

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-68241; File No. SR-CBOE-2012-107)

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend the Fees Schedule

November 15, 2012

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 November 2, 2012, 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 to amend its Fees Schedule. The text of the proposed rule change is available on the Exchange’s Web site (<http://www.cboe.com/AboutCBOE/CBOELegalRegulatoryHome.aspx>), 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 proposed rule change. The text of these statements may be examined at the places

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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 the Statutory Basis for, the Proposed Rule Change

1. Purpose

On April 5, 2007, CBOE established an Order Router Subsidy Program ("ORS Program" or "Program") in which CBOE may enter into subsidy arrangements with CBOE Trading Permit Holders (each, a "Participating TPH") that provide certain order routing functionalities to other CBOE TPHs and/or use such functionalities themselves.³ The Exchange later extended this program to enable CBOE to establish such subsidy arrangements with broker-dealers that are not CBOE TPHs (each a "Participating Non-CBOE TPH") and to permit Participating TPHs and Non-CBOE TPH's [sic] to receive subsidy payments for providing order routing functionality to broker-dealers who are not CBOE TPHs.⁴ (The term "Participant" as used in this filing refers to either a Participating TPH or a Participating Non-CBOE TPH). To qualify for the subsidy arrangement, a Participant's order routing functionality has to: (i) enable the electronic routing of orders to all of the U.S. options exchanges, including CBOE; (ii) provide current consolidated market data from the U.S. options exchanges; and (iii) be capable of interfacing with CBOE's API to access current CBOE trade engine functionality. The

³ See Securities Exchange Act Release No. 55629 (April 13, 2007) 72 FR 19992 (April 20, 2007) (SR-CBOE-2007-34). Additionally, the description of the current program was clarified in SR-CBOE-2008-27. See Securities Exchange Act Release No. 57498 (March 14, 2008), 73 FR 15018 (March 20, 2008) (SR-CBOE-2008-27).

⁴ See Securities Exchange Act Release No. 63631 (January 3, 2011) 76 FR 1203 (January 7, 2011) (SR-CBOE-2010-117).

routing system also needs to cause CBOE to be the default destination exchange for individually executed marketable orders if CBOE is at the national best bid or offer ("NBBO"), regardless of size or time, but allow any user to manually override CBOE as the default destination on an order-by-order basis. The order routing functionality is required to incorporate a function allowing orders at a specified price to be sent to multiple exchanges with a single click (a "sweep function") and the sweep function would need to be configured to cause an order to be sent to CBOE for up to the full size quoted by CBOE if CBOE is at the NBBO. Any CBOE TPH or broker-dealer that is not a CBOE TPH is permitted to avail itself of this arrangement, provided that its order routing functionality incorporates the features described above and satisfies CBOE that it appears to be robust and reliable. The Participant is solely responsible for implementing and operating its system.

Participants will receive a payment from CBOE for every executed contract for orders routed to CBOE through that participating CBOE TPH or Non-CBOE TPH's system to subsidize their costs associated with providing order routing functionalities. The payment is \$.04 per executed contract for orders routed to CBOE through a Participant's system.⁵ CBOE does not make payments under this Program with respect to executed contracts in single-listed options classes traded on CBOE, or with respect to complex orders or spread orders. The Participants have to agree that they are not entitled to receive any other revenue for the use of its system, specifically with respect to orders

⁵ See Securities Exchange Act Release No. 62432 (July 1, 2010), 75 FR 39602 (July 9, 2010) (SR-CBOE-2010-66).

routed to CBOE.⁶ Participants are not precluded, however, from receiving payment for order flow if they choose to do so.

Under the program, a Participant may also elect to have CBOE perform certain additional marketing services on its behalf. These services consist of including the Participant's functionality in the general marketing activities of CBOE's marketing staff. CBOE permits a Participant electing to have CBOE perform these services to place CBOE's "HyTS" trademark on its order routing functionality in a manner satisfactory to CBOE. If a Participant elects to have CBOE perform these services, the amount that CBOE pays the Participant for orders routed to CBOE through the Participant's system is reduced from \$0.04 per executed contract to \$0.03 per executed contract.⁷ The minimum term of these services is one year, after which a Participant can terminate the marketing services effective at the end of a calendar month.

A Participant can also elect to have CBOE perform the service of billing other CBOE TPHs with respect to the use of the Participant's router. A Participant that elects to have CBOE perform this service pays CBOE a service fee of one percent of the fees collected by CBOE for that TPH. A Participant can terminate this service at the end of any calendar month.

Nothing about the subsidy arrangement relieves any CBOE TPH or non-CBOE TPH broker-dealer that is using an order routing functionality whose provider is

⁶ This requirement would not prevent the participating member from charging fees (for example, a monthly fee) for the general use of its order routing system. Nor would it prevent the participating member from charging fees or commissions in accordance with its general practices with respect to transactions effected through its system.

⁷ See Securities Exchange Act Release No. 62432 (July 1, 2010), 75 FR 39602 (July 9, 2010 (SR-CBOE-2010-66)).

participating in the Program from complying with its best execution obligations. Specifically, just as with any customer order and any other routing functionality, both a CBOE TPH and a non-CBOE TPH have an obligation to consider the availability of price improvement at various markets and whether routing a customer order through a functionality that incorporates the features described above would allow for access to such opportunities if readily available. Moreover, any user, whether or not a CBOE TPH, needs to conduct best execution evaluations on a regular basis, at a minimum quarterly, that include its use of any router incorporating the features described above.

The Exchange, at the time the Program was established, did not include the ORS Program in the Fees Schedule. The Exchange now proposes to codify the ORS Program in the Fees Schedule. No substantive changes to the ORS Program are being made by this proposal.

2. Statutory Basis

The proposed rule change is consistent with Section 6(b) of the Act, in general. Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5) requirements that the rules of an exchange be designed to promote just and equitable principles of trade, to prevent fraudulent and manipulative acts, to remove impediments to and to perfect the mechanism for a free and open market and a national market system, and, in general, to protect investors and the public interest. Codifying in the Fees Schedule the ORS Program, in which CBOE may enter into subsidy arrangements with CBOE TPHs and Non-CBOE TPHs that provide certain order routing functionalities to other CBOE TPHs or Non-CBOE TPH broker dealers and/or use such functionalities themselves provides additional transparency and allows market participants to easily discern the subsidies and/or fees that result from such arrangements.

This will eliminate any potential confusion, thereby removing a potential impediment to and perfecting the mechanism for a free and open market and a national market system, and, in general, protecting investors and the public interest.

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 proposed rule change.

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)⁸ of the Act and paragraph (f) of Rule 19b-4⁹ 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.

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:

⁸ 15 U.S.C. 78s(b)(3)(A).

⁹ 17 C.F.R. 240.19b-4(f).

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-2012-107 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-2012-107. 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. 20549-1090, 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 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-2012-107, 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

Kevin M. O'Neill
Deputy Secretary

¹⁰ 17 CFR 200.30-3(a)(12).