

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-69220; File No. SR-CBOE-2013-040)

March 22, 2013

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to Complex Orders and Mini-Options

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 March 22, 2013, 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 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 the Substance of the Proposed Rule Change

The Exchange proposes to amend its rules related to complex orders. The text of the proposed rule change is also available on the Exchange’s website (<http://www.cboe.org/legal>) 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.

¹ 15 U.S.C. 78s(b)(1).

² 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

CBOE recently amended its rules to allow for the listing of mini-options on SPDR S&P 500 ("SPY"), Apple, Inc. ("AAPL"), SPDR Gold Trust ("GLD"), Google Inc. ("GOOG") and Amazon.com Inc. ("AMZN").³ Mini-option trading commenced on March 18, 2013. Whereas standard option contracts represent a deliverable of 100 shares of an underlying security, mini-options contracts represent a deliverable of 10 shares. Except for the difference in the number of deliverable shares, mini-options have the same terms and contract characteristics as regular-sized equity and ETF options, including exercise style. Accordingly, the Exchange noted in its original mini-option filing that Exchange rules that apply to the trading of standard option contracts would apply to mini-option contracts as well.⁴ The Exchange proposes to amend Rule 6.53C (Complex Orders on the Hybrid System) and Rule 6.80 (Definitions) to provide that for the purpose of applying the permissible ratios to complex orders comprised of both mini-option contracts and standard option contracts, ten (10) mini option contracts will represent one (1) standard option contract.

By way of background, CBOE Rule 6.53C governs Complex Orders on the Hybrid System and CBOE Rule 6.80 lists definitions applicable to intermarket linkage.

Particularly, "complex order" in Rule 6.53C(a)(1) and "complex trade" in Rule 6.80(4)(i)

³ See Securities Exchange Act Release No. 68656 (January 15, 2013), 78 FR 4526 (January 22, 2013) (Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to List and Trade Option Contracts Overlying 10 Shares of Certain Securities) (SR-CBOE-2013-001).

⁴ Id.

(collectively referred to as “complex orders”)⁵ is defined as any order involving the execution of two or more different options series in the same underlying security occurring at or near the same time in a ratio that is equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.00).

The Exchange notes that the abovementioned permissible ratios were established to ensure that only complex orders that seek to achieve legitimate investment strategies are afforded certain benefits. Particularly, since compliance with trade-through rules may impede a market participant’s ability to achieve the legitimate investment strategies that complex orders facilitate, an exception from the prohibition on trade-throughs is provided for any transaction that was effected as a portion of a legitimate complex order. Requiring a meaningful relationship between the different legs of a complex order prevents market participants from taking advantage of these orders to circumvent the otherwise applicable trade-through rules (e.g., preventing the execution of a complex order where one leg consists of 100 standard options (i.e., 10,000 shares) and another leg consists of only 1 standard option (i.e., 100 shares).

The Exchange acknowledges that in accordance with the provisions of Rule 6.53C(a)(1) and Rule 6.80(4)(i), one leg of a complex order may consist of mini-option contract(s) and the other leg of the order may consist of standard option contract(s), so long as the underlying security is the same and the transaction does not violate the permissible ratios set forth in the rules (i.e., ratio greater or equal to one-to-three or less or equal to three-to-one). The Exchange notes the definition of a complex order in Rule 6.53C and Rule 6.80 was drafted at a time in which only option contracts with a deliverable of 100 shares was contemplated. Therefore, the rules do not address how the permissible ratios would be scaled in the event an option with a

⁵ The definitions of “complex order” in Rule 6.53C(a)(1) and “complex trade” in Rule 6.80(4)(i) are substantially identical.

non-standard deliverable becomes available for trading. Accordingly, the Exchange proposes to amend the definition of “complex orders” in Rule 6.53C(a)(1) and Rule 6.80(4)(i) to specify that for the purpose of applying the aforementioned ratios to complex orders comprised of mini-option contracts and standard option contracts, ten (10) mini option contracts will represent one (1) standard option contract. Moreover, the Exchange seeks to clarify that these permissible ratios represent the total number of shares of the underlying stock in the mini-option leg to the total number of shares of the underlying stock in the standard option leg. An example of a permissible complex order involving mini-options and standard options would be an order in which leg one consists of thirty (30) mini-options (i.e., 300 shares) and leg two consists of one (1) standard option (i.e., 100 shares) in the same underlying security (i.e., a ratio equal to 3.0). Another example of a permissible complex order would be an order in which leg one consists of ten (10) mini-options (i.e., 100 shares) and leg two consists of one (1) standard option (i.e., 100 shares) in the same underlying security (i.e., a ratio equal to one-to-one). The proposed clarification will reduce potential confusion for investors when trading mini-options. The proposed change also ensures that the principle behind the permissible ratios (i.e., to provide a meaningful relationship between the legs of complex orders) is maintained for mini-options.

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the Act and the rules and regulations thereunder, including the requirements of Section 6(b) of the Act.⁶ In particular, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)⁷ requirements that the rules of an exchange be designed to promote just and equitable principles of trade, to prevent fraudulent and manipulative acts, to foster cooperation and coordination with

⁶ 15 U.S.C. 78f(b).

⁷ 15 U.S.C. 78f(b)(5).

persons engaged in facilitating transactions in securities, 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.

Specifically, the Exchange believes that investors and market participants benefit from being permitted to execute complex orders in mini-options because it allows them to take advantage of legitimate investment strategies. Also, the Exchange believes the proposed rule change will avoid investor confusion if both standard options and mini-options on the same underlying security are permitted to trade as complex orders. The Exchange further believes that specifying that for the purpose of applying the permissible ratios to complex orders comprised of mini-option contracts and standard option contracts, ten (10) mini option contracts will represent one (1) standard option contract would lessen investor and marketplace confusion. Particularly, the Exchange believes that the absence of such an amendment could lead to investor confusion about how complex orders involving mini-option contracts trade. Also, maintaining the permissible ratios that are applicable to standard options in proportion for mini-options ensures that the principle behind the permissible ratios (i.e., to provide a meaningful relationship between the legs of complex orders) is maintained for mini-options, which promotes just and equitable principles of trade.

Finally, the Exchange believes that the proposed rule change is designed to not permit unfair discrimination among market participants as all market participants may participate in complex orders involving mini-options.

B. Self-Regulatory Organization's Statement on Burden on Competition

This proposed rule change does not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. Specifically, since mini-

options are permitted on multiply-listed classes, other exchanges that have received approval to trade mini-options will have the opportunity to similarly amend their complex order rules to clarify and accommodate complex orders in mini-option classes. Moreover, because all Trading Permit Holders may participate in complex orders involving mini-options, the rule change does not permit unfair discrimination and does not impose a burden on Trading Permit Holders.

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

Because the foregoing proposed rule change 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, it has become effective pursuant to Section 19(b)(3)(A)⁸ of the Act and Rule 19b-4(f)(6)⁹ thereunder.

A proposed rule change filed under Rule 19b-4(f)(6) of the Act¹⁰ normally does not become operative prior to 30 days after the date of the filing. However, pursuant to Rule 19b-4(f)(6)(iii) of the Act,¹¹ the Commission may designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange has requested the

⁸ 15 U.S.C. 78s(b)(3)(A).

⁹ 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change at least five business days prior to the date of the filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

¹⁰ 17 CFR 240.19b-4(f)(6).

¹¹ 17 CFR 240.19b-4(f)(6)(iii).

Commission to waive the 30-day operative delay so that the proposal may become operative immediately upon filing. In January 2013, the Exchange filed a proposed rule change to amend its rules to list and trade certain mini-options contracts on the Exchange, and represented in that filing that the Exchange's rules that apply to the trading of standard options contracts would apply to mini-options contracts.¹² The Exchange believes that waiver of the 30-day operative delay is consistent with the protection of investors and the public interest because such waiver would minimize confusion among market participants about how complex orders and stock-options orders involving mini-options contracts will trade.¹³

The Commission believes that waiving the 30-day operative delay is consistent with the protection of investors and the public interest. Such waiver would allow the Exchange to implement the proposed rule change immediately, thereby mitigating potential investor confusion as to how complex orders and stock options orders involving mini-options contracts will trade. For this reason, the Commission hereby waives the 30-day operative delay and designates the proposed rule change to be operative upon filing with the Commission.¹⁴

The Exchange represented that it began trading in mini-options contracts on March 18, 2013. The Commission notes that this proposed rule change was filed on March 22, 2013, and, therefore, pursuant to Rule 19b-4(f)(6), waiver of the 30-day operative delay renders this proposed rule change effective upon the day that it was filed, March 22, 2013.

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

¹² See supra note 3.

¹³ See SR-CBOE-2013-040, Item 7.

¹⁴ For purposes only of waiving the 30-day operative delay, the Commission has also considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule change should be approved or 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-2013-040 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-2013-040. 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 20549-1090, 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-2013-040, 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.¹⁵

Kevin M. O'Neill
Deputy Secretary

¹⁵ 17 CFR 200.30-3(a)(12).