SECURITIES AND EXCHANGE COMMISSION

(Release No. 34-70930; File No. SR-CBOE-2013-093)

November 22, 2013

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Order
Approving a Proposed Rule Change to Amend CBOE Rule 6.42

I.   Introduction

On September 27, 2013, the Chicago Board Options Exchange, Incorporated (the

"Exchange" or "CBOE") filed with the Securities and Exchange Commission (the

"Commission"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the

"Act")[1] and Rule 19b-4 thereunder,[2] a proposed rule change to amend CBOE Rule 6.42,

"Minimum Increments for Bids and Offers," to establish a minimum quoting increment for

complex orders. The proposed rule change was published for comment in the Federal Register

on October 22, 2013.[3] The Commission received no comment letters regarding the proposed

rule change. This order approves the proposed rule change.

II.   Description of the Proposal

Currently, CBOE Rule 6.42(4) provides that bids and offers on complex orders may be

expressed in any increment regardless of the minimum increments otherwise appropriate to the

individual legs of the order.[4] CBOE states that this language allows bids and offers for complex

---

[1]   15 U.S.C. 78s(b)(1).

[2]   17 CFR 240.19b-4.

[3]   See Securities Exchange Act Release No. 70618 (October 7, 2013), 78 FR 62887
        ("Notice").

[4]   For the purposes of CBOE Rule 6.42, a complex order is a spread, straddle, combination,
        or ratio order as defined in CBOE Rule 6.53, a stock-option order as defined in CBOE
        Rule 1.1(ii), a security future-option order as defined in Rule 1.1(zz), or any other
        complex order as defined in CBOE Rule 6.53C. See CBOE Rule 6.42, Interpretation and
        Policy .01.

orders to be expressed in any increment whatsoever.[5] To establish a minimum quoting

increment for complex orders, CBOE proposes to revise CBOE Rule 6.42(4) to state that bids

and offers for complex orders may be expressed in any net price increment that may not be less

than $0.01, which CBOE may determine on a class-by-class basis and announce to Trading

Permit Holders ("TPHs") via Regulatory Circular.[6] CBOE would notify TPHs of the minimum

quoting increments for complex orders via Regulatory Circular.[7] CBOE would not change the

minimum quoting increments for complex orders on an intra-day basis.[8]

According to CBOE, many web-based services that public customers use to enter options

orders do not permit the entry of orders in sub-penny increments, a limitation that other market

participants may not face.[9] CBOE believes that the proposal will establish a minimum complex

order quoting increment that all market participants will be able to monitor and in which all

market participants will be able to enter orders.[10] In addition, because CBOE's electronic

complex order execution systems, the Complex Order Book ("COB") and Complex Order

Auction ("COA"), are not configured to permit quoting in sub-penny increments, the $0.01

minimum increment would place electronic and manually entered complex orders on an even

---

5   See Notice 78 FR at 62887.

6   CBOE states that the rule would allow the Exchange to establish uniform complex order
       quoting increments within a class, and to set and vary the minimum complex order
       quoting increments for different classes in response to different market conditions in
       those classes and to encourage more trading in those classes. CBOE notes that its rules
       currently allow it to establish minimum quoting increments for complex orders in options
       on the S&P 500 Index ("SPX"), the p.m.-settled S&P 500 Index ("SPXPM"), and on the
       S&P 100 Index ("OEX" and "XEO"). See Notice 78 FR at 62888 and CBOE Rule
       6.42(4).

7   See Notice 78 FR at 62888.

8   See id. at note 4.

9   See Notice 78 FR at 62887.

10   See id.

footing.[11] CBOE also believes that establishing a minimum quoting increment of $0.01 will

assure that price improvement occurs at a meaningful increment, and will prevent market

participants from jumping ahead of an existing quote by providing a de minimus amount of price

improvement.[12]

III.   Discussion and Commission Findings

After careful review, the Commission finds that the proposed rule change is consistent

with the requirements of the Act and the rules and regulations thereunder applicable to a national

securities exchange.[13] In particular, the Commission finds that the proposed rule change is

consistent with Section 6(b)(5) of the Act,[14] which requires, among other things, that the rules of

a national securities exchange be designed to prevent fraudulent and manipulative acts and

practices, 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. As discussed above, CBOE Rule 6.42(4) currently

allows bids and offers for complex orders to be expressed in any increment, which potentially

could permit bids and offers for complex orders to be expressed in increments smaller than

$0.01. In contrast, complex orders entered in the COB and RFR Responses to a COA auction

---

[11]   See Notice 78 FR at 62887 – 62888. See also CBOE Rules 6.53C(c)(ii) and 6.53C(d)(iii)(1) (providing for quoting increments of no less than $0.01 in the COB and Requests for Responses ("RFRs") in increments of no less than $0.01 in the COA). CBOE notes that the $0.01 minimum increment would prevent sophisticated market participants from manually entering complex order quotations in sub-penny amounts. See Notice 78 FR at 62888, note 5.

[12]   See Notice 78 FR at 62888.

[13]   In approving this proposal, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

[14]   15 U.S.C. 78f(b)(5).

may not be entered in increments smaller than $0.01.[15] Thus, under CBOE's current rules,

complex orders that are entered manually potentially could be entered in increments smaller than

$0.01, while complex order trading interest entered electronically in the COB and the COA may

not be entered in increments smaller than $0.01. By establishing a $0.01 minimum quoting

increment for complex orders, the proposal is designed to protect investors by establishing a

consistent minimum quoting increment for complex orders that are entered manually and

complex orders that are entered electronically through the COB and COA.

IV.   Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,[16] that the

proposed rule change (SR-CBOE-2013-093) is approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated

authority.[17]

Kevin M. O'Neill
Deputy Secretary

---

[15]   See CBOE Rules 6.53C(c)(ii) and (d)(iii)(1).

[16]   15 U.S.C. 78s(b)(2).

[17]   17 CFR 200.30-3(a)(12).