

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-64394; File No. SR-C2-2011-012]

### Self-Regulatory Organizations; C2 Options Exchange, Incorporated; Notice of Filing of a Proposed Rule Change To Reduce the Minimum Size of the Nominating and Governance Committee

May 4, 2011.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act" or "Exchange Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on April 27, 2011, C2 Options Exchange, Incorporated ("C2") filed with the Securities and Exchange Commission ("Commission" or "SEC") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by C2. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

C2 proposes to amend its Bylaws to change the minimum size of the C2 Nominating and Governance Committee.

The text of the proposed amendments to C2's Bylaws and the proposed amendments to C2's rules is available on C2's Web site at (<http://www.c2exchange.com/Legal>), at C2'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, C2 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. C2 has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

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

###### 1. Purpose

The purpose of this proposed rule change is to reduce the minimum size

of C2's Nominating and Governance Committee from seven to five directors. Section 4.4 of the Second Amended and Restated Bylaws of C2 ("Bylaws") currently provides, in pertinent part, that the Nominating and Governance Committee shall consist of at least seven directors, including both Industry and Non-Industry Directors; that a majority of the directors on the Committee shall be Non-Industry Directors; and that the exact number of members on the Committee shall be determined from time to time by C2's Board of Directors. This rule change would be effectuated by amending Section 4.4 of the Bylaws to provide that the Nominating and Governance Committee shall consist of at least five directors. The other provisions of Section 4.4 of the Bylaws would remain unchanged. Additionally, the title of the Bylaws would be changed to the Third Amended and Restated Bylaws of C2.

Section 3.1 of the Bylaws provides that the C2 Board of Directors shall consist of not less than eleven and not more than twenty-three directors, with the exact size determined by the Board. C2's Board size has declined recently from the Board's initial size of twenty-three directors in 2009 prior to the launch of trading on C2 to its current size of nineteen directors. In addition, the Board size will be declining further to sixteen directors at the time of the 2011 annual election of C2 directors (which is anticipated to occur in May 2011). As the Board size declines, it becomes more challenging to populate large Board committees since there are fewer directors to serve on the various C2 Board committees. The Exchange believes that reducing the minimum size of the Nominating and Governance Committee to five directors will help to alleviate this issue.

Changing the minimum size of the Nominating and Governance Committee to five directors would also make the minimum size consistent with the minimum size of the Nominating and Governance Committee of CBOE Holdings, Inc. ("CBOE Holdings"), C2's parent company. C2 believes that having the same composition requirements for the Nominating and Governance Committees of both C2 and CBOE Holdings will promote consistency and efficiency. C2 and CBOE Holdings currently have the same individuals serving on the C2 and CBOE Holdings Boards of Directors and on the C2 and CBOE Holdings Nominating and Governance Committees. This approach simplifies the process of scheduling and conducting meetings and allows the Boards and Nominating and Governance Committees of both entities to operate

most efficiently. To the extent that C2 and CBOE Holdings desire to continue this approach in the future, this proposed rule change better enables C2 and CBOE Holdings to do so.

The Exchange believes that its Nominating and Governance Committee will continue to be able to appropriately perform its functions if it were to be composed of five directors. The Exchange also believes that having a Nominating and Governance Committee with a minimum size of five directors is consistent with prior precedent, in that the Chicago Stock Exchange ("CHX") has a Nominating and Governance Committee with a size of four directors.<sup>3</sup> Additionally, it should be noted that although the proposed rule change would permit the Exchange [sic] appoint a five-person Nominating and Governance Committee and that the Exchange may do so in the future, it is the current intention of the Exchange to appoint a six-person Nominating and Governance Committee at the time of the 2011 annual election of C2 directors.

The Exchange will continue to provide for the fair representation of C2 Trading Permit Holders in the selection of directors and the administration of the Exchange consistent with Section 6(b)(3) of the Act<sup>4</sup> following this rule change. In particular, the C2 Bylaws will continue to require that at least thirty percent of the directors on the C2 Board of Directors must be Industry Directors and that at least twenty percent of C2's directors must be Representative Directors. Also, the C2 Nominating and Governance Committee will continue to include both Industry and Non-Industry Directors and to have an Industry-Director Subcommittee that is composed of all of the Industry Directors serving on the Committee. Representative Directors will continue to be nominated (or otherwise selected through a petition process) by the Industry-Director Subcommittee. Additionally, C2 Trading Permit Holders will continue to be able to nominate alternative Representative Director candidates to those nominated by the Industry Director Subcommittee, in which case a Run-off Election will be held in which C2's Trading Permit Holders vote to determine which candidates will be elected to the C2 Board of Directors to serve as Representative Directors.

###### 2. Statutory Basis

For the reasons set forth above, C2 believes that this filing is consistent

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

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

<sup>3</sup> See Article II, Section 3 of the Bylaws of the Chicago Stock Exchange, Inc.

<sup>4</sup> 15 U.S.C. 78f(b)(3).

with Section 6(b) of the Act,<sup>5</sup> in general, and furthers the objectives of Section 6(b)(1) of the Act<sup>6</sup> and Section 6(b)(5) of the Act<sup>7</sup> in particular, in that (i) It enables C2 to be so organized as to have the capacity to be able to carry out the purposes of the Act and to comply, and to enforce compliance by its Trading Permit Holders and persons associated with its Trading Permit Holders, with the provisions of the Act, the rules and regulations thereunder, and the rules of C2 and (ii) to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to remove impediments to, and perfect the mechanism of, a free and open market and, in general, to protect investors and the public interest.

Specifically, the proposed changes will streamline, make more efficient, and improve C2's governance structure by conforming the minimum size requirements of the C2 Nominating and Governance Committee and the CBOE Holdings Nominating and Governance Committee, which the Exchange believes will promote consistency and efficiency and better enable C2 and CBOE Holdings to have the same Nominating and Governance Committee compositions if desired. To the extent that the proposed changes enable C2 and CBOE Holdings to have the same Nominating and Governance Committee compositions if desired, the process of scheduling and conducting Nominating and Governance Committee meetings is simplified, as there can be meetings held at the same time instead of multiple separate meetings at different times. This furthers C2's ability to be organized in a manner to have the capacity to be able to carry out the purposes of the Act consistent with Section 6(b)(1) of the Act<sup>8</sup> and to carry out the purposes of Section 6(b)(5) of the Act.<sup>9</sup>

The proposed rule change will not impact the current provisions of the C2 Bylaws that are designed to assure the fair representation of C2 Trading Permit Holders in the selection of directors and the administration of C2, and thus is consistent with Section 6(b)(3) of the Act.<sup>10</sup> In particular, the Bylaws will continue to require that at least thirty percent of C2's directors be Industry Directors; that at least twenty percent of C2's directors be Representative Directors; that the C2 Nominating and Governance Committee include both

Industry and Non-Industry Directors and have an Industry-Director Subcommittee composed of all of the Industry Directors on the Committee; that Representative Directors be nominated (or otherwise selected through a petition process) by the Industry-Director Subcommittee; and that C2 Trading Permit Holders are able to nominate alternative Representative Director candidates to those nominated by the Industry Director Subcommittee, in which case a Run-off Election is held in which C2's Trading Permit Holders vote to determine which candidates are elected as Representative Directors.

The proposed rule change was prompted by the reduction in the size of the C2 Board of Directors since, as the Board size declines, it becomes more challenging to populate large Board committees. The Exchange believes that reducing the minimum size of the C2 Nominating and Governance Committee will help to alleviate this issue and that, notwithstanding this change, the Committee will continue to be able to appropriately perform its functions, operate effectively, and thus enable the Exchange to comply with Section 6(b)(1) of the Act.<sup>11</sup>

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

C2 does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

#### *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**

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

- (A) By order approve or disapprove such proposed rule change, or
- (B) Institute proceedings to determine whether the proposed rule change should be disapproved.

### **IV. Solicitation of Comments**

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

#### *Electronic Comments*

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-C2-2011-012 on the subject line.

#### *Paper Comments*

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street, NE., Washington DC 20549-1090.

All submissions should refer to File Number SR-C2-2011-012. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for Web site viewing and printing in the Commission's Public Reference Room, 100 F Street, NE., Washington, DC 20549, on official business days between the hours of 10 a.m. and 3 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 No. SR-C2-2011-012 and should be submitted on or before May 31, 2011.

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

<sup>6</sup> 15 U.S.C. 78f(b)(1).

<sup>7</sup> 15 U.S.C. 78f(b)(5).

<sup>8</sup> 15 U.S.C. 78f(b)(1).

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

<sup>10</sup> 15 U.S.C. 78f(b)(3).

<sup>11</sup> 15 U.S.C. 78f(b)(1).

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>12</sup>

Elizabeth M. Murphy,

Secretary.

[FR Doc. 2011-11357 Filed 5-9-11; 8:45 am]

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-64399; File No. SR-NYSEArca-2011-20]

### Self-Regulatory Organizations; NYSE Arca, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Amending Its Fee Schedule To Eliminate Registered Representative Fees for Options Trading Permit ("OTP") Holders and To Institute a New Transaction-Based "Options Regulatory Fee"

May 4, 2011.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that, on April 28, 2011, NYSE Arca, Inc. ("NYSE Arca" or the "Exchange") filed with the Securities and Exchange Commission (the "Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Exchange proposes to amend its Fee Schedule to eliminate registered representative fees for Options Trading Permit ("OTP") Holders and institute a new transaction-based "Options Regulatory Fee." The text of the proposed rule change is available at the Exchange, at the Commission's Public Reference Room, on the Commission's Web site at <http://www.sec.gov>, and <http://www.nyse.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 self-regulatory organization included statements concerning the purpose of, and basis for, the proposed rule change and discussed any comments it received on the proposed rule change. The text

of those statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant parts of such statements.

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

##### 1. Purpose

This proposed rule change is based on a rule change previously submitted by NASDAQ OMX BX, Inc. on behalf of the Boston Options Exchange Group, LLC ("BOX") that was effective upon filing.<sup>3</sup> The Exchange proposes to amend the NYSE Arca Fee Schedule to institute a new transaction-based "Options Regulatory Fee" and eliminate registered representative fees. Each OTP Holder or OTP Firm that registers an options principal and/or representative who is conducting business on NYSE Arca currently is assessed a registered representative fee ("RR Fee") based on the action(s) associated with the registration. There are annual fees as well as initial, transfer and termination fees.<sup>4</sup> RR Fees and other regulatory fees collected by the Exchange were intended to cover only a portion of the cost of the Exchange's regulatory programs. Prior to rule changes by other options exchanges, such as the Chicago Board Options Exchange ("CBOE"), BOX, NASDAQ OMX PHLX ("PHLX") and the International Securities Exchange ("ISE"), all options exchanges, regardless of size, charged registered representative fees.

The Exchange believes that the current RR Fee is no longer equitable. The options industry has evolved to a

structure with many more Internet-based and discount brokerage firms. These firms have few registered representatives and thus pay very little in RR Fees compared to full service brokerage firms that have many registered representatives. Further, due to the manner in which RR Fees are charged, it is possible for an NYSE Arca OTP Holder or OTP Firm to restructure its business to avoid paying these fees altogether. For example, a firm can avoid RR Fees by terminating its OTP status and sending its business to NYSE Arca through another separate NYSE Arca OTP Holder or OTP Firm, even an affiliated firm that has many fewer registered representatives. If firms terminated their OTP status to avoid RR Fees, the Exchange would suffer the loss of a source of funding for its regulatory programs. More importantly, the regulatory effort the Exchange expends to review the transactions of each type of firm is not commensurate with the number of registered representatives that each firm employs.

In order to address the inequity of the current regulatory fee structure and to offset more fully the cost of the Exchange's regulatory programs, the Exchange proposes to eliminate the current RR Fee for NYSE Arca OTP Holders and OTP Firms and adopt an Options Regulatory Fee ("ORF") of \$0.004 per contract.<sup>5</sup> As described below, this fee would be assessed by the Exchange on each OTP Holder or OTP Firm for all options transactions executed or cleared by the OTP Holder or OTP Firm that are cleared by OCC in the customer range, regardless of the marketplace of execution. In particular, the Exchange would impose the ORF on

<sup>3</sup> See Securities Exchange Act Release No. 61388 (January 20, 2010), 75 FR 4431 (January 27, 2010) (SR-BX-2010-001) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to the Registered Representative Fee and Options Regulatory Fee).

<sup>4</sup> In this regard, the Exchange proposes to eliminate from its options fee schedule any reference to fees the Exchange no longer asks FINRA to collect on its behalf relating to the processing of registered representatives. In particular, the following "Registration Fees" will be eliminated from the options fee schedule: The annual fee for new applications, maintenance, or transfer of registration status for each Registered Representative and each Registered Options Principal (collected by the NASD), the fee for termination of such individuals, the NASD CRD Processing Fee, the NASD Annual System Processing Fee, and the NYSE Arca Transfer/Re-license Individual Fee. Fees relating to the processing of registered representatives that FINRA collects and retains will remain in the Exchange's options fee schedule. In particular, the following "Registration Fees" will remain in the options fee schedule: The NASD Disclosure Processing Fee and the NASD Manual Processing Fee for Fingerprint results submitted by other SROs.

<sup>5</sup> Because the annual component of the RR Fee has already been assessed for 2011, the Exchange will make a pro rata refund for the remaining portion of the year following elimination of the RR Fee. In addition, the Exchange notes that permit holders who conduct only equities business will no longer be subject to the RR Fee as a result of the elimination of this fee. Consequently, the Exchange proposes to eliminate from its NYSE Arca Equities fee schedule any reference to fees the Exchange no longer asks FINRA to collect on its behalf relating to the processing of Registered Representatives. In particular, the following "Registration Fees" will be eliminated from the equities fee schedule: The annual fee for new applications, maintenance, or transfer of registration status for each Registered Representative and each Registered Principal (collected by the NASD), the two NASD CRD Processing Fees, the NASD Annual System Processing Fee, and the NYSE Arca Transfer/Re-license Individual Fee. Fees relating to the processing of registered representatives that FINRA collects and retains will remain in the Exchange's equities fee schedule. In particular, the following "Registration Fees" will remain in the equities fee schedule: The NASD Disclosure Processing Fee and the NASD Manual Processing Fee for Fingerprint Results submitted by Other SROs. The Exchange will separately submit a rule filing to address funding for equities regulation.

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

<sup>13</sup> 15 U.S.C. 78s(b)(1).

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