will determine the logic that provides when, how, and where orders are routed away to other exchanges.

(f) The routing broker will receive routing instructions from the Exchange, to route orders to other exchanges and report such executions back to the Exchange. The routing broker cannot change the terms of an order or the routing instructions, nor does the routing broker have any discretion about where to route an order.

(g) Any bid or offer entered on the Exchange routed to another exchange via a routing broker that results in an execution shall be binding on the member that entered such bid/offer.

*. . . Interpretations and Policies:*

**.01** Rule 6.36 does not prohibit a routing broker from designating a preferred market-maker at the other exchange to which the order is being routed pursuant to Rule 6.36.

[Adopted April 27, 2010 (SR-C2-2010-001); Amended November 3, 2012 (SR-C2-2012-035)]

**Rule 6.37. Routing Service Error Accounts**

Each routing broker shall maintain, in the name of the routing broker, one or more accounts for the purpose of liquidating unmatched trade positions that may occur in connection with the routing service provided under Rule 6.36 (“error positions”). The Exchange may also maintain, in the name of the Exchange, one or more accounts (each an “Exchange Error Account”) for the purpose of liquidating error positions in the circumstances described below.

For purposes of this Rule:

(a) Errors to which this Rule applies include any action or omission by the Exchange, a routing broker, or another exchange to which an Exchange order has been routed, that result in an unmatched trade position due to the execution of an order that is subject to the away market routing service and for which there is no corresponding order to pair with the execution (each a “routing error”). Such routing errors would include, without limitation, positions resulting from determinations by the Exchange to cancel or release an order pursuant to Rule 6.47.

(b) An error position will generally be liquidated in a routing broker’s error account. An Exchange Error Account may (but is not required to) be utilized in instances where a routing broker is unable to utilize its own error account or when the routing error is due to a technical or systems issue at the Exchange.

(c) The Exchange shall not accept any positions in an Exchange Error Account from an account of a Trading Permit Holder or permit any Trading Permit Holder to transfer any positions from the Trading Permit Holder’s account to an Exchange Error Account.

(d) To the extent a routing broker utilizes its own account to liquidate error positions, the routing broker shall liquidate the error positions as soon as practicable. The routing broker shall:

(i) establish and enforce policies and procedures reasonably designed to (1) adequately restrict the flow of confidential and proprietary information associated with the liquidation of the error positions in accordance with Rule 6.36, and (2) prevent the use of information associated with other orders subject to the routing services when making determinations regarding the liquidation of error positions; and

(ii) make and keep records associated with the liquidation of such routing broker error positions and shall maintain such records in accordance with Rule 17a-4 under the Exchange Act.

(e) To the extent the Exchange utilizes an Exchange Error Account to liquidate error positions, the Exchange shall liquidate error positions as soon as practicable. The Exchange shall:

(i) provide complete time and price discretion for the trading to liquidate error positions in an Exchange Error Account to a third-party broker-dealer and shall not attempt to exercise any influence or control over the timing or methods of such trading. Such a third-party broker-dealer may include a routing broker not affiliated with the Exchange;

(ii) establish and enforce policies and procedures reasonably designed to adequately restrict the flow of confidential and proprietary information between the Exchange and the third-party broker-dealer associated with the liquidation of the error positions; and

(iii) make and keep records to document all determinations to treat positions as error positions under this Rule (whether or not an Exchange Error Account is utilized to liquidate such error positions), as well as records associated with the liquidation of Exchange Error Account error positions through a third-party broker-dealer, and shall maintain such records in accordance with Rule 17a-1 under the Exchange Act.

[Adopted January 4, 2013 (SR-C2-2012-038)]

### **Rule 6.38. Reporting of Trade Information**

Each Trading Permit Holder shall file with the Exchange trade information in such form as may be prescribed by the Exchange covering each Exchange transaction during each business day in order to allow the Exchange to properly match and clear trades. The trade information shall show for each transaction (a) the identity of the Clearing Participant, (b) the underlying security, (c) the exercise price, (d) the expiration month, (e) the number of option contracts, (f) the premium per unit, (g) the identity of the executing broker representing the Clearing Participants, (h) whether a purchase or a writing transaction, (i) except for a transaction executed by or for a Market-Maker, whether an opening or closing transaction, (j) the identity of the account of the Clearing Participant in which the transaction was effected, (k) the time of purchase or sale, (l) whether a put or call, and (m) such other information as may be required by the Exchange.



[Adopted November 3, 2010 (SR-C2-2010-008); Amended January 4, 2013 (SR-C2-2012-038)]

**Rule 6.39. Equity Market Plan to Address Extraordinary Market Volatility**

This Rule shall be in effect during a pilot period to coincide with the pilot period for the Regulation NMS Plan to Address Extraordinary Market Volatility (the “Limit Up-Limit Down Plan” or the “Plan”).

The Exchange shall modify option order processing during a limit up-limit down state. For purposes of this rule, a “limit up-limit down state” shall mean the period of time when the underlying security of an option enters a limit or straddle state as defined in the Plan.

(a) Exchange Order Types. The following order types will be handled specially during a limit up-limit down state: market orders, market-on-close orders, stop orders, and stock-option orders. Refer to Rule 6.10 and 6.13 for descriptions of how such orders will be handled during a limit up-limit down state.

(b) Order Handling. The following order handling features shall operate differently during a limit up-limit down state:

(1) *Openings*. Refer to Rule 6.11 for a description of how Openings will behave during a limit up-limit down state.

(2) *Hybrid Agency Liaison*. Refer to Rule 6.18 for a description of how HAL will operate during a limit up-limit down state.

(3) *Complex Order Request for Responses Auction*. Refer to Rule 6.13 for a description of how a complex order request for responses auction (referred to as “COA”) will operate during a limit up-limit down state.

(4) *Canceling/Replacing Orders*. If a request to replace a limit order with a market order is received while the underlying security is in a limit up-limit down state, then the market order and the original limit order will be returned.

(c) Obvious Error. Refer to Rule 6.15 for a description of how the Exchange will handle potential obvious error executions during a limit up-limit down state.

(d) Market-Maker Quoting Obligations. Subject to certain limitations specified in the rules identified below, the Exchange will not require Market-Makers to quote in series of options when the underlying security is in a limit up-limit down state. Market-Maker participation entitlements will continue to apply during a limit up-limit down state. For the particular limitations, refer to the specific Market-Maker category, and corresponding obligations.

[Adopted April 8, 2013 (SR-C2-2013-013)]

**Rule 6.40. Contract Made on Acceptance of Bid or Offer**

All bids or offers made and accepted in accordance with the Rules shall constitute binding contracts, subject to applicable requirements of the Bylaws and the Rules and the Rules of the Clearing Corporation.

[Adopted December 10, 2009]

**Rule 6.41. Limitation on Dealings**

No Participant shall bid, offer, purchase or write (sell) on the Exchange any security other than an option contract that is currently open for trading in accordance with the provisions of Chapter 5.

[Adopted December 10, 2009]

**Rule 6.42. Disclaimers and Limitations**

(a) Neither the Exchange nor any of its directors, officers, committee members, other officials, employees, contractors, or agents, nor any subsidiaries or affiliates of the Exchange or any of their directors, officers, committee members, other officials, employees, contractors, or agents (“Covered Persons”) shall be liable to Participants or to persons associated therewith for any loss, expense, damages or claims that arise out of the use or enjoyment of the facilities afforded by the Exchange, any interruption in or failure or unavailability of any such facilities, or any action taken or omitted to be taken in respect to the business of the Exchange except to the extent such loss, expense, damages or claims are attributable to the willful misconduct, gross negligence, bad faith or fraudulent or criminal acts of the Exchange or its officers, employees or agents acting within the scope of their authority. Without limiting the generality of the foregoing, and subject to the same exception, no Covered Person shall have any liability to any person or entity for any loss, expense, damages or claims that result from any error, omission or delay in calculating or disseminating any current or closing index value, any current or closing value of interest rate options, or any reports of transactions in or quotations for options or other securities, including underlying securities. The Exchange makes no warranty, express or implied, as to results to be obtained by any person or entity from the use or enjoyment of the facilities afforded by the Exchange, including without limitation, of any data transmitted or disseminated by or on behalf of the Exchange or any reporting authority designated by the Exchange, including but not limited to any data described in the preceding sentence, and the Exchange makes no express or implied warranties of merchantability or fitness for a particular purpose or use with respect to any such data. The foregoing limitations of liability and disclaimers shall be in addition to, and not in limitation of, the provisions of Article Eighth of the Exchange’s Certificate of Incorporation or any limitations otherwise available under law.

(b) Whenever custody of an unexecuted order or quote is transmitted by a Participant to or through the Exchange's System or to any other facility of the Exchange whereby the Exchange assumes responsibility for the transmission or execution of the order or quote, provided that the Exchange has acknowledged receipt of such order or quote, the Exchange may, in its sole discretion, compensate one or more Participants for their losses alleged to have resulted from the failure to process an order or quote correctly due to the acts or omissions of the Exchange or due to the failure of its systems or facilities (each, a "Loss Event"), subject to the following limits:

(1) As to any one or more requests for compensation made by a single Participant that arose out of one or more Loss Events occurring on a single trading day, the Exchange may compensate the Participant up to but not exceeding the larger of \$100,000 or the amount of any recovery obtained by the Exchange under any applicable insurance maintained by the Exchange;

(2) As to the aggregate of all requests for compensation made by all Participants that arose out of one or more Loss Events occurring on a single trading day, the Exchange may compensate the Participants, in the aggregate, up to but not exceeding the larger of \$250,000 or the amount of the recovery obtained by the Exchange under any applicable insurance maintained by the Exchange;

(3) As to the aggregate of all requests for compensation made by all Participants that arose out of one or more Loss Events occurring during a single calendar month, the Exchange may compensate the Participants, in the aggregate, up to but not exceeding the larger of \$500,000 or the amount of the recovery obtained by the Exchange under any applicable insurance maintained by the Exchange.

A Participant may not make a request for compensation under this Rule for less than \$100. Losses incurred on the same trading day and arising out of the same underlying act or omission of the Exchange or failure of the Exchange's systems or facilities may be aggregated to meet the \$100 minimum. Nothing in this Rule shall obligate the Exchange to seek recovery under any applicable insurance policy.

(c) Notice of all requests for compensation pursuant to this Rule shall be in writing and must be submitted no later than 12:00 p.m. CT on the next business day following the Loss Event giving rise to such requests. All requests shall be in writing and must be submitted along with supporting documentation by 5:00 p.m. CT on the third business day following the Loss Event giving rise to each such request. Additional information related to the request as demanded by the Exchange is also required to be provided. The Exchange shall not consider requests for which timely notice and submission have not been provided as required under this paragraph (c).

(d) If all of the timely requests submitted pursuant to paragraph (c) above that are granted cannot be fully satisfied because in the aggregate they exceed the applicable maximum amount of payments authorized in paragraph (b) above, then such maximum amount shall be allocated among all such requests arising on a single trading day or during a single

calendar month, as applicable, based upon the proportion that each such request bears to the sum of all such requests.

(e) In determining whether to make payment of a request pursuant to paragraph (b) above, the Exchange may determine whether the amount requested should be reduced based on the actions or inactions of the requesting Participant, including, without limitation, whether the actions or inactions of the Participant contributed to the Loss Event; whether the Participant made appropriate efforts to mitigate its loss; whether the Participant realized any gains as a result of a Loss Event; whether the losses of the Participant, if any, were offset by hedges of positions either on the Exchange or on another affiliated or unaffiliated market; and whether the Participant provided sufficient information to document the request and as demanded by the Exchange.

(f) All determinations made pursuant to this Rule by the Exchange shall be final and not subject to appeal under Chapter 19 of the Rules or otherwise. Nothing in this Rule, nor any payment pursuant to this Rule, shall in any way limit, waive or proscribe any defenses a Covered Person may have to any claim, demand, liability, action or cause of action, whether such defense arises in law or equity, or whether such defense is asserted in a judicial, administrative, or other proceeding.

(g) This Rule shall be effective as of July 1, 2015 (the “Effective Date”). No claim for liability under any previous version of this Rule shall be valid if brought with respect to any acts, omissions or transactions occurring more than one year prior to the Effective Date of this Rule, or if brought more than one month after the Effective Date of this Rule.

[Adopted December 10, 2009; Amended June 4, 2015 (SR-C2-2015-010)]

**Rule 6.43. Limitation on the Liability of Index Licensors for Options on Units**

(a) The term “index licensor” as used in this rule refers to any entity that grants the Exchange a license to use one or more indexes or portfolios in connection with the trading of options on Units (as defined in Interpretation .06 to Rule 5.3).

(b) No index licensor with respect to any index pertaining to Units underlying an option traded on the Exchange makes any warranty, express or implied, as to the results to be obtained by any person or entity from the use of such index, any opening, intra-day or closing value therefor, or any data included therein or relating thereto, in connection with the trading of any option contract on Units based thereon or for any other purpose. The index licensor shall obtain information for inclusion in, or for use in the calculation of, such index from sources it believes to be reliable, but the index licensor does not guarantee the accuracy or completeness of such index, any opening, intra-day or closing value therefor, or any data included therein or related thereto. The index licensor hereby disclaims all warranties of merchantability or fitness for a particular purpose or use with respect to any such index, any opening, intra-day or closing value therefor, any data included therein or relating thereto, or any option contract on Units based thereon. The index licensor shall have no liability for any damages, claims, losses (including any

indirect or consequential losses), expenses or delays, whether direct or indirect, foreseen or unforeseen, suffered by any person arising out of any circumstance or occurrence relating to the person's use of such index, any opening, intra-day or closing value therefor, any data included therein or relating thereto, or any option contract on Units based thereon, or arising out of any errors or delays in calculating or disseminating such index.

[Adopted December 10, 2009]

**Rule 6.44. Legal Proceedings Against the Exchange**

No Participant or person associated with a Participant shall institute a lawsuit or other legal proceeding against the Exchange or any of its directors, officers, committee members, other officials, employees, contractors, or agents, or any subsidiaries or affiliates of the Exchange or any of their directors, officers, committee members, other officials, employees, contractors, or agents, for actions taken or omitted to be taken in connection with the official business of the Exchange or any subsidiary or affiliate, except to the extent such actions or omissions constitute violations of the federal securities laws for which a private right of action exists. This provision shall not apply to appeals of disciplinary actions or other actions by the Exchange as provided for in the Rules.

[Adopted December 10, 2009; Amended June 4, 2015 (SR-C2-2015-010)]

**Rule 6.45. Disaster Recovery**

(a) *General.* The Exchange maintains business continuity and disaster recovery plans that may be effected in the interests of the continued operation of fair and orderly markets in the event of a systems failure, disaster, or other unusual circumstances that might threaten the ability to conduct business on the Exchange.

(b) *Back-up Data Center.* The Exchange maintains a back-up data center in order to preserve the Exchange's ability to conduct business in the event the Exchange's primary data center becomes inoperable or otherwise unavailable for use due to a significant systems failure, disaster or other unusual circumstances. The purpose of this back-up data center is to allow the Exchange to operate if the primary data center becomes inoperable.

(i) *Back-up Data Center Functionality.* The Exchange's back-up data center shall be reasonably designed, as determined by the Exchange, to achieve prompt resumption of systems consistent with Regulation Systems Compliance and Integrity. Nothing in paragraph (b) of this Rule shall be interpreted to require the Exchange to develop or maintain a back-up data center designed to fully replicate the capacity, latency, and other features of the primary data center.

(ii) *Notice.* Prior to commencing trading on the back-up data center, the Exchange shall announce publicly the classes that will be available for trading.

(iii) *Applicable Rules.* In the event the primary data center becomes inoperable, trading will continue using the back-up data center and all trading rules will remain in effect. All non-trading rules of the Exchange shall continue to apply.

(iv) *Trading Permit Holder Participation.* Trading Permit Holders are required to take appropriate actions as instructed by the Exchange to accommodate the Exchange's ability to conduct business via the back-up data center.

(A) *Designated BCP/DR Participants.* The Exchange shall designate those Trading Permit Holders that the Exchange reasonably determines are, taken as a whole, the minimum necessary for the maintenance of fair and orderly markets in the event of the activation of the Exchange's business continuity and disaster recovery plans ("Designated BCP/DR Participants"). Designated BCP/DR Participants will include:

(1) all C2 Market-Makers and;

(2) all C2 Trading Permit Holders connected to the C2 primary data center and transacting non-Participant customer business, unless a C2 Trading Permit Holder, other than a C2 Market-Maker, can demonstrate ready access to the back-up data center through another C2 Trading Permit Holder that is a designated participant.

Criteria for designating BCP/DR Participants shall be announced via Regulatory Circular.

(B) *Fair and Orderly Market Conditions.* Nothing in paragraph (b)(iv) of this Rule shall be interpreted to require the Exchange to assume that average levels of liquidity, depth, or other characteristics of a usual trading session must be present in order to achieve a fair and orderly market.

(C) *Business Continuity and Disaster Recovery Plans Testing.* The Exchange shall require Designated BCP/DR Participants and may require other market participants to participate in scheduled business continuity and disaster recovery plans tests in the manner and frequency prescribed by the Exchange.

(1) *Documentation and Reports.* The Exchange may require Designated BCP/DR Participants and/or other market participants to provide documentation and reports regarding tests conducted pursuant to this Rule, including related data and information, as may be requested by the Exchange and in the manner and frequency prescribed by the Exchange.

(2) *Notice.* The Exchange will provide reasonable prior notice of scheduled business continuity and disaster recovery plans tests to Trading Permit Holders, which notice shall describe the general nature of the test(s) and identify the

Trading Permit Holders required to participate and shall be announced via Regulatory Circular.

[Adopted July 5, 2012 (SR-C2-2012-011); Amended October 28, 2015 (SR-C2-2015-030)]

**Rule 6.46 – Trading Permit Holder Education**

Trading Permit Holders and persons associated with Trading Permit Holders are required to attend such educational classes as the Exchange may require from time to time. Failure to attend Exchange mandated continuing educational classes may subject Trading Permit Holders and persons associated with Trading Permit Holders to sanctions pursuant to the Exchange’s Minor Rule Violation Plan provided in Exchange Rule 17.50.

[Adopted September 4, 2012 (SR-C2-2012-032)]

**Rule 6.47. Order Cancellation/Release**

(a) The Exchange may cancel orders as it deems to be necessary to maintain fair and orderly markets if a technical or systems issue occurs at the Exchange, a routing broker in connection with the routing service provided under Rule 6.36, or another exchange to which an Exchange order has been routed. A routing broker may only cancel orders being routed to another exchange based on the Exchange’s standing or specific instructions or as otherwise provided in the Exchange Rules. The Exchange shall provide notice of the cancellation to affected Trading Permit Holders as soon as practicable.

(b) The Exchange may release orders being held on the Exchange awaiting an away exchange execution as it deems necessary to maintain fair and orderly markets if a technical or systems issue occurs at the Exchange, a routing broker, or another exchange to which an Exchange order has been routed.

(c) For purposes of this Rule, technical or system issues shall include, without limitation, instances where the Exchange has not received confirmation of an execution (or cancellation) on another exchange from a routing broker within a response time interval designated by the Exchange, which interval may not be less than three (3) seconds.

[Adopted January 4, 2013 (SR-C2-2012-038)]

**Rule 6.48. Technical Disconnect**

(a) When a CBOE Application Server (“CAS”) loses communication with a Client Application such that a CAS does not receive an appropriate response to a Heartbeat Request within “x” period of time, the Technical Disconnect Mechanism will automatically logoff the Permit Holder’s affected Client Application and automatically cancel all the Permit Holder’s Market-Maker quotes, if applicable, and open orders with a time-in-force of “day” (“day orders”), if the Permit Holder enables the optional service,

posted through the affected Client Application. The following describes how the Technical Disconnect Mechanism works for each of the Exchange's application programming interfaces ("APIs"):

(i) *CBOE Market Interface 2.0 ("CMi 2") API*. A CAS shall generate a Heartbeat Request to a Client Application (i) after the CAS does not receive any messages from a particular Client Application for "n" period of time or (ii) after every "n" period of time. A Permit Holder shall determine the value of "n." In no event shall "n" be less than three (3) seconds or exceed twenty (20) seconds. If a CAS generates a Heartbeat Request only after it does not receive any messages from a particular Client Application for "n" period of time, the value of "x" shall be set at a half (.5) second. If a CAS generates a Heartbeat Request every "n" period of time, the value of "x" shall be equal to the value of "n."

(ii) *Financial Information eXchange ("FIX") Protocol API*. A CAS shall generate a Heartbeat Message to a Client Application after the CAS does not receive any messages from a particular Client Application for "n" period of time. If the CAS does not receive a response to the Heartbeat Message from the Client Application for "n" period of time, the CAS shall generate a Heartbeat Request to the Client Application. A Permit Holder shall determine the value of "n" at logon. In no event shall "n" be less than five (5) seconds. The value of "x" shall be equal to the value of "n."

(b) The Technical Disconnect Mechanism is enabled for all Permit Holders and may not be disabled by Permit Holders, except the automatic cancellation of a Permit Holders' day orders in an optional service that the Permit Holder may enable or disable through the API.

(c) The trigger of the Technical Disconnect Mechanism is event- and Client Application-specific. The automatic cancellation of a Market-Maker's quotes (if applicable) or a Permit Holder's day orders (if enabled by the Permit Holder) entered into a CAS via a particular Client Application will neither impact nor determine the treatment of the quotes of the same or other Market-Makers or orders of the same Permit Holder entered into the CAS via a separate and distinct Client Application. Except for day orders the Technical Disconnect Mechanism automatically cancels if a Permit Holder enables that optional service, the Technical Disconnect Mechanism will not impact or determine the treatment of orders of a Permit Holder previously entered into the CAS.

*... Interpretations and Policies:*

**.01** For purposes of this Rule 6.48:

(i) A "CBOE Application Server" or "CAS" sits between a Client Application and CBOE Command. Messages are passed between a Client Application and a CAS.



(ii) A “Client Application” is the system component, such as a Permit Holder’s custom trading application, through which a Permit Holder communicates its quotes and/or orders to a CAS.

(iii) A “Heartbeat Request” shall refer to a message from a CAS to a Client Application to check connectivity and which requires a response from the Client Application in order to avoid logoff. The Heartbeat Request is a communication which acts as a virtual pulse between a CAS and a Client Application.

(iv) A “Heartbeat Message” shall refer to a message from a CAS to a Client Application to check connectivity. If a response to a Heartbeat Message is not received, the CAS shall generate a Heartbeat Request. The Heartbeat Message is a communication which acts as a virtual pulse between a CAS and a Client Application.

[Adopted August 5, 2013 (SR-C2-2013-029); amended November 9, 2015 (15-032)]

## **Section D: Crossing**

### **Rule 6.50. Order Exposure Requirement**

(a) *Principal Transactions*: Participants may not execute as principal against orders they represent as agent unless: (i) agency orders are first exposed on the System for at least one (1) second, (ii) the Participant has been bidding or offering for at least one (1) second prior to receiving an agency order that is executable against such bid or offer, or (iii) the Participant proceeds in accordance with the crossing rules contained in Rule 6.51 or 6.52.

(b) *Solicitation Orders*. Participants must expose orders they represent as agent for at least one (1) second before such orders may be executed on the System, in whole or in part, against orders solicited from Participants and non-Participant broker-dealers to transact with such orders, unless the Participant proceeds in accordance with the crossing rules contained in Rule 6.51 or 6.52.

(c) AON orders on the System are not deemed exposed for purposes of paragraphs (a) and (b) above.

[Adopted December 10, 2009]

### **Rule 6.51. Automated Improvement Mechanism (“AIM”)**

Notwithstanding the provisions of Rule 6.50, a Participant that represents agency orders may electronically execute an order it represents as agent (“Agency Order”) against principal interest or against a solicited order provided it submits the Agency Order for execution into the AIM auction (“Auction”) pursuant to this Rule.

(a) *Auction Eligibility Requirements*. A Participant (the “Initiating Participant”) may initiate an Auction provided all of the following are met:

(1) the Agency Order is in a class designated as eligible for AIM Auctions as determined by the Exchange and within the designated Auction order eligibility size parameters as such size parameters are determined by the Exchange; and

(2) the Initiating Participant must stop the entire Agency Order as principal or with a solicited order at the better of the NBBO or the Agency Order's limit price (if the order is a limit order).

In the event that a Participant submits a matched Agency Order for electronic execution into the Auction that is ineligible for processing because it does not meet the conditions described in paragraph (a), both the Agency Order and any solicited contra orders will be cancelled unless marked as an AIM Retained ("A:AIR") order pursuant to Interpretation and Policy .10 of this Rule.

(b) Auction Process. Only one Auction may be ongoing at any given time in a series and Auctions in the same series may not queue or overlap in any manner. The Auction may not be cancelled and shall proceed as follows:

(1) Auction Period and Request for Responses (RFRs).

(A) To initiate the Auction, the Initiating Participant must mark the Agency Order for Auction processing, and specify (i) a single price at which it seeks to cross the Agency Order (with principal interest or a solicited order) (a "single-price submission"), including whether the Initiating Participant elects to have last priority in allocation, or (ii) that it is willing to automatically match ("auto-match") as principal the price and size of all Auction responses up to an optional designated limit price (the availability of the optional designated limit price feature is subject to system implementation) in which case the Agency Order will be stopped at the NBBO. Once the Initiating Participant has submitted an Agency Order for processing pursuant to this subparagraph, such submission may not be modified or cancelled.

(B) When the Exchange receives a properly designated Agency Order for Auction processing, a Request for Responses ("RFR") detailing the side and size of the order will be sent to all Participants that have elected to receive RFRs.

(C) The RFR will last for 1 second.

(D) Responses to RFRs may be submitted by Participants.

(E) Responses shall specify price and size and cannot cross the disseminated Exchange quote on the opposite side of the market.

(F) RFR responses shall not be visible to other Auction participants, and shall not be disseminated to OPRA.

- (G) The minimum price increment for RFR responses and for an Initiating Participant's single price submission shall not be smaller than the minimum price improvement increment established pursuant to subparagraph (a)(3)(A) above.
- (H) An RFR response size at any given price point may not exceed the size of the Agency Order.
- (I) RFR responses may be cancelled.
- (2) Conclusion of Auction. The Auction shall conclude at the sooner of (A) through (E) below with the Agency Order executing pursuant to paragraph (3) below.
- (A) The end of the RFR period;
- (B) Upon receipt by the System of an unrelated order or quote on the same side of the Agency Order (in the same series as the Agency Order) that is marketable against either the Exchange's disseminated quote (when such quote is the NBBO) or the RFR responses;
- (C) Upon receipt by the System of an unrelated limit order (in the same series as the Agency Order and on the opposite side of the market as the Agency Order) that improves any RFR response;
- (D) Any time an RFR response matches the Exchange's disseminated quote on the opposite side of the market from the RFR responses; or
- (E) Any time there is a trading halt in the series on the Exchange.
- (3) Order Allocation. At the conclusion of the Auction, the Agency Order will be allocated at the best price(s) pursuant to the allocation algorithm in effect for the class subject to the following:
- (A) Such best prices may include non-Auction quotes and orders.
- (B) Public customer orders in the book shall have priority.
- (C) [reserved]
- (D) If an unrelated market or marketable limit order on the opposite side of the market as the Agency Order was received during the Auction and ended the Auction, such unrelated order shall trade against the Agency Order at the midpoint of the best RFR response and the NBBO on the other side of the market from the RFR responses (rounded towards the disseminated quote when necessary).

(E) If an unrelated non-marketable limit order on the opposite side of the market as the Agency Order was received during the Auction and ended the Auction, such unrelated order shall trade against the Agency Order at the midpoint of the best RFR response and the unrelated order's limit price (rounded towards the unrelated order's limit price when necessary).

(F) If the best price equals the Initiating Participant's single-price submission, the Initiating Participant's single-price submission shall be allocated the greater of one contract or a certain percentage of the order, which percentage will be determined by the Exchange and may not be larger than 40%. However, if only one competing Participant matches the Initiating Participant's single price submission, then the Initiating Participant may be allocated up to 50% of the order. Thereafter, contracts shall be allocated among remaining quotes, orders, and auction responses (i.e. interests other than the Initiating Participant) at the final auction price in accordance with the matching algorithm in effect for the subject class as described in paragraph (3) of this Rule. If all RFR Responses are filled (i.e. no other interests remain), any remaining contracts will be allocated to the Initiating Participant at the single-price submission price.

(G) If the Initiating Participant selected the auto-match option of the Auction, the Initiating Participant shall be allocated its full size at each price point until a price point is reached where the balance of the order can be fully executed. At such price point, the Initiating Participant shall be allocated the greater of one contract or a certain percentage of the remainder of the order, which percentage will be determined by the Exchange and may not be larger than 40%. However, if only one competing Participant is present at the final Auction price, then the Initiating Participant may be allocated up to 50% of the remainder of the order at the final Auction price, then the Initiating Participant may be allocated up to 50% of the remainder of the order at the final Auction price. Thereafter, contracts shall be allocated among remaining quotes, orders, and auction responses (i.e. interests other than the Initiating Participant) at the final Auction price level in accordance with the matching algorithm in effect for the subject class as described in paragraph (3) of this Rule. If all RFR Responses are filled (i.e. no other interests remain), any remaining contracts will be allocated to the Initiating Participant at the Auction start price as specified under paragraph (b)(1)(A) of this Rule.

(H) If the Auction does not result in price improvement over the Exchange's disseminated price at the time the Auction began, resting unchanged quotes or orders that were disseminated at the best price before the Auction began shall have priority after any public customer order priority and the Initiating Participant's priority (40%) have been satisfied. Any unexecuted balance on the Agency Order shall be allocated to RFR responses provided that those RFR responses will be capped to the size of the unexecuted balance and that the Initiating Participant may not participate on any such balance unless the Agency Order would otherwise go unfilled.

(I) If the final Auction price locks a customer order in the book on the same side of the market as the Agency Order, then, unless there is sufficient size in the Auction responses to execute both the Agency Order and the booked customer order (in which case they will both execute at the final Auction price), the Agency Order will execute against the RFR responses at one minimum RFR response increment worse than the final Auction price against the Auction participants that submitted the final Auction price and any balance shall trade against the customer order in the book at such order's limit price.

(J) If the Initiating Participant elected to have last priority in allocation when submitting an Agency Order to initiate an Auction against a single-price submission, the Initiating Participant will be allocated only the amount of contracts remaining, if any, after the Agency Order is allocated to all other responses at the single price specified by the Initiating Participant.

If an unexecuted balance remains on the Auction responses after the Agency Order has been executed and such balance could trade against any unrelated order(s) that caused the Auction to conclude, then the RFR balance will trade against the unrelated order(s).

***. . . Interpretations and Policies:***

**.01** The Auction may be used only where there is a genuine intention to execute a bona fide transaction.

**.02** A pattern or practice of submitting unrelated orders that cause an Auction to conclude before the end of the RFR period will be deemed conduct inconsistent with just and equitable principles of trade and a violation of Rule 4.1. It will also be deemed conduct inconsistent with just and equitable principles of trade and a violation of Rule 4.1 to engage in a pattern of conduct where the Initiating Participant breaks-up an Agency Order into separate orders for two (2) or fewer contracts for the purpose of gaining a higher allocation percentage than the Initiating Participant would have otherwise received in accordance with the allocation procedures contained in subparagraph (b)(3) above.

**.03** Initially, and for at least a Pilot Period expiring on January 18, 2017, there will be no minimum size requirement for orders to be eligible for the Auction. During this Pilot Period, the Exchange will submit certain data, periodically as required by the Commission, to provide supporting evidence that, among other things, there is meaningful competition for all size orders and that there is an active and liquid market functioning on the Exchange outside of the Auction mechanism. Any raw data which is submitted to the Commission will be provided on a confidential basis.

**.04** Any solicited orders submitted by the Initiating Participant to trade against the Agency Order may not be for the account of a Market-Maker assigned to the option class.

**.05** Any determinations made by the Exchange pursuant to this Rule such as eligible classes, order size parameters and the minimum price increment for RFR responses shall be communicated in a Regulatory Circular.

**.06** Complex orders may be executed through the Auction at a net debit or net credit price provided the Auction eligibility requirements in paragraph (a) of this Rule are satisfied and the Agency Order is eligible for the Auction considering its complex order type, order origin code (i.e., non-broker-dealer public customer, broker-dealers that are not Market-Makers or specialists on an options exchange, and/or Market-Makers or specialists on an options exchange), class, and marketability as determined by the Exchange. Order allocation will be the same as in paragraph (b)(3), provided that the complex order priority rules applicable to bids and offers in the individual series legs of a complex order contained in Rule 6.13(c) will continue to apply.

**.07** Reserved.

**.08** In lieu of the procedures in paragraphs (a) through (b) above, an Initiating Participant may enter an Agency Order for the account of a non-broker-dealer customer paired with a solicited order for the account of a non-broker-dealer customer and such paired orders will be automatically executed without an Auction Period provided the execution price is in the applicable standard increment and will not trade through the NBBO or at the same price as any resting customer order, and provided further that:

(a) the Agency Order is in a class designated as eligible for AIM customer-to-customer immediate crosses as determined by the Exchange and within the designated Auction order eligibility size parameters as such size parameters are determined by the Exchange; and

(b) if the Exchange determines on a class-by-class basis to (i) designate complex orders as eligible for AIM customer-to-customer immediate crosses then the NBBO condition shall not apply to such orders and instead the execution price will not trade through the Exchange's BBO.

Rule 6.50 prevents a Participant from executing agency orders to increase its economic gain from trading against the order without first giving other trading interests on the Exchange an opportunity to either trade with the agency order or to trade at the execution price when the Participant was already bidding or offering on the book. However, the Exchange recognizes that it may be possible for a firm to establish a relationship with a customer or other person to deny agency orders the opportunity to interact on the Exchange and to realize similar economic benefits as it would achieve by executing agency orders as principal. It would be a violation of Rule 6.50 for a firm to circumvent Rule 6.50 by providing an opportunity for (i) a customer affiliated with the firm, or (ii) a customer with whom the firm has an arrangement that allows the firm to realize similar economic benefits from the transaction as the firm would achieve by executing agency orders as principal, to regularly execute against agency orders handled by the firm immediately upon their entry as AIM customer-to-customer immediate crosses.

**.09 AIM for SPXPM:** For the SPXPM option class, the Exchange may determine (and announce via Regulatory Circular) to apply the price-time priority allocation algorithm under Rule 6.12 in lieu of the allocation algorithm in effect for the class pursuant to subparagraph (b)(3) above. If such a determination is made, the price-time priority allocation algorithm will be subject to the conditions set forth in subparagraphs (b)(3)(A) – (I) above.

**.10 AIM Retained Order Functionality.** An AIM Retained (“A:AIR”) order is the transmission of two or more orders for crossing pursuant to Rule 6.51, with the Agency Order priced at the market or a limit price that is in the standard increment for the option series and marked with a contingency instruction to route the Agency Order for processing and cancel any contra orders if an Auction cannot occur (including if the conditions described in Rule 6.51(a) are not met). Orders marked “A:AIR” with Agency Orders that are not priced at the market or that are priced with a limit price not in the standard increment for the option series in which they are entered will be rejected. A:AIR order functionality will be made available on those order management platforms as determined by the Exchange and announced via Regulatory Circular.

[Adopted December 10, 2009; Amended November 3, 2010 (SR-C2-2010-008); Amended September 21, 2011 (SR-C2-2011-021); Amended December 22, 2011 (SR-C2-2011-042); Amended March 9, 2012 (SR-C2-2011-043); Amended March 29, 2012 (SR-C2-2012-006); Amended June 28, 2012 (SR-C2-2012-021); Amended September 21, 2012 (SR-C2-2012-034); Amended June 27, 2013 (SR-C2-2013-023); Amended July 18, 2014 (SR-C2-2014-014); Amended July 3, 2015 (SR-C2-2015-013); Amended July 17, 2015 (SR-C2-2015-020); Amended June 29, 2016 (SR-C2-2016-010); Amended July 13, 2016 (SR-C2-2016-012); Amended July 27, 2016 (SR-C2-2016-014)]

### **Rule 6.52. Solicitation Auction Mechanism**

A Participant that represents agency orders may electronically execute orders it represents as agent (“Agency Order”) against solicited orders provided it submits the Agency Order for electronic execution into the solicitation auction mechanism (the “Auction”) pursuant to this Rule.

(a) Auction Eligibility Requirements. A Participant (the “Initiating Participant”) may initiate an Auction provided all of the following are met:

(1) The Agency Order is in a class designated as eligible for Auctions as determined by the Exchange and within the designated Auction order eligibility size parameters as such size parameters are determined by the Exchange (however, the eligible order size may not be less than 500 standard option contracts or 5,000 mini-option contracts);

(2) Each order entered into the Auction shall be designated as all-or-none and must be stopped with a solicited order priced at or within the NBBO as of the time of the

initiation of the Auction (i.e. the time that the Agency Order is received in the System (the “initial auction NBBO”); and

(3) The minimum price increment for an Initiating Participant’s single price submission shall be determined by the Exchange on a series basis and may not be smaller than one cent.

(b) Auction Process. The Auction shall proceed as follows:

(1) Auction Period and Requests for Responses.

(A) To initiate the Auction, the Initiating Participant must mark the Agency Order for Auction processing, and specify a single price at which it seeks to cross the Agency Order with a solicited order priced at or within the initial auction NBBO.

(B) When the Exchange receives a properly designated Agency Order for Auction processing, a Request for Responses message indicating the price, side, and size at which it seeks to cross the Agency Order with a solicited order will be sent to all Participants that have elected to receive such messages.

(C) Participants may submit responses to the Request for Responses (specifying prices and sizes) during the response period (which shall be one (1) second), except that responses may not be entered for the account of an options market maker from another options exchange.

(D) Responses shall not be visible to other Auction participants, and shall not be disseminated to OPRA.

(E) The minimum price increment for responses shall be the same as provided in subparagraph (a)(3) above.

(F) A response size at any given price point may not exceed the size of the Agency Order.

(G) Responses may be cancelled.

(2) Auction Conclusion and Order Allocation. The Auction shall conclude at the sooner of subparagraphs (b)(2)(A) through (E) of Rule 6.51. At the conclusion of the Auction, the Agency Order will be automatically executed in full or cancelled and allocated subject to the following:

(A) The Agency Order will be executed against the solicited order at the proposed execution price, provided that:



(i) The execution price must be equal to or better than the initial auction NBBO. If the execution would take place outside the initial auction NBBO, the Agency Order and solicited order will be cancelled;

(ii) There are no public customer orders resting in the book on the opposite side of the Agency Order at the proposed execution price. If there are public customer orders and there is sufficient size (considering all resting orders, electronic quotes and responses) to execute the Agency Order, the Agency Order will be executed against these interests and the solicited order will be cancelled. If there are public customer orders and there is not sufficient size (considering all resting orders, electronic quotes and responses), both the Agency Order and the solicited order will be cancelled; and

(iii) There is insufficient size to execute the Agency Order at an improved price(s). If there is sufficient size (considering all resting orders, electronic quotes and responses) to execute the Agency Order at an improved price(s) that is equal or better than the BBO, the Agency Order will execute at the improved price(s) and the solicited order will be cancelled.

*. . . Interpretations and Policies:*

**.01** Complex orders may be executed through the Auction at a net debit or net credit price provided the Auction eligibility requirements in paragraph (a) of this Rule are satisfied and the Agency Order is eligible for the Auction considering its complex order type, order origin code (i.e., non-broker-dealer public customer, broker-dealers that are not Market-Makers or specialists on an options exchange, and/or Market-Makers or specialists on an options exchange), class, and marketability as determined by the Exchange. Order allocation will be the same as in paragraph (b)(2), provided that the complex order priority rules applicable to bids and offers in the individual series legs of a complex order contained in Rule 6.13(c) will continue to apply.

**.02** Prior to entering Agency Orders into the Auction on behalf of customers, Initiating Participants must deliver to the customer a written notification informing the customer that his order may be executed using the Exchange's Auction. The written notification must disclose the terms and conditions contained in this Rule and be in a form approved by the Exchange.

**.03** Under this Rule, Participants may enter contra orders that are solicited. The Auction provides a facility for Participants that locate liquidity for their customer orders. Participants may not use the Auction to circumvent Rules 6.50 or 6.51 limiting principal transactions. This may include, but is not limited to, Participants entering contra orders that are solicited from (a) affiliated broker-dealers, or (b) broker-dealers with which the Participant has an arrangement that allows the Participant to realize similar economic benefits from the solicited transaction as it would achieve by executing the customer order in whole or in part as principal. Additionally, solicited contra orders entered by

Participants to trade against Agency Orders may not be for the account of an Exchange Market-Maker registered in the options class.

[Adopted December 10, 2009; Amended June 17, 2010 (SR-C2-2010-002); Amended September 21, 2012 (SR-C2-2012-034); Amended April 25, 2013 (SR-C2-2013-019); Amended June 26, 2015 (SR-C2-2015-014)]

**Rule 6.55 Trading on Knowledge of Imminent Undisclosed Solicited Transaction**

It will be considered conduct inconsistent with just and equitable principles of trade and a violation of Rule 4.1 for any Participant or person associated with a Participant, who has knowledge of all material terms and conditions of an original order and a solicited order, including a facilitation order, that matches the original order's limit, the execution of which are imminent, to enter, based on such knowledge, an order to buy or sell an option of the same class as an option that is the subject of the original order, or an order to buy or sell the security underlying such class, or an order to buy or sell any related instrument until either (i) all the terms and conditions of the original order and any changes in the terms and conditions of the original order of which that Participant or associated person has knowledge are disclosed to the trading crowd or (ii) the solicited trade can no longer reasonably be considered imminent in view of the passage of time since the solicitation. For purposes of this Rule, an order to buy or sell a "related instrument," means, in reference to an index option, an order to buy or sell securities comprising ten percent or more of the component securities in the index or an order to buy or sell a futures contract on any economically equivalent index. With respect to an SPX option, an OEX option is a related instrument, and vice versa.

[Adopted December 10, 2009; Amended June 17, 2010 (SR-C2-2010-002)]

**Section E: Intermarket Linkage**

The rules contained in Section E of CBOE Chapter VI relating to the Options Order Protection and Locked/Crossed Market Plan, as such rules may be in effect from time to time, shall apply to C2 and are hereby incorporated into this Chapter. The terms "Exchange" and "CBOE" in Section E of CBOE Chapter VI shall also mean C2 for purposes of this Section.

[Adopted December 10, 2009]

**Section F: Consolidated Audit Trail (CAT) Compliance Rule**

The rules contained in Section F of CBOE Chapter VI relating to the Consolidated Audit Trail (CAT) Compliance Rule, as such rules may be in effect from time to time, shall apply to C2 and are hereby incorporated into this Chapter. The terms "Exchange" and "CBOE" in Section F of CBOE Chapter VI shall also mean C2 for purposes of this Section.

[Approved March 15, 2017]

**CHAPTER 7**  
**[Reserved]**

**CHAPTER 8**  
**Market-Makers**

**Rule 8.1. Initial Market-Maker Registration**

Participants registered as Market-Makers have certain rights and bear certain responsibilities beyond those of other Participants. All Market-Makers are designated as specialists on the Exchange for all purposes under the Exchange Act or Rules thereunder.

(a) To register as a Market-Maker, a Participant must file an application in writing on such forms as the Exchange may prescribe. The Exchange reviews applications and considers an applicant's market making ability and such other factors as the Exchange deems appropriate in determining whether to approve an applicant's registration as a Market-Maker.

(b) The registration of any Participant as a Market-Maker may be suspended or terminated by the Exchange upon a determination that such Participant has failed to properly perform as a Market-Maker.

(c) These Rules place no limit on the number of qualifying entities that may become Market-Makers. However, based on system constraints, capacity restrictions or other factors relevant to protecting the integrity of the System, the Board or its designee may limit access to the System, for a period to be determined in the Board's discretion, pending any action required to address the issue of concern to the Board. To the extent that the Board places permanent limitations on access to the System on any Participant(s), such limits shall be objectively determined and submitted to the Commission for approval pursuant to a rule change filing under Section 19(b) of the Exchange Act.

[Adopted December 10, 2009]

**Rule 8.2. Continuing Market-Maker Registration**

(a) A Participant that has qualified as a Market-Maker may register to make markets in individual classes of options.

(b) In a manner prescribed by the Exchange, a Market-Maker may register (having the obligations of Rule 8.5, as appropriate) in one or more classes of option contracts. The Exchange may also register a Market-Maker in one or more classes of option contracts. In making such option class registrations, the Exchange shall give attention to (i) the preference of registrants; (ii) the maintenance and enhancement of competition among

Market-Makers in each class of contracts; (iii) assuring that financial resources available to a Market-Maker enable him to satisfy the obligations set forth in Rule 8.5 with respect to each class of option contracts to which it is registered; and (iv) the impact additional Market-Makers will have on Exchange systems capacity. Limitations on registrations due to Exchange systems capacity shall be in accordance with Rule 8.11. The Exchange may arrange two or more classes of contracts into groupings and may make registrations to those groupings rather than to individual classes. The Exchange may suspend or terminate any registration of a Market-Maker under this rule and may make additional registrations whenever, in the Exchange's judgment, the interests of a fair and orderly market are best served by such action.

(c) No option class registration shall be made without the Market-Maker's consent to such registration, provided that refusal to accept a registration may be deemed a sufficient cause for termination or suspension of the Market-Maker.

(d) Market-Maker Option Class Registration. Absent an exemption by the Exchange, an option class registration of a Market-Maker confers the right to quote in that product. A Market-Maker may change its registered classes upon advance notification to the Exchange in a form and manner prescribed by the Exchange.

Each Trading Permit held by a Market-Maker has a registration credit of 1.0. A Market-Maker may select for each Trading Permit the Market-Maker holds any combination of option classes, whose aggregate registration cost does not exceed 1.0. Option class "registration costs" are set forth below:

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<b>Option Class</b>	<b>Registration Cost</b>
All options	.0001

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(e) A Trading Permit Holder or prospective Trading Permit Holder adversely affected by a determination made by the Exchange under this Rule, including the denial of a registration in a particular class, may obtain a review thereof in accordance with the provisions of Chapter XIX.

[Adopted December 10, 2009; Amended September 30, 2010 (SR-C2-2010-004); Amended September 30, 2011 (SR-C2-2011-023); Amended June 28, 2012 (SR-C2-2012-019); Amended January 29, 2015 (SR-C2-2014-028); Amended February 10, 2016 (SR-C2-2016-002)]

#### **Rule 8.4. Good Standing for Market-Makers**

(a) To remain in good standing as a Market-Maker, the Market-Maker must:

(1) continue to meet the requirements established in Exchange Act Rule 15c3-1(a)(6)(i) and the general requirements for Permit Holders set forth in Chapter 3 of these Rules and the Market-Maker requirements set forth in Chapter 8 of these Rules.

(2) continue to satisfy the Market-Maker qualification requirements specified by the Exchange, as amended from time to time by the Exchange;

(3) comply with the Rules of the Exchange as well as the rules of the Clearing Corporation and the Federal Reserve Board; and,

(4) pay on a timely basis such participation, transaction and other fees as the Exchange shall prescribe.

(b) The good standing of a Market-Maker may be suspended, terminated or otherwise withdrawn, as provided in the Rules, if any of said conditions for approval cease to be maintained or the Market-Maker violates any of its agreements with the Exchange or any of the provisions of the Rules.

[Adopted December 10, 2009; Amended June 17, 2010 (SR-C2-2010-002)]

#### **Rule 8.5. Obligations of Market-Makers**

(a) In registering as a Market-Maker, a Participant commits itself to various obligations. Transactions of a Market-Maker in its market making capacity must constitute a course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market, and Market-Makers should not make bids or offers or enter into transactions that are inconsistent with such course of dealings. Ordinarily, Market Makers are expected to adhere to the following obligations:

(1) During trading hours a Market-Maker must maintain a continuous two-sided market in 60% of the non-adjusted option series of each registered class that have a time to expiration of less than nine months. For purposes of this subparagraph, “continuous” means 90% of the time. If a technical failure or limitation of the System prevents a Market-Maker from maintaining, or from communicating to the Exchange, timely and accurate quotes in a series, the duration of such failure shall not be considered in determining whether that Market-Maker has satisfied the 90% quoting standard with respect to that series. An “adjusted option series” is an option series wherein, as a result of a corporate action by the issuer of the underlying security, one option contract in the series represents the delivery of other than 100 shares of underlying stock or Units. This obligation does not apply to intra-day add-on series on the day during which such series are added for trading. The Exchange may consider other exceptions to this obligation based on demonstrated legal or regulatory requirements or other mitigating circumstances. Compliance with this quoting obligation applies to all of a Market-Maker’s appointed classes collectively. The Exchange will determine compliance by a Market-Maker with the quoting obligations in this paragraph on a monthly basis. However, determining compliance with this quoting obligation on a monthly basis does not relieve a Market-Maker from meeting this obligations on a daily

basis, nor does it prohibit the Exchange from taking disciplinary action against a Market-Maker for failing to meet this obligation each trading day.

(2) Engage, to a reasonable degree under the existing circumstances, in dealings for their own accounts when there exists, or it is reasonably anticipated that there will exist, a lack of price continuity, a temporary disparity between the supply of (or demand for) a particular option contract, or a temporary distortion of the price relationships between option contracts of the same class.

(3) Compete with other Market-Makers in all classes in which the Market-Maker is registered to trade.

(4) Update quotations in response to changed market conditions in all classes in which the Market-Maker is registered to trade.

(5) Maintain active markets in all classes in which the Market-Maker is registered.

(6) Make markets that will be honored for the number of contracts entered into the System in all classes of options in which the Market-Maker is registered to trade.

(b) Market-Makers should not effect purchases or sales on the Exchange except in a reasonable and orderly manner.

(c) If the Exchange finds any substantial or continued failure by a Market-Maker to engage in a course of dealings as specified in paragraph (a) of this Rule, such Market-Maker will be subject to disciplinary action or suspension or revocation of registration in one or more of the securities in which the Market-Maker is registered. Nothing in this Rule will limit any other power of the Board under these Rules, or procedures of the Exchange with respect to the registration of a Market-Maker or in respect of any violation by a Market-Maker of the provisions of this Rule.

(d) A Market-Maker may be called upon by an Exchange official designated by the Board of Directors to submit a single quote or maintain continuous quotes in one or more series of a class to which the Market-Maker is appointed whenever, in the judgment of such official, it is necessary to do so in the interest of maintaining a fair and orderly market.

***... Interpretations and Policies:***

**.01** When the underlying security for a class is in a limit up-limit down state, as defined in Rule 6.39, Market-Makers shall have no quoting obligations in the class.

[Adopted December 10, 2009; Amended November 28, 2011 (SR-C2-2011-033); Amended July 11, 2012 (SR-C2-2012-022); Amended April 8, 2013 (SR-C2-2013-013); Amended April 9, 2013 (SR-C2-2013-008); Amended August 21, 2014 (SR-C2-2014-015)]

**Rule 8.6. Market-Maker Firm Quotes**

(a) Market-Maker bids and offers are firm for all orders under this Rule and Rule 602 of Regulation NMS under the Exchange Act (“Rule 602”) for the number of contracts specified in the bid or offer.

(b) Market-Maker bids and offers are not firm under this Rule and Rule 602 if:

(1) a system malfunction or other circumstance impairs the Exchange’s ability to disseminate or update market bids and offers in a timely and accurate manner;

(2) the level of trading activities or the existence of unusual market conditions is such that the Exchange is incapable of collecting, processing, and making available to quotation vendors the data for the option in a manner that accurately reflects the current state of the market on the Exchange;

(3) during the pre-opening; or

(4) any of the circumstances provided in paragraph (c)(4) of Rule 602 exist.

[Adopted December 10, 2009]

**Rule 8.7. Securities Accounts and Orders of Market-Makers**

(a) *Identification of Accounts.* In a manner prescribed by the Exchange, each Market-Maker shall file with the Exchange and keep current a list identifying all accounts for stock, options and related securities trading in which the Market-Maker may, directly or indirectly, engage in trading activities or over which it exercises investment discretion. No Market-Maker shall engage in stock, options or related securities trading in an account which has not been reported pursuant to this Rule.

(b) *Reports of Orders.* Each Market-Maker shall, in the prescribed form, report to the Exchange every order entered by the Market-Maker for the purchase or sale of (i) a security underlying options traded on the Exchange, or (ii) a security convertible into or exchangeable for such underlying security, as well as opening and closing positions in all such securities held in each account reported pursuant to paragraph (a) of this Rule. The report pertaining to orders must include the terms of each order, identification of the brokerage firms through which the orders were entered, the times of entry or cancellation, the times report of execution were received and, if all or part of the order was executed, the quantity and execution price.

(c) *Joint Accounts.* No Market-Maker shall, directly or indirectly, hold any interest or participate in any joint account for buying or selling any options contract unless each participant in such joint account is a Participant and unless such account is reported to, and not disapproved by, the Exchange. Such reports in a form prescribed by the

Exchange shall be filed with the Exchange before any transaction is effected on the Exchange for such joint account. A participant in a joint account must:

- (1) Be either a Market-Maker or a Clearing Participant that carries the joint account.
- (2) File and keep current a completed application on such form as is prescribed by the Exchange.
- (3) Be jointly and severally responsible for assuring that the account complies with all the Rules of the Exchange.
- (4) Not be a Market-Maker registered to the same option classes to which the joint account holder is also registered as a Market-Maker.

[Adopted December 10, 2009]

**Rule 8.8. Financial Requirements for Market Makers**

(a) Each Market-Maker shall maintain net capital sufficient to comply with the requirements of Exchange Act Rule 15c3-1. Each Market-Maker which is a Clearing Participant shall also maintain net capital sufficient to comply with the requirements of the Clearing Corporation.

[Adopted December 10, 2009]

**Rule 8.9. Deleted.**

[Adopted December 10, 2009; Amended July 28, 2016 (SR-C2-2016-015)]

**Rule 8.10. Financial Arrangements of Market-Makers**

Each Market-Maker who makes an arrangement to finance its transactions as a Market-Maker must identify to the Exchange the source of the financing and its terms. The Exchange must be informed immediately of the intention of any party to terminate or change any such arrangement.

[Adopted December 10, 2009]

**Rule 8.11. Maximum Number of Market-Makers Quoting per Product**

(a) *General.* The Exchange will impose an upper limit on the aggregate number of Market-Makers that may quote in each product (“Class Quoting Limit” or “CQL”). (For purposes of this Rule, the term “product” refers to all options of the same single underlying security/value.) Currently, the CQL is set at 50 Market-Makers.



All Market-Makers that request the ability to submit quotes in a product will be entitled to quote in that product in the order in which they so request provided the number of Market-Makers quoting electronically in the product does not exceed the CQL. When the number of Market-Makers in the product quoting electronically equals the CQL, all other Market-Makers requesting the ability to quote electronically in that product will be wait-listed in the order in which they submitted the request. The waiting list operates based on time priority. When the product can accommodate another quoter (whether due to attrition or an increase in the CQL), the Market-Maker at the “top” of the list (*i.e.*, the Market-Maker that has been on the waiting list the longest amount of time) has priority. Once a Market-Maker is wait-listed, the Exchange may not alter its position on the wait-list other than to improve such position (*i.e.*, the Exchange may not place other Market-Makers ahead of a previously wait-listed Market-Maker). If a wait-listed Market-Maker is offered, yet refuses, the ability to quote in the subject product, the Market-Maker will be removed from that waiting list.

(b) *Increasing the Class Quoting Limit.* The President of the Exchange (or in his absence his designee, who must be a Senior Vice President of the Exchange or higher) may increase the CQL for an existing or new product if the President determines that it would be appropriate. When the CQL increases pursuant to the President exercising his authority in accordance with this paragraph, Market-Makers on the wait-list for that product (if applicable) have first priority and remaining capacity will be filled on a time priority basis. The President (or his designee), in his discretion, may determine to reduce the CQL (“reduced CQL”) if the President determines that it would be appropriate, provided, however, that any reduction must be undertaken in accordance with the following procedure. If a Market-Makers changes its registration and ceases quoting in that class after the President (or his designee) has determined to decrease the CQL, the “increased” CQL will decrease by one until such time that the number of remaining Market-Makers quoting in the product equals the “reduced CQL.” From that point forward, the number of Market-Makers quoting in the product may not exceed the “reduced CQL.” Any actions taken by the President of the Exchange pursuant to this paragraph will be submitted to the Commission in a rule filing pursuant to Section 19(b)(3)(A) of the Exchange Act.

(c) *Announcements Regarding, or Changes to, Class Quoting Limits.* The Exchange will announce all changes regarding Class Quoting Limits via Information Circular. The Exchange may increase the CQL levels by submitting to the Commission a rule filing pursuant to Section 19(b)(3)(A) of the Exchange Act. The Exchange may decrease the CQL levels established above upon Commission approval of a rule filing submitted pursuant to Section 19(b)(2) of the Exchange Act.

(d) *Termination for Inactivity.* In the event a Market-Maker who is registered in an option class has not submitted any quotes in that option class during the preceding 30 calendar days (measured on a rolling basis), then the Market-Maker’s registration in that option class will be terminated effective immediately. The Market-Maker can subsequently request a registration in the option class. If there is a wait-list for the class, then Market-Maker will be placed on the wait-list for the option class. The Exchange will notify the

Market-Maker prior to terminating its registration, and the Exchange can make exceptions to this policy in unusual circumstances.

[Adopted December 10, 2009]

**Rule 8.12. Quote Risk Monitor Mechanism**

Each Market-Maker who is obligated to provide and maintain continuous electronic quotes pursuant to Rule 8.5, or the Participant organization with which the Market-Maker is associated, must establish parameters for an acronym or firm, as applicable, for each function below by which the Exchange will activate the Quote Risk Monitor (“QRM”) Mechanism. The functionality of the QRM Mechanism that is available to Market-Makers includes, for each such option class in which the Market-Maker is engaged in trading: (i) a maximum number of contracts for such option class (the “Contract Limit”) and a rolling time period in milliseconds within which such Contract Limit is to be measured (the “Measurement Interval”); (ii) a maximum cumulative percentage that the Market-Maker is willing to trade (the “Cumulative Percentage Limit”), where the cumulative percentage is the sum of the percentages of the original quoted size of each size of each series that traded, and a Measurement Interval; and (iii) the maximum number of series for which either side of the quote is fully traded (the “Number of Series Fully Traded”) and a Measurement Interval.

When the Exchange determines that the Market-Maker has traded at least the Contract Limit or Cumulative Percentage Limit for such option class during any rolling Measurement Interval, or has traded at least the Number of Series Fully Traded on an option class during any rolling Measurement Interval, the QRM Mechanism shall cancel all electronic quotes being disseminated with respect to that Market-Maker in that option class and any other classes with the same underlying security until the Market-Maker refreshes those electronic quotes. Such action by the Exchange is referred to herein as a QRM Incident. Once the QRM Mechanism is triggered, all counters that determine whether the QRM Mechanism is triggered and a QRM Incident occurs will be reset for all classes for which quotes were canceled for all parties for whom such quotes were canceled.

A Market-Maker or a Participant organization may also specify a maximum number of QRM Incidents on an Exchange-wide basis. When the Exchange determines that such Market-Maker or Participant organization has reached its QRM Incident limit during any rolling Measurement Interval, the QRM Mechanism shall cancel all of the Market-Maker’s or Participant organization’s electronic quotes and Market-Maker orders resting in the Book in all option classes on the Exchange and prevent the Market-Maker or Participant organization from sending additional quotes or orders to the Exchange until the Market-Maker or Participant organization reactivates its ability to send quotes or orders in a manner prescribed by the Exchange. Once the QRM Mechanism is triggered and quotes and orders are cancelled, all counters that determine whether the QRM Mechanism is triggered and a QRM Incident occurs will be reset for all parties for whom the QRM Mechanism was triggered and for all classes for which quotes and orders were canceled. If the Exchange cancels all of the Market-Maker’s or Participant organization’s electronic quotes and

Market-Maker orders resting in the Book, and the Market-Maker or Participant organization does not reactivate its ability to send quotes or orders, the block will be in effect only for the trading day that the Market-Maker or Participant organization reached its QRM Incident limit.

[Adopted November 14, 2011 (SR-C2-2011-034); Amended July 20, 2014 (SR-C2-2014-012); Amended December 14, 2016 (SR-C2-2016-020)]

**Rule 8.13. Preferred Market-Maker Program**

(a) *Generally.* The Exchange may allow, on a class-by-class basis, for the receipt of marketable orders, through the Exchange's system when the Exchange's disseminated quote is the NBBO, that carry a designation from the member transmitting the order that specifies a Market-Maker in that class as the "Preferred Market-Maker" for that order. A qualifying recipient of a Preferred Market-Maker order shall be afforded a participation entitlement as set forth in subparagraph (c) below.

(b) *Eligibility.* Any Exchange Market-Maker may be designated as a Preferred Market-Maker, however, the system is programmed so that a recipient of a Preferred Market-Maker order will only receive a participation entitlement for such order if the following provisions are met:

- (i) The Preferred Market-Maker is registered in the relevant option class.
- (ii) The Preferred Market-Maker is quoting at the best bid/offer on the Exchange.

(c) *Entitlement Rate.* Provided the provisions of paragraph (b) above have been met, the Preferred Market-Maker participation entitlement shall be the greater of the amount it would otherwise receive pursuant to the algorithm applicable to the class and 40% when there are two or more other Market-Maker quotes or non-Public Customer orders at the BBO, or 50% when there is one other Market-Maker quote or non-Public Customer order at the BBO, but no fewer than one contract. In addition, the following shall apply:

- (i) A Preferred Market-Maker may not be allocated a total quantity greater than the quantity that the Preferred Market-Maker is quoting at the best bid/offer on the Exchange.
- (ii) The participation entitlement rate is based on the number of contracts remaining after all higher priority orders in the Book at the best bid/offer on the Exchange have been satisfied.
- (iii) If a Preferred Market-Maker receives a participation entitlement under this Rule, then no other participation entitlements shall apply to such order.

(d) Quoting Obligations. The Preferred Market-Maker must comply with the quoting obligations applicable under Exchange rules and must provide continuous electronic quotes in at least 90% of the non-adjusted option series (as defined in Rule 8.5(a)(1)). For purposes of this subparagraph, “continuous” means 99% of the time. If a technical failure or limitation of the System prevents a Preferred Market-Maker from maintaining, or from communicating to the Exchange, timely and accurate quotes in a series, the duration of such failure shall not be considered in determining whether that Preferred Market-Maker has satisfied the 99% quoting standard with respect to that series. The Exchange may consider other exceptions to this obligation based on demonstrated legal or regulatory requirements or other mitigating circumstances. Compliance with this quoting obligation applies to all of a Preferred Market-Maker’s classes for which it receives Preferred Market-Maker orders collectively. The Exchange will determine compliance by a Preferred Market-Maker with this quoting obligation on a monthly basis. However, determining compliance with this obligation on a monthly basis does not relieve a Preferred Market-Maker from meeting this quoting obligation on a daily basis, nor does it prohibit the Exchange from taking disciplinary action against a Preferred Market-Maker for failing to meet this obligation each trading day.

*. . . Interpretations and Policies:*

**.01** The Exchange may allow, on a class-by-class basis, for the receipt of Preferred Market-Maker complex orders through the complex order book (COB) and/or complex order RFR auction (COA) systems, and a qualifying recipient of a Preferred Market-Maker complex order shall be afforded a participation entitlement as set forth below.

(a) Eligibility. Any Exchange Market-Maker may be designated as a Preferred Market-Maker, however, the system is programmed so that a recipient of a Preferred Market-Maker complex order will only receive a participation entitlement for such complex order if the following provisions are met:

(i) The Preferred Market-Maker is registered in the relevant option class.

(ii) With respect to participation entitlements for COB, the Preferred Market-Maker is quoting at the best net priced bid/offer when the order is received.

(iii) With respect to participation entitlements for COA:

(1) at the beginning of the auction, the Preferred Market-Maker is quoting at either (A) the best bid/offer on the Exchange in at least one of the component series of the complex order or (B) the best net priced bid/offer for the complex order; and

(2) at the conclusion of the auction, the Preferred Market-Maker is quoting at the best net priced bid/offer.

(b) Entitlement Rate. Provided the provisions of paragraph (a) above have been met, the Preferred Market-Maker participation entitlement shall be the greater of the amount it would otherwise receive pursuant to the algorithm applicable to the class and 40% when there are two or more other Market-Maker quotes or non-Public Customer orders at the best net priced bid/offer execution price, or 50% when there is one other Market-Maker quote or non-Public Customer order at the best net priced bid/offer execution price, but no fewer than one contract. In addition, the following shall apply:

(i) the Preferred Market-Maker would not be allocated a total quantity greater than the quantity that the Preferred Market-Maker is quoting at the best net priced bid/offer execution price;

(ii) the entitlement would be based on the number of contracts remaining after equivalent derived net priced orders and quotes in the Book and equivalent net priced Public Customer complex orders resting in COB that have priority over Preferred Market-Makers in accordance with Rule 6.13; and

(iii) if a Preferred Market-Maker receives a participation entitlement for a complex order resting in COB or a response to COA, then no other participation entitlements for complex orders set forth in Exchange Rules shall apply to complex orders resting in COB or entered in response to COA.

(c) Quoting Obligations: A Preferred Market-Maker is subject to the requirements of paragraph (d) above.

[Adopted April 27, 2010 (SR-C2-2010-001); Amended November 28, 2011 (SR-C2-2011-033); Amended July 11, 2012 (SR-C2-2012-022); Amended August 21, 2014 (SR-C2-2014-015); Amended June 29, 2016 (SR-C2-2016-010)]

**Rule 8.14. Approval to Act as a DPM**

(a) To act as a DPM, a Participant must file an application with the Exchange on such forms as the Exchange may prescribe.

(b) The Exchange shall determine the appropriate number of approved DPMs. Each DPM approval shall be made by the Exchange from among the DPM applications on file with the Exchange, based on the Exchange's judgment as to which applicant is best able to perform the functions of a DPM. Factors to be considered in making such a selection may include, but are not limited to, any one or more of the following:

(1) adequacy of capital;

(2) operational capacity;

(3) trading experience of and observance of generally accepted standards of conduct by the applicant and its associated persons;

(4) regulatory history of and history of adherence to the Rules by the applicant and its associated persons; and

(5) willingness and ability of the applicant and its associated persons to promote the Exchange as a marketplace.

(c) Each applicant for approval as a DPM will be given an opportunity to present any matter that it wishes the Exchange to consider in conjunction with the approval decision. The Exchange may require that a presentation be solely or partially in writing, and may require the submission of additional information from the applicant or persons associated with the applicant. Formal rules of evidence shall not apply to these proceedings.

(d) In selecting an applicant for approval as a DPM, the Exchange may place one or more conditions on the approval, including but not limited to conditions concerning the capital or operations of or persons associated with the applicant, and the number or type of securities that may be allocated to the applicant.

(e) Each DPM shall retain its approval to act as a DPM for one year, unless the Exchange relieves the DPM of its approval and obligations to act as a DPM or the Exchange earlier terminates the DPM's approval to act as a DPM pursuant to Rule 8.20. After each one-year term, a DPM may file an application with the Exchange to renew its approval to act as a DPM on such forms as the Exchange may prescribe, which the Exchange may approve or disapprove in its sole discretion in the same manner and based on the same factors set forth in paragraphs (b) through (d) above, and any other factors that the Exchange deems relevant, including an evaluation of the extent to which the DPM has satisfied its obligations under Rule 8.17.

(f) If pursuant to Rule 8.20 the Exchange terminates or otherwise limits its approval for a Participant to act as a DPM, the Exchange shall have the discretion to do one or both of the following:

(1) approve a DPM on an interim basis, pending the final approval of a new DPM pursuant to paragraphs (a) through (d) of this Rule; and

(2) allocate on an interim basis to another DPM(s) the securities that were allocated to the affected DPM, pending a final allocation of such securities pursuant to Rule 8.15.

Neither an interim approval nor allocation made pursuant to this paragraph (f) should be viewed as a prejudgment with respect to the final approval or allocation.

(g) DPM appointments may not be sold, assigned, or otherwise transferred without prior written approval of the Exchange.

[Adopted October 18, 2012 (SR-C2-2012-024)]

**Rule 8.15. Allocation of Securities to DPMs**

(a) The Exchange shall determine for each security traded on the Exchange whether the security should be allocated to a DPM and, if so, to which DPM the security should be allocated.

(b) The Exchange may consider any information that the Exchange believes will be of assistance to it in making determinations pursuant to paragraph (a) of this Rule. Factors to be considered in making such determinations may include, but are not limited to, any one or more of the following: performance, volume, capacity, market performance commitments, operational factors, efficiency, competitiveness, environment in which the security will be traded, expressed preferences of issuers, and recommendations of Exchange committees.

(c) During a DPM's term, the Exchange may remove the allocation of a security to the DPM, and may reallocate the applicable security pursuant to paragraph (a) of this Rule, if the DPM fails to adhere to any market performance commitments made by the DPM in connection with receiving the allocation. Any determination made pursuant to paragraph (a) of this Rule may also be changed by the Exchange at any time if the Exchange concludes that a change is in the best interests of the Exchange based on operational factors or efficiency.

(d) Prior to taking any action pursuant to paragraph (c) of this Rule, except when expeditious action is required, the Exchange shall notify the DPM involved of the reasons the Exchange is considering taking action pursuant to paragraph (c) of this Rule and the kind of action that is under consideration, and shall either convene one or more informal meetings with the DPM to discuss the matter, or shall provide the DPM with the opportunity to submit a written statement to the Exchange. Ordinarily, neither counsel for the Exchange nor counsel for the DPM shall be invited to any such informal meetings, and no verbatim record of the meetings shall be kept.

(e) The allocation of a security to a DPM does not convey ownership rights in such allocation or in the order flow associated with such allocation.

(f) In allocating and reallocating securities to DPMs, the Exchange shall act in accordance with any limitation or restriction on the allocation of securities that is established pursuant to another Exchange rule.

***... Interpretations and Policies:***

**.01** Subject to Rule 8.14(f), the Exchange may reallocate a security pursuant to paragraph (a) of this Rule at the end of a DPM's one-year term, in the event that the security is removed pursuant to another Exchange Rule from the DPM to which the security has been allocated, or in the event that for some other reason the DPM to which the security has been allocated no longer retains such allocation.

[Adopted October 18, 2012 (SR-C2-2012-024)]

**Rule 8.16. Conditions on the Allocation of Securities to DPMs**

(a) The Exchange may establish (1) restrictions applicable to all DPMs on the concentration of securities allocable to a single DPM and to affiliated DPMs and (2) minimum eligibility standards applicable to all DPMs, which must be satisfied in order for a DPM to receive allocations of securities, including but not limited to standards relating to adequacy of capital and operational capacity.

(b) The Exchange has the authority under the Rules to restrict the ability of particular DPMs to receive allocations of securities, including but not limited to, Rule 8.14(d) and Rule 8.20.

[Adopted October 18, 2012 (SR-C2-2012-024)]

**Rule 8.17. DPM Obligations**

(a) *Dealer Transactions.* Each DPM shall fulfill all of the obligations of a Market-Maker under the Rules, and shall satisfy each of the following requirements in respect of each of the securities allocated to the DPM. To the extent that there is any inconsistency between the specific obligations of a DPM set forth in this Rule 8.17 and the general obligations of a Market-Maker under the Rules, this Rule 8.17 shall govern. Each DPM shall:

(1) provide continuous quotes in at least the lesser of 99% of the non-adjusted option series (as defined in Rule 8.5(a)(1)) or 100% of the non-adjusted option series minus one call-put pair with the term “call-put pair” referring to one call and one put that cover the same underlying instrument and have the same expiration date and exercise price, and assure that its disseminated market quotations are accurate. This obligation does not apply to intra-day add-on series on the day during which such series are added for trading. For purposes of this subparagraph (a)(1), “continuous” means 90% of the time. If a technical failure or limitation of the System prevents a DPM from maintaining, or from communicating to the Exchange, timely and accurate quotes in a series, the duration of such failure shall not be considered in determining whether that DPM has satisfied the 90% quoting standard with respect to the series. The Exchange may consider other exceptions to this obligation based on demonstrated legal or regulatory requirements or other mitigating circumstances. Compliance with this quoting obligation applies to all of a DPM’s allocated classes collectively. The Exchange will determine compliance by a DPM with this quoting obligation on a monthly basis. However, determining compliance with this obligation on a monthly basis does not relieve a DPM from meeting this obligation on a daily basis, nor does it prohibit the Exchange from taking disciplinary action against DPM for failing to meet this obligation each trading day;

(2) assure that each of its displayed market quotations are for the number of contracts required by Rule 8.6(a);

(3) segregate in a manner prescribed by the Exchange (A) all transactions consummated by the DPM in securities allocated to the DPM and (B) any other transactions consummated by or on behalf of the DPM that are related to the DPM’s DPM business;



(4) not initiate a transaction for the DPM's own account that would result in putting into effect any stop or stop limit order that may be in the Book and when the DPM guarantees that the stop or stop limit order will be executed at the same price as the electing transaction. The restrictions set forth in this subparagraph (a)(4) apply to stop or stop limit orders only if the terms of such orders are visible to the DPM or if such orders are handled by the DPM; and

(5) ensure that a trading rotation is initiated promptly following the opening of the underlying security (or promptly after 8:30 a.m. (CT) in an index class) in accordance with Rule 6.11 in 100% of the series of each allocated class by entering opening quotes as necessary.

(b) *Agency Transactions.* A DPM shall not execute orders as an agent in its allocated option classes.

(c) *Other Obligations.* In addition to the obligations described in paragraphs (a) and (b) of this Rule, a DPM shall fulfill each of the following obligations:

(1) resolve disputes relating to transactions in the securities allocated to the DPM, subject to Exchange official review, upon the request of any party to the dispute;

(2) make competitive markets on the Exchange and otherwise promote the Exchange in a manner that is likely to enhance the ability of the Exchange to compete successfully for order flow in the classes it trades;

(3) promptly inform the Exchange of any material change in the financial or operational condition of the DPM;

(4) supervise all persons associated with the DPM to assure compliance with the Rules;

(5) segregate in a manner prescribed by the Exchange the DPM's business and activities as a DPM from the DPM's other businesses and activities; and

(6) continue to act as a DPM and to fulfill all of the DPM's obligations as a DPM until its DPM appointment has lapsed, the Exchange relieves the DPM of its approval and obligations to act as a DPM, or the Exchange terminates the DPM's approval to act as a DPM pursuant to Rule 8.20.

(d) *Obligations of DPM Associated Persons.* Each person associated with a DPM shall be obligated to comply with the provisions of paragraphs (a), (b), and (c) of this Rule when acting on behalf of the DPM.

(e) *Requirements to Hold Trading Permit.* Each DPM shall hold such number of Trading Permits as may be necessary based on the aggregate "registration cost" for the classes allocated to the DPM. Each Trading Permit held by the DPM has a registration credit of 1.0.

The registration costs for the classes allocated to the DPM organization are set forth in Rule 8.2(d).

For example, if the DPM has been allocated such number of option classes that its aggregate registration cost is 1.6, the DPM would be required to hold two Trading Permits. The Exchange may change at any time the registration cost of any option class; upon any such change, each DPM will be required to hold the appropriate number of Trading Permits reflecting the revised registration costs of the classes that have been allocated to it. Additionally, a DPM is required to hold the appropriate number of Trading Permits at the time a new option class allocated to it pursuant to Rule 8.15 begins trading.

In the event a Participant approved as a DPM is also approved to act as a Market-Maker and has excess Trading Permit capacity above the aggregate registration cost for the classes allocated to it as the DPM, the Participant may utilize the excess Trading Permit capacity to quote in an appropriate number of classes in the capacity of a Market-Maker. For example, if the DPM has been allocated such number of option classes that its aggregate registration cost is 1.6, the Participant could request an appointment as a Market-Maker in any combination of option classes whose aggregate registration cost does not exceed .40. The Participant will not function as a DPM in any of these additional classes. In the event the Participant utilizes any excess Trading Permit capacity to quote in some additional classes as a Market-Maker, it must comply with the provisions of Rule 8.2.

*. . . Interpretations and Policies:*

**.01** Willingness to promote the Exchange as a marketplace includes assisting in meeting and educating market participants (and taking the time for travel related thereto), maintaining communications with Participants in order to be responsive to suggestions and complaints, responding to suggestions and complaints, and other like activities.

**.02** When the underlying security for a class is in a limit up-limit down state, as defined in Rule 6.39, DPMs shall have no quoting obligations in the class.

[Adopted October 18, 2012 (SR-C2-2012-024); Amended April 8, 2013 (SR-C2-2013-013); Amended April 9, 2013 (SR-C2-2013-008); Amended August 21, 2014 (SR-C2-2014-015)]

**Rule 8.18. DPM Financial Requirements**

Each DPM shall maintain (a) net liquidating equity in its DPM account of not less than \$100,000, and in conformity with such guidelines as the Exchange may establish from time to time, and (b) net capital sufficient to comply with the requirements of Exchange Act Rule 15c3-1. Each DPM which is a Clearing Participant shall also maintain net capital sufficient to comply with the requirements of the Clearing Corporation.

[Adopted October 18, 2012 (SR-C2-2012-024)]

**Rule 8.19. Participation Entitlement of DPMs**

(a) Subject to the review of the Board, the Exchange may establish from time to time a participation entitlement formula that is applicable to all DPMs.

(b) The participation entitlement for DPMs shall operate as follows:

(1) *Generally.*

(A) To be entitled to a participation entitlement, the DPM must be quoting at the BBO.

(B) A DPM may not be allocated a total quantity greater than the quantity that the DPM is quoting at the BBO.

(C) The participation entitlement is based on the number of contracts remaining after all higher priority orders in the Book at the BBO have been satisfied.

(2) *Participation Rates Applicable to DPMs.* The collective DPM participation entitlement shall be the greater of the amount it would otherwise receive pursuant to the algorithm applicable to the class and 50% when there is one other Market-Maker quote or non-Public Customer order at the BBO, 40% when there are two other Market-Maker quotes or non-Public Customer orders at the BBO, or 30% when there are three or more other Market-Maker quotes or non-Public Customer orders at the BBO, but no fewer than one contract. If only the DPM quote is at the BBO (with no other Market-Maker quotes or non-Public Customer orders at the BBO), the participation entitlement shall not be applicable and the allocation procedures under Rule 6.12 shall apply.

(3) *Participation Entitlement in Instances Where a Preferred Market-Maker Receives a Participation Entitlement Pursuant to Rule 8.13.* A DPM will not receive its participation entitlement set forth in this Rule in trades for which a Preferred Market-Maker receives a participation entitlement pursuant to Rule 8.13, based on the order priority determined by the Exchange under Rule 6.12.

**... Interpretations and Policies:**

**.01** Notwithstanding subparagraph (b)(2) above, the Exchange may establish a lower DPM participation rate on a product-by-product basis for newly listed products or products that are being allocated to a DPM for the first time. Notification of such lower participation rate shall be provided to Participants through a Regulatory Circular.

**.02** Rule 8.17(a)(1) does not require a DPM to provide continuous quotes in intra-day add-on series on the day during which such series are added for trading. However, a DPM may still receive a participation entitlement in such series if it elects to quote in such series and otherwise satisfies the requirements set forth in Rule 8.19(b).

**.03** Where the underlying security for a class is in a limit up-limit down state, as defined in Rule 6.39, DPMs shall have no quoting obligations in the class. However, a DPM may receive a participation entitlement in series of such a class when the underlying security has entered a limit up-limit down state if it elects to quote in such series and otherwise satisfies the requirements set forth in Rule 8.19(b).

[Adopted October 18, 2012 (SR-C2-2012-024); Amended April 8, 2013 (SR-C2-2013-013); Amended April 9, 2013 (SR-C2-2013-008); Amended June 29, 2016 (SR-C2-2016-010)]

**Rule 8.20. Termination, Conditioning, or Limiting Approval to Act as a DPM**

(a) The Exchange may terminate, place conditions upon, or otherwise limit a Participant's approval to act as a DPM under any one or more of the following circumstances:

- (1) if the Participant incurs a material financial or operational change;
- (2) if the Participant fails to comply with any of the requirements under this Chapter 8 regarding DPM obligations and responsibilities (including, but not limited to, any conditions imposed under Rule 8.14(d), Rule 8.16(a)(2), or this Rule 8.20); or
- (3) if for any reason the TPH organization should no longer be eligible for approval to act as a DPM or to be allocated a particular security or securities.

Before the Exchange takes action to terminate, condition, or otherwise limit a Participant's approval to act as a DPM, the Participant will be given notice of such possible action and an opportunity to present any matter which it wishes the Exchange to consider in determining whether to take such action. Such proceedings shall be conducted in the same manner as Exchange proceedings concerning DPM approvals, which are governed by Rule 8.14(c).

(b) Notwithstanding the provisions of paragraph (a) of this Rule, the Exchange has the authority to immediately terminate, condition, or otherwise limit a Participant's approval to act as a DPM if it incurs a material financial or operational change warranting such action or if the Participant fails to comply with any of the financial requirements of Rule 8.18.

(c) Limiting a Participant's approval to act as a DPM may include, among other things, limiting or withdrawing the Participant's DPM participation entitlement provided for under 8.19 and withdrawing the right of the Participant to act in the capacity of a DPM in a particular security or securities that have been allocated to the Participant.

(d) If a Participant's approval to act as a DPM is terminated, conditioned, or otherwise limited by the Exchange pursuant to this Rule, the Participant may seek review of that decision under Chapter 19 of the Rules.

[Adopted October 18, 2012 (SR-C2-2012-024)]

**Rule 8.21. Deleted.**

[Adopted October 18, 2012 (SR-C2-2012-024); Amended July 28, 2016 (SR-C2-2016-015)]

**CHAPTER 9  
Doing Business with the Public**

The rules contained in CBOE Chapter IX, as such rules may be in effect from time to time, shall apply to C2 and are hereby incorporated into this Chapter. C2 Participants shall comply with CBOE Chapter IX as if such rules were part of the C2 Rules. Unless the context dictates otherwise, the following terms, or any variations of these terms, from CBOE Chapter IX shall have the following meanings for purposes of this Chapter: “Exchange” and “CBOE” shall mean C2; “Floor” shall mean “System”; “Trading Permit Holder” (i.e., CBOE Trading Permit Holder) shall mean “Participant” or “Permit Holder”; and “Clearing Trading Permit Holder” shall mean “Clearing Participant.”

[Adopted December 10, 2009; Amended June 17, 2010 (SR-C2-2010-002)]

**CHAPTER 10  
Closing Transactions**

The rules contained in CBOE Chapter X, as such rules may be in effect from time to time, shall apply to C2 and are hereby incorporated into this Chapter. C2 Participants shall comply with CBOE Chapter X as if such rules were part of the C2 Rules. Unless the context dictates otherwise, the following terms, or any variations of these terms, from CBOE Chapter X shall have the following meanings for purposes of this Chapter: “Exchange” and “CBOE” shall mean C2; “Trading Permit Holder” (i.e., CBOE Trading Permit Holder) shall mean “Participant” or “Permit Holder”; “Clearing Trading Permit Holder” shall mean “Clearing Participant”; and “floor of the Exchange” shall mean “System.”

Notwithstanding the above paragraph, the following Rules from CBOE Chapter IX shall not apply to C2: All of Part B – Stocks Warrants, and Other Securities (Rules 10.10 – 10.22).

[Adopted December 10, 2009; Amended June 17, 2010 (SR-C2-2010-002)]

**CHAPTER 11  
Exercises and Deliveries**

The rules contained in CBOE Chapter XI, as such rules may be in effect from time to time, shall apply to C2 and are hereby incorporated into this Chapter. C2 Participants shall comply with CBOE Chapter XI as if such rules were part of the C2 Rules. Unless

the context dictates otherwise, the following terms, or any variations of these terms, from CBOE Chapter XI shall have the following meanings for purposes of this Chapter: “Exchange” and “CBOE” shall mean C2; “Trading Permit Holder” (i.e., CBOE Trading Permit Holder) shall mean “Participant” or “Permit Holder”; and “Clearing Trading Permit Holder” shall mean “Clearing Participant.”

[Adopted December 10, 2009; Amended June 17, 2010 (SR-C2-2010-002)]

## **CHAPTER 12**

### **Margins**

The rules contained in CBOE Chapter XII, as such rules may be in effect from time to time, shall apply to C2 and are hereby incorporated into this Chapter. C2 Participants shall comply with CBOE Chapter XII as if such rules were part of the C2 Rules. Unless the context dictates otherwise, the following terms, or any variations of these terms, from CBOE Chapter XII shall have the following meanings for purposes of this Chapter: “Exchange” and “CBOE” shall mean C2; “Trading Permit Holder” (i.e., CBOE Trading Permit Holder) shall mean “Participant” or “Permit Holder”; and “Clearing Trading Permit Holder” shall mean “Clearing Participant.”

[Adopted December 10, 2009; Amended June 17, 2010 (SR-C2-2010-002)]

## **CHAPTER 13**

### **Net Capital Requirements**

The rules contained in CBOE Chapter XIII, as such rules may be in effect from time to time, shall apply to C2 and are hereby incorporated into this Chapter. C2 Participants shall comply with CBOE Chapter XIII as if such rules were part of the C2 Rules. Unless the context dictates otherwise, the following terms, or any variations of these terms, from CBOE Chapter XIII shall have the following meanings for purposes of this Chapter: “Exchange” and “CBOE” shall mean C2; “Trading Permit Holder” (i.e., CBOE Trading Permit Holder) shall mean “Participant” or “Permit Holder”; and “Clearing Trading Permit Holders” shall mean “Clearing Participants.”

[Adopted December 10, 2009; Amended June 17, 2010 (SR-C2-2010-002)]

## **CHAPTER 14**

### **[Reserved]**

## **CHAPTER 15**

### **Records, Reports and Audits**

The rules contained in CBOE Chapter XV, as such rules may be in effect from time to time, shall apply to C2 and are hereby incorporated into this Chapter. C2 Participants shall comply with CBOE Chapter XV as if such rules were part of the C2 Rules. Unless the context dictates otherwise, the following terms, or any variations of these terms, from CBOE Chapter XV shall have the following meanings for purposes of this Chapter: “Exchange” and “CBOE” shall mean C2; “Trading Permit Holder” (i.e., CBOE Trading Permit Holder) shall mean “Participant” or “Permit Holder”; “Clearing Trading Permit Holder” shall mean “Clearing Participant”; “Department of Compliance” shall mean “Exchange”; “Department of Financial and Sales Practice Compliance” shall mean “Exchange”; “Department of Member Firm Regulation” shall mean “Exchange”; and “trading floor” shall mean “System.”

[Adopted December 10, 2009; Amended June 17, 2010 (SR-C2-2010-002)]

## **CHAPTER 16**

### **Summary Suspension**

The rules contained in CBOE Chapter XVI, as such rules may be in effect from time to time, shall apply to C2 and are hereby incorporated into this Chapter. C2 Participants shall comply with CBOE Chapter XVI as if such rules were part of the C2 Rules. Unless the context dictates otherwise, the following terms, or any variations of these terms, from CBOE Chapter XVI shall have the following meanings for purposes of this Chapter: “Exchange” and “CBOE” shall mean C2; “Trading Permit Holder” (i.e., CBOE Trading Permit Holder) shall mean “Participant” or “Permit Holder”; and “Trading Permit” (i.e., CBOE Trading Permit) shall mean “Trading Permit.”

[Adopted December 10, 2009; Amended June 17, 2010 (SR-C2-2010-002); Amended May 17, 2011 (SR-C2-2011-003)]

## **CHAPTER 17**

### **Discipline**

The rules contained in CBOE Chapter XVII, as such rules may be in effect from time to time, shall apply to C2 and are hereby incorporated into this Chapter. C2 Participants shall comply with CBOE Chapter XVII as if such rules were part of the C2 Rules. Unless the context dictates otherwise, the following terms, or any variations of these terms, from CBOE Chapter XVII shall have the following meanings for purposes of this Chapter: “Exchange” and “CBOE” shall mean C2; “Trading Permit Holder” (i.e., CBOE Trading Permit Holder) shall mean “Permit Holder”; “Trading Permit Holders” shall mean “Permit Holders”; and “Clearing Trading Permit Holder” shall mean “Clearing

Participant.” Any references in CBOE Rule 17.50 to Rule 3.23 shall be read to refer to C2 Rule 3.9.

Notwithstanding the above paragraph, with respect to applicability to C2 only, CBOE Rules 17.50(g)(4), 17.50(g)(5) and 17.50(g)(7) are not applicable to C2.

Notwithstanding the above paragraphs, with respect to its applicability to C2 only, CBOE Rule 17.50(g)(6) - Violations of Trading Conduct and Decorum Policies - will be replaced in its entirety with the following:

**(6) Failure to Attend Exchange-Mandated Educational Training**

A fine may be imposed upon a Trading Permit Holder or persons associated with Trading Permit Holders in accordance with the fine schedule set forth below for failure to attend Exchange-mandated educational training (per Rule 6.46).

<i>Number of Offenses in Any Rolling Twenty-Four Month Period</i>	<i>Fine Amount</i>
1st Offense	\$1,000
2nd Offense	\$2,500
Subsequent Offenses	\$5,000

Notwithstanding the above paragraph, with respect to its applicability to C2 only, CBOE Rule 17.50(g)(14) and (19) will be replaced in their entirety with the following:

**(14) Failure to Meet C2 Quoting Obligations**

A fine shall be imposed upon a Market-Maker, Preferred Market-Maker or DPM (as applicable) in accordance with the fine schedule set forth below for failure to meet its continuous quoting obligations (Rule 8.5(a)(1), Rule 8.13(d) and Rule 8.17(a)(1), respectively).

<i>Number of Offenses in Any Rolling Twenty-Four Month Period</i>	<i>Fine Amount</i>
1st Offense	\$2,000 to \$4,000
2nd Offense	\$4,000 to \$5,000
Subsequent Offenses	\$5,000 or Referral to Business Conduct Committee

**(19) Failure to Conduct or Participate in Mandatory Systems Testing (Rule 6.34(e))**

A fine shall be imposed upon a Participant who fails to conduct or participate in the testing of computer systems or fails to provide required reports or maintain required documentation in violation of Rule 6.34(e). Such fines shall be imposed on the basis of the following schedule:

<i>Number of Offenses in One Calendar Year</i>	<i>Fine Amount</i>
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1st Offense	\$250
2nd Offense	\$500
3rd Offense	\$1,000
4th Offense	\$2,000
Subsequent Offenses	Referral to Business Conduct Committee

[Adopted December 10, 2009; Amended June 17, 2010 (SR-C2-2010-002); Amended January 26, 2012 (SR-C2-2012-005); Amended September 4, 2012 (SR-C2-2012-031); Amended September 4, 2012 (SR-C2-2012-032); Amended October 18, 2012 (SR-C2-2012-024); Amended November 22, 2012 (SR-C2-2012-036)]

## **CHAPTER 18**

### **Arbitration**

The rules contained in CBOE Chapter XVIII, as such rules may be in effect from time to time, shall apply to C2 and are hereby incorporated into this Chapter. C2 Participants shall comply with CBOE Chapter XVIII as if such rules were part of the C2 Rules. Unless the context dictates otherwise, the following terms, or any variations of these terms, from CBOE Chapter XVIII shall have the following meanings for purposes of this Chapter: “Exchange” and “CBOE” shall mean C2; “Trading Permit Holder” (i.e., CBOE Trading Permit Holder) shall mean “Participant” or “Permit Holder”; and “Clearing Trading Permit Holder” shall mean “Clearing Participant.”

[Adopted December 10, 2009; Amended June 17, 2010 (SR-C2-2010-002)]

## **CHAPTER 19**

### **Hearings and Review**

The rules contained in CBOE Chapter XIX, as such rules may be in effect from time to time, shall apply to C2 and are hereby incorporated into this Chapter. C2 Participants shall comply with CBOE Chapter XIX as if such rules were part of the C2 Rules. Unless the context dictates otherwise, the following terms, or any variations of these terms, from CBOE Chapter XIX shall have the following meanings for purposes of this Chapter: “Exchange” and “CBOE” shall mean C2; “Constitution” shall mean “Bylaws”; “Trading Permit Holder” (i.e., CBOE Trading Permit Holder) shall mean “Participant” or “Permit Holder”; and “membership” shall mean “access”.

[Adopted December 10, 2009; Amended June 17, 2010 (SR-C2-2010-002)]

## **CHAPTERS 20-23**

### **[Reserved]**

## **CHAPTER 24**

### **Index Options**

The rules contained in CBOE Chapter XXIV, as such rules may be in effect from time to time, shall apply to C2 and are hereby incorporated into this Chapter. C2 Participants shall comply with CBOE Chapter XXIV as if such rules were part of the C2 Rules. Unless the context dictates otherwise, the following terms, or any variations of these terms, from CBOE Chapter XXIV shall have the following meanings for purposes of this Chapter: “Exchange” and “CBOE” shall mean C2; “Trading Permit Holder” (i.e., CBOE Trading Permit Holder) shall mean “Participant” or “Permit Holder”; “Clearing Trading Permit Holder” shall mean “Clearing Participant”; “trading crowd” shall mean “Exchange”; and “floor of the Exchange” shall mean “System.”

Notwithstanding the above paragraph, the following Rules from CBOE Chapter XXIV shall not apply to C2: Rules 24.6 (Days and Hours of Business); 24.7 (Trading Halts, Suspensions, or Primary Market Closure); 24.13 (Trading Rotations); 24.15 (Automatic Execution of Index Options); 24.17 (RAES Eligibility in Broad-Based Index Options and Options on Exchange Traded Funds on Broad Based Indexes); 24.19 (Multi-Class Broad-Based Index Option Spread Orders); 24.20 (SPX Combination Orders); and 24.21 (Index Crowd Space Dispute Resolution Procedures).

#### ***...Supplemental Rules to C2 Chapter 24:***

(a) In addition to the provisions set forth in CBOE Rule 24.9, P.M.-settled S&P 500 Index options with third-Friday-of-the-month expiration dates may be listed for trading on C2 for a pilot period ending November 2, 2013.

(1) For the duration of the pilot period identified in subparagraph (a), on the last trading day, transactions in expiring PM-settled S&P 500 Index options may be effected on the Exchange between the hours of 8:30 a.m. (Chicago time) and 3:00 pm (Chicago time).

[Adopted December 10, 2009; Amended June 17, 2010 (SR-C2-2010-002); Amended September 30, 2010 (SR-C2-2010-004); Amended November 3, 2010 (SR-C2-2010-008); Amended September 2, 2011 (SR-C2-2011-008); Amended October 7, 2011 (SR-C2-2011-029); Amended October 17, 2011 (SR-C2-2011-030); Amended September 19, 2012 (SR-C2-2012-033)]