SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-81085; File No. SR-CBOE-2017-054)

July 6, 2017

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Rule 6.47A, Automated Improvement Mechanism

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 June 30, 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, 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 its rules related to Automated Improvement Mechanism ("AIM") auctions.

(additions are underlined; 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 6.74A. Automated Improvement Mechanism ("AIM")
Notwithstanding the provisions of Rule 6.74, a Trading Permit Holder that represents agency orders may electronically execute an order it represents as agent ("Agency Order") against principal interest or against a solicited order provided it submits the Agency Order for electronic execution into the AIM auction ("Auction") pursuant to this Rule.

(a) No change.

(b) Auction Process. Only one Auction may be ongoing at any given time in a series and Auctions in the same series may not queue or overlap in any manner. The Auction may not be cancelled and shall proceed as follows:

(1) Auction Period and request for Responses (RFRs).

(A) – (C) No change

(D) Each Market-Maker with an appointment in the relevant option class may submit responses to the RFR (specifying prices and sizes). [Such responses cannot cross the disseminated Exchange quote on the opposite side of the market.] Responses that cross the opposite side of the Exchange’s disseminated quote that exists at the conclusion of the Auction will be priced at the Exchange’s disseminated quote on the opposite side of the market.

(E) Trading Permit Holders acting as agent for orders resting at the top of the Exchange's book opposite the Agency Order may submit responses to the RFR (specifying prices and sizes) on behalf such orders. Such responses [cannot cross the disseminated Exchange quote on the opposite side of the market, and] may not exceed the size of the booked order being represented. Responses that cross the opposite side of the Exchange’s disseminated quote that exists at the conclusion of the Auction will be priced at the Exchange’s disseminated quote on the opposite side of the market.

(F) – (I) No change.

(2) Conclusion of Auction. The Auction shall conclude at the sooner of (A) through (F) below with the Agency Order executing pursuant to paragraph (3) below.

(A) – (C) No change.

(D) Reserved[Any time an RFR response matches the Exchange's disseminated quote on the opposite side of the market from the RFR responses];

(E) – (F) No change.

(3) No change.

. . . Interpretations and Policies:

.01 – .09 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 seeks to amend its rules related to Automated Improvement Mechanism ("AIM") auctions. Specifically, the Exchange seeks to amend Rule 6.74A(b)(2)(D) to allow AIM auctions to continue for the full auction exposure period (no less than 100 milliseconds and no more than 1 second)[5] when an auction response matches the Exchange's disseminated quote on the opposite side of the market from the auction response.

5 See Rule 6.74A(b)(1)(C). See also SR-CBOE-2017-029, which amended Rule 6.74A(b)(1)(C) to allow the Exchange to designate the auction exposure period to last no less than 100 milliseconds and no more than 1 second.

An AIM auction consists of an Agency Order and a contra-side order. A Trading Permit Holder ("TPH") may initiate an AIM auction provided that the Agency Order is in a class and of sufficient size as determined by the Exchange. An Agency Order must also be stopped at: 1) the better of the NBBO or the Agency Order's limit price (if the Agency Order is for 50 standard option contracts or more) or 2) the better of the NBBO price improved by one minimum price improvement increment or the Agency Order's limit price (if the Agency Order is for less than 50 standard option contracts).[6]

Additionally, an AIM auction will currently conclude at the sooner of: the end of the auction period; upon receipt by the Hybrid System of an unrelated order (in the same series as the Agency Order) that is marketable against either the Exchange's disseminated quote (when such quote is the NBBO) or the auction responses; upon receipt by the Hybrid System of an unrelated limit order (in the same series as the Agency Order and on the opposite side of the market as the Agency Order) that improves any auction response; any time an auction response matches the Exchange's disseminated quote on the opposite side of the market from the auction response; any time there is a quote lock on the Exchange pursuant to Rule 6.45(c); or any time there is a trading halt in the series on the Exchange.

As noted above, AIM auctions end when an auction response matches the Exchange's disseminated quote on the opposite side of the market from the auction response.[7] For example, assume the NBBO and the Exchange's BBO are 1.00-1.20 when an auction is initiated. If the Agency Order is an order to buy and an auction response is to sell at 1.00, the auction will end early (i.e., prior to the full duration of the auction exposure period). An individual auction

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6 See Rule 6.74A(a)

7 See Rule 6.74A(b)(2)(D).

response may not exceed the size of the Agency Order.[8] A response to sell at 1.00 will end the auction early and necessarily does not have sufficient size to execute both the Agency Order and all priority customer interest in the book at 1.00. Thus, with priority customer interest in the book at 1.00 the Agency Order will execute against the auction response at one minimum auction response increment worse than the final auction price (1.01 in the above example).[9]

When an auction ends early because an auction response matches the Exchange's disseminated quote on the opposite side of the market from the auction response, the auction's termination prevents the Exchange from receiving more auction responses. More auction responses increase the opportunity that the auction responses, in the aggregate, will have enough size to allow the Exchange to execute both the Agency Order and priority customer interest in the book against the auction responses. In cases where there is sufficient auction response interest to satisfy both the Agency Order and all priority customer interest in the book, then the Agency Order receives an execution price that is one minimum price increment better than would occur without this change (i.e., the Agency Order in the above example is executed at 1.00 instead of 1.01). Thus, the Exchange seeks to amend subparagraph (D) of Rule 6.74(b)(2) to allow an AIM auction to continue for the full duration of the auction exposure period any time an auction response matches the Exchange's disseminated quote on the opposite side of the market from the auction response.

Furthermore, the Exchange also seeks to amend subparagraphs (D) and (E) of Rule 6.74A(b)(1) to provide further clarity as to how the Exchange's systems will function. Subparagraphs (D) and (E) of Rule 6.74A(b)(1) provide that auction responses cannot cross the disseminated Exchange quote on the opposite side of the market. Currently, the Exchange does

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8 <u>See</u> Rule 6.74A(b)(1)(H).

9 <u>See</u> Rule 6.74A(b)(3)(I).

not reject responses that cross the disseminated Exchange quote on the opposite side of the market but instead systematically enforces the restriction in subparagraphs (D) and (E) by treating all responses that cross the disseminated Exchange quote on the opposite side of the market as a response at the disseminated price, which, in accordance with subparagraph (D) of Rule 6.74A(b)(2) described above, currently ends the auction early because such a response is marketable with the Exchange's disseminated quote on the opposite side of the market from the auction response. Since auctions will no longer conclude early upon the receipt of a marketable response, the Exchange seeks to amend subparagraphs (D) and (E) to specify that responses that cross the opposite side of the Exchange's disseminated quote that exists at the conclusion of the Auction will be priced at the Exchange's disseminated quote on the opposite side of the market.

The below examples describe the manner in which the current rule operates as well as how the proposed rule will operate.

Example #1 (current rule):

- The disseminated Exchange quote prior to the initiation of an auction is 1.00-1.20.
- The Agency Order is an order to buy and is stopped at 1.19.
- The Exchange receives an auction response priced at .99 or lower.
- An auction response priced at .99 or lower when the Exchange's quote is 1.00-1.20 is marketable against the Exchange's disseminated quote on the opposite side of the market form the auction responses. Thus, pursuant to Rule 6.74A(b)(2) the auction is terminated.
- At the conclusion of the auction the Exchange's market is 1.00-1.20.
- An auction response at .99 or lower is treated as a response at 1.00, and the Agency Order is allocated in accordance with Rule 6.74A(b)(3). If the 1.00 bid in the book is a public

customer and there are not enough responses priced at 1.00 to allow the booked public customer order and the Agency Order to be executed, the Agency Order is executed at 1.01 pursuant to subparagraph (I) of Rule 6.74A(b)(3).

Example #2 (proposed rule):

- The disseminated Exchange quote prior to the initiation of an auction is 1.00-1.20.
- The Agency Order is an order to buy and is stopped at 1.19.
- The Exchange receives an auction response priced at .99 or lower.
- The Exchange does not end the auction early. The auction will instead last for the full auction exposure period, which, again, allows for the possibility of more auction responses. As described above, more auction responses increases the opportunity that the auction responses, in the aggregate, will have enough size to allow the Exchange to execute both the Agency Order and priority customer interest in the book against the auction responses.
- At the conclusion of the auction the Exchange’s market is 1.00-1.20.
- An auction response priced at .99 or lower is treated as a response at 1.00, and the Agency Order is allocated in accordance with Rule 6.74A(b)(3). If the 1.00 bid in the book is a public customer and there are not enough responses priced at 1.00 to allow the booked public customer order and the Agency Order to be executed, the Agency Order is executed at 1.01 pursuant to subparagraph (I) of Rule 6.74A(b)(3).

Example #3 (proposed rule):

- The disseminated Exchange quote prior to the initiation of an auction is 1.00-1.20.
- The Agency Order is an order to buy and is stopped at 1.19.

- The Exchange's disseminated bid is updated to 1.05 during the auction so the market is now 1.05-1.20.
- The Exchange receives an auction response priced at 1.04 or lower.
- The Exchange does not end the auction early. The auction will instead last for the full auction exposure period, which, again, allows for the possibility of more auction responses. As described above, more auction responses increases the opportunity that the auction responses, in the aggregate, will have enough size to allow the Exchange to execute both the Agency Order and priority customer interest in the book against the auction responses.
- At the conclusion of the auction the Exchange's market is 1.05-1.20.
- An auction response priced at 1.04 or lower is treated as a response at 1.05, and the Agency Order is allocated in accordance with Rule 6.74A(b)(3). If the 1.05 bid in the book is a public customer and there are not enough responses priced at 1.05 to allow the booked public customer order and the Agency Order to be executed, the Agency Order is executed at 1.06 pursuant to subparagraph (I) of Rule 6.74A(b)(3).

Example #4 (proposed rule):

- The disseminated Exchange quote prior to the initiation of an auction is 1.00-1.20.
- The Agency Order is an order to buy and is stopped at 1.19.
- The Exchange's disseminated bid is updated to 1.05 during the auction so the market is now 1.05-1.20.
- The Exchange receives an auction response priced at 1.04.
- The Exchange does not end the auction early. The auction will instead last for the full auction exposure period, which, again, allows for the possibility of more auction

responses. As described above, more auction responses increases the opportunity that the auction responses, in the aggregate, will have enough size to allow the Exchange to execute both the Agency Order and priority customer interest in the book against the auction responses.

- The 1.05 bid is cancelled prior to the end of the auction and the market returns to 1.00-1.20.
- At the conclusion of the auction the Exchange's market is 1.00-1.20.
- At the conclusion of the auction the auction response priced at 1.04 remains a response at 1.04 because the market is 1.00-1.20 at the conclusion of the auction (i.e., the response priced at 1.04 does not cross the disseminated quote on the opposite side of the market from the auction response), and the Agency Order is allocated in accordance with Rule 6.74A(b)(3).

The Exchange notes that if the Exchange's systems were designed to reject the 1.04 in example #4 the Agency Order would not have received price improvement beyond the stop price of 1.19.

Allowing an AIM auction to continue for the full duration of the auction exposure period any time an auction response matches the Exchange's disseminated quote on the opposite side of the market from the auction response provides more opportunity for the Exchange to receive auction responses that satisfy priority interest in the book as well as the Agency Order. The Exchange is not amending the manner in which orders are allocated at the conclusion of an AIM auction. Orders will continue to be allocated in accordance with Rule 6.74A(b)(3). The Exchange notes that other exchanges with similar auctions allow the auctions to continue for the full duration when an auction response matches the disseminated quote on the opposite of the market from the auction response.[10]

The Exchange will announce the implementation date of the proposed rule change in a Regulatory Circular to be published no later than 90 days following the effective date. The implementation date will be no later than 180 days following the effective date.

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.[11] Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)[12] 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)[13] requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

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10 See Bats EDGX Exchange, Inc. ("EDGX") Rule 21.19(b)(2); Nasdaq BX, Inc. ("Nasdaq") Rules, Section 9; Nasdaq PHLX LLC ("Phlx) [sic] Rule 1080(n); and International Securities Exchange, LLC ("ISE") Rule 723.

11 15 U.S.C. 78f(b).

12 15 U.S.C. 78f(b)(5).

13 Id.

In particular, the Exchange believes allowing an AIM auction to continue for the full duration of the auction exposure period any time an auction response matches the Exchange's disseminated quote on the opposite side of the market from the auction response will provide increased opportunities for the Agency Order and priority interest in the book to be executed, which helps to perfect the mechanism of a free and open market and, in general, helps to protect investors and the public interest. The Exchange notes that other exchanges with similar auctions allow the auctions to continue for the full duration when an auction response matches the disseminated quote on the opposite of the market from the auction response.[14] The Exchange also notes that the proposal helps protect the public interest by treating responses that cross the opposite side of the Exchange's disseminated quote as responses priced at the Exchange's disseminated quote because doing so allows Agency Orders to receive price improvement beyond the stopped price.

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 proposal simply provides more opportunity for Agency Orders and priority interest in the book to be executed in full when an auction response matches the Exchange's disseminated quote on the opposite of the market from the auction response. The Exchange notes that another exchange with a similar auction allows the auction to continue for its full duration when an auction response matches the disseminated quote on the opposite of the market from the auction response. The Exchange also notes that the proposal helps protect the public interest by treating responses that cross the opposite side of the Exchange's disseminated quote as responses priced

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[14] See EDGX Rule 21.19(b)(2); Nasdaq Rules, Section 9; Phlx Rule 1080(n); and ISE Rule 723.

at the Exchange's disseminated quote because doing so allows Agency Orders to receive price improvement beyond the stopped price.

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, 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:

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

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

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-2017-054 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-2017-054. 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-2017-054 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]

Eduardo A. Aleman
Assistant Secretary

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