SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-76672; File No. SR-CBOE-2015-113)

December 17, 2015

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

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),[1] and Rule 19b-4 thereunder,[2] notice is hereby given that, on December 8, 2015, Chicago Board Options Exchange, Incorporated (the "Exchange" or "CBOE") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II and III below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Exchange proposes to amend Rule 6.23C related to the Exchange's Technical Disconnect Mechanism. The text of the proposed rule change is provided below.

(additions are underlined; deletions are [bracketed])

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**Chicago Board Options Exchange, Incorporated
Rules**

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Rule 6.23C Technical Disconnect

(a) When a CBOE Application Server ("CAS") loses communication with a Client Application such that a CAS does not receive an appropriate response to a Heartbeat Request within "x" period of time, the Technical Disconnect Mechanism will automatically logoff the Trading Permit Holder's affected Client Application and automatically cancel all the Trading Permit

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

[2]   17 CFR 240.19b-4.

Holder's Market-Maker quotes, if applicable, and open orders with a time-in-force of "day" resting in the Book (which excludes orders resting on a PAR workstation or order management terminal) ("day orders"), if the Trading Permit Holder enables that optional service, posted through the affected Client Application. The following describes how the Technical Disconnect Mechanism works for each of the Exchange's application programming interfaces ("APIs"):

(i) – (ii) No change.

(b) – (c) No change.

...Interpretations and Policies:

.01 No change.

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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 Statutory Basis
                 for, the Proposed Rule Change

                 1.   Purpose

Rule 6.23C(a) provides that when a CBOE Application Server ("CAS")[3] loses

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[3]   CBOE currently has numerous CASs serving TPHs.

communication with a Client Application[4] such that a CAS does not receive an appropriate

response to a Heartbeat Request[5] within "x" period of time, the Technical Disconnect

Mechanism will automatically logoff the Trading Permit Holder's ("TPH") affected Client

Application. If that occurs, the current rule provides that the Technical Disconnect Mechanism,

if applicable, will automatically cancel all the TPH's Market-Maker quotes posted through the

affected Client Application.[6] The Technical Disconnect Mechanism is intended to help mitigate

the potential risks associated with a loss of communication with a Client Application, such as

erroneous or unintended executions for stale quotes that are resting in the CBOE book. This

mechanism serves to assist a TPH when a technical or system issue occurs, as well as assist the

Exchange in maintaining a fair and orderly market.

Recently, the Exchange amended Rule 6.23C related to the Technical Disconnect

Mechanism to provide TPHs with an optional service that, if enabled by a TPH, will cause the

Technical Disconnect Mechanism to also automatically cancel all the TPH's open orders with a

time-in-force of "day" ("day orders") posted through the affected Client Application if the CAS

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[4]   For relevant purposes, a "Client Application" is the system component, such as a CBOE-supported workstation or a TPH's custom trading application, through which a TPH communicates its quotes and/or orders to a CAS. Messages are passed between a Client Application and a CAS. A Market-Maker may send quotes to the Exchange from one or more Client Applications, and a TPH may send orders to the Exchange from one or more Client Applications.

[5]   A "Heartbeat Request" refers to a message from a CAS to a Client Application to check connectivity and which requires a response from the Client Application in order to avoid logoff. The Heartbeat Request acts as a virtual pulse between a CAS and a Client Application and allows a CAS to continually monitor its connection with a Client Application. Failure to receive a response to a Heartbeat Request within the Heartbeat Response Time is indicative of a technical or system issue.

[6]   See Rule 6.23C and Securities Exchange Act Release No. 34-70039 (July 25, 2013), 78 FR 46395 (July 31, 2013) (SR-CBOE-2013-071) for further information regarding the Technical Disconnect Mechanism.

loses communication with the Client Application.[7] This optional service is an additional

preventative risk control measure that CBOE is making available to TPHs. It is intended to help

further mitigate the potential risks associated with a loss of communication with a TPH's Client

Application. If a TPH's Client Application is disconnected for any period of time, it is possible

that market conditions upon which it based its day orders may change during that time and make

those orders stale. Consequently, any resulting executions of those orders may be erroneous or

unintended.

The proposed rule change provides that this optional service will automatically cancel

open orders with a time-in-force of day that are resting on the book, but not resting on a PAR

workstation or order management terminal ("OMT").[8] A TPH's day orders resting in the book

may automatically execute against incoming quotes or orders and are thus subject to the risk of

potential erroneous or unintended executions if the CAS loses communication with the TPH's

Client Application, which risk the optional service is intended to mitigate. However, the TPH's

day orders resting on a PAR workstation or OMT are subject to manual handling by a broker,

agent or PAR official, as applicable, and are not subject to automatic execution against incoming

quotes or orders. This manual handling mitigates the risk of potential erroneous or unintended

executions of those orders, even during a time when the TPH is disconnected from the CAS, as

an individual can determine how to handle the orders in accordance with CBOE's rules. The

Exchange believes it is appropriate to have the Technical Disconnect Mechanism cancel only

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[7] See Securities Exchange Act Release No. 34-76489 (November 20, 2015), 80 FR 74149 (November 27, 2015) (SR-CBOE-2015-103). The Exchange has not yet implemented this optional service and will announce the implementation date of the service, including the proposed rule change, by Regulatory Circular.

[8] See Rule 6.12 regarding CBOE's hybrid order handling system, including when orders may be routed to a PAR workstation or OMT via the order handling system.

day orders resting on the book but not day orders resting on a PAR workstation or OMT terminal, since manual handling of those orders has already mitigated the applicable risk.

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 the Exchange and, in particular, the requirements of Section 6(b) of the Act.[9] Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)[10] 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)[11] requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

In particular, the proposed rule change helps maintain a fair and orderly market, promotes efficiency and protects investors. While the optional service to have the Technical Disconnect Mechanism cancel a TPH's day orders mitigates the risks of potential erroneous or unintended executions of those orders associated with a loss in communication with a Client Application, those risks have already been mitigated for day orders resting on a PAR workstation or OMT that are subject to manual handling. Thus, the Exchange believes it is reasonable to not have the

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[9]   15 U.S.C. 78f(b).

[10]   15 U.S.C. 78f(b)(5).

[11]   Id.

Technical Disconnect Mechanism cancel those orders and instead allow the broker, agent or PAR Official, as applicable, to handle those orders as the individual deems appropriate in accordance with CBOE's rules. The Exchange also believes that the proposed rule change is designed to not permit unfair discrimination among market participants, as it applies to all TPHs in the same manner. The Exchange believes it is appropriate to apply this optional cancellation functionality to day orders only resting on the book and not day orders resting on a PAR workstation or OMT, because the latter orders are not subject to the same risks of potential erroneous or unintended executions as the former orders.

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. Specifically, the Exchange does not believe the proposed rule change will cause any burden on intramarket competition because the proposed rule change applies to all TPHs in the same manner. Use of the service to cancel day orders resting on the book in the event the CAS loses communication with a Client Application is voluntary. Additionally, whether a TPH enables the optional service or not, the TPH's day orders resting on a PAR workstation or OMT will continue to be manually handled as they are today, even if the CAS loses communication with a TPH's Client Application. The Exchange believes it is appropriate to apply this optional cancellation functionality to day orders resting only on the book and not on a PAR workstation or OMT, because, as discussed above, those orders are not subject to the same risks of potential erroneous or unintended executions as the orders resting on the book. Further, the Exchange does not believe that such change will impose any burden on intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act. The proposed rule change

modifies a mechanism available on CBOE's system and applies only to orders resting in CBOE's 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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A) of the Act[12] and paragraph (f) of Rule 19b-4[13] 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

- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-CBOE-2015-113 on the subject line.

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[12]   15 U.S.C. 78s(b)(3)(A).

[13]   17 CFR 240.19b-4(f).

<u>Paper Comments</u>:

- 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-2015-113. 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-2015-113 and should be submitted on or before [insert date 21 days

from publication in the <u>Federal</u> <u>Register</u>].

        For the Commission, by the Division of Trading and Markets, pursuant to delegated

authority.[14]

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Robert W. Errett
Deputy Secretary
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[14]   17 CFR 200.30-3(a)(12).