

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-73450; File No. SR-CBOE-2014-081)

October 28, 2014

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to Functionality of Public Automated Routing System

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on October 15, 2014, 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. 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 Rule 6.12A (Public Automated Routing System (PAR)) to describe the functionality of the PAR workstation. The text of the proposed rule change is below and in Exhibit 1.

(additions are italicized; deletions are [bracketed])

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**Chicago Board Options Exchange, Incorporated  
Rules**

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

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

RULE 6.12. Reserved

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6.12A. Public Automated Routing System (PAR)

RULE 6.12A. The PAR workstation (PAR) is an Exchange-provided order management tool for use on the Exchange's trading floor by Trading Permit Holders or Exchange PAR Officials (see Rule 7.12 for a description of the responsibilities of PAR Officials). The Exchange's Order Handling System allows for orders to be routed to and from PAR in accordance with TPH and Exchange order routing parameters and the Rules including, but not limited to, this Rule 6.12A and Chapters VI, VII, and VIII of the Rules and Rules 6.2B, 6.13, 6.14B, 6.53, 6.53C, 6.74, 7.12, and 8.51 thereunder.

- (a) Order Routing. Eligible orders will be routed to PAR in accordance with TPH and Exchange order routing parameters and the order's terms.
- (b) Order Handling. Once an order is on PAR, the order shall be processed in accordance with the manual or automatic settings established by the user and the order's terms. Subject to the forgoing, once an order is on PAR, the user may:
  - (i) Submit the order into the Hybrid Trading System (including for execution against quotes and orders resting in the electronic book and exposure to appropriate electronic auctions pursuant to Rules 6.13A, 6.14A, 6.53C, 6.74B, and 24B.5B);
  - (ii) Execute the order in open outcry, including against other orders on PAR and with other TPHs or PAR Officials in accordance with Rules 6.74 and 7.12;
  - (iii) Route the order to an Order Management Terminal (OMT) designated by the TPH or otherwise return the order to the order entry firm or originating TPH;
  - (iv) Route the order or a portion thereof to an away exchange in accordance with Rules 6.14B and 6.81;
  - (v) Reflect the price and/or quantity related to the order or a portion thereof in the displayed Exchange BBO (applicable only in options classes on the Hybrid 3.0 Platform); or
  - (vi) Cancel the unexecuted order, including upon receipt of a cancel request from the order entry firm or originating TPH or as prescribed by Exchange or TPH order routing parameters.

(c) Eligible Order Types. Unless otherwise specified in the Rules, all order types specified in Rule 6.53 are eligible to route to PAR, except that the order types defined in Rules 6.53(h), 6.53(o)-(r), and 6.53(t)-(v) may not be routed to PAR.

(d) Preemption. To the extent that any provision(s) of this Rule 6.12A conflicts with any provision(s) of any Regulatory Circular previously issued by the Exchange regarding the operation or functionality of PAR, this Rule supersedes and supplants the limited conflicting provision(s) of any such Regulatory Circular.

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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 the Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange proposes to adopt new Rule 6.12A to describe its existing PAR operations and PAR workstation<sup>3</sup> functionality. The Exchange notes that PAR is

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<sup>3</sup> The PAR workstation is an Exchange-provided facility used to operate the Exchange's Public Automated Routing System. The Public Automated Routing System and Public Automated Routing workstation are referred to collectively as "PAR" herein.

currently in use on the Exchange and that PAR is referenced throughout the Rules<sup>4</sup> and in various Regulatory Circulars.<sup>5</sup> While there are various references to PAR throughout the Rules and in Regulatory Circulars, the Rules do not describe the substantive aspects of the order handling process available to users once orders are received on PAR (and thus

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<sup>4</sup> The Exchange is currently working on a separate filing that would consolidate the Rules that interact with PAR (see, e.g., Rule 6.2B.03(c)(ii); Rule 6.8(d)(iv)(A); Rule 6.13(b)(i)(A)(2); Rule 6.13(b)(iii); Rule 6.13(b)(iv); Rule 6.13(b)(v)(B); Rule 6.53C(c); Rule 6.53C(d)(vi); Rule 6.53C.06(b); Rule 6.53C.07(a)(3); Rule 6.53C.07(b); Rule 6.53C.07(e); Rule 7.12; Rule 8.51.10) into a single Rule.

<sup>5</sup> See, e.g., Regulatory Circular RG97-018 (Order Routing of Contingency Orders) (February 7, 1997); RG97-019 (New PAR Functionality - Contingency, Discretionary Orders) (February 7, 1997); RG03-003 (Limit Order Display Requirements) (January 10, 2003); RG03-029 (Market Linkage Implementation II) (April 17, 2003); RG03-043 (Failure to Address Orders and Honor Firm Quote) (June 25, 2003); RG03-064 (Market Maker Orders Now Book-Eligible in Hybrid Classes) (July 31, 2003); RG04-056 (How Firm Quote Applies to Marketable Orders Entered At or Near the Close) (April 30, 2004); RG04-066 (All or None (AON) Orders in Hybrid Classes) (June 2, 2004); RG04-068 (Routing of Discretionary Orders to DPM PAR Workstations) (June 4, 2004); RG05-017 (Autobook) (February 11, 2005); RG07-046 (PAR Reporting Enhancements) (April 13, 2007); RG07-084 (Hybrid 2.0 Auto-Ex on Single-List Classes) (August 3, 2007); RG07-104 (EPW Activation in Single-List, Hybrid 2.0 Classes) (October 8, 2007); RG07-112 (Hybrid Auto-Ex and “Exchange Prescribed Widths” (EPWs)) (November 5, 2007); RG09-084 (New Option Linkage Implementation) (August 14, 2009); RG11-005 (CBOEdirect Version 8.5 System Modifications) (January 13, 2011); RG11-074 (Processing of Stock-Option Strategy Orders) (June 17, 2011); RG11-102 (Price Protection Enhancements) (August 26, 2011); RG12-037 (Prefix Usage for SPX Combination (“Combo”) Orders) (February 29, 2012); RG13-083 (New Order Designations) (June 5, 2013); RG13-105 (New Order Designations) (July 29, 2013); RG13-154 (Exchange Rule 6.51 – “Reporting Duties”) (November 29, 2013); RG14-037 (PAR Enhancements) (March 25, 2014); RG14-047 (PAR Enhancements) (April 2, 2014); RG14-096 (PAR Enhancements) (June 20, 2014); see also Information Circular IC03-08 (Systems Enhancements – Complex Orders and Linkage) (January 23, 2003); IC03-38 (Complex Order TNT Entry) (March 21, 2003); IC04-018 (Floor Broker Workstation (FBW Enhancements) (February 17, 2004); IC04-020 (CBOE Systems Enhancements) (February 17, 2004); IC05-006 (Complex Order TNT Entry) (January 24, 2005); IC05-112 (PAR AutoLink and COB) (August 31, 2005); IC06-076 (PAR Routed Orders) (June 23, 2006).

how Trading Permit Holders (“TPHs”) or PAR Officials,<sup>6</sup> as applicable, may process such orders). The purpose of this rule filing is to codify the details of the Exchange’s existing PAR operations and functionalities within the Rules. The Exchange believes that adding details to the Rules regarding PAR would be useful to TPHs.

The Exchange is continuously evaluating additions to the Rules, particularly with respect to systems processes and order handling. The Exchange believes that the adoption of Rule 6.12A describing PAR functionality is consistent with this effort.

#### Background

PAR is a touch-screen order routing and handling tool that is used by TPHs and PAR Officials on the floor of the Exchange to manage and process orders that are routed to PAR for processing. PAR is equipped with a dynamic, graphical display that allows users to manually and automatically execute orders electronically through the Exchange’s central trading engine and in open outcry. In general, PAR allows users to specify execution quantities, split trades among multiple contra parties, report trades, route orders to the book, and generate trading reports, including a detailed history on all activity conducted on the workstation.

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<sup>6</sup> A PAR Official is an Exchange employee or independent contractor whom the Exchange may designate as being responsible for (i) operating the PAR workstation in a DPM trading crowd with respect to the classes of options assigned to him/her; (ii) when applicable, maintaining the book with respect to the classes of options assigned to him/her; and (iii) effecting proper executions of orders placed with him/her. The PAR Official may not be affiliated with any Trading Permit Holder that is approved to act as a Market-Maker. Rule 7.12(a). The duties and obligations of PAR Officials are set forth in Rule 7.12.

The Exchange operates a dynamic order handling system (“OHS”),<sup>7</sup> which allows orders to be routed, processed, and transmitted to the Exchange’s trade engine, in a variety of ways on the Hybrid Trading System. The OHS may route orders directly to the Exchange’s trade engine for automatic execution and book entry, to PAR workstations located in the trading crowds for manual handling, and/or to other order management terminals (“OMTs”) located in booths on the floor of the Exchange. PAR receives orders through the OHS according to Exchange and TPH routing parameter configurations.

A TPH or PAR Official may select an order on the workstation and enter trade information such as execution quantity, price, and contra party information. The PAR interface also allows the user to direct an order to be executed or booked by the Exchange’s trade engine. Once execution of an order is completed, PAR transmits the completed execution (also referred to as a “fill”), back to the OHS. PAR users can also transmit to the trade engine a portion of a selected order to be executed or booked within the trade engine. In addition, PAR allows users to execute orders in open outcry and record information about open outcry trades for audit-trail purposes. These functions are described in greater detail below. PAR workstations may be used in the form of fixed workstation terminals or mobile devices.

PAR was introduced at the Exchange in 1994 as an innovative trading automation solution. In general, PAR was developed to automate the manual trading process in open outcry, which previously required the use of paper tickets to execute customer orders.

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<sup>7</sup> The Exchange completed the rollout of the OHS in 2008, which replaced the Exchange’s Order Routing System (“ORS”). OHS resides within the Exchange’s central trading platform, CBOE Command and thus, functions on same platform as the Exchange’s trade processing engine, resulting in speedier processing and improved order handling.

Rather than entering orders and executions into TPH computer systems, transmitting order and trade execution information to and from the Exchange's trade engine, printing order tickets and fill reports, and physically delivering the order tickets and fill reports to counterparty brokers on the floor of the Exchange and to the Options Clearing Corporation, PAR allows users to process orders directly through the OHS and from TPH trading systems.

Initially, PAR was placed in use in limited areas on the floor of the Exchange.<sup>8</sup> By 1997, PAR functionality was enhanced to allow the direct routing of various order types from the Exchange's system to PAR, including the following types of orders: All or None; Opening Only; Immediate or Cancel; Market on Close; Fill or Kill; Closing Only; Minimum Quantity; Market if Touched; Stop; Not Held; and Stop Limit.<sup>9</sup> Notably, whether a particular order or order type routed to PAR was (and continues to be) a function of parameter controls, set by TPHs and the Exchange, that allow different order types to be selectively routed at the discretion of, and in accordance with, TPH order routing and handling instructions.<sup>10</sup> As technology, regulation, and trading practices

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<sup>8</sup> See Securities and Exchange Act Release No. 34-34876 (October 21, 1994), FR Doc No: 94-26765 (October 28, 1994) (Order Approving Proposed Rule Change and Amendment No. 1 to a Proposed Rule Change and Notice of Filing and Order Granting Accelerated Approval of Amendment No. 2 to a Proposed Rule Change by the Chicago Board Options Exchange, Inc. Relating to Firm Quote Responsibilities) (SR-CBOE-94-17).

<sup>9</sup> See Regulatory Circular RG97-67 (Permanent Approval of Order Routing of Contingency Orders) (June 4, 1997); see also Securities and Exchange Act Release No. 34-38702 (May 30, 1997), 62 FR 31184 [sic] (Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change Relating to Enhancements to the Electronic Order Routing System) (June 6, 1997) (SR-CBOE-97-22).

<sup>10</sup> See Id.

have shifted, the Exchange has adapted and enhanced PAR to meet the trading needs of TPHs and the Exchange. The systemic flexibility of PAR has been (and continues to be) essential in maintaining PAR as an effective order management tool

Until 2005, only Floor Brokers and DPMs used PAR on the floor of the Exchange, with DPMs handling agency orders on PAR including orders that could not be automatically executed and thus, routed to PAR for manual handling. In 2005, the Exchange adopted Rule 7.12, which prohibited DPMs from executing agency orders in their appointed classes and allowed the Exchange to place PAR Officials at PAR workstations for the handling of orders routed to PAR in accordance with Exchange and TPH order routing parameters.<sup>11</sup> TPHs and PAR Officials have continually used PAR on the floor of the Exchange since Rule 7.12 was adopted.

The Exchange considers PAR an important Exchange facility and order management tool for market participants on the Exchange. Many of the orders that cannot be automatically processed by the Exchange's central trade engine are routed to PAR for handling. The functionalities provided on PAR that allow these orders to be processed are essential to the functioning of the Exchange and the maintenance of fair and orderly markets. The proposed rule describes the substantive functions of PAR and its central operation.

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<sup>11</sup> See Securities and Exchange Act Release No. 34-52798 (November 18, 2005), 70 FR 71134 [sic] (Order Approving a Proposed Rule Change and Amendment No. 1 Thereto and Notice of Filing and Order Granting Accelerated Approval to Amendments No. 2 and 4 Thereto Relating to the Removal of Agency Responsibilities From Designated Primary Market-Makers and the Establishment of PAR Officials) (November 28, 2005) (SR-CBOE-2005-46); see also Regulatory Circular RG05-117 (Separation of DPM Agency and Principal Functions) (November 22, 2005).



## Proposal

The Exchange proposes to adopt Rule 6.12A to describe the operation of PAR and and [sic] functionality of its PAR workstations. Among other things, Rule 6.12A would describe how orders may be routed to PAR and what PAR users may do to process orders once they are received on PAR. Proposed Rule 6.12A describes the substantive operation of PAR and the primary functionality of the PAR workstation. The proposed Rule is not intended as a user manual or software tutorial. The Exchange notes that PAR does not allow market participants to perform any functions that are not already authorized under the Rules. Rather, PAR is a tool that may be used by market participants, at their discretion, to help facilitate the efficient and orderly processing of orders in a manner already authorized under the Rules. Thus, the purpose of the proposed rule is simply to describe and clarify the substantive functions of PAR. The Exchange believes that the proposed rule will add clarity to the Rules (inasmuch as PAR is already referenced throughout the Rules without a description of PAR or the substantive functions that may be performed on PAR) and that the proposed rule would be useful for TPHs.

Under the Exchange's proposal, the rule would describe the order processing functions of PAR including, but not limited to how PAR users may: interact with the electronic trade engine (including executions with quotes and orders resting in the electronic book and exposure to applicable electronic auctions); execute orders in open outcry (including against other orders on the same PAR terminal (i.e. cross orders), or with other TPHs and PAR Officials); route orders to Order Management Terminals ("OMTs") or otherwise return orders to order entry firms or the TPH that entered the order; route orders or portion thereof to an away exchange; route orders to the electronic

book; reflect a price and/or quantity of orders or portion thereof in the CBOE BBO for classes trading on the Hybrid 3.0 Platform;<sup>12</sup> and cancel unexecuted orders. Proposed Rule 6.12A(a) would describe the process by which orders may be routed to PAR. Proposed Rule 6.12A(b) would describe the order handling process on PAR, including the functionalities that may be achieved using a PAR workstation. Proposed Rule 6.12A(c) would describe the order types that may be handled on PAR. Proposed Rule 6.12A(d) would establish the controlling nature of the Rule with respect to previously issued Regulatory Circulars concerning PAR and its functionality. Each of these sections and the introductory paragraph of the proposed Rule are described in greater detail below.

The Exchange proposes to adopt an introductory paragraph to Rule 6.12A that would generally describe order handling and processing on PAR and PAR workstation functionality. Under the proposed introductory paragraph to Rule 6.12A, PAR would be described as an Exchange-provided order management tool for use on the Exchange's trading floor by Trading Permit Holders or PAR Officials. The introductory paragraph would also describe the order routing process to PAR, explaining that the OHS allows for

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<sup>12</sup> The Hybrid 3.0 Platform is an electronic trading platform on the Hybrid Trading System that allows one or more quoters to submit electronic quotes which represent the aggregate Market-Maker quoting interest in a series for the trading crowd. Standard SPX options contracts are traded on the Hybrid 3.0 Platform. The Hybrid Trading System refers to the Exchange's trading platform that allows automatic executions to occur electronically and open outcry trades to occur on the floor of the Exchange. To operate in this "hybrid" environment, the Exchange has a dynamic order handling system that has the capability to route orders to the trade engine for automatic execution and book entry, to Trading Permit Holder and PAR Official workstations located in the trading crowds for manual handling, and/or to other order management terminals generally located in booths on the trading floor for manual handling.

orders to be routed to and from a PAR workstation in accordance with Exchange and TPH routing parameters and as set forth in the Rules.<sup>13</sup>

Proposed Rule 6.12A(a) would reflect the process by which eligible orders will route to PAR. Where an order is routed for processing depends on various parameters configured by the Exchange and the TPH. TPHs are afforded discretion in where they route orders and may route orders onto various order management tools available on the Exchange according to preset or order-specific routing parameters. Depending on the order routing parameters, certain orders may route to PAR. For example, a TPH may or the Exchange may set default auto-execution “drill-through” protection limits in the Hybrid Trading System such that any order that exceeds a limit will be routed to PAR on the floor of the Exchange. These parameters may be used, to limit “drill-throughs” or protect against extreme and potentially erroneous limit prices as part of the Exchange’s risk controls. TPHs may also customize routing instructions to route certain orders to PAR for more detailed handling. Thus, the OHS provides TPHs with some flexibility in determining how best to process their orders on the Hybrid Trading System. The Exchange believes that the use of routing parameters supports TPHs’ various trading strategies, mitigates order handling and processing risks, assists the Exchange in attracting order flow and liquidity, and promotes the maintenance of a fair and orderly market. The Exchange views the use of routing parameters as an important tool to assist

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<sup>13</sup> As stated above, various rules reference PAR and Exchange routing parameters for orders handled on PAR including, but not limited to Rules 6.2B(a), Rule 6.13(b), Rule 6.53; and Rules 6.53C(c) and 6.53C(d). See supra, note 4. The proposed rule change is consistent with Rules and the current authority of the Exchange under the Rules.

TPHs efficiently manage, process, and execute orders in the “hybrid” trading environment.

The discretion to set order routing parameters to route an order to a preferred order management tool on the floor of the Exchange, including PAR, is codified throughout the Rules.<sup>14</sup> For example, under Rule 6.13(b)(i)(B), orders that are not eligible for automatic execution will route on a class-by-class basis to PAR or, at the order entry firm’s discretion, to the order entry firm’s booth or OMT. Similarly, under Rule 6.53C(e), complex orders that are marketable, but would be executed at a price that is not within an acceptable percentage distance from the derived net price of the individual leg series that existed at the start of a Complex Order Auction (“COA”) will route on a class-by-class basis to PAR, or, at the order entry firm’s discretion, to the order entry firm’s booth. Accordingly, proposed Rule 6.12A(a) is modeled to reflect the discretion afforded to TPHs under the Rules with routing orders to PAR according to an order’s terms and Exchange order routing parameters.

In addition to TPH order routing parameters, the Exchange sets certain order eligibility requirements for orders routing to PAR. For example, reserve orders (which are limit orders that have both a displayed size as well as an additional non-displayed size amount) are currently not eligible to route to PAR. Accordingly, the Exchange’s proposal is modeled to reflect the fact that only eligible orders will be accepted on PAR. Under proposed Rule 6.12A(a) only “eligible” orders will be routed to PAR.

Proposed paragraph 6.12A(b) would describe the substantive aspects of PAR functionality, which include: routing an order for electronic processing; executing an

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<sup>14</sup> See supra, notes 4 and 13.

order; booking an order; routing an order to an away exchange; and cancelling an order. Proposed Rule 6.12A(b)(i), would provide that orders may be submitted into the Hybrid System (including for execution against quotes and orders resting in the electronic book and exposure to appropriate electronic auctions including auctions pursuant to Rules 6.13A, 6.14A, 6.53C, 6.74B, and 24B.5B).

PAR workstations are capable of handling both single-legged (“simple”) and multi-legged (“complex”) options orders, including those with a stock leg. Simple orders on PAR that are marketable may be automatically routed to the electronic book to trade with quotes or orders in the book or may be manually executed in open outcry in accordance with preset PAR user parameters and the order’s terms. Upon partial execution of an order on PAR, any remaining balance of an order that was previously on PAR may be returned to PAR or booked, provided it does not lock or cross a quote of another exchange. Similarly, complex orders on PAR that are marketable may automatically initiate an electronic auction or trade against orders in the Complex Order Book (“COB”) or with quotes of the individual leg series or may be manually executed in open outcry after the COB is cleared in accordance with preset user parameters and the order’s terms. The automatic routing functions available on PAR are reflected in the language of proposed Rule 6.12A(b), which provides orders on PAR shall be processed in accordance with the automatic settings established by the user and the order’s terms.

Proposed Rule 6.12A(b)(i) would also reference the auction functions that may be performed on PAR. Eligible simple and complex orders routed to PAR in classes where electronic auction functionality is active may also be auctioned from PAR. The proposed rule would reference the auction functions available on the Hybrid Trading System under

Rules 6.13A, 6.14A, 6.53C(d), 6.74B, and 24B.5B reflecting the fact that orders on PAR may be submitted for auction pursuant to routing parameter configurations and specific order handling instructions. Orders auctioned from PAR, which do not fully execute at the conclusion of the auction process, may be returned to PAR or booked in accordance with order routing parameters and order handling instructions as permitted under the Rules.<sup>15</sup>

Proposed Rule 6.12A(b)(ii) would provide for the execution of orders on PAR in open outcry, including against other orders on PAR and with other TPHs or PAR Officials in accordance with Rule 6.74 (Crossing Orders). Both simple and complex orders on PAR may be crossed with other orders on PAR by PAR users, including by PAR Officials. Proposed Rule 6.12A(b)(ii) would describe the process by which orders may be crossed on PAR in open outcry, including by PAR Officials, after being verbalized to the crowd. Orders that may be crossed on PAR include, but are not limited to buy and sell orders in the same options series that are marketable against each other and complex orders and inter-regulator spreads (as defined in Rule 1.1).

As provided in proposed Rule 6.12A(b)(iii), PAR workstations also allow users to route orders to an OMT designated by the TPH that entered the order or otherwise return the order to the TPH or order entry firm. Proposed Rule 6.12A(b)(iii) is a reflection of current rules which permit PAR users to route orders to a designated OMT or otherwise return an order to its originator. Under proposed Rule 6.12A(b)(iv), orders on PAR may also be routed to an away market for best execution in accordance with order protection

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<sup>15</sup> See, e.g., Rule 6.53C(d).

rules under the Federal Securities Laws and the Rules including, but not limited to Rules 6.81<sup>16</sup> and 7.12(b)(ii).<sup>17</sup>

Proposed Rule 6.12A(b)(v) describes the display functionality of a PAR workstation. CBOE PAR Officials may reflect bids and offers for orders, or portions of orders, in Hybrid 3.0 classes in the displayed CBOE BBO using the “PAR in the Quote” feature. Currently, there are no CBOE PAR Officials on the trading floor in Hybrid 3.0 trading crowds. Accordingly, PAR allows the user to reflect the price and/or quantity related to an order or portion of an order in the displayed Exchange BBO in classes of options on the Hybrid 3.0 Platform. This functionality allows PAR users to protect customer orders at specified price points while not displaying the full size of such orders (oftentimes customers may not want the full size of an order reflected in the quote). Proposed Rule 6.12A(b)(vi) would provide that unexecuted orders resting on PAR may be cancelled. All un-executed orders on PAR may be cancelled upon receipt of a cancel request from the order entry TPH or as prescribed in the routing parameters of the Exchange or order entry TPH.

Proposed Rule 6.12A(c) would codify the ability of the Exchange to designate order types eligible to route to PAR and describe the types of orders that the Exchange may designate as eligible. Under the Exchange’s proposal, the Exchange would have the ability to designate any order type that it makes available to TPHs pursuant to Rule 6.53 eligible to route to PAR. Current Rule 6.53 describes and defines the order types that may

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<sup>16</sup> Rule 6.81 (Order Protection) forbids TPHs from effecting Trade-Throughs except as prescribed under Rule 6.81(b).

<sup>17</sup> Rule 7.12(b)(ii) (Execution) provides that a “PAR Official shall use due diligence to execute the orders placed in the PAR Official’s custody at the best prices available to him or her under the Rules of the Exchange.”

be made available for trading on a class-by-class basis by the Exchange. Under the Exchange's proposal, all order types specified in Rule 6.53 would be eligible to route to PAR, except that the order types defined in Rules 6.53(h), 6.53(o)-(r), and 6.53(t)-(v) would not be eligible to be routed to PAR. Proposed Rule 6.12A(c) is consistent with the current practices and Rules of the Exchange in that all of the order types listed in Rule 6.53 other than those listed in Rules 6.53(h), 6.53(o)-(r), and 6.53(t)-(v) are currently eligible to be routed to PAR. PAR is a technology that supports the processing of order types authorized for trading on the Exchange under Rule 6.53. Accordingly, the Exchange may make future enhancements that would permit other order types to be processed on PAR or technological issues may prevent the Exchange from processing certain order types on PAR at any given time. Proposed Rule 6.12A(c) reflects the fluidity of the PAR technology as well as the fact that PAR is an order handling tool, which only gives TPHs the ability to process orders pursuant to the Rules.

Finally, under proposed Rule 6.12A(d) to the extent that any provision(s) of the proposed rule conflicts with any provision of any Regulatory Circular previously issued by the Exchange regarding the operation or functionality of PAR, the proposed rule would supersede the limited conflicting provisions of any such Regulatory Circular. PAR has been in use for approximately a decade on the Exchange. Over the years, PAR has been enhanced and reconfigured and changed to reflect updates and changes in the Rules. Numerous Regulatory Circulars contemplate the use of PAR by DPMs rather than PAR Officials.<sup>18</sup> Other Regulatory Circulars reflect old Linkage rules no longer in effect

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<sup>18</sup> See, e.g., Regulatory Circular RG04-68 (Routing of Discretionary Orders to DPM PAR Workstations) (June 4, 2004).



under the new Order Protection rules.<sup>19</sup> Accordingly, to the extent that any provisions of any Regulatory Circular are in conflict with the proposed rule, such provisions would be superseded by the rule.

## 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.<sup>20</sup> Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>21</sup> 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 facilitating 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)<sup>22</sup> requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The Exchange views PAR as an important tool that allows TPHs on the trading floor of the Exchange to manage and process orders. The Exchange believes that the

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<sup>19</sup> See, e.g., Regulatory Circular RG03-29 (Market Linkage Implementation II) (April 17, 2003).

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

<sup>21</sup> 15 U.S.C. 78f(b)(5).

<sup>22</sup> Id.

adoption of rules regarding the functionality of PAR will contribute to fair and orderly markets by making the Exchange's order handling processes more transparent and understandable for users. The proposed rules are intended to assist TPHs and order entry firms in their ability to efficiently manage, process, and execute orders on the Exchange as well as assist the Exchange in its ability to effectively attract order flow and liquidity to the market. The Exchange also believes that adding transparency and efficiency to the market are goals that benefit all investors. The Exchange believes that the proposed would further these goals, which the Exchange believes are consistent with the Act.

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

The Exchange 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 Exchange believes that proposed Rule 6.12A will promote competition by making the functionality of the Exchange's order processing workstations more understandable to users and the general public. The Exchange believes that by better explaining its order management and order handling systems to PAR users and TPHs, PAR users and TPHs will better understand the Exchange's systems. The Exchange believes that additional clarity and transparency in the Rules will make it easier for market participants to compete with one another on equal footing in the markets and ultimately benefits all investors.

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 written comments on the proposed rule change.

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

Because the foregoing proposed rule change does not:

- 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) of the Act<sup>23</sup> and Rule 19b-4(f)(6)<sup>24</sup> thereunder. At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission will institute proceedings to determine whether the proposed rule change should be approved or disapproved.

IV. Solicitation of Comments

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

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or

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

<sup>24</sup> 17 CFR 240.19b-4(f)(6).

- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-CBOE-2014-081 on the subject line.

Paper Comments:

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

All submissions should refer to File Number SR-CBOE-2014-081. 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-2014-081, 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.<sup>25</sup>

Kevin M. O'Neill  
Deputy Secretary

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