

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-74937; File No. SR-CBOE-2015-046)

May 12, 2015

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to The Customized Option Pricing Service

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 May 1, 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 and II 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

Chicago Board Options Exchange, Incorporated (the “Exchange” or “CBOE”) proposes to amend the terms of the Customized Option Pricing Service (“COPS”). The text of the proposed rule change is 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

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

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

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 purpose of the proposed rule change is to amend the terms of the Exchange’s COPS,<sup>3</sup> specifically, the COPS data revenue-sharing plan. The Exchange is not proposing to change the fees for COPS data.

Background

COPS provides market participants with an “end-of-day”<sup>4</sup> file and “historical”<sup>5</sup> files of valuations for Flexible Exchange (“FLEX”)<sup>6</sup> options and certain over-the-counter (“OTC”) options (collectively, “COPS Data”). Market Data Express, LLC (“MDX”), an

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<sup>3</sup> See Securities Exchange Act Release No. 67813 (September 10, 2012), 77 FR 56903 (September 14, 2012) (SR-CBOE-2012-083), Securities Exchange Act Release No. 67928 (September 26, 2012), 77 FR 60161 (October 2, 2012) (SR-CBOE-2012-090), Securities Exchange Act Release No. 70705 (October 17, 2013), 78 FR 63265 (October 23, 2013) (SR-CBOE-2013-097), Securities Exchange Act Release No. 70845 (November 12, 2013), 78 FR 69168 (November 18, 2013) (SR-CBOE-2013-104), Securities Exchange Act Release No. 72621 (July 16, 2014), 79 FR 42616 (July 22, 2014) (SR-CBOE-2014-057) and Securities Exchange Act Release No. 74159 (January 28, 2015), 80 FR 5863 (February 23, 2015) (SR-CBOE-2015-007).

<sup>4</sup> “End of day” refers to data that is distributed prior to the opening of the next trading day.

<sup>5</sup> “Historical” COPS data consists of COPS data that is over one month old (i.e., copies of the “end-of-day” COPS file that are over one month old).

<sup>6</sup> FLEX options are exchange traded options that provide investors with the ability to customize basic option features including size, expiration date, exercise style, and certain exercise prices.

affiliate of CBOE, offers COPS Data for sale to all market participants. COPS Data is available to “Subscribers” for internal use and internal distribution only, and to “Customers” who, pursuant to a written vendor agreement between MDX and a Customer, may distribute the Data externally (i.e., act as a vendor) and/or use and distribute the Data internally.

COPS Data consists of indicative<sup>7</sup> values for four categories of “customized” options. The first category of options is all open series of FLEX options listed on any exchange that offers FLEX options for trading.<sup>8</sup> The second category is OTC options that have the same degree of customization as FLEX options. The third category includes options with strike prices expressed in percentage terms. Values for such options are expressed in percentage terms and are theoretical values.<sup>9</sup> The fourth category includes “exotic” options.<sup>10</sup>

The Exchange uses values produced by CBOE Trading Permit Holders (“TPHs”) to produce COPS Data. Participating CBOE TPHs submit values to MDX on options

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<sup>7</sup> “Indicative” values are indications of potential market prices only and as such are neither firm nor the basis for a transaction.

<sup>8</sup> Current FLEX options open interest spans over 2,000 series on over 300 different underlying securities.

<sup>9</sup> These values are theoretical in that they are indications of potential market prices for options that have not traded (i.e. do not yet exist). Market participants sometimes express option values in percentage terms rather than in dollar terms because they find it is easier to assess the change, or lack of change, in the marketplace from one day to the next when values are expressed in percentage terms.

<sup>10</sup> Exotic options are options which are generally traded OTC and are more complex than standard options, usually relating to determination of payoff. An exotic option may also include a non-standard underlying instrument, developed for a particular client or for a particular market.

series specified by MDX on a daily basis. These values are generated by the TPH's internal pricing models. The valuations that MDX ultimately publishes are an average of multiple contributions of values from participating CBOE TPHs. For each value provided by MDX through COPS, MDX includes a corresponding indication of the number of TPH contributors that factored into that value.

CBOE TPHs that meet the following objective qualification criteria are allowed to contribute values to MDX for purposes of producing COPS Data. Interested CBOE TPHs must be approved by the Exchange, have the ability to provide valuations to MDX in a timely manner each day after the close of trading, and sign a services agreement with CBOE. Interested CBOE TPHs must also have the ability to provide both indicative and implied volatility valuations on several different types of options, including (i) options on all open FLEX series traded on any exchange that offers FLEX options for trading, (ii) options on any potential new FLEX options series, (iii) OTC options that have the same degree of customization as FLEX options, (iv) customized options where the strike price is expressed in percentage terms (the valuations provided to MDX must also be expressed in percentage terms), and (v) exotic options. In addition, interested CBOE TPHs must participate in a testing phase with MDX. The values submitted by a TPH during the testing phase and in live production must meet MDX's quality control standards designed to ensure the integrity and accuracy of COPS Data. MDX has implemented procedures including monthly performance reviews to help ensure the integrity and accuracy of COPS Data.

To help ensure that MDX receives numerous values from multiple TPHs on a consistent basis, MDX shares revenue from the sale of COPS Data with participating

CBOE TPHs.<sup>11</sup> The amount of revenue that MDX shares with participating TPHs is a percentage of the total revenue received by MDX from the sale of COPS Data. The revenue sharing is based on the following table:

<u># of participating TPHs</u>	<u>Total revenue share</u>	<u>Revenue share per TPH</u>
3	21%	7%
4	24%	6%
5 or more	30%	30% divided by the number of participating TPHs

If only three TPHs participate, MDX shares 21% of total revenue with each TPH receiving a 7% share. If four TPHs participate, MDX shares 24% of total revenue with each TPH receiving a 6% share. If five or more TPHs participate, MDX shares 30% of total revenue divided equally among the TPHs. There are currently five participating TPHs.

In July 2014, the Exchange submitted a proposed rule change to, among other things, temporarily change the COPS contributor compensation structure from a revenue sharing plan to a fixed payment structure for a six month period (“Fixed Payment Period”).<sup>12</sup> MDX has now transitioned back to the revenue sharing plan described herein. If COPS revenue exceeds \$2,000,000 in a calendar year, the percentage of total COPS revenue shared with TPH contributors will increase from 30% to 32% if a new

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<sup>11</sup> The fees that MDX charges for COPS Data are set forth on the Price List on the MDX website ([www.marketdataexpress.com](http://www.marketdataexpress.com)). MDX currently charges a fee per option per day for “end-of-day” COPS data. The amount of the fee is reduced based on the number of options valuations purchased.

<sup>12</sup> See Securities Exchange Act Release No. 72621 (July 16, 2014), 79 FR 42616 (July 22, 2014) (SR-CBOE-2014-057) (“COPS Enhancements Rule Filing”).

contributor is added to COPS.<sup>13</sup> In subsequent years, if the previous calendar year's COPS revenue increases by \$1,000,000 or more, the percentage of total COPS revenue shared with contributors will increase by 2% if an additional contributor is added to COPS. The total number of COPS contributors is limited to fifteen.

### Proposal

The Exchange proposes to change the COPS contributor compensation structure for the remainder of 2015.<sup>14</sup> All revenue from the sale of COPS Data would be paid to COPS contributors for the remainder of 2015 (including accrued revenue during the now expired Fixed Payment Period). The revenue would be divided equally among COPS contributors. The Exchange had hoped that at the conclusion of the Fixed Payment Period, COPS revenue would be at a level such that the COPS contributors would receive a revenue share roughly in line with the fixed payments they received during the Fixed Payment Period. This has not yet occurred. The proposed payments are intended to, at a minimum, help COPS contributors cover their costs of producing valuations for COPS while the Exchange continues to grow the COPS business. MDX would transition back to the revenue share plan described above on January 1, 2016.

## 2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the Securities Exchange Act of 1934 (the "Act") and the rules and regulations thereunder applicable to

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<sup>13</sup> The addition of new contributors is accomplished through a try out mechanism. See COPS Enhancements Rule Filing.

<sup>14</sup> The Exchange is not proposing to eliminate the revenue share plan, only to suspend it temporarily as described herein.

the Exchange and, in particular, the requirements of Section 6(b) of the Act.<sup>15</sup> Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>16</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>17</sup> requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The Exchange believes the proposed rule change is not designed to permit unfair discrimination between CBOE TPHs because all COPS data revenue would be divided equally among TPH contributors for the remainder of 2015. The Exchange believes the proposed rule change is consistent with the protection of investors and the public interest in that it would provide incentive for all of the COPS contributors to continue to participate in COPS while the Exchange continues to grow the COPS business, thereby helping to maintain the quality of COPS Data.

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

<sup>16</sup> 15 U.S.C. 78f(b)(5).

<sup>17</sup> Id.

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. To the contrary, the Exchange believes the proposal is procompetitive in that it will incentivize COPS TPH contributors to continue producing quality valuations to help keep COPS competitive with other similar market data products.<sup>18</sup>

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

Because the foregoing rule 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 if consistent with the protection of investors and the public interest, provided that the self-regulatory organization has given the Commission written notice of its intent to file 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,<sup>19</sup> the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>20</sup> and Rule 19b-4(f)(6) thereunder.<sup>21</sup>

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<sup>18</sup> Market data vendors including SuperDerivatives, Markit, Prism, and Bloomberg’s BVAL service produce option value data that is similar to COPS Data. The Options Clearing Corporation (“OCC”) also produces FLEX option value data that is similar to the FLEX option value data that is included in COPS.

<sup>19</sup> The Exchange has fulfilled this requirement.



A proposed rule change filed under Rule 19b-4(f)(6)<sup>22</sup> normally does not become operative prior to 30 days after the date of the filing. However, pursuant to Rule 19b-4(f)(6)(iii),<sup>23</sup> the Commission may designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange has asked the Commission to waive the 30-day operative delay so that the proposal may become operative immediately upon filing. The Exchange believes that the proposal is consistent with the protection of investors and the public interest because it help COPS contributors cover their costs of producing valuations for COPS while the Exchange continues to grow the COPS business, and thereby assist the Exchange with maintaining its current roster of TPH contributors. The Commission agrees and has determined to waive the 30-day operative date so that the proposal may take effect upon filing.<sup>24</sup>

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.

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<sup>20</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>21</sup> 17 CFR 240.19b-4(f)(6).

<sup>22</sup> 17 CFR 240.19b-4(f)(6).

<sup>23</sup> 17 CFR 240.19b-4(f)(6)(iii).

<sup>24</sup> For purposes only of accelerating the operative date of this proposal, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

#### 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-2015-046 on the subject line.

##### Paper comments:

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

All submissions should refer to File Number SR-CBOE-2015-046. 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 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-2015-046 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>

Robert W. Errett  
Deputy Secretary

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