

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-74560; File No. SR-CBOE-2015-031)

March 20, 2015

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to the Solicitation Auction Mechanism

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup>, and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that, on March 18, 2015, 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 Exchange filed the proposal as a “non-controversial” proposed rule change pursuant to Section 19(b)(3)(A)(iii) of the Act<sup>3</sup> and Rule 19b-4(f)(6) thereunder.<sup>4</sup> The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Exchange proposes to amend Rules 6.74B and 24B.5B relating to the Solicitation Auction Mechanism (“SAM”). The text of the proposed rule change is provided below.

(additions are italicized; deletions are [bracketed])

\* \* \* \* \*

---

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

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

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

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

Chicago Board Options Exchange, Incorporated

Rules

\* \* \* \* \*

Rule 6.74B. Solicitation Auction Mechanism

A Trading Permit Holder that represents agency orders may electronically execute orders it represents as agent ("Agency Order") against solicited orders provided it submits the Agency Order for electronic execution into the solicitation auction mechanism (the "Auction") pursuant to this Rule.

(a) Auction Eligibility Requirements. A Trading Permit Holder (the "Initiating Trading Permit Holder") may initiate an Auction provided all of the following are met:

- (1) The Agency Order is in a class designated as eligible for Auctions as determined by the Exchange and within the designated Auction order eligibility size parameters as such size parameters are determined by the Exchange (however, the eligible order size may not be less than 500 standard option contracts or 5,000 mini-option contracts);
- (2) Each order entered into the Auction shall be designated as all-or-none and must be stopped with a solicited order priced at or within the NBBO as of the time of the initiation of the Auction (i.e. the time that the Agency Order is received in the order handling system ("OHS") (the "initial auction NBBO"); and
- (3) The minimum price increment for an Initiating Trading Permit Holder's single price submission shall be determined by the Exchange on a series basis and may not be smaller than one cent.

(b) Auction Process. The Auction shall proceed as follows:

- (1) Auction Period and Requests for Responses.

(A) To initiate the Auction, the Initiating Trading Permit Holder must mark the Agency Order for Auction processing, and specify a single price at which it seeks to cross the Agency Order with a solicited order priced at or within the initial auction NBBO.

(B) When the Exchange receives a properly designated Agency Order for Auction processing, a Request for Responses message indicating the price, side, and size will be sent to all Trading Permit Holders that have elected to receive such messages.

(C) – (G) No change.

(2) Auction Conclusion and Order Allocation. The Auction shall conclude at the sooner of subparagraphs (b)(2)(A) through (F) of Rule 6.74A. At the conclusion of the Auction, the Agency Order will be automatically executed in full or cancelled and allocated subject to the following:

(A) The Agency Order will be executed against the solicited order at the proposed execution price, provided that:

(I) The execution price must be equal to or better than the initial auction NBBO. If the execution would take place outside the initial auction NBBO, the Agency Order and solicited order will be cancelled;

(II) – (III) No change.

. . . Interpretations and Policies:

.01 – .03 No change.

\* \* \* \* \*

Rule 24B.5B. FLEX Solicitation Auction Mechanism

A FLEX Trader that represents agency orders may electronically execute orders it represents as agent ("Agency Order") against solicited orders provided it submits the Agency Order for electronic execution into the solicitation auction mechanism (the "SAM Auction") pursuant to this Rule.

(a) No change.

(b) SAM Auction Process. Only one SAM Auction may be ongoing at any given time in a series and SAM Auctions in the same series may not queue or overlap in any manner. In addition, unrelated FLEX Orders may not be submitted to the electronic book for the duration of a SAM Auction. The SAM Auction may not be cancelled and shall proceed as follows:

(1) SAM Auction Period and Requests for Responses ("RFR").

(i) No change.

(ii) When the Exchange receives a properly designated Agency Order for SAM Auction processing, an RFR message indicating the price, side and size will be sent to all FLEX Traders that have elected to receive such messages.

(iii) – (vii) No change.

(2) – (3) No change.

\* \* \* \* \*

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 make changes to its existing SAM auction rules in Rule 6.74B and Flexible Exchange Option Solicitation Auction Mechanism (“FLEX SAM”) rules in Rule 24B.5B. The Exchange believes that the proposed amendments would ensure greater consistency between the Exchange’s SAM auction rules and Order Protection Rule 6.81<sup>5</sup> and provide additional clarity in the Rules regarding the Exchange’s SAM Auction procedures.

Rules 6.74B and 24B.5B permit Trading Permit Holders (“TPHs”) and FLEX Traders to electronically execute an all-or-none (“AON”) orders for 500 or more standard (or FLEX) options contracts or 5,000 or more mini-options contracts that they represent as agent (“Agency Order”) against solicited orders provided the TPH (or FLEX Trader) submits the Agency Order for electronic execution into SAM for auction (the "Auction") pursuant to Rule 6.74B or Rule 24B.5B (for FLEX orders).<sup>6</sup> Under Rules 6.74B(a)(2) and (b)(1)(A), each order entered into SAM shall be designated AON by the Initiating TPH with the Agency Order marked for auction processing with a specific single price at which the Initiating TPH seeks to cross the Agency

---

<sup>5</sup> See also Securities and Exchange Act Release No. 34-43086 (July 28, 2000), 65 FR 48023 (August 4, 2000) (Order Approving Options Intermarket Linkage Plan) (File No. 4-429).

<sup>6</sup> Neither SAM nor FLEX SAM functionality is currently activated for auctions on the Exchange. See RG14-076 (Deactivation of the Solicitation Auction Mechanism (SAM) (May 16, 2014); see also notes 7 and 8, infra.

Order with the solicited order.<sup>7</sup> Pursuant to Rule 6.74B(b)(2)(A)(I), the Agency Order will be executed against the solicited order at the proposed execution price, provided that, among other things, the execution price must be equal to or better than the CBOE best bid or offer (“BBO”).<sup>8</sup> If the execution would take place outside the BBO, the Agency Order and solicited order will be cancelled.<sup>9</sup>

Although TPHs are subject to the Exchange’s Order Protection Rule 6.81 and thus, prevented from trading through the displayed national best bid and offer (“NBBO”), including within the context of SAM auctions, Rule 6.74B does not specifically require Initiating TPHs to stop Agency Orders at or within the NBBO or expressly prohibit Agency Orders from being executed against solicited orders at prices outside the NBBO.<sup>10</sup> In addition, current Rule 6.74B does not specify whether the Agency Order may be executed against a solicited order priced at or within the BBO as of the time that the Agency Order is received in the Exchange’s order handling system (“OHS”), as of the time of the beginning of the auction (i.e. the time when requests for responses (“RFRs”) are sent), or as of the time of execution.<sup>11</sup> Accordingly, the Exchange is proposing to make several clarifying amendments to Rule 6.74B to require that

---

<sup>7</sup> See also Rules 24B.5B(a)(2) and (b)(1)(i).

<sup>8</sup> See also Rule 24B.5B(b)(3)(i)(A).

<sup>9</sup> See Rule 6.74(b)(2)(A)(I); see also Rule 24B.5B(b)(3)(i)(A).

<sup>10</sup> Notably, the Exchange’s other auction rules expressly provide that Initiating TPHs must stop Agency Orders at or within the NBBO and prohibit Agency Orders from being executed against solicited orders at prices outside the NBBO. See Rule 6.74A(a)(3), (b)(1)(A), (b)(3)(D) (Automated Improvement Mechanism (“AIM”).

<sup>11</sup> SAM auction functionality has been deactivated since May 20, 2014. See RG14-076 (Deactivation of the Solicitation Auction Mechanism (SAM) (May 16, 2014). Prior to May 20, 2014, SAM auction prices were checked against the BBO at the time that the Agency Order was received for auction processing in the OHS.

Agency Orders be stopped and executed at or within the NBBO and to define when the NBBO will be looked at for purposes of order protection during the SAM auction process.<sup>12</sup>

Specifically, the Exchange is proposing to amend Rules 6.74B(a)(2), 6.74B(b)(1)(A), and 6.74B(b)(2)(A)(I) to provide that Agency Orders submitted into SAM must be stopped with a solicited order priced at or within the national best bid or offer (“NBBO”) as of the time of the initiation of the Auction (i.e. the time that the Agency Order is received for SAM auction processing in the OHS) (the “initial auction NBBO”) and that Agency Orders that are submitted for electronic execution into SAM must be executed at a price at or better than the initial auction NBBO.<sup>13</sup> Agency Orders paired against solicited orders priced outside of the NBBO that are submitted for electronic execution into SAM would be rejected by the OHS and cancelled by the Exchange.

The Exchange believes that requiring SAM orders to be stopped and executed at a price equal to, or better than, the NBBO as of the time of receipt of the Agency Order in the OHS is consistent with the Order Protection Rule 6.81. As proposed, the range of permissible crossing prices and executions would be defined based on a snapshot of the market at the time when the Agency Order is received.<sup>14</sup> This proposed rule change would thus, make clear that although the NBBO may update during the SAM auction response time (currently SAM auctions last one

---

<sup>12</sup> Consistent with these objectives, effective May 20, 2014, the Exchange deactivated SAM. Any future reactivation of SAM will be announced via Regulatory Circular prior to reactivation. See RG14-076 (Deactivation of the Solicitation Auction Mechanism (SAM) (May 16, 2014).

<sup>13</sup> The Exchange’s proposal to consider the NBBO as of the time that the Agency Order is received in the OHS for purposes of the entire auction period (i.e. 1 second) is consistent with the exception to the Exchange’s Order Protection Rule in Rule 6.81(b)(8).

<sup>14</sup> See id.

second),<sup>15</sup> the initial auction NBBO would be considered the NBBO for SAM auction execution purposes. Accordingly, a SAM order execution outside of the NBBO would not violate the Order Protection Rule if the execution price were within the NBBO that existed when the Agency Order was received in the OHS. The Exchange believes that the proposed rule changes would promote consistency within the Rules and across the Exchange's various auction procedures.<sup>16</sup> The Exchange also believes that the proposed rule changes would further the interests of investors and market participants by helping to ensure best executions and protection of bids and offers across multiple exchanges.

The following example demonstrates how the Exchange's proposal would provide an additional layer of order protection within the Rules. Assume that the NBBO for a particular option is \$1.00 – \$1.20 with quotes on both sides for 100 contracts each. The CBOE BBO is \$0.95 – \$1.25. An Initiating TPH submits an Agency Order to buy 500 contracts against a solicited order to sell 500 contracts into SAM priced at \$1.21. An RFR is transmitted to TPHs that have elected to receive auction messages without any response. In this case, under current Rule 6.74B(b)(2)(A), the Agency Order would be executable against the solicited order because the execution price of \$1.21 improves the CBOE best offer price of \$1.25. Such execution, however, would be in violation of Rule 6.81 because the Agency Order would have been executed outside of the NBBO of \$1.00 – \$1.20. The Exchange proposes to remedy this inconsistency in the Rules by changing references to the BBO to NBBO and defining the term "initial auction NBBO" to mean priced at or within the NBBO as of the time of the initiation of the Auction (i.e. the time that the Agency Order is received in the OHS). Under the Exchange's

---

<sup>15</sup> See Rule 6.74B(b)(1)(C); see also Rule 24B.5B(b)(1)(iii).

<sup>16</sup> The Exchange also notes that the proposed order protection rule changes are consistent with similar electronic price improvement auction rules of other exchanges. See, e.g., BOX Rule 7270(b)(2)(i) (Block Trades).



proposal, the Agency Order would be rejected by the OHS and cancelled by the Exchange because, at the time when the Agency Order to buy 500 contracts priced at \$1.21 was received in the OHS, the solicited would have been outside of the NBBO of \$1.00 – \$1.20.

The Exchange's proposal would not, however, change the priority of public customer orders resting in the book. Assume again that the NBBO for a particular option is \$1.00 – \$1.20 with quotes on both sides for 100 contracts each. Assume this time, however, that there is also a public customer order to sell 50 contracts resting in the book at \$1.20. The CBOE BBO is \$0.95 – \$1.20. An Initiating TPH submits an Agency Order to buy 500 contracts against a solicited order to sell 500 contracts into SAM priced at \$1.20. An RFR is transmitted to TPHs that have elected to receive auction messages with a single response to sell 150 contracts also at \$1.20. In this case, under both current Rule 6.74B(b)(2)(A) and the proposed rule changes, because there is a public customer order resting in the book on the opposite side of the Agency Order at the proposed price without sufficient size (considering all resting orders (i.e. 50), electronic quotes (i.e. 100), and responses (i.e. 150) ( $50 + 100 + 150 = 300$ )), both the Agency Order and solicited order would be cancelled.<sup>17</sup>

The Exchange also proposes to amend Rules 6.74B(b)(1)(B) and 24B.5B(b)(1)(ii) to further make clear that upon receiving a properly designated Agency Order for SAM or FLEX SAM Auction processing, the Exchange's RFR message would indicate the price, side, and size of the Agency Order that the Initiating TPH is seeking to cross. Rules 6.74B(b)(1)(B) and

---

<sup>17</sup> See Rule 6.74B(b)(2)(A). Note, however, that in this example, under both the current and proposed rules, had the resting order in the book to sell 50 contracts at \$1.20 been a Market-Maker quote or order rather than a public customer order, the Agency Order to buy 500 contracts would trade against the solicited order at \$1.20 because there would not have been a public customer order in the book on the opposite side of the Agency Order and there would have been insufficient size to execute the Agency Order at a price equal to, or better than, the initial auction NBBO. See Rules 6.74B(b)(2)(A)(II) – (III).

24B.5B(b)(1)(ii) both currently provide that the Exchange will send an RFR message to all TPHs that have elected to receive such messages, indicating the price and size of the Agency Order that the Initiating TPH is seeking to cross, but neither Rule 6.74B(b)(1)(B) or 24B.5B(b)(1)(ii) currently specify that the RFR will also indicate the side (i.e. buy v. sell) of the Agency Order that the Initiating TPH is seeking to cross.<sup>18</sup> In order to add additional clarity to the Rules and in an effort to minimize confusion among market participants, the Exchange proposes to add the “side” indication requirement to the SAM auction rules. The Exchange believes that the proposed changes will provide additional clarity regarding the Exchange’s SAM auction processes and reduce the potential for confusion in the Rules.

## 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>19</sup> Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>20</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

---

<sup>18</sup> The Exchange’s other auction rules require the side of the Agency Order to be indicated in the RFR. See, e.g., Rule 6.74A(b)(1)(B), Automated Improvement Mechanism, which provides that the Initiating TPH must expressly disclose the side of the Agency Order that it seeks to cross. (“When the Exchange receives a properly designated Agency Order for Auction processing, a Request for Responses (“RFR”) detailing the side and size of the order will be sent to all Trading Permit Holders that have elected to receive RFRs.” Emphasis added.) Although not expressly stated in the Rules, prior to May 20, 2014, the Exchange’s SAM RFR messages indicated the side of the Agency Order that the Initiating TPH sought to cross.

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

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

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>21</sup> 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 changes would ensure further consistency within the Exchange's Rules. The Exchange also believes that the proposed rule changes would further the objectives of the Act to protect investors by promoting the intermarket price protection goals of the Exchange's Order Protection Rule 6.81 and the Options Intermarket Linkage Plan.<sup>22</sup> The Exchange believes its proposal would help ensure intermarket competition across all exchanges, aid in preventing intermarket trade-throughs, and facilitate compliance with best execution practices. The Exchange believes that these objectives are consistent with the Act and the rules and regulations thereunder applicable to the Exchange and, in particular, the requirements of Section 11A of the Act. In addition, the Exchange believes that the proposed rule changes will clarify the manner in which orders are submitted into the SAM auction process and reduce the potential for confusion in the Rules. The Exchange believes that providing additional clarity to its Rules furthers the goal of promoting transparency in markets, which is in the best interests of market participants and the general public and 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.

---

<sup>21</sup> Id.

<sup>22</sup> See generally Securities and Exchange Act Release No. 34-43086 (July 28, 2000), 65 FR 48023 (August 4, 2000) (Order Approving Options Intermarket Linkage Plan) (File No. 4-429).

Rather, the Exchange believes that the proposed rule would bolster intermarket competition by promoting fair competition among individual markets, while at the same time assuring that market participants receive the benefits of markets that are linked together, through facilities and rules, in a unified system, which promotes interaction among the orders of buyers and sellers. The Exchange believes its proposal would help ensure intermarket competition across all exchanges, aid in preventing intermarket trade-throughs, and facilitate compliance with best execution practices. In addition, the Exchange believes that the proposed rule change would help promote fair and orderly markets by helping to ensure compliance with the Order Protection Rule. Thus, the Exchange does not believe the proposal creates any significant impact on competition.

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 (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>23</sup> and Rule 19b-4(f)(6) thereunder.<sup>24</sup>

---

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

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

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission will institute proceedings to determine whether the proposed rule change should be approved or disapproved.

#### IV. Solicitation of Comments

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

##### Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-CBOE-2015-031 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-2015-031. 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-2015-031 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>

Brent J. Fields  
Secretary

---

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