

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-59585; File No. SR-CBOE-2009-017)

March 17, 2009

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Related to the Complex Order Book

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on March 13, 2009, the Chicago Board Options Exchange, Incorporated (the “Exchange” or “CBOE”) filed with the Securities and Exchange Commission (“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 proposed rule change pursuant to Section 19(b)(3)(A)(iii) of the Act<sup>3</sup> and Rule 19b-4(f)(6) thereunder.<sup>4</sup> 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 Rule 6.53C, Complex Orders on the Hybrid System, to permit conversions and reversals<sup>5</sup> to be eligible for routing to the complex order book (“COB”).

The text of the proposed rule change is available on the Exchange’s Web site

(<http://www.cboe.org/Legal>), at the Exchange’s Office of the Secretary and at the Commission.

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

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

<sup>3</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>4</sup> 17 CFR 240.19b-4(f)(6).

<sup>5</sup> A conversion (reversal) order is an order involving the purchase (sale) of a put option and the sale (purchase) of a call option in equivalent units with the same strike price and expiration in the same underlying security, and the purchase (sale) of the related instrument. See Rule 6.53C(a)(9).

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 self-regulatory organization 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 those 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 parts of such statements.

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

1. Purpose

When the Exchange originally adopted its electronic COB rule in 2005, the rule contained a provision related to the routing of conversions and reversals. Specifically, the rule provided that conversions and reversals will not be eligible for routing to the COB and that, when the Exchange determines to allow conversions and reversals to route to COB, it will submit to the Commission a rule filing pursuant to Section 19(b)(3)(A) of the Act.<sup>6</sup>

The Exchange has enhanced its COB system functionality and has determined to permit conversions and reversals to be routed to COB. As such, as provided in the rule, this rule change is being submitted pursuant to Section 19(b)(3)(A) to eliminate the restriction on routing conversions and reversals to COB. Conversions and reversals, as well as any other complex orders with stock that have more than one option leg, will be handled by COB in the same manner as stock-option orders that have only one option leg with one exception.<sup>7</sup>

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<sup>6</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>7</sup> As a result of being eligible for COB, these complex orders will also be eligible for electronic auction via the complex order auction ("COA"), the automated improvement mechanism ("AIM") and/or the solicitation auction mechanism ("AIM SAM"). See Rules 6.53C.06, 6.74A.07 and 6.74B.01.

For stock-option orders that have only one option leg, the rule currently provides that the option leg will not be executed on the Hybrid System at the Exchange's best bid (offer) in that series if one or more public customer orders are resting at that price on the electronic book, unless the option leg trades with such public customer order(s). This COB provision is consistent with CBOE's open outcry priority rules for stock-option orders that have only one option leg.<sup>8</sup> For conversions, reversals and other complex orders with stock that have more than one option leg, the rule text will clarify that this provision will apply only if there are public customer orders resting on the Hybrid System at the Exchange's best bid (offer) in the electronic book for each of the options legs of the conversion, reversal or stock-option order. Thus, the options legs of such an order would not execute on the Hybrid System at the Exchange's best bid (offer) if one or more public customer orders are resting at that price in the electronic book in each of the options legs, unless the options legs trade with such public customer orders. This proposed COB provision is consistent with CBOE's open outcry priority rules for stock-option orders that have more than one option leg.<sup>9</sup>

## 2. Statutory Basis

The Exchange believes the proposed rule change is consistent with Section 6(b) of the

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<sup>8</sup> In open outcry, stock-option orders that have only one option leg have priority over bid (offers) of the trading crowd, but not over bids (offers) in the public customer limit order book. See, e.g., Rules 6.45A(b)(ii) and 6.45B(b)(ii).

<sup>9</sup> In open outcry, stock-option orders that have more than one option leg are handled in the same manner as other complex orders that have more than one option leg and, as such, have priority over equivalent bids (offers) in the individual series legs that are represented in the trading crowd or in the public customer limit order book provided at least one leg of the order betters the corresponding bid (offer) in the public customer limit order book by at least the minimum trading increment or a \$0.01 increment, which increment shall be determined by the Exchange on a class-by-class basis. Id.

Act<sup>10</sup> in general and furthers the objectives of Section 6(b)(5) of the Act<sup>11</sup> in particular in that it is designed 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. In particular, the Exchange believes that the addition of conversions and reversals to the list of complex orders eligible for electronic handling under Rule 6.53C is a significant enhancement for investors seeking automated handling of conversions and reversals.

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 not necessary or appropriate in furtherance of the purposes of the Act.

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 proposal.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Because the foregoing rule 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 if consistent with the protection of investors and the public interest, provided that the self-regulatory organization has given the Commission written notice of its intent to file 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 proposed rule change has become effective pursuant to

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<sup>10</sup> 15 U.S.C. 78f(b).

<sup>11</sup> 15 U.S.C. 78f(b)(5).

Section 19(b)(3)(A) of the Act<sup>12</sup> and Rule 19b-4(f)(6) thereunder.<sup>13</sup> At any time within 60 days of the filing of such proposed rule change, the Commission may summarily abrogate 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.

#### 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-2009-017 on the subject line.

##### Paper Comments:

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-CBOE-2009-017. 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 Web site (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the

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<sup>12</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>13</sup> 17 CFR 240.19b-4(f)(6). The CBOE satisfied the requirement under Rule 19b-4(f)(6)(iii) that the CBOE give the Commission written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change.

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 inspection and copying in the Commission's Public Reference Room, 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-2009-017 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>14</sup>

Florence E. Harmon  
Deputy Secretary

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<sup>14</sup> 17 CFR 200.30-3(a)(12).