SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-69364; File No. SR-CBOE-2013-026)

April 11, 2013

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing of a Proposed Rule Change, as Modified by Amendment No. 1, Relating to Complex Orders

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 March 28, 2013, Chicago Board Options Exchange, Incorporated (the "Exchange" or "CBOE") 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. On April 11, 2013, the Exchange filed Amendment No. 1 to the proposed rule change. The Commission is publishing this notice to solicit comments on the proposed rule change, as amended, from interested persons.

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

The Exchange proposed to amend its rules related to complex orders. The text of the proposed rule change is provided below.[3]

---

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

2 17 CFR 240.19b-4.

3 The Exchange notes that it has separately proposed, among other things, to add Interpretation and Policy .01 to Rule 6.53 and to add paragraph (f) to Rule 6.53C, Interpretation and Policy .06. See Exchange Act Release No. 34-69082 (March 8, 2013), 78 FR 16351 (March 14, 2013) (SR-CBOE-2013-030) (as amended by Amendment No. 1, filed March 26, 2013) (proposed rule change to modify the Exchange's rules to address certain option order handling procedures and quoting obligations on the Exchange after the implementation of the market wide equity Plan to Address Extraordinary Market Volatility). Those proposed changes are pending approval of the Commission and thus are not included in the rule text in this rule filing. The Exchange does not believe that the changes proposed in SR-CBOE-2013-030 have any effect on the proposed changes in this rule filing.

(additions are underlined; deletions are [bracketed])

* * * * *

Chicago Board Options Exchange, Incorporated
Rules

* * * * *

Rule 6.53. Certain Types of Orders Defined
One or more of the following order types may be made available on a class-by-class basis. Certain order types may not be made available for all Exchange systems. The classes and/or systems for which the order types shall be available will be as provided in the Rules, as the context may indicate, or as otherwise specified via Regulatory Circular.

(a) – (w) No change.

(x) *Leg Order.* A leg order is a limit order on the EBook that represents one leg of a complex order resting on the COB if the ratio of that leg is equal to or can be reduced to one (1) (e.g. 1:1, 1:2, 1:3) and the complex order is noncontingent. A leg order is a firm order that may be included in the Exchange's displayed best bid or offer ("Exchange BBO") on the EBook. A leg order functions as set forth in Rule 6.53C(c)(iv).

* * * * *

Rule 6.53C. Complex Orders on the Hybrid System
(a) Definition: No change.

(b) Types of Complex Orders: No change.

(c) Complex Order Book

(i) – (iii) No change.

(iv) Leg Orders:

(1) *Generation of Leg Orders.* Leg orders may be automatically generated on behalf of complex orders so that they are represented in the individual leg markets. Specifically, the System will evaluate the COB when a complex order enters the COB, when the Exchange BBO changes and at a regular time interval to be determined by the Exchange (which interval shall not exceed one (1) second) to determine whether leg orders may be generated or displayed in accordance with the provisions in subparagraphs (A) through (C) below. The Exchange may determine to limit the number of leg orders generated on an objective basis.

(A) A leg order will be automatically generated for a leg of a complex order resting on the top of the COB: (I) if the price of the complex order is inside the "derived net market," which is based on the derived net price of the best-priced orders or quotes (other than leg orders) in the EBook, and (II) at a price at which net price execution of the complex

order can be achieved if the other leg(s) of the complex order executes against the best-priced orders or quotes (other than leg orders). Notwithstanding the foregoing, a leg order will not be generated if it would lock or cross the NBBO.

(B) A leg order will only be displayed in the EBook if the price matches or improves the Exchange BBO. If multiple resting complex orders in different strategies generate leg orders for the same price on the same side of a series, then the leg order with the largest size will be displayed. If such leg orders are also for the same size, then the first leg order generated will be displayed.

(C) The size of a leg order will be the lesser of (I) the size of the complex order and (II) the maximum size available in the EBook for the other leg(s) of the complex order (divided by the leg ratio, if applicable). If multiple resting complex orders in the same strategy generate leg orders for the same price on the same side of a series, then the sizes of the leg orders will be aggregated (those leg orders will be treated as a single order until execution).

(2) *Execution of Leg Orders.*

(A) Leg orders (including any nondisplayed leg orders) will only execute after all other executable orders and quotes (including any nondisplayed size) at the same price are executed in full. Leg orders at the same price will execute pursuant to the priority and execution rules applicable to the complex orders they represent as set forth in Rule 6.53C(c)(ii), except that displayed leg orders will have higher priority than nondisplayed leg orders. A leg order may not execute against another leg order.

(B) When a leg order executes against an incoming order or quote, the other leg(s) of the complex order represented by the leg order will automatically execute against the best-priced resting orders or quotes (other than leg orders) that would cause net price full or partial (in a permissible ratio) execution of the complex order. Any leg orders on the opposite side of the legs of the executing complex order will be cancelled prior to the execution of that complex order. Upon execution of the complex order, any leg orders that represent other legs of the complex order will be cancelled. If such execution was a partial execution, the System may generate leg orders for the remaining size of the complex order in accordance with subparagraph (iv)(1).

(C) An all-or-none order will only execute against a leg order if it is at least the same size as the all-or-none order and there are no non-leg orders at the Exchange BBO. If there are a leg order and a non-leg order(s) at the Exchange BBO, then the all-or-none order will either (I) execute against the non-leg order(s) if it is at least the same size as the all-or-none order or (II) the leg order will be cancelled and the all-or-none order will be handled as otherwise set forth in the Rules (no new leg orders in the applicable series will be generated until the all-or-none order is executed or cancelled).

(3) *Removal or Cancellation of Leg Orders.*

(A) The System will remove from display in the EBook a leg order if the price of the leg order is no longer at the Exchange BBO or if a complex order in a different strategy

generates a larger-sized leg order at the same price. Any leg orders removed from display in the EBook will remain in the EBook as nondisplayed orders and will be eligible for execution as set forth in subparagraph (iv)(2) above.

(B) The System will cancel a leg order if: (I) execution at the price of the leg order would no longer achieve the net price of the complex order when the other leg(s) executes against the best-priced orders or quotes (other than leg orders); (II) the complex order executes in full or in part against another complex order; or (III) the complex order is cancelled or modified (*e.g.*, change in price). Additionally, the System will cancel a leg order as set forth in subparagraph (iv)(2) above.

(d) Process for Complex Order RFR Auction: No change.

. . . Interpretations and Policies:

.01 – .03 No change.

.04 (a) No change.

(b) For each class where COA is activated, the Exchange may also determine to activate COA for complex orders resting in COB. For such classes, any non-marketable order resting at the top of COB may be automatically subject to COA if the order is within a number of ticks away from the current derived net market. The "derived net market" will be calculated based on the derived net price of the individual series legs. For stock-option orders, the derived net market for a strategy will be calculated using the Exchange's best bid or offer in the individual option series leg(s) and the NBBO in the stock leg. The Exchange may also determine on a class-by-class and strategy basis to limit the frequency of COAs initiated for complex orders resting in COB. Notwithstanding the foregoing, if a leg order has been generated for a complex order resting in the COB pursuant to paragraph (c)(iv) of this Rule, the complex order will not be eligible for COA.

.05 No change.

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

(a) – (e) No change.

.07 [Reserved.]Leg Orders and Auctions:

If there is an auction occurring in a leg series at the time that a leg order in that series would otherwise be generated pursuant to paragraph (c)(iv) of this Rule:

(a) If the leg order would be on the same side of the market as the auctioned order with a price worse than the initial auction price of the auctioned order, then the leg order will be generated and the auction will continue.

(b) If the leg order would be on the same side of the market as the auctioned order with a price equal to or better than the initial auction price of the auctioned order, then no leg order would be generated and the auction will continue. A leg order may later be generated after execution of the auctioned order.

(c) If the leg order would be on the opposite side of the market as the auctioned order with a price that locks or crosses the initial auction price of the auctioned order, then no leg order would be generated and the auction will continue. A leg order may later be generated after execution of the auctioned order.

(d) If the leg order would be on the opposite side of the market as the auctioned order with a price that does not lock or cross the initial auction price of the auctioned order, then the leg order will be generated and the auction will continue.

.08 – .09 No change.

.10 Execution of Complex Orders in Hybrid 3.0 Classes: For each class trading on the Hybrid 3.0 Platform, the Exchange may determine to not allow marketable complex orders entered into COB and/or COA to automatically execute against individual quotes residing in the EBook. The Exchange also may determine for each class trading on the Hybrid 3.0 Platform to not allow leg orders to be generated pursuant to paragraph (c)(iv) for complex orders resting in the COB. The allocation of such marketable complex orders against orders residing in the EBook and other complex orders shall be based on the best net price(s) and, at the same net price, multiple orders will be allocated as provided in paragraphs (c) and/or (d) in the Rule, as applicable, subject to the following:

(a) – (d) No change.

.11 No change.

.12 Nondisplayed Leg Orders: Any generated leg order that does not satisfy the requirements to be displayed as set forth under subparagraph (iv)(1)(B) in this Rule will be nondisplayed. Any nondisplayed leg orders (including leg orders removed from display) will remain in the EBook and be eligible for execution as set forth in subparagraph (iv)(2) in this Rule but will not be visible in the EBook depth.

* * * * *

The text of the proposed rule change is also available on the Exchange's website (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

The Exchange proposes to amend its rules related to complex orders to provide additional liquidity for complex orders resting on the complex order book ("COB"). The Exchange proposes to adopt a new order type called "leg orders." Under Rule 6.53C, complex orders are eligible to trade with other complex orders or by "legging" with the individual orders and quotes resting in the CBOE electronic book (the "EBook") for the individual component legs, provided the complex order can be executed in full (or in a permissible ratio) by the orders and quotes in the EBook in those individual component legs. Leg orders are designed to increase the opportunities for complex orders resting in the COB to leg into the market and execute.

Specifically, as defined in proposed Rule 6.53(x), a leg order is a limit order on the EBook that represents one leg of a complex order resting on the COB if the ratio of that leg is equal to or can be reduced to one[4] and the complex order is noncontingent. A leg order is a firm

[4] Thus, a leg order may be generated for the legs of complex orders with a ratio of 1:1, 1:2 or 1:3. For example, if a complex order to buy 10 of series 1 and sell 20 of series 2 is resting on the COB, a leg order will be generated for the leg to buy 10 of series 1 (ratio of 1:2), but not for the leg to sell 20 of series 2 (ratio of 2:1). If a complex order to buy 20 of series 1 and sell 30 of series 2 is resting on the COB, no leg orders will be generated

order that may be included in the Exchange's displayed best bid or offer ("Exchange BBO") on the EBook. Like all order types defined in Rule 6.53, the Exchange may make leg orders available on a class-by-class basis and may not make leg orders available for all Exchange systems.[5]

The proposed rule change provides that leg orders may be automatically generated on behalf of complex orders so that they are represented in the individual leg markets. Specifically, the System will reevaluate the COB when a complex order enters the COB, when the Exchange BBO changes and at a regular time interval to be determined by the Exchange (which will not exceed one second) to determine whether leg orders may be generated or displayed. A leg order will be automatically generated for a leg of a complex order resting on the top of the COB: (1) if the price of the complex order is inside the "derived net market," which is based on the derived net price of the best-priced orders or quotes (other than leg orders) in the EBook; and (2) at a

---

for either leg (ratio is 2:3 for leg 1 and 3:2 for leg 2). The same requirement applies to complex orders with more than two legs. For example, if a complex order to buy 10 of series 1, sell 20 of series 2 and buy 10 of series 3 is resting on the COB, then leg orders will be generated for the leg to buy 10 of series 1 and the leg to buy 10 of series 3 (ratio of 1:2), but not for the leg to sell 20 of series 2 (ratio of 2:1).

5 See Rule 6.53. Consistent with provision that the Exchange may not make leg orders available in all classes or for all Exchange systems, the proposed rule change amends Rule 6.53C, Interpretation and Policy .10 to provide that, for each class trading on the Hybrid 3.0 Platform, the Exchange may determine to not allow leg orders for complex orders resting in the COB. This is also consistent with the current rule, which provides that, for each class trading on the Hybrid 3.0 Platform, the Exchange may determine to now allow complex orders to leg into the market. Additionally, the proposed rule change amends Rule 6.53C, Interpretation and Policy .06 to provide that leg orders will not be generated for stock-option orders resting on the COB. This is also consistent with the current rule, which prohibits stock-option orders from legging into the regular market. Providing the Exchange with authority to allow leg orders on a class-by-class basis will help the Exchange manage the number of leg orders generated under the proposed rule change to ensure that they do not negatively impact system capacity and performance.

price at which the net price execution can be achieved if the other leg(s) of the complex order executes against the best-priced orders or quotes (other than leg orders).[6] For example:

Example A

A complex order to buy 10 Series 1 (S1) and to sell 10 Series 2 (S2) at a net price of -$0.05 (buy S1/sell S2 10 @ -$0.05) is entered into the COB, and there is no off-setting complex order.[7] The complex order cannot leg into the EBook because the Exchange BBO net price available for the complex order on the EBook is -$0.20 as follows:

	CBOE Bid	CBOE Offer
S1	10 @ $1.00	20 @ $1.20
S2	10 @ $1.00	20 @ $1.20

(buy S1 @ $1.20 + sell S2 @ $1.00 = -$0.20 net)

The derived net market is -$0.20 to $0.20, and the -$0.05 price of the complex order is within that market,[8] so the System generates and displays leg orders to buy 10 S1 @ $1.05 and sell 10 S2 at $1.15, which improves the Exchange's best bid for S1 and best offer for S2:

	CBOE Bid	CBOE Offer
S1	10 @ $1.05 (leg order)	20 @ $1.20
S2	10 @ $1.00	10 @ $1.15

6 Overlapping legs of complex orders may not execute against each other due to the operational difficulties that would result, which is consistent with the current execution principles for complex orders as otherwise set forth in Rule 6.53C that do not allow overlapping legs of complex orders to execute against each other. Therefore, the proposed rule change provides that the derived net market and the price of leg orders will be based on the best-priced non-leg orders in the other leg series, as those are the orders against which a complex order may execute.

7 For purposes of the examples in this rule filing, the Exchange presumes that (a) the complex orders for which leg orders are generated are the best-priced orders for that strategy and are thus at the top of the COB, and (b) there are no non-leg orders resting at the same price as the best-priced leg orders, unless the example provides otherwise.

8 If the price of the complex order was at -$0.20 or $0.20, the complex order would leg into the market pursuant to Rule 6.53C(c)(ii)(1). If the price of the complex order was outside of the derived net market (e.g. -$0.25, $0.25), then the Hybrid Trading System (the "System"), which is the Exchange's trading platform that allows Market-Makers to submit electronic quotes in their appointed classes, would not generate leg orders for the complex order.

(leg order)

The Exchange believes it is appropriate to only generate leg orders for complex orders resting at the top of the COB, as those are the best-priced in that strategy and thus would have the highest priority. Additionally, the Exchange believes it is appropriate to only generate leg orders for complex orders with prices inside the derived net market because the price of leg orders of a complex order outside of the derived net market would always be generated at prices worse than the BBO. While the Exchange wants to increase execution opportunities for resting complex orders, the Exchange balances that interest with its need to manage the number of leg orders generated to ensure that it continues to have appropriate system capacity to support the leg order functionality (as further discussed below). The Exchange believes that not generating leg orders for complex orders that are not at the top of the COB or that have prices outside of the derived net market helps achieve this balance and is consistent with the Exchange's order management plan. Additionally, because the System will evaluate the COB when the BBO changes, those complex orders not at the top of the COB or with prices outside the derived net market when entered will have an opportunity to take advantage of the leg order functionality when the market changes.

However, a leg order will not be generated if it would lock or cross the national best bid or offer (the "NBBO") in the leg series. The Exchange believes that this is appropriate to assure compliance with the options linkage plan. This provision will also prevent any leg orders from trading through the best displayed prices in the leg markets on other exchanges.

A leg order will only be displayed in the EBook if the price matches or improves the Exchange BBO. For example:

Example B

A complex order (Order 1) to buy 10 Series 1 (S1) and to sell 10 Series 2 (S2) at a net price of -$0.40 (buy S1/sell S2 10 @ -$0.40) is entered into the COB, and there is no off-setting complex order. Order 1 cannot leg into the EBook because the Exchange BBO net price available for Order 1 on the EBook is -$0.60 as follows:

	CBOE Bid	CBOE Offer
S1	10 @ $1.00	10 @ $1.30
S2	10 @ $0.70	10 @ $1.10

(buy S1 @ $1.30 + sell S2 @ $0.70 = -$0.60 net)

The derived net market is -$0.60 to $0.10, and the -$0.40 price of Order 1 is within that market, so the System generates and displays leg orders to buy 10 S1 @ $1.10 and sell 10 S2 at $0.90, which improves the Exchange's best bid for S1 and best offer for S2:

	CBOE Bid	CBOE Offer
S1	10 @ $1.10 (leg order)	10 @ $1.30
S2	10 @ $0.70	10 @ $0.90 (leg order)

Another complex order (Order 2) to buy 10 Series 3 (S3) and to sell 10 Series 2 (S2) at a net price of -$0.25 (buy S3/sell S2 10 @ -$0.25) is then entered into the COB, and there is no off-setting complex order. Order 2 cannot leg into the EBook because the Exchange BBO net price available for Order 2 on the EBook is -$0.60 as follows:

	CBOE Bid	CBOE Offer
S2	10 @ $0.70	10 @ $0.90 (leg order)
S3	10 @ $1.00	10 @ $1.30

(buy S3 @ $1.30 + sell S2 @ $0.70 = -$0.60 net)

The derived net market excluding the leg orders representing is -$0.60 to $0.10 (excluding the leg order in S2), and the -$0.25 price of Order 2 is within that market, so the System generates leg orders to buy 10 S3 @ $0.95 and sell 10 S2 at $1.05. Because these leg orders are at worse prices than the BBO, they are not displayed.[9]

[9] Alternatively, if Order 2 was entered into the COB given the original BBO market in this example (prior to the entry of Order 1), then the leg order to buy 10 S3 @ $0.95 would still not have been displayed, because that price would not have improved the $1.00 bid

The proposed rule change contemplates that some leg orders may be generated but not displayed on the EBook. To clarify how the System handles nondisplayed leg orders, proposed Rule 6.53C, Interpretation and Policy .12 provides that any generated leg order that does not satisfy the requirements to be displayed as set forth in subparagraph (iv)(1)(B) of proposed Rule 6.53C(c) will be nondisplayed. Any nondisplayed leg orders (including leg orders that are removed from display) will remain and the EBook and will be eligible for execution as set forth in subparagraph (iv)(2) of proposed Rule 6.53C(c) but will not be visible in the EBook depth. Displayed leg orders will have higher priority than nondisplayed leg orders (i.e., if there are two leg orders at the same price, but only one is displayed, the displayed leg order would execute ahead of the nondisplayed leg order).[10] The Exchange believes that having nondisplayed leg orders available for execution will further increase the execution opportunities for execution of complex orders. Nondisplayed leg orders function in the same manner as displayed leg orders, except that, for system and technical reasons, they will not be visible in the EBook depth (which displays resting orders and quotes not at the BBO). Additionally, the Exchange believes having

---

resting in the EBook. The leg order to sell 10 S2 @ $1.05 would have been displayed, because that price would have improved the $1.10 offer resting in the EBook.

[10] For example, if there are two leg orders in a series representing complex orders in different strategies, one to buy 10 (Leg Order 1) and one to buy 20 (Leg Order 2), and the price of those leg orders is the Exchange best bid (and there are no non-leg orders resting at that price), Leg Order 2 is displayed because it is larger, and Leg Order 1 is nondisplayed. If a market order to sell 20 enters the EBook, it will execute against Leg Order 2 (Leg Order 1 would be displayed after that execution, assuming it is still at the Exchange best bid). Alternatively, if a market order to sell 25 enters the EBook, 20 would execute against Leg Order 2, and 5 would execute against Leg Order 1 (the System would generate a new leg order to buy for the remaining 5 of Leg Order 1 and display the new leg order, assuming it is still at the Exchange best bid). As a third alternative, if a market order to sell 35 enters the EBook, 20 would execute against Leg Order 2, 10 would execute against Leg Order 1, and 5 would execute against the highest-priced non-leg order in the EBook. See the discussion below for further details on the execution of leg orders.

nondisplayed leg orders available for execution with orders on the EBook is consistent with the ability for a complex order resting in the COB to leg into the regular market and execute against orders and quotes in the EBook. Complex orders resting in the EBook are not visible in the regular market, but like nondisplayed leg orders are still eligible to execute against orders and quotes in the EBook. Nondisplayed leg orders are merely representations of those same complex orders that are intended to facilitate executions of those complex orders in the regular market.

If multiple resting complex orders in different strategies generate leg orders for the same price on the same side of a series, then the leg order with the largest size will be displayed.[11] For example:

Example C

A complex order (Order 1) to buy 10 Series 1 (S1) and to sell 10 Series 2 (S2) at a net price of -$0.05 (buy S1/sell S2 10 @ -$0.05) is entered into the COB, and there is no off-setting complex order. Order 1 cannot leg into the EBook because the Exchange BBO net price available for Order 1 on the EBook is -$0.20 as follows:

	CBOE Bid	CBOE Offer
S1	10 @ $1.00	10 @ $1.20
S2	20 @ $1.00	10 @ $1.20

(buy S1 @ $1.20 + sell S2 @ $1.00 = -$0.20 net)

The derived net market is -$0.20 to $0.20, and the -$0.05 price is within that market, so the System generates and displays leg orders to buy 10 S1 @ $1.05 and sell 10 S2 at $1.15, which improves the Exchange's best bid for S1 and best offer for S2:

	CBOE Bid	CBOE Offer
S1	10 @ $1.05 (Order 1 leg order)	10 @ $1.20
S2	20 @ $1.00	10 @ $1.15 (Order 1 leg

[11] If these leg orders are also for the same size, then the first leg order generated will be displayed.

order)

Another complex order (Order 2) to buy 20 Series 3 (S3) and to sell 20 Series 2 (S2) at a net price of -$0.05 (buy S3/sell S2 20 @ -$0.05) is then entered into the COB, and there is no off-setting complex order. Order 2 cannot leg into the EBook because the Exchange BBO net price available for Order 2 on the EBook is -$0.20 as follows:

	CBOE Bid	CBOE Offer
S2	20 @ $1.00	10 @ $1.15 (Order 1 leg order)
S3	20 @ $1.00	20 @ $1.20

(buy S3 @ $1.20 + sell S2 @ $1.00 = -$0.20 net)

The derived net market excluding leg orders is -$0.20 to $0.20, and the -$0.05 price is within that market, so the System generates and displays leg orders to buy 20 S3 @ $1.05 and sell 20 S2 at $1.15, and removes from display the smaller leg order to sell 10 S2 at $1.15,[12] which improves the Exchange's best bid for S3 and maintains the Exchange's best offer for S2 but increases the available size:

	CBOE Bid	CBOE Offer
S2	20 @ $1.00	20 @ $1.15[13] (Order 2 leg order)
S3	20 @ $1.05 (Order 2 leg order)	20 @ $1.20

As set forth in the proposed definition of leg order, a leg order will only be generated for a leg of a complex order if the ratio of the leg is or can be reduced to one and the complex order is noncontingent. The size of a leg order will be the lesser of (1) the size of the complex order

---

12 This smaller order will remain in the EBook as a nondisplayed leg order that will be eligible for execution.

13 If a market order to buy 20 S2 is received, that order will execute against the leg order to sell 20 S2 at $1.15 (the larger-sized leg order), and the leg of Order 2 to buy 20 S3 will execute against the resting offer to sell 20 S3 at $1.20. The leg order to buy 20 S3 at $1.05 will then be cancelled upon execution of Order 2. As a result, the net price of -$0.05 is achieved for Order 2 (buy S3 @ $1.20 + sell S2 @ $1.15 = -$0.05 net). After this execution, the System may redisplay the leg order for Order 1 to sell 10 S2 at $1.15, which was previously removed from display. See the discussion below regarding the execution of leg orders.

and (2) the maximum size available in the EBook in the other leg series of the complex order (divided by the leg ratio, if applicable).[14] For example:

Example D

A complex order to buy 15 Series 1 (S1) and to sell 30 Series 2 (S2) (ratio of 1 buy to 2 sell) at a net price of $0.95 (buy 15 S1 /sell 30 S2 @ $0.95) is entered into the COB, and there is no off-setting complex order. The complex order cannot leg into the EBook because the Exchange BBO net price available for the complex order on the EBook is $0.80 as follows:

	CBOE Bid	CBOE Offer
S1	10 @ $1.00	10 @ $1.20
S2	30 @ $1.00	30 @ $1.20

(buy one S1 @ $1.20 + sell two S2 @ $1.00 = $0.80 net)

The derived net market is $0.80 to $1.40, and the $0.95 price is within that market, so the System generates and displays a leg order to buy 15 S1 @ $1.05 (maximum size on the EBook in S2 is 30, divided by the 2:1 ratio of the leg to sell S2), which improves the Exchange's best bid for S1:

	CBOE Bid	CBOE Offer
S1	15 @ $1.05 (leg order)	10 @ $1.20
S2	30 @ $1.00	30 @ $1.20

The System does not generate a leg order in S2, because any leg order could only be for 10 (maximum size available on S1), and because the ratio of that leg is 2:1 and cannot be reduced to 1.

The Exchange may determine to limit the number of leg orders on an objective basis, such as limiting the number of orders generated in a particular class, in order to curtail the number of leg orders generated so that the Exchange may effectively manage leg orders and

[14] If multiple resting complex orders in the same strategy generate leg orders for the same price on the same side of a series, then the sizes of the leg orders will be aggregated. The System will treat these aggregated orders as a single leg order (until execution, at which time they would execute in accordance with applicable Exchange priority and execution rules set forth in Rule 6.53C(c)(ii)). Thus, if a leg order is generated and is smaller than the aggregated size of multiple leg orders but is larger than the individual sizes of those leg orders, the aggregated leg orders would be displayed.

ensure that it continues to have appropriate system capacity to support the leg order functionality.[15]

Leg orders (including any nondisplayed leg orders) will execute only after all other executable orders and quotes (including any nondisplayed size) at the same price are executed in full. Accordingly, the generation of a leg order will not affect the existing priority, or execution opportunities, currently provided to market participants in the regular market in any way. Additionally, leg orders at the same price will execute pursuant to the priority and execution rules as set forth in Rule 6.53C(c)(ii), except that displayed leg orders will have higher priority than nondisplayed leg orders.[16]

When a leg order executes against an incoming order or quote, the other leg(s) of the complex order represented by the leg order will automatically execute against the best-priced resting orders or quotes (other than leg orders) that would cause net price full or partial (in a permissible ratio) execution of the complex order.[17] Upon execution of the complex order, any leg orders that represent other legs of the complex order will be cancelled. For example:

---

15 The Exchange will not limit the generation of leg orders on the basis of the entering participant or the participant category of the order (*i.e.*, professional, professional customer, or public customer).

16 Pursuant to Rule 6.53C(c)(ii)(2), allocation of a complex order within the COB will be pursuant to the rules of trading priority otherwise applicable to incoming electronic orders in the individual component legs.

17 As discussed above, operational difficulties would result if overlapping legs of complex orders executed against each other. To prevent this, prior to execution of a leg order and the represented complex order, any leg orders on the opposite side of the legs of the executing complex order will be cancelled. As discussed above, the price of a leg order is based on the best-priced non-leg order in the other series, which ensures that the executing complex order will achieve net price execution in the event there is another leg order on the opposite side in that series prior to execution. The other legs of the complex order will still execute at the best available price of individual orders or quotes. The Exchange notes that this provision will also allow resting individual orders or quotes to execute against complex order legs, rather than allowing those legs to execute against leg orders. After the complex order executes, new leg orders may be generated to "replace"

Example E

A complex order to buy 10 Series 1 (S1) and to buy 10 Series 2 (S2) at a net price of $2.25 (buy S1/S2 10 @ $2.25) is entered into the COB, and there is no off-setting complex order to sell. The complex order cannot leg into the EBook because the Exchange BBO net price available for the complex order on the EBook is $2.40 as follows:

	CBOE Bid	CBOE Offer
S1	10 @ $1.00	20 @ $1.20
S2	10 @ $1.00	20 @ $1.20

(buy S1 @ $1.20 + buy S2 @ $1.20 = $2.40 net)

The derived net market is $2.00 to $2.40, and the $2.25 price is within that market, so the System generates and displays leg orders to buy 10 S1 @ $1.05 and 10 S2 at $1.05, which improves the Exchange's best bid for both S1 and S2:

	CBOE Bid	CBOE Offer
S1	10 @ $1.05 (leg order)	20 @ $1.20
S2	10 @ $1.05 (leg order)	20 @ $1.20

If a market order to sell 10 S1 is received, that order will execute against the leg order to buy 10 S1 at $1.05, and the leg of the complex order to buy 10 S2 will execute against the resting offer to sell 10 S2 at $1.20. The leg order to buy 10 S2 will then be cancelled upon execution of the complex order. As a result, the net price of $2.25 is achieved for the complex order (buy 10 S1 @ $1.05 + buy 10 S2 @ $1.20 = $2.25 net).[18]

---

the cancelled leg orders for the still-resting complex orders, assuming the conditions for generation in the rule have been met. In the event a leg order is generated to "replace" a previously cancelled leg order, it will have the same priority as the "original" leg order with respect to any other leg orders at the same price representing complex orders in the same strategy, as the priority of those leg orders (which would be aggregated) is based on the priority of the complex orders they represent (which remains unchanged regardless of cancellations of leg orders).

[18] If a market order to sell 10 S2 is received, that order will execute against the leg order to buy 10 S2 at $1.05, and the leg of the complex order to buy 10 S1 will execute against the resting offer to sell 10 S1 at $1.20. The leg order to buy 10 S1 will then be cancelled. As a result, the net price of $2.25 is achieved for the complex order (buy S1 @ $1.20 + buy S2 @ $1.05 = $2.25 net).

Following the execution of the complex order, the Exchange BBO is:

	CBOE Bid	CBOE Offer
S1	10 @ $1.00	20 @ $1.20
S2	10 @ $1.00	10 @ $1.20

In addition to enabling the execution of the complex order at a net price of $2.25, the leg order enhanced execution for orders in the EBook, as (1) the incoming market order to sell S1 received a better price ($1.05 instead of $1.00) and (2) the complex order provided liquidity to execute resting interest to sell 10 S2 at $1.20.

If execution of the complex order is partial, the System may generate and display new leg orders for the remaining size of the complex order, assuming all other conditions for generation and display of leg orders have been met. For example:

Example F

A complex order to buy 50 S1 and to buy 50 S2 at a net price of $2.25 (buy S1/S2 50 @ $2.25) is entered into the COB, and there is no off-setting complex order to sell. The complex order cannot leg into the EBook because the Exchange BBO net price available for the complex order on the EBook is $2.40 as follows:

	CBOE Bid	CBOE Offer
S1	40 @ $1.05	60 @ $1.20
S2	20 @ $1.05	80 @ $1.20

(buy S1 @ $1.20 + buy S2 @ $1.20 = $2.40 net)

The derived net market is $2.10 to $2.40, and the $2.25 price is within that market, so the System generates and displays leg orders to buy 50 S1 @ $1.05 and 50 S2 at $1.05, which increases the size of the Exchange's best bid for both S1 and S2:

	CBOE Bid	CBOE Offer
S1	90 @ $1.05 (50 leg order)	60 @ $1.20
S2	70 @ $1.05 (50 leg order)	80 @ $1.20

If a market order to sell 30 S1 is received, it will execute against the orders or quotes resting at $1.05, other than the leg order at $1.05, pursuant to the

Exchange's priority and execution rules,[19] and the size of the bid for S1 will be reduced:

	CBOE Bid	CBOE Offer
S1	60 @ $1.05 (50 leg order)	60 @ $1.20
S2	70 @ $1.05 (50 leg order)	80 @ $1.20

If a market order to sell 50 S1 were then received, it will first execute the remaining 10 S1 from the orders or quotes resting at $1.05, other than the leg order, and then execute 40 S1 against the leg order to buy 40 S1 at $1.05. The leg of the complex order to buy S2 will execute against the resting offer to sell 40 S2 at $1.20. As a result, the net price of $2.25 is achieved for a partial execution of the complex order (buy 40 S1 @ $1.05 + buy 40 S2 @ $1.20 = $2.25 net), and the leg order to buy 50 S2 will be cancelled upon execution of the complex order. New leg orders for the remaining 10 S1 and 10 S2 of the complex order will be generated and displayed at $1.05 (assuming all other criteria are met).

Following the execution of the complex order and generation and display of the new leg orders for the remaining size of the complex order, the Exchange BBO is:

	CBOE Bid	CBOE Offer
S1	10 @ $1.05 (leg order)	60 @ $1.20
S2	30 @ $1.05 (10 leg order)	40 @ $1.20

These provisions, again, will not affect the existing priority, or execution opportunities, currently provided to market participants in the regular market in any way, and incoming orders will still execute at the best available prices.

An all-or-none order will only execute against a leg order if it is at least the same size as the all-or-none order and there are no non-leg orders at the Exchange BBO. If there are a leg order and a non-leg order(s) at the BBO, then the all-or-none order will either (a) execute against the non-leg order(s) if it is at least the same size as the all-or-none order or (b) the leg order will be cancelled and the all-or-none order will be handled as otherwise set forth in the Rules (no new

[19] See Rules 6.45A and 6.45B.

leg orders will be generated until the all-or-none order is executed or cancelled). This provision will ensure that an all-or-none order will execute in full per its terms. Additionally, this provision will ensure that a leg order will not trade before a non-leg order (which may otherwise occur if a non-leg order at the BBO was smaller than the all-or-none order, but the leg order at the BBO was of sufficient size).[20]

The System will remove from display in the EBook a leg order if the price of the leg order is no longer at the Exchange BBO or if a complex order in a different strategy generates a larger-sized leg order at the same price (as discussed above, if complex orders in different strategies generate leg orders for the same price, the largest size will be displayed).[21] The System will cancel a leg order if: (1) execution at the price of the leg order would no longer achieve net price of the complex order when the other leg(s) executes against the best-priced orders or quotes (other than leg orders); (2) the complex order executes in full or in part against another complex order; or (3) the complex order is cancelled or modified (for example, the price changes).[22] For example:

Example G

A complex order to buy 20 S1 and to buy 20 S2 at a net price of $2.25 (buy S1/S2 20 @ $2.25) is entered into the COB, and there is no off-setting complex order to

---

20 This is consistent with other Exchange rules regarding all-or-none orders. See, e.g., Rule 6.44, Interpretation and Policy .02, which states, among other things, that any number of transactions of any size may appear on the tape at the same price as the all-or-none order without the all-or-none order participating.

21 Any leg order that is removed from display in the EBook will be nondisplayed (but still eligible for execution), and the System may later redisplay the leg order if the conditions for display set forth in the rule are met.

22 The System may also cancel a leg order at the times set forth in proposed subparagraph (iv)(2) of Rule 6.53C(c). After cancellation of a leg order, the System may later generate a new leg order for a complex order that is still resting in the COB if the conditions for generation set forth in the rule are met.

sell. The complex order cannot leg into the EBook because the Exchange BBO net price available for the complex order on the EBook is $2.40 as follows:

	CBOE Bid	CBOE Offer
S1	10 @ $1.05	20 @ $1.20
S2	10 @ $1.05	50 @ $1.20

(buy S1 @ $1.20 + buy S2 @ $1.20 = $2.40 net)

The derived net market is $2.10 to $2.40, and the $2.25 price is within that market, so the System generates and displays leg orders to buy 20 S1 @ $1.05 and 20 S2 at $1.05, which increases the size of the Exchange's best bid for both S1 and S2:

	CBOE Bid	CBOE Offer
S1	30 @ $1.05 (20 leg order)	20 @ $1.20
S2	30 @ $1.05 (20 leg order)	50 @ $1.20

If a limit order to buy 10 S1 @ $1.10 is received, the System will remove from display the leg order to buy 20 S1 at $1.05 because it is no longer at the Exchange best bid:[23]

	CBOE Bid	CBOE Offer
S1	10 @ $1.10	20 @ $1.20
S2	30 @ $1.05 (20 leg order)	50 @ $1.20

If a market order to buy 20 S1 is received, the Exchange best offer will move above $1.20, and the System will cancel the leg order to buy S2 at $1.05 because the net price of $2.25 can no longer be achieved:

	CBOE Bid	CBOE Offer
S1	10 @ $1.10	10 @ $1.25
S2	10 @ $1.05	50 @ $1.20

(buy S1 @ $1.25 + buy S2 @ $1.05 = $2.30 net)

The following example further demonstrates how leg orders function when there are leg orders representing complex orders in different strategies:

[23] This removed leg order will remain in the EBook as a nondisplayed leg order that will be eligible for execution.

Example H

Three complex orders enter the COB in the following order: Order 1 to buy 10 S1 and to buy 10 S2 at a net price of $2.10 (buy S1/S2 10 @ $2.10), Order 2 to buy 10 S2 and to buy 10 S3 at a net price of $2.10 (buy S2/S3 10 @ $2.10), and Order 3 to buy 10 S1 and to buy 10 S3 at a net price of $2.10 (buy S1/S3 10 @ $2.10. There are no off-setting complex orders to sell with respect to any of the three orders. The complex orders cannot leg into the EBook because the Exchange BBO net prices available on the EBook for Order 1 is $2.20, for Order 2 is $2.20, and for Order 3 is $2.40 as follows:

	CBOE Bid	CBOE Offer
S1	10 @ $1.00	10 @ $1.20
S2	10 @ $0.80	10 @ $1.00
S3	10 @ $1.00	10 @ $1.20

(buy S1 @ $1.20 + buy S2 @ $1.00 = $2.20 net)
(buy S2 @ $1.00 + buy S3 @ $1.20 = $2.20 net)
(buy S1 @ $1.20 + buy S3 @ $1.20 = $2.40 net)

The derived net market is $1.80 to $2.20 for Order 1, $1.80 to $2.20 for Order 2, and $2.00 to $2.40 for Order 3, and the net price of each complex order is within the applicable derived net market, so the System generates leg orders to buy 10 S1 @ $1.10 and 10 S2 at $0.90 for Order 1, leg orders to buy 10 S2 @ $0.90 and 10 S3 @ $1.10 for Order 2, and to buy 10 S1 @ $0.90 and 10 S3 @ $0.90 for Order 3. The System will display the leg order to buy 10 S1 @ $1.10 for Order 1, which improves the Exchange's best bid for S1, the leg order to buy 10 S2 @ $0.90 for Order 1, which improves the Exchange's best bid for S2, and the leg order to buy 10 S3 @ $1.10, which improves the Exchange's best bid for S3:

	CBOE Bid	CBOE Offer
S1	10 @ $1.10 (Order 1 leg order)	10 @ $1.20
S2	10 @ $0.90 (Order 1 leg order)	10 @ $1.00
S3	10 @ $1.10 (Order 2 leg order)	10 @ $1.20

The leg order to buy 10 S1 @ $0.90 for Order 3 is nondisplayed because it is worse than the Exchange's best bid; the leg order to buy 10 S2 @ $0.90 for Order 2 is nondisplayed because it is at the same price and size as the Order 1 leg order,

which was generated first; and the leg order to buy 10 S3 @ $0.90 for Order 3 is nondisplayed because it is worse than the Exchange's best bid.[24]

If a market order to sell 5 S2 is received, it will execute against 5 of the Order 1 leg order to buy @ $0.90, and the leg of Order 1 to buy S1 will execute against the resting offer to sell 5 S1 @ $1.20. As a result, the net price of $2.10 is achieved for a partial execution of Order 1 (buy 5 S1 @ $1.20 + buy 5 S2 @ $0.90 = $2.10 net), and the Order 1 leg order to buy 10 S1 @ $1.10 is cancelled upon partial execution of Order 1. Following the partial execution, Order 1 is still at the top of the COB, so the System generates new leg orders to buy 5 S1 @ $1.10, which is displayed because it is at the Exchange best bid for S1, and to buy 5 S2 at $0.90, which is nondisplayed because the S2 leg order for Order 2 is larger (the leg orders for Order 3 remain nondisplayed because they are still at worse prices than the Exchange's best bids in S1 and S3):

	CBOE Bid	CBOE Offer
S1	5 @ $1.10 (Order 1 leg order)	5 @ $1.20
S2	10 @ $0.90 (Order 2 leg order)	10 @ $1.00
S3	10 @ $1.10 (Order 2 leg order)	10 @ $1.20

As discussed above, to prevent leg orders from executing against each other and complex orders with overlapping legs from executing against each other, prior to execution of a leg order and the related complex order, any leg orders on the opposite side of the legs of the executing complex order will be cancelled prior to execution of that complex order. Thus, a leg order is firm with respect to the complex order that it represents in the individual leg series, as overlapping complex orders are viewed separately under the Rules.[25]

---

[24] These nondisplayed leg orders will remain in the EBook and will be eligible for execution.

[25] Leg orders are thus not firm with respect to other complex orders and will not trade against legs of other complex orders, which is consistent with the existing complex order execution provisions in Rule 6.53C that do not allow execution of overlapping legs of complex orders.

The proposed rule change provides for how the adoption of leg orders will interact with the various auction functions available on the Exchange. First, the proposed rule change amends Rule 6.53C, Interpretation and Policy .04 to provide that if a leg order has been generated for a complex order resting in the COB, the complex order will not be eligible for the automated complex order request for responses ("RFR") auction process ("COA")[26] pursuant to Interpretation and Policy .04. The Exchange believes that the representation of complex orders in the leg markets through the existence of leg orders eliminates the need to have those complex orders re-enter a COA, and the Exchange further believes that leg orders will more effectively create opportunities for execution of complex orders resting in the COB than having those complex orders re-COA.

The proposed rule change further describes whether the System will generate a leg order if a simple order auction (such as a Hybrid Agency Liaison (HAL) auction per Rule 6.14A or Automated Improvement Mechanism (AIM) auction per Rule 6.74A) is occurring at the time the leg order would otherwise be generated. If there is a simple order auction occurring in a leg series at the time that a leg order in that series would otherwise be generated pursuant to Rule 6.53C(c)(iv):

- If the leg order would be on the same side of the market as the auctioned order with a price worse than the initial auction price of the auctioned order, then the leg order will be generated and the auction will continue.
- If the leg order would be on the same side of the market as the auctioned order with a price equal to or better than the initial auction price of the auctioned order, then no leg

[26] Rule 6.53C(d) provides that prior to routing to the COB or once on PAR, eligible complex orders may initiate a COA, which is an automated auction process to provide complex orders with opportunities for price improvement.

order would be generated and the auction will continue. A leg order may later be generated after execution of the auctioned order.

- If the leg order would be on the opposite side of the market as the auctioned order with a price that locks or crosses the initial auction price of the auctioned order, then no leg order would be generated and the auction will continue. A leg order may later be generated after execution of the auctioned order.
- If the leg order would be on the opposite side of the market as the auctioned order with a price that does not lock or cross the initial auction price of the auctioned order, then the leg order will be generated and the auction will continue.

The Exchange proposes these provisions to ensure that leg orders will not interact with simple order auctions in order to avoid the system complexities that would otherwise result from combining the execution of complex orders with the already complex auction processes. The auction rules describe certain instances in which the entry of an unrelated limit order while an auction is ongoing may terminate the auction.[27] For example, if the Exchange receives an unrelated order on the opposite side of the auctioned order that could trade against the auctioned order at the prevailing NBBO price or better during a HAL auction (such a marketable unrelated order would thus lock or cross the price of the auctioned order, which is the NBBO), the orders would trade and the auction would generally terminate.[28] Additionally, during a HAL auction, if the Exchange receives an unrelated order on the same side of the market as the auctioned order

---

27 See Rules 6.13A(d) (Simple Auction Liaison ("SAL")), 6.14A(d) (HAL), 6.74A(b)(2) and (3) (AIM), and 6.74B(b)(2) (Solicitation Auction Mechanism ("SAM")).

28 Rule 6.14A(d)(i). The Exchange notes that it is not discussing the SAL auctions in this filing, because SAL is currently only active for Hybrid 3.0 classes, and the leg order functionality will not be enabled for Hybrid 3.0 classes. However, the principles described in this discussion regarding auctions apply in a similar manner to the SAL rule.

that is priced equal to or better than the auctioned order, then the auction would terminate.[29] Similarly, during an AIM or SAM auction, if the Exchange receives an unrelated limit order on the opposite side of the auctioned order that improves any auction response (because auction responses would at least lock or cross the price of the auctioned order, such limit order would also thus lock or cross the price of the auctioned order), then the auction will terminate.[30] Additionally, during an AIM or SAM auction, if the Exchange receives an unrelated order that is marketable against the Exchange's disseminated quote (if that quote is the NBBO) or the auction responses, and thus on the same side of the market as the auctioned order (because auction responses would match or improve the auctioned price, the price of such unrelated order would thus be equal to or better than the auctioned price), then the auction would terminate.[31]

The Exchange does not want the generation of leg orders to terminate auctions like other unrelated orders do [sic] due to the system complexities that would otherwise result. Thus, market participants will continue to have the same opportunities for execution and potential price improvement through simple auctions as they would if there were no leg orders present. Proposed Interpretation and Policy .07(b) and (c) cover the circumstances described in the auction rules under which the generation of leg orders may terminate an auction under the rules and provide that leg orders will not be generated under these circumstances. So that the proposed rule is complete, proposed Interpretation and Policy .07(a) and (d) cover the circumstances under which the generation of leg orders would not terminate an auction and provide that leg orders will be generated under these circumstances.

---

29 Rule 6.14A(d)(ii).

30 Rules 6.74A(b)(2)(C) and 6.74B(b)(2). Pursuant to such rules, the unrelated order would also execute against the auctioned order following the termination of the auction. See Rules 6.74A(b)(3)(D) and (E) and 6.74B(b)(2).

31 Rules 6.74A(b)(2)(D) and 6.74B(b)(2).

The Exchange would also like to note that if a leg order is displayed in a series at the time an auction order enters the System, and the leg order is at the same price as the starting point of the auction and on the opposite side of the auctioned order, then the leg order would not participate in the auction. Instead, the auctioned order would trade with other resting interest at that price and/or the contra order that stopped the auctioned order, as previously discussed, leg orders only trade after all other executable orders and quotes. The leg order, however, would continue to be displayed.

The Exchange notes that it maintains a rigorous capacity planning program that monitors system performance and projected capacity demands and that, as a general matter, the Exchange considers the potential system capacity impact of all new initiatives. The Exchange has analyzed the potential impact on system capacity that may result from the proposed rule change and has concluded that the Exchange has sufficient system capacity to handle the generation of leg orders without degrading the performance of its systems or reducing the number of complex order instruments it currently supports.

The Exchange also notes that the proposed rule change limits the generation of leg orders. As discussed above, the Exchange may allow leg orders to be generated on a class-by-class basis, and leg orders may not be generated for all complex orders resting on the COB. Ultimately, the Exchange believes that while generating leg orders requires additional System processes, it has the necessary systems capacity to implement leg orders as described in this proposed rule change. The Exchange will closely monitor the generation of leg orders and its effect on CBOE's systems, and will carefully manage and curtail the number of leg orders being generated, to ensure that they do not negatively impact system capacity and performance.

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the Act and the rules and regulations thereunder applicable to the Exchange and, in particular, the requirements of Section 6(b) of the Act.[32] Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)[33] requirements that the rules of an exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitation transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest. Additionally, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)[34] requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

In particular, the Exchange believes that the proposed rule change furthers the objectives of the Act by increasing the interaction between complex orders on the COB and individual orders and quotes on the EBook, providing greater liquidity by providing increased opportunities for order execution, and improving execution prices compared to those otherwise available in the regular market. The Exchange believes that automatically generating leg orders, which will only be executed after all other executable interest at the same price (including nondisplayed interest) is executed in full, will provide additional execution opportunities for complex orders, without negatively impacting any investors in the regular market. In fact, the generation of leg orders

---

32 15 U.S.C. 78f(b).

33 15 U.S.C. 78f(b)(5).

34 Id.

may enhance execution quality for investors in the regular market by improving the price and/or size of the Exchange BBO and by providing additional execution opportunity for individual orders and quotes in the EBook. As the proposed rule change describes, a leg order will not be generated while a simple auction in the leg series is ongoing if the generation of the leg order due to its price would terminate the auction, and potentially trade with the auctioned order or auction responses. The Exchange believes it is appropriate to prevent the generation of leg orders from terminating simple auctions due to the system complexities that would otherwise result. Thus, market participants will continue to have the same opportunities for execution and potential price improvement as they would if there were no leg orders present.

The Exchange believes leg orders will increase opportunities for execution of complex orders, potentially increase executions of interest on the EBook, and lead to tighter spreads and finder pricing on CBOE, which will benefit investors. Leg orders will provide investors with opportunities to trade at better prices than would otherwise be available – inside the otherwise existing BBO in a leg series. The Exchange believes that the opportunity for investors to receive executions inside the otherwise existing BBO could result in better executions for investors, thus making leg orders consistent with the Act.

The Exchange believes leg orders will provide market participants with another tool for adding trading interest on CBOE. Leg orders may serve to increase liquidity to the extent market participants find leg orders result in better executions. This may result in more aggressive trading interest in the overall CBOE market.

The Exchange also believes that the generation of leg orders is fully compliant with all regulatory requirements. In particular, leg orders are firm (with respect to the complex orders

they represent)[35] and may be included in the Exchange BBO if they match or improve the otherwise existing BBO. When a leg order executes, the other legs of the complex order will execute against the best-priced orders or quotes (other than leg orders). A leg order will be removed from display in the EBook if it is no longer at the Exchange BBO or if a complex order in a different strategy generates a larger-sized leg order at the same price (consistent with the proposed rule regarding display of leg orders), and will be cancelled if the net price of the complex order can no longer be achieved, if the complex order executes, or if the complex order is cancelled or modified, as well as at times prior to execution of another leg order to prevent execution of leg orders against each other and overlapping legs of separate complex orders against each other. Additionally, to assure compliance with the options linkage plan, a leg order will not be generated if it would lock or cross another market.

The Exchange believes having nondisplayed leg orders available for execution will increase the execution opportunities for more complex orders and will result in better-priced executions for individual orders and quotes, which will benefit investors. The presence of nondisplayed leg orders is similar to current complex order functionality, in that complex orders are already eligible to leg into the regular market and trade with simple orders, even though this complex order interest is not visible in the regular market.

The generation of leg orders is also limited in scope, as they may be generated only for legs of noncontingent complex orders with a ratio that is or can be reduced to one for complex orders that are priced within the derived net market. Additionally, the Exchange may enable leg

---

[35] See supra notes 17 and 22 and related discussion regarding the circumstances under which leg orders may be cancelled to prevent execution of leg orders against each other and overlapping legs of separate complex orders against each other, and thus the extent to which leg orders are not firm, which will eliminate the operational difficulties that may otherwise result from those executions and the potential for those executions to interfere with the System and other trading.

orders on a class-by-class basis. The Exchange believes it has the necessary systems capacity to implement leg orders as described in this proposed rule change. The proposed rule change prevents the execution of leg orders against each other, and the execution of overlapping legs of complex order against each other, in order to prevent operational difficulties related to these executions. This is consistent with current Exchange rules regarding the execution of complex orders, and the Exchange believes that eliminating unnecessary operational difficulties will protect investors. The Exchange does not believe that the number of leg orders generated will become unmanageable. Finally, pursuant to the proposed rule change, the Exchange will closely manage and curtail the generation of leg orders to assure that they do not negatively impact system capacity and performance.

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. The adoption of leg orders does not impose any obligations on any market participants – the System will automatically generate and handle leg orders. Leg orders will be available to all market participants and for all complex orders in classes designated by the Exchange that satisfy the requirements set forth in the rules (even if a complex order does not generate leg orders because, for example, it is priced outside of the derived net market, leg orders may later be generated for that complex order if the market changes). Accordingly, all complex orders in classes in which the Exchange has enabled leg order functionality will be treated in the same manner. Further, all market participants have the option to send their complex orders to CBOE in order to take advantage of this order type.

Additionally, CBOE believes that the proposed rule change will relieve any burden on,

and otherwise promote, competition among options exchanges. The Exchange believes the proposed rule change is procompetitive because it adds an order type that is substantially similar to functionality available at another options exchange.[36] The Exchange believes the proposed rule change could result in improved liquidity, finer pricing, better executions and increased competition within its complex order market to the benefit of the Exchange, its Trading Permit Holders, and market participants and thus allow the Exchange to better compete with other options exchanges for complex order flow. The Exchange also believes leg orders may facilitate additional executions and enhance execution quality for investors in the regular market by improving the price and/or size of the Exchange BBO and by providing additional execution opportunities for resting orders on the regular order book.

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

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

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

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate 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 Exchange consents, the Commission will:

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

B. institute proceedings to determine whether the proposed rule change should be disapproved.

---

[36] See International Securities Exchange, LLC ("ISE") Rules 715(k) and 722(b)(3); see also Securities Exchange Act Release No. 34-66234 (January 25, 2012), 77 FR 4852 (January 31, 2012) (SR-ISE-2011-082) (order approving rule to adopt legging orders).

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change, as amended, 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. Please include File Number SR-CBOE-2013-026 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-CBOE-2013-026. 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, D.C. 20549-1090 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 offices 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-2013-026, 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.[37]

Kevin M. O'Neill
Deputy Secretary

[37] 17 CFR 200.30-3(a)(12).