SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-67548; File No. SR-CBOE-2012-049)

July 31, 2012

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Adopt Four New Order Types on the CBOE Stock Exchange

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"),[1] and Rule 19b-4 thereunder,[2] notice is hereby given that on July 24, 2012, Chicago Board Options Exchange, Incorporated (the "Exchange" or "CBOE") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Exchange proposes to adopt four new order types on the CBOE Stock Exchange ("CBSX"). 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

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

[2]   17 CFR 240.19b-4.

the most significant aspects of such statements.

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

1. <u>Purpose</u>

The Exchange proposes to add four new order types to CBSX: silent orders, silent-mid orders, silent-post-mid orders, and silent-mid-seeker orders.

A silent order is an order that is not displayed publicly on the CBSX Book but is to be executed at the National Best Bid ("NBB") (for a "buy" order) or National Best Offer ("NBO") (for a "sell" order). A silent order is an order with an optional contingency price which will indicate the highest price that a buyer is willing to pay or the lowest price at which a seller is willing to accept (such contingency price to be in $0.01 (full penny) increments only). If NBB is higher than this contingency price for a Buy order, or the NBO is lower than this contingency price for a Sell, Sell Short, or Sell Short Exempt order, the order, or remainder of the order, will be canceled prior to trading. The reason that the order, or remainder of the order, will be canceled prior to trading (as opposed to upon entry) in these circumstances is because it is possible that, when an order comes in, the NBB is lower than the contingency price (for a Buy order), but the order doesn't trade because there is not interest to trade with, and then the NBB moves to a point at which it is higher than the contingency price (at which point the order would cancel). The reverse would be true for Sell, Sell Short, or Sell Short Exempt orders.

A silent order may trade with any other type of order and is to execute following the execution of any displayed orders at the National Best Bid and Offer ("NBBO") (if there are any displayed orders at the NBBO) and has a higher trading priority than All or None orders. A silent order will never be routed to an away market. When the NBBO is locked or crossed, a silent order

will never trade, but instead rest on the CBSX Book and remain eligible to trade once the NBBO is no longer locked or crossed.

The following examples will explain how silent orders will trade on CBSX:

Consider, in example 1, a situation in which the NBBO is quoting at $1.01 – $1.02, while CBSX is quoting $0.99 – $1.02. A 100-lot silent order comes in to sell at the market, and rests behind a displayed 100-lot order to sell at $1.02 in the CBSX Book. A 500-lot order to buy at $1.02 comes in, and first trades with the displayed 100-lot order to sell at $1.02. Since there are no more displayed orders to sell at or better than $1.02, and $1.02 is at the NBBO, the silent order would then trade with the next 100 contracts in the 500-lot buy order. The remaining 300 lots of the buy order would be routed to the away exchange displaying the NBBO.

Consider now, in example 2, a situation in which the NBBO is once again quoting at $1.01 – $1.02, while CBSX is quoting $0.99 – $1.02. Again, a 100-lot silent order comes in to sell at the market, and rests behind a displayed 100-lot order to sell at $1.02 in the CBSX Book. A 100-lot buy order comes in at $1.02. This buy order would trade with the displayed 100-lot order to sell at $1.02, causing the CBSX market to move to $0.99 - $1.03. The silent order would continue to rest while waiting for the opportunity to trade at the National Best Offer. If the NBO becomes $1.03, the silent order can then trade with any incoming orders to buy at $1.03 after any resting displayed orders to sell at $1.03 have already traded.

In this third example, consider a situation in which the NBBO is quoting at $1.00 - $1.01 and CBSX is quoting at $0.99 - $1.02. A 100-lot silent order comes in to buy at the market. A 10,000-lot Intermarket Sweep Order ("ISO") comes in to sell at $0.99. The silent order would trade first at $1.00, since that is the NBBO, regardless of the fact that there are no current CBSX

displayed orders at the NBBO. The remainder of the ISO trades against CBSX $0.99 orders until volume is exhausted and any remainder is canceled.

A silent-mid order is an order that is not displayed publicly on the CBSX Book but is to be executed at the mid-point between the NBBO. A silent-mid order is an order with an optional contingency price which will indicate the highest price that a buyer is willing to pay or the lowest price at which a seller is willing to accept. A silent-mid order may trade in $0.005 increments if priced at or above $1 and $0.0001 increments if priced below $1. If the mid-point between the NBBO is not at a tradable increment, CBSX will round down to the nearest tradable increment. If the mid-point of the NBBO is higher than this contingency price for a Buy order or is lower than this contingency price for a Sell, Sell Short, or Sell Short Exempt order, the order, or remainder of the order, will be canceled prior to trading. The reason that the order, or remainder of the order, will be canceled prior to trading (as opposed to upon entry) in these circumstances is because it is possible that, when an order comes in, the mid-point of the NBBO is lower than the contingency price (for a Buy order), but the order doesn't trade because there is not interest to trade with, and then the mid-point of the NBBO moves to a point at which it is higher than the contingency price (at which point the order would cancel). The reverse would be true for Sell, Sell Short, or Sell Short Exempt orders.

A silent-mid order may trade with any other type of order and is to execute following the execution of any displayed orders at the NBBO (if there are any displayed orders at the NBBO) and has a higher trading priority than All or None orders and Silent-Post-Mid orders. A silent-mid order will never be routed to an away market. When the NBBO is locked or crossed, a silent-mid order will never trade, but instead rest on the CBSX Book and remain eligible to trade once the NBBO is no longer locked or crossed.

For example, consider a situation in which the NBBO is $13.00 - $14.00, and a 1,000-lot silent-mid buy order comes to CBSX. That order rests undisplayed. Then a 500-lot order to sell at $13.00 comes in. The silent-mid order will trade 500 contracts with that sell order at $13.50. The remaining 500 contracts of the silent-mid order would continue to rest undisplayed.

A silent-post-mid order is an order that is not displayed publicly on the CBSX Book but is to be executed at the mid-point between the NBBO. A silent-post-mid order is an order with an optional contingency price which will indicate the highest price that a buyer is willing to pay or the lowest price at which a seller is willing to accept. A silent-post-mid order may trade in $0.005 increments if priced at or above $1 and $0.0001 increments if priced below $1. If the mid-point between the NBBO is not at a tradable increment, CBSX will round down to the nearest tradable increment. If a silent-post-mid order is to trade upon its arrival into the system (thereby "removing" liquidity), it will not trade, but instead rest until another order comes in for it to trade against. If the mid-point of the NBBO is higher than this contingency price for a Buy order or is lower than this contingency price for a Sell, Sell Short, or Sell Short Exempt order, the order, or remainder of the order, will be canceled prior to trading. The reason that the order, or remainder of the order, will be canceled prior to trading (as opposed to upon entry) in these circumstances is because it is possible that, when an order comes in, the mid-point of the NBBO is lower than the contingency price (for a Buy order), but the order doesn't trade because there is not interest to trade with, and then the mid-point of the NBBO moves to a point at which it is higher than the contingency price (at which point the order would cancel). The reverse would be true for Sell, Sell Short, or Sell Short Exempt orders.

A silent-post-mid order may trade with any other type of order and is to execute following the execution of any displayed orders at the NBBO (if there are any displayed orders at the NBBO) and has a higher trading priority than All or None orders but a lower priority than Silent-Mid orders.

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A silent-post-mid order will never be routed to an away market. When the NBBO is locked or crossed, a silent-post-mid order will never trade, but instead rest on the CBSX Book and remain eligible to trade once the NBBO is no longer locked or crossed. For example, consider a situation in which the NBBO is $13.00 - $14.00, and 500-lot silent-mid order to sell rests on the CBSX Book. A 500-lot silent-post-mid buy order comes in. That order will not trade with the resting silent-mid sell order because the silent-post-mid buy order would be taking liquidity. Instead, the silent-post-mid buy order will rest on the CBSX Book until another sell order comes in for it to trade against, and the silent-mid sell order will do the same.

A silent-mid-seeker order is a take-only order that will never rest in the CBSX Book and is to be executed only at the mid-point between the NBBO. A silent-mid-seeker order may trade in $0.005 increments if priced at or above $1 and $0.0001 increments if priced below $1. If the mid-point between the NBBO is not at a tradable increment, CBSX will round down to the nearest tradable increment. If, upon the entry of a silent-mid-seeker order, there is undisplayed interest resting on the CBSX Book at the mid-point between the NBBO, the silent-mid-seeker order will interact with this interest. If the undisplayed resting interest is for a greater quantity than the silent-mid-seeker order, the silent-mid-seeker order will trade with the undisplayed resting interest up to the quantity of the silent-mid-seeker order, and the remainder of the undisplayed interest will remain resting on the CBSX Book. If the undisplayed resting interest is for a smaller quantity than the silent-mid-seeker order, the silent-mid-seeker order will trade with the undisplayed resting interest up to the quantity of the undisplayed resting interest, and the remainder of the silent-mid-seeker order will be canceled. If there is no undisplayed resting interest at the midpoint of the NBBO, the silent-mid-seeker order will be canceled. A silent-mid-seeker order will never be routed to an away market. When the NBBO is locked or crossed, a silent-mid-seeker order will be canceled. For

example, consider a situation in which the NBBO is $13.00 - $14.00, and 500-lot silent-mid order to sell rests on the CBSX Book. A 500-lot silent-mid-seeker buy order comes in. That order will trade with the resting silent-mid sell order.

Consider another example in which the NBBO is $13.00 - $14.00, and no orders rest at the midpoint of the NBBO on the CBSX Book. A silent-mid-seeker order comes in. Because no orders rest at the midpoint of the NBBO on the CBSX Book, the silent-mid-seeker order would not rest on the CBSX Book, but instead be canceled.

The four new proposed order types are similar to Pegged Orders and Mid-Point Pegged Orders that may be entered on BATS Exchange, Inc. ("BATS").[3] Like the four new CBSX order types, the Pegged and Mid-Point Pegged Orders are not displayed publicly,[4] have a lower priority than displayed orders,[5] and are never routed to away markets.[6] Like silent orders, Primary Pegged Orders are executed at the NBB (for a "buy" order) or the NBO (for a "sell" order)[7] and also provide the user the option to enter such orders with or without a limit (contingency) price.[8] Like silent-mid orders, Mid-Point Peg Orders are executed at the mid-point of the NBBO.[9] Like silent-post-mid orders, Mid-Point Peg Orders can be designated to only add liquidity and not trade if they

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[3] See BATS Rules 11.9(c)(8)-(9). On BATS, various different types of orders and modifiers may be combined into one order. Explanations of different order types and the ways they operate can be found at http://batstrading.com/resources/features/bats_exchange_definitions.pdf (the "BATS Order Description Sheet").

[4] See BATS Rules 11.9(c)(8)-(9).

[5] See BATS Rules 11.9(c)(8)-(9) and 11.12(a)(2).

[6] See BATS Rules 11.9(c)(8)-(9).

[7] See BATS Rule 11.9(c)(8).

[8] See BATS Rule 11.9(c)(8), which states that Pegged Orders can be specified that the order's price will either be inferior to or equal the inside quote by an amount set by the entering party on the same side of the market.

[9] See BATS Rule 11.9(c)(9).

are to take liquidity.[10] Like silent-mid-seeker orders, Mid-Point Peg Orders can be designated to immediately cancel if there is no resting interest at the midpoint of the NBBO.[11]

While there are differences between the CBSX's four new proposed order types and the BATS Pegged and Mid-Point Pegged Orders, these differences are not substantive. CBSX uses different terminology than BATS to describe these order types because the proposed language is consistent with other language used in the CBSX rules and because CBSX believes that the proposed language is clearer and more descriptive. Another difference is that, while the BATS orders optionally allow for the pegging of the order price to be offset from the opposite side of the NBBO from the order, the proposed CBSX order types are more restrictive in only permitting the pegging of the order on either the bid (for buy orders), offer (for sell orders) or midpoint (due to system reasons).

One further difference is that, whereas BATS automatically adjusts the price of a Pegged or Mid-Point Peg Order in response to changes in the NBBO,[12] the CBSX System is not enabled to make such adjustments each time the NBBO changes. However, the CBSX System will adjust the price of resting silent, silent-mid and silent-post-mid orders prior to effecting any transaction involving such orders. As such, the same execution price would result as would if the price of such orders had been adjusted in response to each change in the NBBO.

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[10] See BATS Order Description Sheet, which states that pegged orders can be designated "Add Liquidity Only" and BATS Rule 11.9(c)(6), which states that the BATS Post Only Order "will not remove liquidity from the BATS book."

[11] See BATS Order Description Sheet, which states that "midpoint orders can have a time in force (TIF) of immediate or cancel (IOC)" and BATS Rule 11.9(b)(1) which states that limit orders can have the time-in-force of "Immediate-or-Cancel."

[12] See BATS Rules 11.9(c)(8)-(9).

Finally, whereas BATS creates a new timestamp for Pegged and Mid-Point Pegged Orders each time the orders are automatically adjusted,[13] the CBSX System prohibits the creation of such timestamps. However, CBSX maintains market data that allows CBSX to create an accurate history of any adjustments in price to the order, thereby functionally achieving the same goal as occurs on BATS. As such, orders will maintain their original timestamps as provided when the order came in and will receive priority, in regards to other undisplayed orders, based on the time at which they originally came in.

The Exchange believes that the addition of these new order types will enhance order execution opportunities on CBSX and should help provide market participants with flexibility in executing transactions that meet the specific requirements of the order type. The silent order, silent-mid order, silent-post-mid order and silent-mid-seeker order will allow for additional opportunities for liquidity providers to passively interact with interest on the CBSX Book.

Once the CBSX System is so enabled to permit the use of the silent order, silent-mid order, silent-post-mid order and silent-mid-seeker order, and such use has been appropriately tested, CBSX intends to announce the availability of the silent order, silent-mid order, silent-post-mid order and silent-mid-seeker order to the CBSX Traders via Regulatory Circular prior to the implementation of the silent order, silent-mid order, silent-post-mid order and silent-mid-seeker order.

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the Act[14] and the rules and regulations thereunder and, in particular, the requirements of Section 6(b) of the Act.[15]

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[13]   See BATS Rules 11.9(c)(8)-(9).

[14]   15 U.S.C. 78s(b)(1).

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

Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)[16] requirements that the rules of an exchange be designed to promote just and equitable principles of trade, to prevent fraudulent and manipulative acts, to remove impediments to and to perfect the mechanism for a free and open market and a national market system, and, in general, to protect investors and the public interest by providing new order execution opportunities, similar to those available on other exchanges, to CBSX market participants. Silent orders perfect the mechanism for a free and open market by providing investors the opportunity to enter an order that is not displayed publicly but is to be executed at the NBB (for a "buy" order) or NBO (for a "sell" order). Silent-mid orders perfect the mechanism for a free and open market by providing investors the opportunity to enter an order that is not displayed publicly but is to be executed at the mid-point between the NBBO. Silent-post-mid orders perfect the mechanism for a free and open market by providing investors the opportunity to enter an order that is not displayed publicly but is to be executed at the mid-point between the NBBO and only add liquidity. Silent-mid-seeker orders perfect the mechanism for a free and open market by providing investors the opportunity to enter an order that is not displayed publicly but is to be executed at the mid-point between the NBBO and only take liquidity. Also, all four new order types are similar to order types already offered on BATS.

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

CBOE 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

The Exchange neither solicited nor received comments on the proposed rule change.

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[16] 15 U.S.C. 78f(b)(5).

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

Because the foregoing proposed rule change does not:

A.   significantly affect the protection of investors or the public interest;

B.   impose any significant burden on competition; and

C.   become operative for 30 days from the date on which it was filed, or such shorter

time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A)[17]

of the Act and Rule 19b-4(f)(6)[18] thereunder.

At any time within 60 days of the filing of this 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.

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 Exchange 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. Please include File Number SR-CBOE-
2012-049 on the subject line.

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[17]   15 U.S.C. 78s(b)(3)(A).

[18]   17 CFR 240.19b-4(f)(6).

<u>Paper comments</u>:

- 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-CBOE-2012-049. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (http://www.sec.gov/rules/sro.shtml). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer

to File Number SR-CBOE-2012-049 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[19]

Kevin M. O'Neill
Deputy Secretary

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[19]   17 CFR 200.30-3(a)(12).