

total annual compliance burden is estimated to be 60 hours per year based on two respondents. The approximate compliance cost per hour is \$380, resulting in a total internal cost of compliance for these respondents of \$22,800 per year (60 hours @ \$380 per hour).

An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information under the PRA unless it displays a currently valid OMB control number.

The public may view background documentation for this information collection at the following Web site: [www.reginfo.gov](http://www.reginfo.gov). Comments should be directed to: (i) Desk Officer for the Securities and Exchange Commission, Office of Information and Regulatory Affairs, Office of Management and Budget, Room 10102, New Executive Office Building, Washington, DC 20503, or by sending an email to: [ShaguftaAhmed@omb.eop.gov](mailto:ShaguftaAhmed@omb.eop.gov); and (ii) Pamela Dyson, Director/Chief Information Officer, Securities and Exchange Commission, c/o Remi Pavlik-Simon, 100 F Street NE., Washington, DC 20549, or by sending an email to: [PRA\\_Mailbox@sec.gov](mailto:PRA_Mailbox@sec.gov). Comments must be submitted to OMB within 30 days of this notice.

Dated: May 14, 2015.

**Robert W. Errett,**

*Deputy Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-74964; File No. SR-C2-2015-010]

### Self-Regulatory Organizations; C2 Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Regarding Limitation of Liability

May 14, 2015.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on May 5, 2015, C2 Options Exchange, Incorporated (the “Exchange” or “C2”) filed with the Securities and Exchange Commission (the “Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. The Commission is publishing this notice to

solicit comments on the proposed rule change from interested persons.

#### I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to amend its Rule 6.42 governing Exchange liability and payments to Permit Holders<sup>3</sup> in connection with certain types of losses that Permit Holders may allege arose out of the business conducted on or through the Exchange or in connection with the use of the Exchange’s facilities. The Exchange also proposes conforming changes to Rules 2.2 and 6.44. The text of the proposed rule change is available on the Exchange’s Web site (<http://www.cboe.com/AboutCBOE/CBOELegalRegulatoryHome.aspx>), at the Exchange’s Office of the Secretary, and at the Commission’s Public Reference Room.

#### II. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

##### A. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

###### 1. Purpose

C2 proposes to amend Rule 6.42 to eliminate any implication of liability with respect to the Exchange and its subsidiaries or affiliates, or any of their directors, officers, committee members, other officials, employees, contractors, or agents, (including the Exchange, collectively, “Covered Persons”) for losses arising out of the use or enjoyment of Exchange facilities. The proposed rule change is consistent with and supplements existing law, and would ensure that self-regulatory organizations (“SROs”) can operate within the sphere of their regulatory duties without fear of endless, costly litigation and potential catastrophic

loss.<sup>4</sup> As discussed below, the proposed rule change is also consistent with the rules of other exchanges limiting exchange liability (*see, e.g.*, EDGA Exchange, Inc. (“EDGA”) Rule 11.14 BOX Options Exchange, LLC (“BOX”) Rule 7230, International Securities Exchange, LLC (“ISE”) Rule 705, and New York Stock Exchange LLC (“NYSE”) Rule 18).

Under C2’s proposal, although the Exchange would not be liable for losses, it would have the discretion to compensate Permit Holders for losses alleged to have resulted from the Exchange’s failure to correctly process an order or quote due to the acts or omissions of the Exchange or due to the failure of its systems or facilities (each, a “Loss Event”), up to specified limits. The proposed rule change would also establish timeframes within which Permit Holders would be required to bring requests for compensation (and provide supporting documentation), provide factors the Exchange may consider in determining whether to provide compensation in response to such requests, and establish that the Exchange’s determinations on compensation are final and not appealable. The proposed rule change would also provide that claims arising under a previous version of Rule 6.42 for losses occurring more than one year prior to July 1, 2015 (the “Effective Date”) would not be considered valid, and that claims for any losses occurring prior to the Effective Date must be brought within one month of the Effective Date to be considered valid. Specific changes to Exchange Rules are discussed below.

##### Proposed Amendment to Rule Title

The proposed rule change would change the title of Rule 6.42 from “Exchange Liability” to “Exchange Liability Disclaimers and Limitations.” The proposed amendment to the Rule title would clarify that the Rule does not impose liability on the Exchange, but

<sup>4</sup> Courts have recognized the importance of protecting exchanges from such loss in deciding that SROs must be absolutely immune from civil actions for losses arising out of the SRO function. *See Dexter v. Depository Trust & Clearing Corp.*, 406 F. Supp. 2d 260, 263 (S.D.N.Y. 2005) (absolute immunity possessed by SROs “is an integral part of the American system of self-regulation”), *aff’d* 219 F. App’x 91 (2d Cir. 2007). Without such protection, an SRO’s “exercise of its quasi-governmental functions would be unduly hampered by disruptive and recriminatory lawsuits.” *D’Alessio v. NYSE*, 258 F.3d 93, 105 (2d Cir. 2001). It is critical that SROs, which stand in the shoes of the SEC in performing their quasi-governmental regulatory function, be free from “the fear of burdensome damage suits that would inhibit the exercise of their independent judgment.” *Dexter*, 406 F.Supp. 2d at 263.

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

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

<sup>3</sup> Permit Holders are also referred to in the Exchange Rules and herein in this rule change filing as “Participants.” *See e.g.*, the Rule 1.1 definition of “Participant.”

rather disclaims Exchange liability for any losses 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, the calculation or dissemination of specified values, or quotes or transaction reports for options or other securities (the “General Disclaimer”).

#### Proposed Amendments to Scope of General Disclaimer

Proposed amendments to Rule 6.42(a) would clarify that “contractors” are included within the term “Covered Persons,” and are therefore included within the General Disclaimer. This proposed change is needed because the Exchange at times contracts with outside firms to provide products and services to the Exchange for use by Permit Holders in connection with regulated business conducted on or through the Exchange and that arise out of the use or enjoyment of the facilities afforded by the Exchange and/or the calculation or dissemination of specified values, or quotes or transaction reports for options or other securities. C2 notes that this proposed rule change is consistent with the exclusion from liability for contractors found in EDGA Rule 11.14, BOX Rule 7230 and ISE Rule 705. Proposed amendments to Rule 6.42(a) would also clarify that “other officials” of the Exchange or “any subsidiaries or affiliates of the Exchange” are included within the term “Covered Persons,” and are therefore included within the General Disclaimer. We note that this proposed rule change to include other officials and subsidiaries is consistent with the existing provisions of Rule 6.44.<sup>5</sup> The term “Covered Persons” would also include such subsidiaries’ and affiliates’ directors, officers, committee members, other officials, employees, contractors, or agents.

The proposed rule change would also clarify that implicit in the General

Disclaimer is the Exchange’s disclaimer of any warranties, express or implied, with respect to the use or enjoyment of facilities afforded by the Exchange, including without limitation, of any data provided by the Exchange. The current language of the rule states that the Exchange does not warrant “the use 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 reports of transactions in or quotations for securities traded on the Exchange or underlying securities, or reports of interest rate measures or index values or related data.” Under the proposed rule change, the Exchange would make explicit that the General Disclaimer is intended to contain within it a disclaimer of any warranties as to the use or enjoyment of the facilities offered by the Exchange. The proposed rule change would thereby clarify that such use or enjoyment of Exchange facilities by Permit Holders is provided “as is,” without specific warranties of merchantability or of fitness for a particular purpose. For the avoidance of doubt, the explicit list of the types of data for which the Exchange disclaims any warranties would also include, without limitation, “any current or closing index value, any current or closing value of interest rate options, or any report of transactions in or quotations for options or other securities, including underlying securities.”<sup>6</sup>

The proposed rule change would also clarify that all limitations on liability and disclaimers within paragraph (a) of Rule 6.42 are in addition to, and not in limitation of, any limitations on liability otherwise existing under law. This proposed rule change is intended to ensure that the protection of Rule 6.42 does not circumscribe protections that otherwise would exist under the principles of law.<sup>7</sup> This and other limitations on liability operate independently from, and in addition to, both the current and proposed amended versions of Rule 6.42 and C2’s other rules.

#### Proposed Limits on Discretionary Payments for Alleged Losses

Currently, Rule 6.42(b) provides that whenever custody of an unexecuted order is transmitted by a Permit Holder

to or through the Exchange’s System or to any other automated facility of the Exchange whereby the Exchange assumes responsibility for the transmission or execution of the order, and provided that the Exchange has acknowledged receipt of such order, the Exchange’s liability for the negligent acts or omissions of its employees or for the failure of its systems or facilities shall not exceed certain limits set forth in Rule 6.42(b). The Exchange first proposes to provide that Rule 6.42(b) applies to quotes as well as unexecuted orders. Additionally, the Exchange proposes to eliminate the word “automated” from “automated facility of the Exchange”, as not all facilities of the Exchange may be considered automated and the Exchange did not intend to restrict the scope of rule as such. The Exchange also seeks to amend Rule 6.42(b) to explicitly provide that, although the Exchange would not be liable with respect to regulated Exchange business for losses that arise out of the use or enjoyment of the facilities afforded by the Exchange and/or the calculation or dissemination of specified values, or quotes or transaction reports for options or other securities, as provided in Rule 6.42(a),<sup>8</sup>

<sup>5</sup> Specifically, Rule 6.42(a), as proposed to be amended, would provide as follows:

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

<sup>5</sup> Exchange Rule 6.44 currently limits the rights of any Participant or any person associated with a Participant to institute a lawsuit or other legal proceeding against the Exchange or any director, officer, employee, agent or contractor or other official of the Exchange or any subsidiary of the Exchange for any actions taken or omitted to be taken in connection with the official business of the Exchange or any subsidiary, except to the extent such actions or omissions constitute violations of the federal securities laws for which a private right of action exist. The rule also permits appeals of Exchange disciplinary actions as provided in Exchange Rule. Proposed amendments to Rule 6.44 (discussed below) would clarify that this limitation applies to committee members and affiliates of the Exchange.

<sup>6</sup> The Exchange also proposes to replace the phrase “facilities or services” with simply “facilities” in two locations within the existing text of Rule 6.42(a). The Exchange believes use of the term “services” is duplicative of the term “facilities” and is therefore unnecessary.

<sup>7</sup> For example, as C2 is organized under Delaware law, the principals of Delaware law also apply.

the Exchange may make discretionary payments to Permit Holders for certain losses alleged to have occurred due to Loss Events. Specifically, the proposed rule change would permit the Exchange to make discretionary payments to Permit Holders for their losses alleged to have resulted from Loss Events up to the following limits. As to any one or more requests for compensation made by a single Permit Holder that arose out of one or more Loss Events occurring on a single trading day, the Exchange could compensate the Permit Holder up to but not exceeding the larger of \$100,000 or the amount of any recovery obtained by the Exchange under applicable insurance maintained by the Exchange. As to the aggregate of all requests for compensation made by all Permit Holders that arose out of one or more Loss Events occurring: (i) On a single trading day, the Exchange could compensate the Permit Holders, in the aggregate, up to but not exceeding the larger of \$250,000 or the amount of recovery obtained by the Exchange under any applicable insurance policy; and (ii) during a single calendar month, the Exchange could compensate the Permit Holders, 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. The proposed rule change would also state that no request for compensation by a Permit Holder may be in an amount 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.<sup>9</sup> This is intended as a de minimis threshold to avoid requiring the Exchange to devote the resources to considering relatively small requests for payment. The proposed rule change also would state that nothing in Rule 6.42 would obligate the Exchange to seek recovery under any applicable insurance policy. The proposed changes to Rule 6.42(b) would therefore, consistent with Rule 6.42(a), permit the Exchange to make

discretionary payments to Permit Holders to compensate them for such losses, up to specified limits, even though the Exchange would not be legally liable to pay for such losses.

#### Timeframes Within Which To Notify Exchange and Submit Requests

Proposed new Rule 6.42(c) would establish timeframes within which a valid request for compensation must be brought under the Rule. Under the proposed rule change, notice of all requests would be required to be in writing and to be submitted to the Exchange no later than 12:00 p.m. Central Time on the next business day following the Loss Event giving rise to such request. All requests would be required to be in writing and to be submitted, along with supporting documentation, by 5:00 p.m. Central Time on the third business day following the Loss Event giving rise to each such request.<sup>10</sup> Additional information related to the request as demanded by the Exchange is also required to be provided. The proposed rule change would also specify that the Exchange would not consider requests for which timely notice and submission had not been provided as required under amended Rule 6.42(c).

The proposed provisions of new Rule 6.42(c) would benefit Permit Holders by providing them with clear timeframes within which to submit notices of requests, requests for compensation, and supporting documentation. The proposed changes would also provide the Exchange with certainty as to the deadlines by which notices of requests and completed requests would be required to be submitted in order for the Exchange to consider them for compensation under Rule 6.42.

#### Exchange Treatment of Aggregate Requests Exceeding Maximum Amount Permitted To Be Paid

Currently, Rule 6.42(c) provides that if all of the claims cannot be fully satisfied because in the aggregate they exceed the applicable maximum amount of liability provided in paragraph (b) [of Rule 6.42] [sic], then such maximum amount would be allocated among all

such claims arising on a single trading day or during a single calendar month, as applicable, written notice of which has been given to the Exchange no later than the opening of trading on the next business day following the day on which the use or enjoyment of Exchange facilities giving rise to the claim occurred, based upon the proportion that each claim bears to the sum of all such claims. The Exchange proposes to amend existing Rule 6.42(c), which would be renumbered to Rule 6.42(d), to state that, "if all of the timely requests submitted pursuant to paragraph (c) [of Rule 6.42] that are granted cannot be fully satisfied because in the aggregate they exceed the applicable maximum amount of payments authorized in paragraph (b) [of Rule 6.42], 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." The Exchange notes that it is proposing to replace the term "claim" with the term "request", as well as replace the reference to "liability" with "payments authorized" to eliminate any implication of liability with respect to the Exchange and other Covered Person resulting from the use or enjoyment of the facilities offered by the Exchange, any interruption in or failure or unavailability or any such facilities, or any action taken or omitted to be taken in respect of the business of the Exchange.

Additionally, the Exchange notes that proposed Rule 6.42(d) would continue to provide a fair way of allocating the limited payment that the rule would permit the Exchange to make when the total amount of eligible requests exceed that maximum amount. The proposal would also revise the timeframe in which requests for payment must be made by a Permit Holder.

#### Exchange Review of Timely Requests

Proposed new Rule 6.42(e) would provide that the Exchange, in determining whether to make payment in response to a request for compensation, may determine whether the amount requested should be reduced based on the actions or inactions of the requesting Permit Holder. The proposed rule change would permit the Exchange to consider, without limitation, whether the actions or inactions of the Permit Holder contributed to the Loss Event; whether the Permit Holder made appropriate efforts to mitigate its loss; whether the Permit Holder realized any gains as a result of a Loss Event; whether the

of the Exchange's Certificate of Incorporation or any limitations otherwise available under law.

<sup>9</sup> For example, if a Permit Holder incurs a loss of \$30 on one day due to a certain glitch in the Exchange's systems and a loss of \$75 on the same day due to a separate unrelated glitch in the Exchange's systems, the Permit Holder could not request compensation for either loss. However, if for example, the Permit Holder incurs a loss of \$105 on one day due to a certain glitch in the Exchange's system, the Permit Holder may request compensation. In this second example, the Permit Holder may request compensation even if such losses were incurred over a number of different transactions so long as it was the result of the same systems issue.

<sup>10</sup> Other exchanges have similar submission requirements. See, e.g., NYSE Rule 18—*Compensation in Relation to Exchange System Failure*, which provides in relevant part that NYSE members provide oral notice to NYSE's Division of Floor Operations by the market opening on the next business day following the system failure and written notice by the end of the third business day following the system failure (T+3). See also, ISE Rule 705(d)(3)—*Limitation of Liability*, which provides that all claims for compensation must be made in writing and submitted no later than the opening of trading on the next business day following the event that gave rise to such claim.

losses of the Permit Holder, if any, were offset by hedges of positions either on the Exchange or on another affiliated or unaffiliated market; and whether the Permit Holder provided sufficient information to document the request and as demanded by the Exchange. Proposed Rule 6.42(e) would therefore provide reasonable factors that the Exchange may consider in determining whether to pay compensation in response to a request and in determining the amount of any such compensation.<sup>11</sup>

The Exchange represents that the determination to compensate a Permit Holder will be made on an equitable and non-discriminatory basis and without regard to the Exchange capacity of the Permit Holder, such as whether the Permit Holder is a Designated Primary Market-Maker. Additionally, the Exchange represents that the Exchange will maintain a record of Permit Holder requests including documentation detailing the Exchange's findings and details for approving or denying requests in accordance with its obligations under Section 17 of the Act.

#### Finality of Exchange Determinations Under Rule

Proposed new Rule 6.42(f) would provide that all determinations by the Exchange pursuant to Rule 6.42 shall be final and not subject to appeal under Chapter XIX of the Exchange Rules.<sup>12</sup> The proposed rule would also provide that nothing in Rule 6.42, nor any payment made pursuant to Rule 6.42, 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.<sup>13</sup> These proposed

changes are consistent with the discretionary nature of any payments that would be made under proposed Rule 6.42(b).

#### Treatment of Losses Occurring Prior to Effective Date of Rule

Proposed new paragraph 6.42(g) would establish July 1, 2105, as the Effective Date of revised Rule 6.42. Under proposed paragraph 6.42(g), claims for liability under prior versions of Rule 6.42 would not be considered valid if brought with respect to any acts, omissions or transactions occurring more than one year prior to the Effective Date, or if brought more than one month after the Effective Date. Proposed Rule 6.42(g) would thereby provide certainty to the Exchange as to any expense it might incur due to losses arising due to Loss Events that occurred prior to the Effective Date of the proposed rule change, while also putting Permit Holders on notice that they must file any claims for such losses by a date certain.

#### Deletion of Existing Interpretation Under Rule 6.42

The proposed rule change would delete existing interpretation .01 under Rule 6.42. Interpretation .01 disclaims The Options Clearing Corporation liability to Permit Holders and their associated persons with respect to their use, non-use or inability to use the linkage that was part of the old Options Intermarket Linkage Plan (the "Old Linkage"). Because the Old Linkage is no longer operable, interpretation .01 is no longer necessary.<sup>14</sup>

#### Conforming Changes to Other Rules

The proposed rule change would make conforming changes to Exchange Rules 2.2 and 6.44. Rule 2.2 requires a Permit Holder who fails to prevail in lawsuit or other legal proceeding instituted against the Exchange or certain related parties to pay for the Exchange's reasonable costs of defending such lawsuit or proceeding if those costs exceed \$50,000. Rule 6.44 limits the legal proceedings a Permit Holder may bring against the Exchange and certain related persons for actions or omissions.

Under the proposed amendments to Rule 2.2, contractors would be included within the list of related parties protected by that rule, just as they would be included as Covered Persons under proposed Rule 6.42. As stated

above, this proposed change is necessary because the Exchange at times contracts with outside firms to provide products or services to Permit Holders in connection with regulated business conducted on or through the Exchange and that arise out of the use or enjoyment of the facilities afforded by the Exchange and/or the calculation or dissemination of specified values, or quotes or transaction reports for options or other securities.

In addition, under the proposed amendments to Rule 2.2, other officials and contractors of the Exchange and any subsidiaries and affiliates of the Exchange and any such subsidiaries' and affiliates' directors, officers, committee members, other officials, employees, contractors, or agents would be explicitly identified/included within the list of related parties protected by the rule,<sup>15</sup> just as they are proposed to be specifically identified/included within the list of Covered Persons under Rule 6.42. Committee members and affiliates of the Exchange and any subsidiaries' and affiliates' directors, officers, committee members, other officials, employees, contractors and agents would also be explicitly identified/included within the list of related parties under Rule 6.44.<sup>16</sup> These changes are intended to conform the text of the three rules and to include affiliates within all three rules.<sup>17</sup> Moreover, under the proposed amendments to Rule 6.44, committee members would be explicitly identified/included within the list of related parties protected by the rule, just as they are already specifically identified/included within the list of Covered

<sup>15</sup> Specifically, the phrase "the Exchange or any of its directors, officers, committee members, employees or agents" is proposed to be replaced with the phrase "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" in Rule 2.2.

<sup>16</sup> Specifically, the phrase "the Exchange or any director, officer, employee, contractor, agent or other official of the Exchange or any subsidiary of the Exchange" is proposed to be replaced with the phrase "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" in Rule 6.44.

<sup>17</sup> The Commission notes C2's statement of the purpose of its proposed rule change is to eliminate any implication of liability for losses arising out of the use or enjoyment of Exchange facilities consistent with existing law where courts have recognized the importance of protecting exchanges from liability in the context of matters arising out of the SRO function. *See supra* note 4 and accompanying text.

<sup>11</sup> Another exchange considered similar factors in determining whether to pay compensation and in determining the amount of any such compensation. *See*, NYSE Rule 18, which provides in relevant part that the NYSE Compensation Review Panel in its review will determine whether the amount should be reduced based on the actions or inactions of the member organization, including whether the member organization made appropriate efforts to mitigate its loss.

<sup>12</sup> The Exchange notes that another exchange has a similar provision indicating that all determinations are final. *See*, NYSE Rule 18, which provides in relevant part that all determinations made pursuant to NYSE Rule 18 by NYSE's Compensation Review Panel, CEO or his or her designee are final.

<sup>13</sup> Another exchange has a similar provision. *See e.g.*, NASDAQ Stock Market LLC ("Nasdaq") Rule 4626(b)(6), which provides that nothing in its Limitation of Liability rule shall waive Nasdaq's limitations on, or immunities from, liability as set forth in its Rules or agreements, or that otherwise apply as a matter of law.

<sup>14</sup> The old Options Intermarket Linkage Plan was replaced by the Options Order Protection and Locked/Crossed Markets Plan in 2009. *See* Securities Exchange Act Release No. 60405 (July 30, 2009), 74 FR 39362 (August 6, 2009).

Persons under existing Rule 6.42 and the similar provision in Rule 2.2. This change is intended to conform the rule text of the three rules. Finally, under the proposed amendments to Rule 6.44, the title to the rule will be revised.<sup>18</sup>

## 2. Statutory Basis

The proposed rule change is consistent with Section 6(b) of the Securities Exchange Act of 1934 (the "Act")<sup>19</sup> in general and furthers the objectives of Section 6(b)(5) of the Act<sup>20</sup> in particular, which requires that the rules of an exchange be designed to promote just and equitable principles of trade, to remove impediments to and to perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest. In particular, the proposal would amend Exchange Rule 6.42 to eliminate any implication of liability with respect to the Exchange and other Covered Person resulting from the use or enjoyment of the facilities offered by the Exchange, any interruption in or failure or unavailability or any such facilities, or any action taken or omitted to be taken in respect of the business of the Exchange. The proposed rule change is consistent with and supplements existing law, and would assist the Exchange in fulfilling its role as a national securities exchange by avoiding the risk of tempering this critical regulatory function to avoid the disruption and expense of unnecessary litigation or potential catastrophic loss.

The proposal would also permit the Exchange to compensate Permit Holders for their losses incurred due to a Loss Event, even though the Exchange would not have legal liability for those losses. The proposed rule change would therefore facilitate the ability of the Exchange to make discretionary payments to redress a situation in which Permit Holders suffer losses due to a Loss Event. As stated above, the Exchange represents that the determination to compensate a Permit Holder will be made on an equitable and non-discriminatory basis without regard to the Exchange capacity of the Permit Holder, such as whether the Permit Holder is a Designated Primary Market-Maker. The Exchange therefore believes the proposed rule change is consistent with the Act, and Section 6(b)(5) of the Act in particular, in that

it is designed to promote just and equitable principles of trade, to remove impediments to and to perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest.

The Exchange also believes these policies would promote fairness in the national market system. The proposed rule change would allow C2 to address Permit Holder requests for compensation under various circumstances and would allow C2 to act in a fashion similar to many of its competitors. As stated above, several exchanges have substantially similar rules to those proposed here, and the Exchange believes that the proposed rule change would place C2 in a similar position to address Permit Holder requests.<sup>21</sup> The Exchange believes that to the extent there are any differences, such differences are not substantive and are still consistent with the scope of prior self-regulatory organization rulemaking.

### *B. Self-Regulatory Organization's Statement on Burden on Competition*

The Exchange believes that this proposed rule change does not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. As stated above, the Exchange believes that these policies would promote fairness in the national market system. The proposed rule change would allow C2 to address Permit Holder requests for compensation under various circumstances and would allow C2 to act in a fashion similar to many of its competitors. In addition, as stated above, several exchanges have substantially similar rules to those proposed here, except as otherwise noted, and the Exchange believes that the proposed rule change would place C2 in a similar position to address Permit Holder requests.<sup>22</sup>

### *C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received From Members, Participants, or Others*

No written comments were solicited or received with respect to the proposed rule change.

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

Because the foregoing proposed rule change does not: (i) Significantly affect

the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>23</sup> and Rule 19b-4(f)(6)<sup>24</sup> thereunder. At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission will institute proceedings to determine whether the proposed rule change should be approved or disapproved.

## IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

### *Electronic Comments*

- Use the Commission's Internet comment form <http://www.sec.gov/rules/sro.shtml>; or
- Send an email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-C2-2015-010 on the subject line.

### *Paper Comments*

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

All submissions should refer to File Number SR-C2-2015-010. This file number should be included on the subject line if email is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written

<sup>18</sup> Specifically, the title "Legal Proceedings Against the Exchange and its Directors, Officers, Employees, Contractors or Agents" is proposed to be changed to simply "Legal Proceedings Against the Exchange."

<sup>19</sup> 15 U.S.C. 78f(b).

<sup>20</sup> 15 U.S.C. 78f(b)(5).

<sup>21</sup> See BOX Rule 7230 and EDGA Rule 11.14; see also Nasdaq Rule 4626, ISE Rule 705, and BATS Exchange, Inc. Rule 11.16.

<sup>22</sup> *Id.*

<sup>23</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>24</sup> 17 CFR 240.19b-4(f)(6). As required under Rule 19b-4(f)(6)(iii), the Exchange provided the Commission with written notice of its intent to file the proposed rule change, along with a brief description and the text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission.

communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for Web site viewing and printing in the Commission's Public Reference Room, 100 F Street NE., Washington, DC 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-C2-2015-010, and should be submitted on or before June 10, 2015.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>25</sup>

**Robert W. Errett,**

*Deputy Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-74957; File No. SR-BOX-2015-17]

### Self-Regulatory Organizations; BOX Options Exchange, LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change To Amend the Fee Schedule on the BOX Market, LLC Options Facility

May 13, 2015.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on April 30, 2015, BOX Options Exchange LLC (the "Exchange") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. The Exchange filed the proposed rule change pursuant to Section 19(b)(3)(A)(ii) of the Act,<sup>3</sup> and Rule 19b-4(f)(2) thereunder,<sup>4</sup> which renders the proposal effective upon filing with the Commission. The Commission is publishing this notice to

solicit comments on the proposed rule change from interested persons.

#### I. Self-Regulatory Organization's Statement of the Terms of the Substance of the Proposed Rule Change

The Exchange is filing with the Securities and Exchange Commission ("Commission") a proposed rule change to amend the Fee Schedule on the BOX Market LLC ("BOX") options facility. While changes to the fee schedule pursuant to this proposal will be effective upon filing, the changes will become operative on May 1, 2015. The text of the proposed rule change is available from the principal office of the Exchange, at the Commission's Public Reference Room and also on the Exchange's Internet Web site at <http://boxexchange.com>.

#### II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

##### A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

###### 1. Purpose

The Exchange proposes to make a number of changes to Section I of the BOX Fee Schedule (Exchange Fees).

###### Non-Auction Transactions

First, the Exchange proposes to amend certain fees and credits in the pricing model outlined in Section I.A. (Non-Auction Transactions).<sup>5</sup> In this section, fees and credits are assessed depending on upon three factors: (i) The account type of the Participant submitting the order; (ii) whether the Participant is a liquidity provider or liquidity taker; and (iii) the account type of the contra party. Non-Auction Transactions in Penny Pilot Classes are assessed different fees or credits than Non-Auction Transactions in Non-Penny Pilot Classes. The Exchange

recently adopted this pricing model<sup>6</sup> and now proposes to amend certain fees and credits in this section.

Specifically, the Exchange proposes to lower the Maker and Taker credits for Public Customers interacting with Professional Customers/Broker Dealers or Market Makers in both Penny Pilot and Non-Penny Pilot Classes. Here, the Exchange proposes to lower the credit Public Customers receive when interacting with Professional Customers, Broker Dealers or Market Makers, regardless of whether they are adding or removing liquidity to \$0.10 from \$0.22 (Penny Pilot Classes) and to \$0.45 from \$0.57 (Non-Penny Pilot Classes).

The Exchange also proposes to raise the Maker and Taker fees for Professional Customers or Broker Dealers in both Penny Pilot and Non-Penny Pilot Classes. Specifically, when a Professional Customer or Broker Dealer interacts with a Public Customer in a Penny Pilot Class, the Exchange proposes to raise this fee to \$0.60 from \$0.55 (making liquidity) and to \$0.64 from \$0.59 (taking liquidity). For Non-Penny Pilot Classes the Exchange proposes to raise the fees in this same type of interaction to \$0.95 from \$0.90 (making liquidity) and to \$0.99 from \$0.94 (taking liquidity). For when a Professional Customer or Broker Dealer interacts with another Professional Customer or Broker Dealer in Penny Pilot Classes, the Exchange proposes to raise these fees to \$0.25 from \$0.20 (making liquidity) and to \$0.40 from \$0.35 (taking liquidity). For Non-Penny Pilot Classes the Exchange proposes to raise the fees in this same type of interaction to \$0.35 from \$0.30 (making liquidity) and to \$0.40 from \$0.35 (taking liquidity). For when a Professional Customer or Broker Dealer interacts with a Market Maker in Penny Pilot Classes, the Exchange proposes to raise these fees to \$0.25 from \$0.20 (making liquidity) and to \$0.44 from \$0.39 (taking liquidity). For Non-Penny Pilot Classes the Exchange proposes to raise the fees in this same type of interaction to \$0.35 from \$0.30 (making liquidity) and \$0.44 from \$0.39 (taking liquidity).

Finally, the Exchange proposes to lower fees to \$0.00 from \$0.10 for Market Makers interacting with other Market Makers in both Penny Pilot Classes and Non-Penny Pilot Classes.

These transactions will remain exempt from the Liquidity Fees and Credits outlined in Section II of the BOX

<sup>25</sup> 17 CFR 200.30-3(a)(12).

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

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

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

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

<sup>5</sup> Non-Auction Transactions are those transactions executed on the BOX Book.

<sup>6</sup> See Securities Exchange Act Release No. 73547 (November 6, 2014), 79 FR 67520 (November 13, 2014)(Notice of Filing and Immediate Effectiveness of SR-BOX-2014-25).