

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-82459; File No. SR-CBOE-2017-084)

January 8, 2018

Self-Regulatory Organizations; Cboe Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend Rule 6.13, CBOE Hybrid System Automatic Execution Feature

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on December 27, 2017, Cboe Exchange, Inc. (the “Exchange” or “Cboe Options”) 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 Act³ 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 its rules related to stop orders.

(additions are in italics; deletions are [bracketed])

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Cboe Exchange, Inc.
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 6.13. [CBOE]Cboe Options Hybrid System Automatic Execution Feature

(a) No change.

(b) Automatic Execution: Orders eligible for automatic execution through the Cboe Options Hybrid System may be automatically executed in accordance with the provisions of this Rule, Rule 6.13A or 6.14A, as applicable. This section governs automatic executions and split-price automatic executions. The allocation of orders or quotes that automatically execute through the Cboe Options Hybrid System is governed by Rule 6.45.

(i) – (vi) No change.

(vii) Stop and Stop-Limit Orders. The System cancels a buy (sell) stop or stop-limit order if the Exchange best bid (offer) at the time the System receives the order is equal to or above (below) the stop price.

(c) 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 proposed rule change amends Rule 6.13 to modify the automatic handling of stop and stop-limit orders. As defined in Rule 6.53(c), a stop order is a contingency order to buy or sell when the market for a particular option contract reaches a specified price on the Cboe Options floor. A

stop order to buy becomes a market order when the option contract trades or is bid at or above the stop price on the Cboe Options floor. A stop order to sell becomes a market order when the option contract trades or is offered at or below the stop-limit price on the Cboe Options floor. A stop-limit order is a contingency order to buy or sell when the market for a particular option contract reaches a specified price. A stop order to buy becomes a limit order when the option contract trades or is bid at or above the stop-limit price. A stop-limit order to sell becomes a limit order when the option contract trades or is offered at or below the stop-limit price.

The proposed rule change adds Rule 6.13(b)(vii), which states the System cancels a buy (sell) stop or stop-limit order if the Exchange best bid (offer) (“BBO”) at the time the System receives the order is equal to or above (below) the stop price. The purpose of a stop or stop-limit order is for it to become a market or limit order, respectively, after the price in a series reaches the stop price. Therefore, there is an implication the submitting Trading Permit Holder intends for the order to not become a market or limit order, respectively, until after an amount of time passes and the series price changes. If the BBO is above or below, as applicable, the stop price when the System receives a stop or stop-limit order, the order converts immediately to a market or limit order, respectively. This is inconsistent with the purpose of the order and the intentions of the submitting Trading Permit Holder. The Exchange believes if a Trading Permit Holder submitted an order at such a price, there is a strong possibility the order was submitted at that price as an error by the Trading Permit Holder. Pursuant to the proposed rule change, the System will reject a stop or stop-limit order that would otherwise immediately convert to a market or limit order, respectively, based on the BBO, which is consistent with the definitions and purposes of these orders.

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.⁵ Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)⁶ 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)⁷ 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 will protect investors and the public interest and maintain fair and orderly markets by mitigating potential risks associated with market participants entering stop and stop-limit orders at unintended prices, and risks associated with orders trading at prices that are potentially erroneous, which may likely have resulted from human or operational error. The proposed rule change is consistent with the definitions and purposes of stop and stop-limit orders.

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on

⁵ 15 U.S.C. 78f(b).

⁶ 15 U.S.C. 78f(b)(5).

⁷ Id.

competition that is not necessary or appropriate in furtherance of the purposes of the Act. The proposed rule change will apply in the same manner to all stop and stop-limit orders Trading Permit Holders submit to the Exchange and will help prevent potentially erroneous executions, which benefits all market participants. Because pursuant to the proposed rule change the System will reject stop and stop-limit orders it receives under certain conditions, the proposed rule change will only impact stop and stop-limit orders Trading Permit Holders submit to the Exchange, based on quotes on the Exchange, and thus will have no impact on intermarket 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

The Exchange has designated this rule filing as non-controversial under Section 19(b)(3)(A)⁸ of the Act and Rule 19b-4(f)(6)⁹ thereunder. Because the 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 and Rule 19b-4(f)(6) 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

⁸ 15 U.S.C. 78s(b)(3)(A).

⁹ 17 CFR 240.19b-4(f)(6).

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 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-2017-084 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-2017-084. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F

Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-CBOE-2017-084 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.¹⁰

Eduardo A. Aleman
Assistant Secretary

¹⁰ 17 CFR 200.30-3(a)(12).