SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-76857; File No. SR-CBOE-2016-003]

January 8, 2016

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Related to Limit Order Price Protections for Stock-option Orders

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"),[1] and Rule 19b-4 thereunder,[2] notice is hereby given that on January 5, 2016, 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[3] and Rule 19b-4(f)(6) thereunder.[4] 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 seeks to amend Exchange rules related to limit order price protections for stock-option orders. The text of the proposed rule change is provided below.

(additions are italicized; deletions are [bracketed])

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Chicago Board Options Exchange, Incorporated
Rules

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

2 17 CFR 240.19b-4.

3 15 U.S.C. 78s(b)(3)(A)(iii).

4 17 CFR 240.19b-4(f)(6).

Rule 6.12. CBOE Hybrid Order Handling System

This rule describes the process for routing orders through the Exchange's order handling system in classes designated for trading on the CBOE Hybrid System. The order handling system is a feature within the Hybrid System to route orders for automatic execution, book entry, open outcry, or further handling by a broker, agent, or PAR Official, in a manner consistent with Exchange Rules and the Act (e.g., resubmit the order to the Hybrid System for automatic execution, route the order from a booth to a PAR workstation, cancel the order, contact the customer for further instructions, and/or otherwise handle the order in accordance with Exchange Rules and the order's terms.).

(a) Orders may route through the order handling system for electronic processing in the Hybrid System or to a designated order management terminal or PAR Workstation in any of the circumstances described below. Routing designations may be established based on various parameters defined by the Exchange, order entry firm or Trading Permit Holder, as applicable.

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(5) Limit Order Price Parameter for Stock-Option Orders: Limit orders received after a series is opened will be cancelled if the order is priced at a net debit that is more than an acceptable tick distance above the opposite side derived net market using the Exchange's best bid or offer in the individual series leg and the national best bid or offer of the stock component comprising the stock-option order or the order is priced at a net credit that is more than an acceptable tick distance below the opposite side derived net market based on the Exchange's best bid or offer in the individual series leg and the national best bid or offer of the stock component comprising the stock-option order.

For purposes of this subparagraph (a)(5): An "acceptable tick distance" (which is also referred to as an "ATD"), as determined by the Exchange on a class by class and net premium basis and announced to the Trading Permit Holders via Regulatory Circular, shall be no less than 5 minimum net price increment ticks for stock-option orders. The Exchange may determine on a class by class basis and announce via Regulatory Circular whether to apply paragraph (a)(5) to immediate-or-cancel complex orders. The limit order price parameter will take precedence over another routing parameter to the extent that both are applicable to an incoming limit order.

[(5)] (6) Direct Routing: Orders may route directly from an order entry firm for electronic processing or to an order management terminal or a PAR workstation based on parameters prescribed by the order entry firm.

[(6)] (7) System Disruptions or Malfunctions: Orders will route to an order management terminal designated by the order entry firm or Trading Permit Holder, or a terminal designated and maintained by the Exchange as a back-up to order entry firms' and Trading Permit Holders' designated order management terminals, in the event of certain system disruptions or malfunctions that affect the ability of orders to reach or be processed at their intended designation.

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...Interpretations and Policies:

.01 For purposes of subparagraphs (a)(3), [and] (4) and (5): the senior official on the Exchange Help Desk or two Floor Officials may grant intra-day relief by widening or inactivating one or more of the applicable ATD parameter settings in the interest of a fair and orderly market.

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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

The Exchange is proposing to amend Rule 6.12—CBOE Hybrid Order Handling System in order to institute limit order price protections for stock-option orders.

Background

The CBOE Hybrid System[5] is a trading platform that allows automatic executions to

5 The CBOE "Hybrid System" or "Hybrid Trading System" refers to the Exchange's trading platform that allows Market-Makers to submit electronic quotes in their appointed classes. 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. Classes authorized by the Exchange for trading on the Hybrid Trading System shall be

occur electronically and open outcry trades to occur on the floor of the Exchange. To operate in this "hybrid" environment, the Exchange has made available to Trading Permit Holders ("TPHs") a dynamic order handling system, also referred herein as OHS, that has the capability to route orders to the Hybrid System for automatic execution and book entry, to PAR workstations located in the trading crowds for open outcry and other manual handling by TPHs and Exchange PAR Officials, and/or to other order management terminals generally located in booths on the trading floor for manual handling. Where an order is routed for processing by the Exchange order handling system depends on various parameters configured by the Exchange and the order entry firm itself. Thus, the OHS provides TPHs with some flexibility to determine how to process their orders in the CBOE Hybrid System.

In February 2015, the Exchange adopted Rule 6.12 to, among other things, describe existing OHS operations.[6] One of the operations described in Rule 6.12 is the Exchange's limit order price parameter for complex orders.[7] The limit order price parameter is a price protection parameter that helps mitigate potential risks associated with orders executing at potentially erroneous prices. However, the limit order price parameter applied to complex orders does not apply to stock-option orders.[8]

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referred to as Hybrid classes. Classes authorized by the Exchange for trading on the Hybrid 3.0 Platform shall be referred to as Hybrid 3.0 classes. References to "Hybrid," "Hybrid System," or "Hybrid Trading System" in the Exchange's Rules shall include all platforms unless otherwise provided by rule. See, e.g., Rule 1.1(aaa).

6 Securities Exchange Act Release No. 74351 (February 23, 2015), 80 FR 10738 (February 27, 2015) (SR-CBOE-2015-021).

7 See Rule 6.12(a)(4).

8 Rule 6.12(4)(i) and (ii) explicitly excludes stock-option orders from the limit order price protections applicable to complex orders.

Proposal

The Exchange seeks to adopt limit order price protections applicable to stock-option orders. To that end, the Exchange proposes to add the following provisions to Rule 6.12:

- Limit Order Price Parameter for Stock-Option Orders: Limit orders received after a series is opened will be cancelled[9] if the order is priced at a net debit that is more than an acceptable tick distance above the opposite side derived net market using the Exchange's best bid or offer in the individual series leg and the national best bid or offer of the stock component comprising the stock-option order or the order is priced at a net credit that is more than an acceptable tick distance below the opposite side derived net market based on the Exchange's best bid or offer in the individual series leg and the national best bid or offer of the stock component comprising the stock-option order.[10] For purposes of this subparagraph (a)(5): An "acceptable tick distance" (which is also referred to as an "ATD"), as determined by the Exchange on a class by class and net premium basis and announced to the Trading Permit Holders via Regulatory Circular, shall be no less than 5 minimum net price increment ticks for stock-option orders.[11] The Exchange

9 Although the current limit order price check parameter for simple and complex orders provides that orders not meeting the price check parameter are routed to an order management terminal ("OMT"), the Exchange believes market participants prefer such orders not be routed to an OMT. The Exchange also believes order entry firms have sophisticated technology that allows the firms to manage their orders, including orders rejected or cancelled by the Exchange. The proposal essentially provides that an order may be cancelled and sent back to the order entry firm's order management system instead of the Exchange's order management system (i.e., OMT).

10 The Exchange notes that this proposal does not affect stock-option orders entered prior to the opening of a series (including before a series is opened following a halt). Stock-option orders entered prior to the opening of a series (including before a series is opened following a halt) are entered into the complex order book and do not flow through this limit order price protection after the series is opened.

11 See CBOE Regulatory Circular RG13-145 for the current price check parameters, which is available at http://www.cboe.com/publish/RegCir/RG13-145.pdf. The senior official in the Help Desk or two Floor Officials may also widen or inactivate one or more of these price check parameters on an intra-day basis in the interest of a fair and orderly market.

may determine on a class by class basis and announce via Regulatory Circular whether to apply paragraphs (a)(5) to immediate-or-cancel complex orders. The limit order price parameter will take precedence over another routing parameter to the extent that both are applicable to an incoming limit order. In addition, the senior official on the Exchange Help Desk or two Floor Officials may widen or inactivate the applicable ATD parameter settings on an intra-day basis in the interest of a fair and orderly market.

The Exchange believes this proposal will help the maintenance of fair and orderly markets and help to mitigate potential risks associated with orders executing at potentially erroneous prices.

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.[12] Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)[13] 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

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For example, if an underlying stock is high priced or volatile and is experiencing significant price movement and the existing parameters would result in an inordinate number of limit orders not being accepted, the senior official in the Help Desk may determine to widen the parameters on an intra-day basis in the overlying or related options series. As another example, if the overall market is experiencing significant volatility, the senior official in the Help Desk or two Floor Officials may determine to widen the parameters for a group of series or classes. The Exchange notes that these examples are non-exhaustive and for illustrative purposes only. (For example, see also CBOE Regulatory Circular RG14-019, which is available at http://www.cboe.com/publish/RegCir/RG14-019.pdf and which sets forth limit order price parameters settings for certain option classes on volatility index product settlement days.) The Exchange also notes that it may determine for the parameters to differ among classes and between pre-open and intra-day.

12 15 U.S.C. 78f(b).

13 15 U.S.C. 78f(b)(5).

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)[14] 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 these routing parameters assist with the maintenance of fair and orderly markets and help to mitigate potential risks associated with orders executing at potentially erroneous prices. Furthermore, the Exchange believes the proposed rule change furthers the objective of Section 6(b)(5) of the Act in that it permits the Exchange to address the entry stock-option limit orders that are priced significantly away from the market that may likely have resulted from human or operational error. By being able to quickly and efficiently address orders that likely resulted from such error, the proposed use of the limit order price parameter checks would promote a fair and orderly market. Additionally, by having the flexibility to determine the series or classes where the limit order price parameter checks would be applied (or not applied) and the levels at which the ATD settings would be applied, and to grant relief on an intra-day basis, the Exchange is able to effectively structure and efficiently react to particular option characteristics and market conditions - including (without limitation) price, volatility, and significant price movements - which contributes to its ability to maintain a fair and orderly market. Accordingly, the Exchange believes that this proposal is designed to promote just and equity principles of trade, remove impediments to, and perfect the mechanism of, a free and open market.

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14 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. The Exchange believes that the proposed rule change will promote competition in that the routing parameters assist with the maintenance of a fair and orderly market and help to mitigate potential risks associated with orders executing at potentially erroneous prices. The Exchange believes this, again, promotes fair and orderly markets, as well as assists the Exchange in its ability to effectively attract order flow and liquidity to its market, and ultimately benefits all CBOE TPHs and all investors. 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 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[15] and Rule 19b-4(f)(6)[16] 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,

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

16 17 CFR 240.19b-4(f)(6).

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-2016-003 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-2016-003. 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-2016-003 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.[17]

Robert W. Errett
Deputy Secretary

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