

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-65939; File No. SR-CBOE-2011-119)

December 12, 2011

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

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 December 6, 2011, the Chicago Board Options Exchange, Incorporated (“Exchange” or “CBOE”) filed with the Securities and Exchange Commission (the “Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. The Exchange has designated the proposal as a “non-controversial” proposed rule change pursuant to Section 19(b)(3)(A) 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 is proposing to amend its electronic complex order rules. The text of the proposed rule change is available on the Exchange’s website (www.cboe.org/Legal), at the Exchange’s Office of the Secretary and at the Commission.

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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A).

⁴ 17 CFR 240.19b-4(f)(6).

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

On a class-by-class basis, the Exchange may determine to activate the electronic complex order RFR auction ("COA"), which is a process by which eligible complex orders⁵ are given an opportunity for price improvement before being booked in the electronic complex order book ("COB") or once on a PAR workstation. Paragraph (d) of Rule 6.53C describes the COA process. Interpretation and Policy .04 of the Rule also provides that, with respect to the initiation of a COA, Trading Permit Holders routing complex orders directly to COB may request that the complex orders be COA'd on a class-by-class basis and Trading Permit Holders with resting complex orders on PAR may request that complex orders be COA'd on an order-by-order basis.

The Exchange is proposing to amend the rule to describe a COA feature for complex orders resting in COB (referred to herein as the "re-COA" feature), which is currently in use but not expressly covered in the rules. In particular, the Exchange is proposing to provide that, for each class where COA is activated, the Exchange may also determine to activate the re-COA

⁵ An eligible complex order, referred to in Rule 6.53C as a "COA-eligible order," means a complex order that, as determined by the Exchange on a class-by-class basis, is eligible for a COA considering the order's marketability (defined as a number of ticks away from the current market), size, complex order type and complex order origin type (i.e., non-broker-dealer public customer, broker-dealers that are not Market-Makers or specialists on an options exchange, and/or Market-Makers or specialists on an options exchange). All determinations by the Exchange on COA-eligible order parameters are announced to Trading Permit Holders by Regulatory Circular. See Rule 6.53C(d)(i)(2) and Interpretation and Policy .01 to Rule 6.53C.

feature for complex orders resting in COB. For such classes, any non-marketable order resting at the top of the COB (regardless of whether it was subject to COA before it was booked in COB)⁶ will be automatically subject to the re-COA feature if the order is within a number of ticks away from the current market (calculated based on the derived net price of the individual series legs). The Exchange notes that this re-COA feature for resting orders is only applicable to resting non-marketable orders that move close to the current market price calculated based on the individual series legs. This feature is not applicable to resting orders that become marketable. The Exchange may also determine on a class-by-class and strategy basis to limit the frequency of re-COA auctions initiated for complex orders resting in COB. For example, the Exchange might determine to limit the frequency of re-COA auctions to once every “X” seconds (the “interval timer”) for a total of “Y” intervals. Once this cycle is complete, the Exchange may determine to wait for a period of time “Z” (the “sleep timer”) and then reactivate the re-COA feature.⁷ All timers will be reset if a new complex order improves the top of the COB (i.e., improves the best net price bid or offer of the complex orders resting in COB). These limitations on the frequency of COA auctions due to the re-COA feature are intended to address system efficiency and effectiveness considerations, such as limiting repeated initiations of COA auctions (and related messaging) when there are flickering quotes. Once the re-COA feature is initiated for a resting

⁶ In this regard, the Exchange notes that, currently, all of its Trading Permit Holders have elected to have their COA-eligible orders COA'd. In addition, the Exchange notes that other markets have programs in place that provide for the automatic auctioning of complex orders. See, e.g., NASDAQ OMX PHLX LLC (“Phlx”) Rule 1080(e)(i)(A) which, among other things, provides that a complex order live auction (“COLA”) will initiate if the Phlx system receives a complex order that improves the Phlx complex order best debit or credit price respecting the specific complex order strategy that is the subject of the complex order. During a COLA, Phlx market participants may bid and offer against the COLA-eligible order pursuant to the Phlx Rule.

⁷ Determinations by the Exchange regarding the classes where the re-COA feature is activated and related tick distance and frequency parameters will be announced to Trading Permit Holders via Regulatory Circular.

order, all other aspects of the COA process described in Rule 6.53C will apply unchanged. The Exchange believes this re-COA feature facilitates the orderly execution of complex orders by providing an automated opportunity for price improvement to (and execution of) resting orders priced near the current market, similar to what a Trading Permit Holder might seek to do if the Trading Permit Holder were representing a complex order in open outcry (or just entering an order initially into COB).

The following example illustrates the operation of this re-COA feature: Assume the feature is activated for complex orders resting in COB that are within 2 ticks of the current market (\$0.02 in a class where complex orders trade in \$0.01 net price increments). Assume the frequency is limited to once every 15 seconds (the interval timer) for 1 interval. Under this setting, a total of 2 re-COA auctions could be triggered – the original re-COA auction and a second re-COA auction after the expiration of the 15-second interval timer. Assume the sleep timer is set at 60 minutes. Assume the current market calculated based on the derived net price of the individual series legs in the CBOE electronic book for a given strategy is at a net price of \$0.80 - \$1.01. If a complex order resting in the COB to buy the strategy is priced at a net debit price of \$0.98, the complex order is not marketable (as the order is away from the current market by \$0.03 (or 3 ticks)). If subsequently the individual series legs prices are updated such that the current market for the strategy moves to a net price of \$0.80 - \$1.00, the resting complex order to buy at \$0.98 would trigger the re-COA feature and initiate the re-COA auction process (as the order is within \$0.02 (or 2 ticks) of the current market). If there are no responses, the order would be placed back in COB. The resting order would not initiate the re-COA feature again until the 15-second interval timer has expired. When the 15-second interval timer expires, the order would be eligible to initiate the re-COA feature again if the current market moves after the

expiration of the timer and the order meets the tick distance parameter (the order would not automatically initiate the re-COA feature after the expiration of the interval timer; instead there must be an update to the current market after the expiration of the interval timer and the order must meet the tick distance parameter for the system to re-COA again). For example, if after the end of the 15-second interval timer the current market moves to \$0.80 - \$0.99 (or, for example, if the current market moves back to \$0.80 - \$1.01 and then, after the end of the 15-second interval timer moves back again to \$0.80 - \$1.00), then the resting complex order would again initiate the re-COA feature. If there are no responses, the order would be placed back in COB. The cycle is complete. Now that the resting order has been subject to COA 2 times since it was booked in COB, the 60 minute sleep timer will begin and the resting order will not be eligible for the re-COA feature again until the sleep timer expires and there is a quote update after that timer expires that is within the tick distance parameter. All timers would be reset anytime there is a price change at the top of the COB. For example, if five minutes into the sleep interval a second complex order is entered to rest in COB at a price of \$0.99 (\$0.01 better than the original resting order priced at \$0.98), the original resting order would no longer be at the top of the COB and subject to the re-COA feature. The timers would reset and the second complex order (which now represents the top of the COB) would be subject to the re-COA process. If, for example, the second order subsequently trades (constituting a price change at the top of the COB), the original order would be at the top of the COB again and could become subject to the re-COA feature again.

2. Statutory Basis

The proposed rule change is consistent with Section 6(b) of the Act⁸ in general and furthers the objectives of Section 6(b)(5) of the Act⁹ in particular in that it should promote just and equitable principles of trade, serve to remove impediments to and perfect the mechanism of a free and open market and a national market system, and protect investors and the public interest. The Exchange believes that the proposed rule change facilitates the orderly execution of complex orders by providing an automated opportunity for price improvement to (and execution of) resting orders priced near the current market.

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.

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

⁸ 15 U.S.C. 78f(b).

⁹ 15 U.S.C. 78f(b)(5).

Section 19(b)(3)(A) of the Act¹⁰ and Rule 19b-4(f)(6) thereunder.¹¹ At any time within 60 days of the filing of such 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.

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-2011-119 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-2011-119. 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

¹⁰ 15 U.S.C. 78s(b)(3)(A).

¹¹ 17 CFR 240.19b-4(f)(6).

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; 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-2011-119 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.¹²

Kevin M. O'Neill
Deputy Secretary

¹² 17 CFR 200.30-3(a)(12).