

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-64434; File No. SR-CBOE-2011-049)

May 6, 2011

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Proposed Rule Change Related to the Individual Trading Pause Pilot and CBSX Market-Maker Quoting Obligations

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 May 4, 2011, the Chicago Board Options Exchange, Incorporated (“Exchange” or “CBOE”) filed with the Securities and Exchange Commission (“SEC” or “Commission”) the proposed rule change as described in Items I and II 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 is proposing to amend CBOE Stock Exchange, LLC’s (“CBSX”, the CBOE’s stock trading facility) rules to include additional stocks in the individual stock trading pause pilot and to include certain conforming amendments to the CBSX Market-Maker quoting obligation provisions. The Exchange is also proposing certain other conforming and non-substantive amendments to CBSX’s individual stock trading pause provisions and CBOE’s options trading halt provisions. The text of the rule proposal is available on the Exchange’s website (<http://www.cboe.org/legal>), at the Exchange’s Office of the Secretary and at the Commission.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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

With respect to CBSX, the Exchange proposes to amend Rule 6.3C to include additional stocks in the pilot by which such rule operates and to amend Rules 53.23 and 53.56 to simplify certain aspects of the text while also conforming certain percentages thereunder to the proposed changes to Rule 6.3C. With respect to both CBSX and CBOE, the Exchange proposes to make certain other conforming and non-substantive changes to the text of Rules 6.3C and 6.3.06.

The Commission approved Rule 6.3C on a pilot basis on June 10, 2010 to provide for trading pauses in individual stocks due to extraordinary market volatility ("Trading Pause") in all stocks included in the S&P 500 Index ("S&P 500")("Trading Pause Pilot" or "Pilot").³ The Exchange subsequently received approval to add to the Pilot the stocks included in the Russell

³ The Commission approved the Trading Pause Pilot for all equities exchanges and FINRA. See Securities Exchange Act Release Nos. 62252 (June 10, 2010), 75 FR 34186 (June 16, 2010) (File Nos. SR-BATS-2010-014; SR-EDGA-2010-01; SR-EDGX-2010-01; SR-BX-2010-037; SR-ISE-2010-48; SR-NYSE-2010-39; SR-NYSEAmex-2010-46; SR-NYSEArca-2010-41; SR-NASDAQ-2010-061; SR-CHX-2010-10; SR-NSX-2010-05; and SR-CBOE-2010-047) and 62251 (June 10, 2010), 75 FR 34183 (June 16, 2010) (SR-FINRA-2010-025).

1000 Index (“Russell 1000”) and a specified list of Exchange Traded Products (“ETPs”).⁴

In consultation with other markets and the staff of the Commission, the Exchange proposes to include all NMS stocks within the Pilot that are not already included therein, but to apply a wider Threshold Move percentage to the newly added stocks. Accordingly, the Exchange proposes to amend the text of Rule 6.3C to provide that the Threshold Move required to trigger an individual stock trading pause for the proposed new stocks, as calculated by the primary listing market, to be 30% or more for such stocks priced at \$1 or higher and 50% or more for such stocks priced less than \$1.⁵ The Exchange believes that these percentages are commensurate with the characteristics shared by the proposed new stocks within these price ranges and would promote the objectives of the Trading Pause Pilot to reduce the negative impacts of unanticipated price movements in a security. In particular, the proposed additional stocks are those not currently included in the S&P 500 Index, Russell 1000 Index, or specified

⁴ The Commission approved the addition to the Trading Pause Pilot of the stocks included in the Russell 1000 and ETPs, where applicable, for all equities exchanges and FINRA. See Securities Exchange Act Release Nos. 62884 (September 10, 2010), 75 FR 56618 (September 16, 2010) (File Nos. SR-BATS-2010-018; SR-BX-2010-044; SR-CBOE-2010-065; SR-CHX-2010-14; SR-EDGA-2010-05; SR-EDGX-2010-05; SR-ISE-2010-66; SR-NASDAQ-2010-079; SR-NYSE-2010-49; SR-NYSEAmex-2010-63; SR-NYSEArca-2010-61; and SR-NSX-2010-08) and 62883 (September 10, 2010), 75 FR 56608 (September 16, 2010) (SR-FINRA-2010-033). The Exchange has subsequently extended the operation of the Pilot, which was originally set to expire on December 10, 2010, through the earlier of August 11, 2011 or the date on which a limit up-limit down mechanism to address extraordinary market volatility, if adopted, applies to the Circuit Breaker Stocks. See Securities Exchange Act Release Nos. 63502 (December 9, 2010), 75 FR 78306 (December 15, 2010) (SR-CBOE-2010-112) (extension of Pilot through April 11, 2011) and 64194 (April 5, 2011), 76 FR 20389 (April 12, 2011)(SR-CBOE-2011-031)(extension of Pilot through the earlier of August 11, 2011 or the date on which a limit up-limit down mechanism to address extraordinary market volatility, if adopted, applies to the pilot stocks).

⁵ Under the proposed rule change, the price of a stock would be based on the closing price on the previous trading day, or, if no closing price exists, the last sale reported to the Consolidated Tape on the previous trading day.

ETPs, and therefore are more likely to be less liquid securities or securities with lower trading volumes. Accordingly, the Exchange believes that broader Threshold Move percentages would be appropriate. Similarly, because leveraged ETPs trade at a ratio against the associated index, a broader Threshold Move percentage would also be appropriate for leveraged ETPs. With respect to the 30% threshold for stocks priced at \$1 or higher and the 50% threshold for stocks priced less than \$1, the rationale for this differentiation is that lower-priced securities may tend to be more volatile, and price movements of lower-priced stocks equate to a higher percentage move than a similar price change for a higher-priced stock.

The Exchange proposes to include new subsections 6.3C.03(a), (b) and (c) to reflect the distinction between the applicable Threshold Move percentages for current Pilot stocks and the proposed new stocks to be included within the Pilot.⁶ The Exchange also proposes to make certain other conforming and non-substantive changes to the text of Rules 6.3C and 6.3.06.⁷ The Exchange is not proposing any other substantive changes to the text of Rule 6.3C or the operation of the Pilot, and will continue in consultation with the other markets to assess whether the parameters for invoking a Trading Pause continue to be appropriate and whether the parameters should be modified.

⁶ The Exchange is not proposing a change to the Threshold Move percentage applicable to stocks currently included within the current Pilot. However, the changes proposed herein would require that certain rule text pertaining to the Threshold Move for the existing Pilot stocks be reorganized within Rule 6.3C.

⁷ The Exchange is proposing certain other conforming and non-substantive amendments to Rules 6.3C (pertaining to CBSX) and 6.3.06 (pertaining to CBOE). Specifically, the Exchange is proposing to replace certain references in these rules to “Circuit Breaker Stocks” and “eligible underlying stock” with conforming references to “NMS stocks” and “underlying NMS stock.” The Exchange is also proposing to include text in these rules confirming that, following an individual stock trading pause, trading will generally resume on the primary listing market after a period of five minutes, which is consistent with the current Pilot and is simply intended to provide more detail in the text explaining the existing Pilot’s operation.

The proposed changes to the Pilot, if approved, would require that the text of Rules 53.23.01 and 53.56.01, which pertains to the pricing obligations that CBSX Market-Makers are required to adhere to, be amended to update the cross-references therein to Rule 6.3C and the Threshold Moves thereunder. Specifically, the Exchange proposes to remove any text from the two rules addressing NMS stocks that are not subject to the Pilot because no such stocks would exist and such text would therefore be unnecessary. The Exchange also proposes to simplify the two rules by explicitly stating the percentages that are applicable thereunder and the times during the trading day when Rule 6.3C is not in effect.⁸ The Exchange notes that part of this proposed change would be substantive, in that the percentages under the two rules would decrease slightly for the proposed new stocks priced at \$1 or greater. The Exchange believes that this proposed substantive change would not have a significant impact on CBSX Market-Maker pricing obligations and is reasonable because it would ensure that the designated quoting percentages in the rules are within a narrower range than the percentages necessary to trigger a Trading Pause.

2. Statutory Basis

The statutory basis for the proposed rule change is Section 6(b)(5) of the Act,⁹ which requires the rules of an exchange to promote just and equitable principles of trade, 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. The proposed rule change also is designed to support the principles of Section 11A(a)(1)¹⁰ of the Act in that it seeks to assure fair competition among brokers and dealers and among exchange markets. The Exchange

⁸ The Exchange is also proposing a non-substantive amendment to Rules 53.23 and 53.56 to correct a typographical error (replacing the phrase “Market-Marker” with “Market-Maker”).

⁹ 15 U.S.C. 78f(b)(5).

¹⁰ 15 U.S.C. 78k-1(a)(1).

believes that the proposed rule meets these requirements because it expands the scope of the Pilot to cover all NMS stocks while adjusting the parameters of the rule for different stocks in a manner that will promote uniformity across markets concerning decisions to pause trading in a stock when there are significant price movements. Additionally, the proposed changes would ensure that the designated quoting percentages in Rules 53.23 and 53.56 are within a narrower range than the percentages necessary to trigger a Trading Pause.

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

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization 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. Please include File Number SR-CBOE-2011-049 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-2011-049. 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 such filing also will be available for inspection and copying at the principal office of CBOE. 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 publicly available. All submissions should refer

to File Number SR-CBOE-2011-049 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.¹¹

Elizabeth M. Murphy
Secretary

¹¹ 17 CFR 200.30-3(a)(12).