SECURITIES AND EXCHANGE COMMISSION
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March 8, 2017

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to Complex Order Price Protections

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 February 23, 2017, 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 Exchange filed the proposal 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 proposes to amend current price protections related to complex orders. 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 1.1. Definitions
When used in these Rules, unless the context otherwise requires:

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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).

(a) – (yyy) No change.

National Spread Market

(zzz) “National spread market” is the derived net market based on the NBBOs in the individual series legs comprising a complex order and, if a stock-option order, the NBBO of the stock leg.

Exchange Spread Market

(aaaa) “Exchange spread market” is the derived net market based on the BBOs in the individual series legs comprising a complex order and, if a stock-option order, the NBBO of the stock leg.

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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.

(1) – (3) No change.

(4) Limit Order Price Parameter for Complex Orders: [Limit orders will route directly from an order entry firm to an order management terminal designated by the order entry firm if]The System rejects back to a Trading Permit Holder a complex limit order with a net debit (credit) price more than a specified amount above (below):

(i) prior to the opening (including during any pre-opening period and opening rotation)[before a series is opened following a halt), the order is priced at a net debit that is more than an acceptable tick distance above] the derived net market using the Exchange’s previous day’s closing[e] prices in the individual series legs comprising the complex order. However, this does not apply[or the order is priced at a net credit that is more than an acceptable tick distance below the derived net market using the Exchange’s previous day’s close in the individual series legs comprising the complex order (this subparagraph is not applicable] to stock-option orders, [or]to orders for the account of Exchange Market-Makers or away Market-Makers[)], or if there is no Exchange previous day’s closing price in any leg; or

(ii) [once a series has opened, the order is priced at a net debit that is more than an acceptable tick distance above]intraday, the opposite side of the national spread [derived net]market. This applies to stock-option orders, but does not apply [using the Exchange's best bid or offer in the individual series legs comprising the complex 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 individual series legs comprising the complex order (this subparagraph is not applicable to stock-option orders)]if the NBBO in any leg is locked, crossed or unavailable or if there is no Exchange spread market.

For purposes of this subparagraph (a)(4),[: An "acceptable tick distance" (which is also referred to as an "ATD"), as determined by] the Exchange determines the amount, which may be no less than $0.02, on a class-[ ]by-[ ]class and net premium basis and announce[d]s the amount to [the]Trading Permit Holders via Regulatory Circular[, shall be no less than 5 minimum net price increment ticks for complex orders]. The Exchange may determine to apply a different amount to orders entered during the pre-opening or a trading rotation. No limit order price parameter applies to complex orders submitted during a halt (including during any pre-opening period and opening rotation prior to re-opening following the halt) or to pairs of orders submitted to AIM and SAM. The [Exchange may determine on a class by class basis and announce via Regulatory Circular whether to apply paragraphs (a)(4)(i) and/or (ii) to immediate-or-cancel complex orders]checks in subparagraphs (i) and (ii) do not apply to complex orders routed from a PAR workstation or order management terminal, or to multi-class spreads. 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) [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.]Reserved.

(6) – (7) No change.

(b) No change.

. . . 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 on any trading day (including prior to opening) by widening or inactivating one or more of the applicable [ATD]amount parameter settings in the interest of a fair and orderly market.

(a) Notification of [intra-day]this relief will be announced as soon as reasonably practical via verbal message to the trading floor, order management terminal message to TPH organizations on the trading floor, and electronic message to Trading Permit Holders that request to receive such messages. Such [intra-day]relief will not extend beyond the trade day on which it is granted, unless a determination to extend such relief is announced to Trading Permit Holders via Regulatory Circular. The Exchange will make and keep records to document all determinations to grant [intra-day]this relief under this Rule, and shall maintain those records in accordance with Rule 17a-1 under the Exchange Act.

(b) The Exchange will periodically review determinations to grant [intra-day]relief on any trading day for consistency with the interest of a fair and orderly market.

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Rule 6.53C. Complex Orders on the Hybrid System

(a) – (c) No change.

(d) Process for Complex Order RFR Auction: Prior to routing to the COB or once on PAR, eligible complex orders may be subject to an automated request for responses ("RFR") auction process.

(i) No change.

(ii) Initiation of a COA:

(A) The System will send an RFR message to all Trading Permit Holders who have elected to receive RFR messages on receipt of (1) a COA-eligible order with two legs (including orders submitted for electronic processing from PAR) that is better than the same side of the [derived net]Exchange spread market or (2) a complex order with three or more legs that (A) meets the class, size, and complex order type parameters of subparagraph (d)(i)(2) and is better than the same side of the [derived net]Exchange spread market or (B) is marketable against the [derived net]Exchange spread market, designated as immediate or cancel and meets the class and size parameters of subparagraph (d)(i)(2). Complex orders as described in subparagraph (ii)(A)(2) will initiate a COA regardless of the order's routing parameters or handling instructions (except for orders routed for manual handling). Immediate or cancel orders that are not marketable against the [derived net]Exchange spread market in accordance with subparagraph (ii)(A)(2)(B) will be cancelled. The RFR message will identify the component series, the size and side of the market of the COA-eligible order and any contingencies, if applicable.

(B) No change.

(iii) – (ix) No change.

. . . Interpretations and Policies:

.01 – .03 No change.

.04 For each class where COA is activated, the Exchange may also determine to activate COA for complex orders resting in COB. For such classes, any non-marketable order resting at the top of COB may be automatically subject to COA if the order is within a number of ticks away from the opposite side of the current [derived net]Exchange spread market. [The "derived net market" will be calculated based on the derived net price of the individual series legs. For stock-option orders, the derived net market for a strategy will be calculated using the Exchange's best bid or offer in the individual option series leg(s) and the NBBO in the stock leg.] The Exchange may also determine on a class-by-class and strategy basis to limit the frequency of COAs initiated for complex orders resting in COB. Notwithstanding the foregoing, if a leg order has been generated for a complex order resting in the COB pursuant to paragraph (c)(iv) of this Rule, the complex order will not be eligible for COA.

.05 – .07 No change.

.08 Price Check Parameters: On a class-by-class basis, the Exchange may determine (and announce to the Trading Permit Holders via Regulatory Circular) which of the following price check parameters will apply to eligible complex orders. Paragraph[s] (b) [and (e)] will not be applicable to stock-option orders.

For purposes of this Interpretation and Policy .08:

Vertical Spread. A "vertical" spread is a two-legged complex order with one leg to buy a number of calls (puts) and one leg to sell the same number of calls (puts) with the same expiration date but different exercise prices.

Butterfly Spread. A "butterfly" spread is a three-legged complex order with two legs to buy (sell) the same number of calls (puts) and one leg to sell (buy) twice as many calls (puts), all with the same expiration date but different exercise prices, and the exercise price of the middle leg is between the exercise prices of the other legs. If the exercise price of the middle leg is halfway between the exercise prices of the other legs, it is a "true" butterfly; otherwise, it is a "skewed" butterfly.

Box Spread. A "box" spread is a four-legged complex order with one leg to buy calls and one leg to sell puts with one strike price, and one leg to sell calls and one leg to buy puts with another strike price, all of which have the same expiration date and are for the same number of contracts.

To the extent a price check parameter is applicable, the Exchange will not automatically execute an eligible complex order that is:

(a) – (d) No change.

(e) Acceptable Percentage [Distance]Range Parameter:

(i) An incoming complex order (including a stock-option order) after the series for all legs of the complex order are open for trading that is marketable and would execute immediately upon submission to the COB or following a COA if[, following COA,] the execution would be at a price [that is not within]outside an acceptable percentage [distance from the derived net price of the individual series legs]range. The “acceptable percentage range” is the national spread market (or Exchange spread market if the NBBO in any leg is locked, crossed or unavailable and for pairs of orders submitted to AIM or SAM) that existed when the System received the order or at the start of the COA[. The “acceptable percentage distance” will be a percentage determined by the Exchange on a class-by-class basis and it shall be not less than 3 percent. Such a complex order will route via the order handling system pursuant to Rule 6.12.], as applicable, plus/minus:

(A) the amount equal to a percentage (which may not be less than 3%) of the national spread market (the “percentage amount”) if that amount is not less than a minimum amount or greater than a maximum amount (the Exchange will determine the percentage and minimum and maximum amounts and announce them to Trading Permit Holders by Regulatory Circular);

(B) the minimum amount, if the percentage amount is less than the minimum amount; or

(C) the maximum amount, if the percentage amount is greater than the maximum amount.

(ii) The System cancels an order (or any remaining size after partial execution of the order) that would execute or rest in the COB at a price outside the acceptable price range.

(iii) If the System rejects either order in a pair of orders submitted to AIM or SAM pursuant to this parameter, then the System also cancels the paired order. Notwithstanding the foregoing, with respect to an AIM Retained (“A:AIR”) order as defined in Interpretation and Policy .09 to Rule 6.74A, if the System rejects the Agency Order pursuant to this check, then the System also rejects the contra-side order; however, if the System rejects the contra-side order pursuant to this check, the System still accepts the Agency Order if it satisfies the check. To the extent a contra-side order or response is marketable against the Agency Order, the execution price will be capped at the opposite side of the acceptable price range.

(f) [Stock-Option Derived Net Market Parameters: A stock-option order that is marketable if, following COA, the execution would not be within the acceptable derived net market for the strategy that existed at the start of COA.

(1) An “acceptable derived net market” for a strategy will be calculated using the Exchange’s best bid or offer in the individual option series leg(s) and the NBBO in the stock leg plus/minus an acceptable tick distance. An “acceptable tick distance” will be determined by the Exchange on a class-by-class and premium basis.

(2) Such a stock-option order will route via the order handling system pursuant to Rule 6.12.

In classes where this price check parameter is available, it will also be available for COA responses under Rule 6.53C(d), AIM and Solicitation Auction Mechanism stock-option orders and responses under Rule 6.74A and 6.74B, and customer-to-customer immediate cross stock-option orders under Rule 6.74A.08. Under these provisions, such paired stock-option orders and responses will not be accepted except that, to the extent that only a paired contra-side order subject to an auction under Rule 6.74A or 6.74B exceeds this price check parameter, the contra-side order will not be accepted and the paired original Agency Order will not be accepted or, at the order entry firm's discretion (i.e. an AIM Retained ("A:AIR") order, as defined in Interpretation and Policy .09 to Rule 6.74A), continue processing as an unpaired stock-option order. To the extent that a contra-side order or response is marketable, its price will be capped at the price inside the acceptable derived net market.]Reserved.

(g) No change.

.09 – .10 No change.

.11 Execution of Complex Orders on the COB Open:

(a) Complex orders, including stock-option orders, do not participate in opening rotations for individual component option series legs conducted pursuant to Rule 6.2B. When the last of the individual component option series legs that make up a complex order strategy has opened (and, in the case of a stock-option order, the underlying stock has opened), the COB for that strategy will open. The COB will open with no trade, except as follows:

(i) The COB will open with a trade against the individual component option series legs if there are complex orders on only one side of the COB that are marketable against the opposite side of the [derived net]Exchange spread market. The resulting execution will occur at the [derived net]Exchange spread market price to the extent marketable pursuant to the rules of trading priority otherwise applicable to incoming electronic orders in the individual component legs. To the extent there is any remaining balance, the complex orders will trade pursuant to subparagraph (ii) below or, if unable to trade, be processed as they would on an intra-day basis under Rule 6.53C. This subparagraph (i) is not applicable to stock-option orders because stock-option orders do not trade against the individual component option series legs when the COB opens.

(ii) The COB will open (or continue to open with another trade if a trade occurred pursuant to subparagraph (i) above) with a trade against complex orders if there are complex orders in the COB (including any remaining balance of an order that enters the COB after a partial trade with the legs pursuant to subparagraph (i)) that are marketable against each other and priced within the [derived net]Exchange spread market. The resulting execution will occur at a market clearing price that is inside the [derived net]Exchange spread market and that matches complex orders to the extent marketable pursuant to the electronic allocation algorithm from Rule 6.45A or 6.45B, as applicable, as determined by the Exchange on a class-by-class basis with the addition that the COB gives priority to complex orders whose net price is better than the market clearing price first, and then to complex orders at the market clearing price. To the extent there is any remaining balance, the complex orders will be processed as they would on an intra-day basis under Rule 6.53C. This subparagraph (ii) is applicable to stock-option orders.

(b) [The "derived net market" for a stock-option order strategy will be calculated using the Exchange's best bid or offer in the individual option series leg(s) and the NBBO in the stock leg. The "derived net market" for any other complex order strategy will be calculated using the Exchange's best bid or offer in the individual option series legs.

(c)]The Exchange may also use the process described in paragraph (a) of this Interpretation and Policy .11 when the COB reopens a strategy after a time period during which trading of that strategy was unavailable.

.12 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

The Exchange has in place various price protection mechanisms that are designed to prevent complex orders from executing at potentially erroneous prices.[5] These mechanisms are designed to help maintain a fair and orderly market by mitigating potential risks associated with complex orders trading at prices that are extreme or potentially erroneous. Currently, certain of

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5 See, e.g., Rules 6.12(a)(4) and 6.53C, Interpretation and Policy .08.

these price protection mechanisms applicable to complex orders compare a complex order's net price, or the net price at which a complex order would execute, against the derived net market price based on the Exchange's best bid or offer ("BBO") in the individual series legs.[6] The Exchange proposes to amend these mechanisms to provide they will use the derived net market based on the national best bid or offer ("NBBO") in the individual series legs rather than the BBO. The Exchange also proposes to update the parameter that requires a complex order to execute at a range within an acceptable percentage distance from the current market.

Limit Order Price Parameter for Complex Orders

The proposed rule change amends the limit order price parameters for complex and stock-option orders, which are intended to block executions at prices that exceed the derived net market by more than a reasonable amount. Rule 6.12(a)(4) currently provides complex limit orders will route directly from an order entry firm to an order management terminal designated by the order entry firm if:

- prior to the opening (including before a series is opened following a halt), the order is priced at a net debit that is more than an acceptable tick distance above the derived net market using the Exchange's previous day's close in the individual series legs comprising the complex order or the order is priced at a net credit that is more than an acceptable tick distance below the derived net market using the Exchange's previous day's close in the individual series legs comprising the complex order[7]; or
- once a series has opened, 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

6 See id.

7 This provision currently does not apply to stock-option orders or orders for the account of Exchange Market-Makers or away Market-Makers.

best bid or offer in the individual series legs comprising the complex 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 individual series legs comprising the complex order.

For purposes of current subparagraph (a)(4), an "acceptable tick distance" (or "ATD"), as determined by the Exchange on a class-by-class and net premium basis and announced to Trading Permit Holders by regulatory circular, will be no less than 5 minimum net price increment ticks for complex orders. The Exchange may determine on a class-by-class basis and announce by Regulatory Circular whether to apply the limit price parameters in subparagraph (a)(4)(i), (ii), or both, to immediate-or-cancel complex orders. This price parameter takes precedence over other routing parameters to the extent that both are applicable to an incoming limit order.

Rule 6.12(a)(5) currently provides that stock-option 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 current subparagraph (a)(5), an ATD, as determined by the Exchange on a class-by-class basis and net premium basis and announced to the Trading Permit Holders by regulatory circular, will be no less than five minimum net price increment ticks for stock-option orders. The Exchange may determine on a class-by-class basis and announce by regulatory circular whether to apply subparagraph (a)(5) to immediate-or-cancel complex orders.

This price parameter takes precedence over another [sic] routing parameters to the extent that both are applicable to an incoming limit order.

The Exchange proposes to amend these provisions to provide a complex order's price generally will be compared to the derived net price based on the national spread market.[8] Specifically, proposed subparagraph (a)(4) states the System rejects back to a Trading Permit Holder a complex limit order with a net debit (credit) price more than distance specified amount above (below)[9]:

- prior to the opening of a series (including during any pre-opening period and opening rotation), the derived net market using the Exchange's previous day's closing prices in the individual series legs comprising the complex order. However, this does not apply to stock-option orders, to orders of CBOE or away market-makers, or if there is no Exchange previous day's closing price in any leg; or
- intraday, the opposite side of the national spread market. This applies to stock-option orders, but does not apply if the NBBO in any leg is locked, crossed or

8 The proposed rule change adds the definition of national spread market to proposed Rule 1.1(zzz), defined as the derived net market based on the NBBOs in the individual series legs comprising a complex order and, if a stock-option order, the NBBO of the stock leg.

9 Additionally, under the proposed rule change to subparagraph (a)(4), the System rejects the order rather than routes it via the order handling system. This will allow the Trading Permit Holder to reevaluate the order price based on current market prices and ensure it was not erroneous, which the Exchange understands Trading Permit Holders often prefer (under current subparagraph (a)(5), the System currently cancels stock-option orders that do not satisfy the limit order price parameter). This is also consistent with functionality of various other price protections and risk controls, which reject orders rather than route them via the order handling system. See, e.g., Rule 6.53C, Interpretation and Policy .08(c) and (g).

unavailable[10] or if there is no national spread market or no Exchange spread market.

While the Exchange believes Trading Permit Holders are generally willing to accept executions at prices that exceed the maximum possible value of the applicable spread to a certain extent, executions too far away from the market may be erroneous. The current limit order price parameter when trading is open compares the order prices to the Exchange spread market,[11] which is the derived net market based on the BBOs of the individual series legs comprising a complex order and, if a stock-option order, the NBBO of the stock leg. The proposed rule change amends this parameter so it compares an order's price to the national spread market intraday (i.e. when open for trading). As discussed above, the NBBO of the legs (upon which the national spread market is based) more accurately reflects the entire market for the legs comprising a complex order at the time of execution than the Exchange spread market (based on the BBO of the legs). Therefore, the Exchange believes it is appropriate for complex order net execution prices during the trading day to be based on the best prices throughout the entire market rather than those only on CBOE's market.[12]

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10 If the NBBO (or BBO) is not currently being disseminated, the NBBO (or BBO) will be considered "unavailable."

11 The proposed rule change adds the definition of Exchange spread market to proposed Rule 1.1(aaaa), defined as the derived net market based on the BBOs in the individual series legs comprising a complex order and, if a stock-option order, the NBBO of the stock leg. The proposed rule change makes corresponding changes to Rules 6.53C(d)(ii)(A) and Interpretations and Policies .04 and .11 to incorporate the proposed defined term (as well as delete the definition currently in those provision [sic] to avoid duplication). The proposed rule change also clarifies in Interpretation and Policy .04 the number of ticks is applied to the opposite side of the Exchange spread market, which is consistent with System functionality and language in other rules that incorporate the Exchange spread market or national spread market.

12 The proposed rule change also makes nonsubstantive changes to subparagraph (a)(4).

Prior to individual series legs opening on CBOE (which the rule clarifies includes any pre-opening period and opening rotation[13]), the System will continue to use the derived net market using the Exchange's previous day's closing prices as the comparison figure. The check will continue to not apply to stock-option orders or orders of CBOE or away market-makers. The check will also not apply if there is no Exchange previous day's closing price in any leg (and thus no reliable measure against which to compare the price of the order to determine its reasonability).

With respect to complex orders entered during a trading halt (which includes any pre-opening period or opening rotation prior to re-opening following a halt),[14] current subparagraph (4)(i) applies, using the derived net market using the Exchange's previous day's closing prices. The proposed rule change states in subparagraph (4) the System will no longer apply the limit order price parameter to complex orders entered during a trading halt. If a halt occurs during the trading day, it is difficult for the System at this time to determine reliable pricing for each leg during a likely volatile time when quotes may be available for some legs but not others. The Exchange believes this is preferable to applying the check using the previous day's closing price, which would be stale by that time.

The proposed rule change states this price parameter will not apply to pairs of orders submitted to AIM or SAM. The AIM and SAM functionality separately limits the prices at

13 Pursuant to Rule 6.2B, the procedure used to open classes for trading on the Exchange includes use of a pre-opening period (which currently begins at 6:30 a.m. for Regular Trading Hours and 4:00 p.m. on the previous trading day for Extended Trading Hours) and trading rotation. The pre-opening period and rotation occur prior to a class being open, and the proposed rule change merely makes this clear.

14 Pursuant to Rule 6.2B(f), the Exchange may reopen a class following a trading halt using the procedure described in the rule, including use of a pre-opening period and rotation. Any such pre-opening period and rotation would occur while trading is still halted, as trading would not yet be reopened, and the proposed rule change merely makes this clear.

which those pairs may be submitted and executed, and thus it would be duplicative for the System to apply this price parameter to those pairs of orders.[15]

Once a series has opened on CBOE, this check will compare the price of a complex order with a net debit (credit) price to the opposite side of the national spread market. The national spread market would more accurately reflect the then-current market, rather than the Exchange spread market, and thus the Exchange believes it would be a better measure to use for purposes of determining the reasonability of the prices of orders. This applies to stock-option orders, but does not apply if the NBBO in any leg is locked, crossed or unavailable[16] or if there is no Exchange spread market[17] (and thus no reliable measure against which to compare the price of the order to determine its reasonability).

Current subparagraph (a)(4)(i) does not apply to stock-option orders, and proposed subparagraph (a)(4)(i) will continue to not apply to stock-option orders. However, current subparagraph (a)(4)(ii) also does not apply to stock-option orders, and current subparagraph (a)(5) applies to stock-option orders. However, the limit order price parameter in current subparagraph (a)(4)(ii) applies to complex orders other than stock-option orders in the same manner as current subparagraph (a)(5) applies to stock-option orders using the Exchange spread market as the comparison figure.[18] Following the proposed rule change, the limit order price

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15 See Rules 6.74A(a) and Interpretation and Policy .07, and 6.74B(a) and Interpretation and Policy .01, respectively.

16 If the NBBO (or BBO) is not currently being disseminated, the NBBO (or BBO) will be considered "unavailable."

17 The Exchange notes this is consistent with functionality today – the System does not apply the limit order price parameter to an order if there is no Exchange spread market (which includes if there is no CBOE-disseminated quote in any leg comprising the complex order).

18 The one difference is, under subparagraph (a)(5), the System cancels stock-option orders that do not satisfy the price parameter while, under subparagraph (a)(4)(ii), the System

parameter will apply to stock-option orders and other complex orders in the same manner using the National Spread Market. Therefore, the proposed rule change states that in the rules and also deletes subparagraph (a)(5) as it would be duplicative. The proposed rule change amends Rule 6.12, Interpretation and Policy .01 to delete the cross-reference to subparagraph (5), which is being deleted.

The rule currently states the Exchange determines the ATD on a class-by-class and premium basis and will be no less than five minimum increment ticks. The proposed rule change states the Exchange will determine a specified amount, rather than an ATD, which may be no less than $0.02. With respect to complex orders, the Exchange has determined pursuant to Rule 6.42(4) the minimum increment for complex orders in all but three classes (SPX, OEX and XEO) is $0.01, which would be the minimum increment tick under current Rule 6.12(a)(4) (thus the current minimum is essentially $0.01 for almost all classes). The Exchange generally announces the setting for this parameter in a monetary amount rather than number of ticks, so the Exchange believes amending the rule to use the term amount rather than ticks is consistent with this practice.[19]

Additionally, because market conditions during pre-opening periods and trading rotations[20] are different than those present during regular trading hours, the proposed rule change provides the Exchange with flexibility to apply a different amount during those times. The

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routes for manual handling complex orders that do not satisfy the price parameter. As discussed above, under proposed subparagraph (a)(4)(ii), the System will reject complex orders and stock-option orders that do not satisfy the price parameter.

19 See Regulatory Circular RG17-013.

20 Pursuant to Rule 6.1A(i), the Exchange may make a determination for Extended Trading Hours different from that made for Regular Trading Hours to the extent the rules allow the Exchange to make a determination, including on a class-by-class basis. Thus, the Exchange may set a different amount for classes trading during Extended Trading Hours than the amount set for those classes during Regular Trading Hours.

Exchange believes it is appropriate to have the ability to apply a different amount during the pre-open period or opening rotation so the check does not impact the Exchange's ability to open an option or determination of the opening price.[21]

The proposed rule change deletes the Exchange's flexibility to not apply this price parameter to immediate-or-cancel complex orders, as the Exchange believes these orders are also at risk of execution at extreme and potentially erroneous prices and thus will benefit from applicability of these checks. The proposed rule change states this price parameter will not apply to complex orders routed from a PAR workstation or OMT. Orders routed from a PAR workstation or OMT are subject to manual handling, so the PAR or OMT operator will have evaluated the net price of a complex order based on then-existing market conditions prior to submitting the order for electronic execution, and thus there is minimal risk of execution at an erroneous price. The proposed rule change also states this price parameter will not apply to multi-class spreads, as these orders may execute in open outcry only, and thus the TPH will have the opportunity to evaluate the net price of the multi-class spread based on then-existing market conditions prior to representing the order on the trading floor, and thus there is minimal risk of execution at an erroneous price.

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[21] Note current Rule 6.12, Interpretation and Policy .01 permits a senior official on the Exchange Help Desk or two Floor Officials to grant intra-day relief by widening or inactivating one or more of the applicable ATD parameters settings in the interest of a fair and orderly market. The proposed rule change amends Interpretation and Policy .01 to provide this relief (with respect to an amount rather than ATD) can be on any trading day (including prior to opening). The term intraday used elsewhere in Rule 6.12 generally refers to when trading is open, while this temporary relief may be granted at any time on a trading day, including prior to the open of trading. Granting this relief at any of those times may be necessary to address market events or volatility, which may occur prior to an opening, in addition to when the Exchange is open for trading, and maintain a fair and orderly market during those times. The proposed rule change clarifies when this relief may be granted. The Exchange will continue to make and keep records of any determination to grant relief, and periodically review these determinations.

Example

The System receives a complex order to buy Series A and sell Series B for a net debit price of $1.50. Suppose the NBBO for Series A is $2.00 to $2.20 and the NBBO for Series B is $1.00 to $1.20, making the national spread market for a strategy with a buy Series A leg and sell Series B leg $0.80 to $1.20. The Exchange has set the limit order price parameter at $0.20 (thus a limit order will be rejected if more than $0.20 above (below) the opposite side of the national spread market). Because the net debit price of the complex order is $0.30 above the offer of the national spread market, the System rejects this order.

Acceptable Percentage Range Parameter

The proposed rule change amends Rule 6.53C, Interpretation and Policy .08(e), which currently provides the Exchange will not automatically execute an eligible complex order (and instead route the order via the order handling system pursuant to Rule 6.12) that is marketable if, following a complex order auction ("COA"), the execution would be at a price that is not within an acceptable percentage distance from the derived net price of the individual series legs that existed at the start of COA. The acceptable percentage distance is a percentage determined by the Exchange on a class-by-class basis and is no less than 3%.

The proposed rule change amends this price protection mechanism to provide the Exchange will not automatically execute an incoming complex order (including a stock-option order) after the series for all legs of the complex order are open for trading[22] that is marketable and would execute immediately upon submission to the complex order book ("COB") or following a

[22] Rule 6.2B has separate price protections applicable to execution prices during pre-open and the opening rotation. The Exchange believes it is appropriate to apply the acceptable price range protection to orders when the leg series comprising the complex order are open to avoid interfering with the orderly opening process during which the System matches as many orders as possible.

COA if the execution would be at a price outside an acceptable percentage range, which is the national spread market that existed when the System received the order or at the start of COA, as applicable, plus/minus:

- the amount equal to a percentage (which may not be less than 3%) of the national spread market (the "percentage amount") if that amount is not less than a minimum amount or greater than a maximum amount (the Exchange will determine the percentage and minimum and maximum amounts and announce them to Trading Permit Holders by Regulatory Circular);
- the minimum amount, if the percentage amount is less than the minimum amount; or
- the maximum amount, if the percentage amount is greater than the maximum amount.[23]

The System cancels an order (or any remaining size after partial execution of the order) that would execute or rest in the COB at a price outside the acceptable price range.

This proposed rule change expands this parameter to incoming complex orders that do not COA and may immediately execute, as well as orders that do COA (to which the current parameter applies), which will potentially prevent erroneous executions of more complex orders. Additionally, under the proposed rule change, the System cancels the order (or remainder) that would execute or rest in the COB at a price outside the acceptable price range rather than routes it via the order handling system. Cancelling the order (or remainder) will prevent any future execution at a price "too far away" from the market and allow the Trading Permit Holder to reevaluate the order price based on current market prices and ensure it was not erroneous. The

[23] The proposed rule change also amends the name of this price parameter to be consistent with the proposed changes.

proposed rule change provides, while the acceptable price range will continue to be based on a percentage away from the market, the System will use the national spread market rather than the Exchange spread market for the reasons set forth above.[24] The proposed rule change also puts in place a "maximum" price range (with the minimum and maximum amounts), which will keep the acceptable price range from being too wide and thus enhance the effectiveness of this price parameter to prevent erroneous executions.[25]

Rule 6.53C, Interpretation and Policy .08(f) sets forth a parameter currently applicable to stock-option orders, which is the same as the parameter in current paragraph (e), except the parameter in current paragraph (f) blocks executions of stock-option orders at prices more than a specified number of ticks away from the Exchange spread market, while current paragraph (e)

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24 Proposed subparagraph (e)(i) states the acceptable price range uses the Exchange spread market rather than the national spread market if the NBBO in any leg is locked, crossed or unavailable (and thus there is no reliable measure against which to compare the price of the order to determine its reasonability). Pursuant to proposed subparagraph (e)(i), the acceptable price range will also continue to use the Exchange spread market for pairs of orders submitted to AIM or SAM (as it does today), as the AIM and SAM functionality separately limits the prices at which those pairs may be submitted and executed. See Rules 6.74A(a) and Interpretation and Policy .07, and 6.74B(a) and Interpretation and Policy .01, respectively. If the System rejects either order in the pair pursuant to this parameter, then the System also cancels the paired order. Notwithstanding the foregoing, with respect to an AIM Retained ("A:AIR") order as defined in Interpretation and Policy .09 to Rule 6.74A, if the System rejects the Agency Order pursuant to this check, then the System also rejects the contra-side order; however, if the System rejects the contra-side order pursuant to this check, the System still accepts the Agency Order if it satisfies the check. This currently is codified in paragraph (f) for stock-option orders and is being codified for all complex orders in proposed subparagraph (e)(iii), as it is consistent with current System functionality and the contingencies attached to those types of orders, as well as rules related to other price protections. See, e.g., Rule 6.53C, Interpretations and Policies .08(c) and (g). Additionally, the proposed rule change applies the provision in current paragraph (f), which states to the extent a contra-side order or response is marketable against the Agency Order, the execution price will be capped at the opposite side of the acceptable price range, to all complex orders in proposed paragraph (e)(iii).

25 The maximum value acceptable price range in Rule 6.53C, Interpretation and Policy .08(g) similarly uses an acceptable price range determined by a percentage away from the maximum possible value of a spread, with a minimum and maximum amount.

blocks executions of complex orders at prices more than a specified percentage away from the Exchange spread market. Current paragraph (f) states the Exchange will not automatically execute a stock-option order that is marketable if, following a COA, the execution would not be within the acceptable derived net market for the strategy that existed at the start of COA. An "acceptable derived net market" for a strategy is calculated using the BBO in the individual option series leg(s) and the NBBO in the stock leg plus/minus an acceptable tick distance, which is determined by the Exchange on a class-by-class and premium basis. The order would route via the order handling system pursuant to Rule 6.12.[26] The proposed rule change deletes paragraph (f) and applies the parameter in paragraph (e) (as proposed to be amended) to stock-option orders. Proposed paragraph (e) will apply to stock-option orders in the same manner as it does to other complex orders.[27] Therefore, the Exchange believes it simplifies its rules to include the enhanced parameter once in the rules using the proposed defined terms.

<u>Example</u>

Suppose the NBBO for Series A is $2.00 to $2.20 (50 x 50) and the NBBO for Series B is $1.00 to $1.20 (50 x 50), making the national spread market for a strategy with a buy Series A leg and sell Series B leg $0.80 to $1.20. Also suppose the BBO for Series A is $1.98 to $2.22

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26 Current paragraph (f) includes a provision regarding how the parameter applies to paired orders and auction responses. Proposed paragraph (e) will apply to incoming orders and will not apply to auction responses, but will apply to paired orders submitted to AIM and SAM (and A:AIR orders) as described in current paragraph (f) (including continued use of the Exchange spread market rather than the national spread market), and thus the proposed rule change moves this language to proposed paragraph (e)(iii), with nonsubstantive changes to make the language consistent with other rules. While this price protection will not cancel auction responses that would execute outside the acceptable price range, this price protection will prevent an order from executing outside the acceptable price range (including against an auction response), and thus responses will not execute against an order outside the acceptable price range.

27 The proposed rule change makes a conforming change to the introductory paragraph of Interpretation and Policy .08.

(10 x 10) and the BBO for Series B is $0.98 to $1.22 (10 x 10), making the Exchange spread market for a strategy with a buy Series A leg and sell Series B leg $0.76 to $1.24. Pursuant to proposed Rule 6.12(a)(4), the Exchange has set the limit order price parameter at $0.20 (thus a limit order will be rejected if more than $0.20 above (below) the opposite side of the national spread market). The Exchange determined the following settings for the acceptable percentage range parameter: 10%, with a minimum amount of $0.05 and a maximum amount of $0.10. Therefore, the acceptable percentage range is $0.72 to $1.30.[28] The System receives a COA-eligible[29] complex order to buy 35 Series A and sell 35 Series B for a net debit price of $1.40. A COA begins, and at the end of the COA, there are no auction responses or opposite side complex orders resting in the COB. The complex order executes against the 10 contracts in the leg market at a net price of $1.24 (buy 10 contracts in Series A at the $2.22 offer, and sell 10 contracts in Series B at the $0.98 bid), which price is within the acceptable price range. The resulting BBO for Series A is $1.98 to $2.26 (10 x 10), and the resulting BBO for Series B is $0.94 to $1.22 (10 x 10), making the resulting Exchange spread market for a strategy with a buy Series A leg and sell Series B leg $0.76 to $1.32. The System cancels the remaining 25 contracts of the order, because the next execution price with the leg markets of $1.32 and the $1.40 net debit price of the order are each outside the acceptable price range, and therefore, the order cannot trade or rest in the book at a price not outside the acceptable price range.

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28 The bid side of this range equals $0.72, which is $0.80 minus 10% of $0.80 (or $0.08), an amount greater than the minimum and less than the maximum. The offer side of this range equals $1.30, which is $1.20 plus the maximum amount of $0.10, because 10% of $1.20 (or $0.12) is greater than that maximum amount.

29 See Rule 6.53C(d) for a description of the COA process and order eligibility requirements. Note, in this example, the same result occurs for a non-COA eligible order – such order would execute against the 10 contracts resting in the leg markets at a net price of $1.24 upon submission to the COB rather than following a COA, and the System would cancel the remainder.

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.[30] Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)[31] 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)[32] 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 removes impediments to and perfects the mechanism of a free and open market and national market system because the limit order price parameter (intraday) and the acceptable percentage range parameter for complex orders will be based on the national spread market when available, which is based on the NBBO, and thus will more accurately reflect the entire market for a complex order at the time of execution than the Exchange spread market (which is based on the BBO). The Exchange believes the enhanced price protection mechanisms will further protect investors and the public interest and maintain

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30 15 U.S.C. 78f(b).

31 15 U.S.C. 78f(b)(5).

32 Id.

fair and orderly markets by mitigating potential risks associated with market participants entering orders at extreme and potentially erroneous prices.

With respect to the limit order price parameter for complex orders, the Exchange believes the national spread market when trading is open would be a better measure to use for purposes of determining the reasonability of the prices of orders and more accurately prevent executions of limit orders at erroneous prices, which ultimately protects investors. The Exchange also believes applying this check to immediate-or-cancel complex orders may prevent executions at extreme and potentially erroneous prices of these orders. The Exchange believes it is appropriate to have flexibility to determine to apply a different amount to complex orders entered during the pre-opening, a trading rotation, or a trading halt to reflect different market conditions during those times. Additionally, the Exchange believes it is appropriate to not apply this price check to complex orders routed from a PAR workstation or OMT, as those orders were subject to manual handling by a PAR or OMT operator who will have evaluated the net price of a complex order based on then-existing market conditions prior to submitted it for electronic execution, thus minimizing risk of an erroneous execution. Similarly, the Exchange believes it is appropriate to not apply this price check to multi-class spreads, as those will be handled by brokers who will have evaluated the net price of the spread based on then-existing market conditions prior to representation on the trading floor. This flexibility and non-applicability, as applicable, will further assist the Exchange with its efforts to maintain a fair and orderly market, which will ultimately protect investors.

With respect to the acceptable percentage range parameter, the national spread market would be a better measure to use for purposes of preventing executions of complex orders at erroneous prices, which ultimately protects investors. The proposed parameter will apply to complex orders that do not COA (and would execute against orders in the COB) in addition to those that do, which may prevent additional erroneous trades at prices that are extreme or "too far away" from the market.[33] The Exchange believes the methodology to determine the acceptable price range is reasonable because using a percentage amount provides Trading Permit Holders with precise protection, while the pre-set minimum and maximum ensures that the acceptable price range cannot be too wide or narrow to the point that the parameter would become ineffective.

The Exchange also believes the proposed rule change regarding how the acceptable percentage range parameter will apply to AIM and SAM orders is reasonable, as the proposed rule change is consistent with the contingencies attached to those types of orders.

The proposed rule change to apply a single limit order price parameter and acceptable price range to all complex orders, including stock-option orders (subject to certain exceptions consistent with the current rules), will protect investors, as it simplifies the rules.

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 proposed rule change will apply to all complex orders submitted to CBOE in the same manner. The enhancements to the price protection mechanisms applicable to all incoming orders will help further prevent potentially erroneous executions, which benefits all market participants. The proposed rule change will not impose any burden on intermarket competition, as it merely incorporates best prices available on other markets into current price protection mechanisms

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33 As further discussed below, the proposed rule change is substantially similar to NASDAQ OMX [sic] PHLX LLC ("PHLX") Rule 1098(i).

applicable to complex orders. Additionally, the proposed rule change is substantially similar to a rule of another options exchange.[34]

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: (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[35] and Rule 19b-4(f)(6) thereunder.[36]

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: (i) necessary or appropriate in the public interest; (ii) for the protection of investors; or (iii) otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall 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

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34 See PHLX Rule 1098(i).

35 15 U.S.C. 78s(b)(3)(A).

36 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.

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-2017-016 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-2017-016. 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-2017-016 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.[37]

Eduardo A. Aleman
Assistant Secretary

[37] 17 CFR 200.30-3(a)(12).