

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-81862; File No. SR-CBOE-2017-064)

October 12, 2017

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing of a Proposed Rule Change Relating to the Creation of an Electronic-Only Order Type

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on September 29, 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 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 a rule change to create an electronic-only order type.

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.

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

A. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

Background

Exchange Rules describe the process by which orders sent into the CBOE will execute electronically and/or via manual handling on the Exchange floor. Orders entered by Trading Permit Holders (“TPHs”) that are marketable against the Exchange’s disseminated quotation may execute automatically<sup>3</sup> or after an electronic auction process such as the Exchange’s Simple Auction Liaison (“SAL”).<sup>4</sup> In addition, eligible orders may be entered into the Exchanges electronic order book.<sup>5</sup>

Orders that do not execute via electronic processing and are not entered into the electronic book are, by default, routed to either a Public Automated Routing (“PAR”) workstation or an Order Management Terminal (“OMT”) designated by the TPH entering the order. Orders routed to a PAR or OMT can then be executed in open outcry on the Exchange floor. CBOE Rule 6.12 describes the process for routing orders through the Exchange’s order handling system (“OHS”). Rule 6.12 states, “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).”

Rule 6.12(a) states, “Orders may route through the order handling system for electronic

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<sup>3</sup> See CBOE Rules 6.2B, 6.13, 6.14A, and 6.53A.

<sup>4</sup> See CBOE Rule 6.13A.

<sup>5</sup> See CBOE Rule 7.4.

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.” Rule 6.12(a)(1) further states, “Under Rules 6.2B, 6.13 and 6.53C, orders or the remaining balance of orders initially routed from an order entry firm for electronic processing that are not eligible for automatic execution or book entry will by default route to a PAR workstation designated by the order entry firm. If an order entry firm has not designated a PAR workstation or if a PAR workstation is unavailable, the remaining balance will route to an order management terminal designated by the order entry firm. If it is not eligible to route to a PAR workstation or order management terminal designated by the order entry firm, the remaining balance will be returned to the order entry firm.”

Rule 6.12A describes PAR functionality. Rule 6.12A specifies that orders will be routed to PAR in accordance with TPH and Exchange order routing parameters. And the orders terms. [sic] Rule 6.12A further specifies that once an order is on PAR the PAR user may a) submit the order electronically, b) execute the order in open outcry, c) route the order to a designated OMT or return the order to the order entry firm, or d) route the order to an away exchange.

#### Proposed Rule

The Exchange is proposing a new type of order within CBOE Rule 6.53, electronic-only. The proposed rule states, “An electronic-only order is an order to buy or sell that is to be executed in whole or in part via electronic processing on the Exchange without routing the order to a PAR workstation or an order management terminal for manual handling on the Exchange floor. Electronic-only orders will be cancelled if routing for manual handling would be required under Exchange Rules.”

Exchange systems will recognize electronic-only orders and will only allow the orders to a) auto-execute electronically, b) route to an electronic exchange auction process, or c) route to the electronic book. If Exchange systems determine that, based on the existing routing parameters, an electronic-only order would route to a PAR or a OMT, the order will be cancelled back to the TPH who entered the order. The cancellation will be accompanied by a reason code that indicates it occurred because the order was designated electronic-only

As noted above Exchange Rules specify that order routing designations may be established based on various parameters defined by the Exchange, order-entry firm or TPH as applicable. Functionally, “electronic-only” will act as an order handling designation from the TPH that will prevent an order from routing to a PAR or OMT. TPHs are today free to set routing designations for their orders and move or cancel orders as needed. In today’s world, if an order is routed to a PAR or OMT and TPH who entered the order prefers the order not be handled manually, they are free to resubmit the order electronically or cancel the order. However, today, it could result in a manual and time-consuming process of contacting a PAR broker or OMT operator and informing them of their instructions regarding an order. As such, the electronic order type is simply creating an easy and convenient way for market participants to indicate they want a specific order to avoid manual handling.

## 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.<sup>6</sup> Specifically, the

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<sup>6</sup> 15 U.S.C. 78f(b).

Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>7</sup> 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 facilitation 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)<sup>8</sup> requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

As mentioned above, electronic-only will act as an order routing designation and does not materially change how orders can be handled or processed today. The electronic-only designation will simply allow order entry firms and TPH to avoid potentially time-consuming steps of retrieving or resubmitting their orders from PAR or OMT. Accordingly the Rule change is specifically designed to remove impediments to and perfect the mechanism of a free and open market.

The proposed rule will not permit unfair discrimination between customers, issuers, brokers, or dealers as it is available to any TPH who routes an order to the Exchange electronically. The electronic-only designation does not provide or remove any routing destinations or functionality TPHs do not already have today though less automated means. The electronic-only designation simply makes keeping an order in the electronic space faster and less labor intensive on TPHs.

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<sup>7</sup> 15 U.S.C. 78f(b)(5).

<sup>8</sup> Id.

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 competition that is not necessary or appropriate in furtherance of the purposes of the Act. Specifically, the electronic-only order designation will be available to all TPH who route orders electronically to the exchange. Further, the electronic-only designation acts only as a more convenient alternative to TPHs already defined ability to set their own routing parameters on the orders they send to the Exchange. As such, the Exchange does not anticipate the proposed change will result in a reduction of business or order flow to any market participant. Finally, the proposed change will not affect TPHs ability to route or request routing of orders to better priced markets outside CBOE.

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**

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the Exchange consents, the Commission will:

- A. by order approve or disapprove such proposed rule change, or
- B. institute proceedings to determine whether the proposed rule change should be 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](mailto:rule-comments@sec.gov). Please include File Number SR-CBOE-2017-064 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-2017-064. 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-2017-064 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.<sup>9</sup>

Eduardo A. Aleman  
Assistant Secretary

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<sup>9</sup> 17 CFR 200.30-3(a)(12).