

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-70961; File No. SR-CBOE-2013-113)

November 29, 2013

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing of a Proposed Rule Change Relating to Multi-Class Spread Orders

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 18, 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, 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 the Substance of the Proposed Rule Change

CBOE proposes to amend its rule related to Multi-Class Broad-Based Index Option Spread Orders (referred to herein as “Multi-Class Spread Orders”). The text of the proposed rule change is available on the Exchange’s website

(<http://www.cboe.com/AboutCBOE/CBOELegalRegulatoryHome.aspx>), 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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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 Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange proposes to make changes regarding the trading of Multi-Class Spread Orders. The proposed changes to the rule update the definition of “Broad-Based Index Option” in Rule 24.19 in order to reflect the Broad-Based Index Options currently eligible to be used in Multi-Class Spread Orders under Rule 24.19.³ An updated definition of “Broad-Based Index Option” necessarily requires an update to the definition of Multi-Class Spread Order to reflect the valid combinations of Broad-Based Index Options to which the rule applies.⁴ The Exchange also proposes to update the definition of Multi-Class Spread Order to more clearly and accurately reflect what such an order is. Currently, the term Multi-Class Spread Order is defined as “an order or quote to buy a stated number of contracts of a Broad-Based Index Option and to sell an equal number, or an equivalent number, of contracts of a different Broad-Based Index Option.”⁵ However, a Multi-Class Spread Order can be effected without necessarily buying contracts and

³ As such, the Exchange proposes to add options on the S&P 500 Index PM-Settled (SPXPM), Mini-SPX Index (XSP), CBOE Volatility Index (VIX), CBOE Binary Options on the S&P 500 Index (BSZ), CBOE Binary Options on the CBOE Volatility Index (BVZ), S&P 500 Range Options (SRO), and Russell 2000 Index (RUT) to the definition of “Broad-Based Index Option” described in CBOE Rule 24.19(a)(1) as well as clarify that the S&P 100 Index includes both the OEX and XEO classes.

⁴ As such, the Exchange proposes to amend CBOE Rule 24.19(a)(2) to state that Multi-Class Spread Orders may be composed of (i) any combination of MNX, NDX, or QQQ; (ii) any combination of OEF, OEX, XEO or SPX; (iii) any combination of SPX (including SPXW and SPXQ), SPXPM, SPY, XSP, VIX, VXX, VXZ, BSZ, BVZ or SRO; (iv) any combination of IWM and RUT; and (v) any other combination of related Broad-Based Index Options as determined by the Exchange.

⁵ See CBOE Rule 24.19(a)(2).

selling other contracts. The key component of a Multi-Class Spread Order is really the establishment of an appropriate hedge between the two options classes. As such, a Multi-Class Spread Order could be effected by buying contracts in two different classes, without selling any contracts (or vice versa). For example, a market participant could buy 100 SPX calls and buy 200 OEX puts, thereby establishing an appropriate hedge (since the first leg creates a long position and the second leg creates a short position). Therefore, the Exchange proposes to amend this statement to replace the terms “buy” and “sell” with “transact”, and to add the language regarding establishing of an appropriate hedge. Also, the description of a Multi-Class Spread Order being “an order or quote” is somewhat misleading, as a quote cannot be submitted for a Multi-Class Spread Order unless that quote is submitted in response to a Multi-Class Spread Order. As such, the Exchange proposes to clarify that it is an “order or quote in response to an order...” Going forward a Multi-Class Spread Order shall be defined as an order or quote in response to an order to transact a stated number of contracts of a Broad-Based Index Option and to transact an equal number, or an equivalent number, of contracts of a different Broad-Based Index Option to create an appropriate hedge.

Currently, Multi-Class Spread Orders are manually created and executed on the floor of the Exchange and may not be entered electronically. The Exchange is in the process of modifying its electronic order-entry systems to provide for the electronic entry and routing of Multi-Class Spread Orders to the floor of the Exchange. Accordingly, the Exchange is proposing changes to Rule 24.19(b) that will state that Multi-Class Spread Orders may be entered from on or off the CBOE floor. Consistent with the audit trail requirements that apply to all orders (in accordance with Rule 6.24), the proposed rule will require that all Multi-Class Spread Orders must be systematized as Multi-Class Spread Orders prior to representation at a trading station.

An order is systematized if the order is sent electronically to the Exchange or the order is sent to the Exchange non-electronically and input electronically into the Exchange's systems contemporaneously upon receipt on the Exchange.

Because the rule applies only to Multi-Class Spread Orders composed of certain combinations of Broad-Based Index Options, any Multi-Class Spread Order received by CBOE that contains an invalid combination of options will be rejected by the Exchange's systems. The market participant who sends such an error will receive notice of such rejection.

Because the current order creation process is a manual, on-floor process, the current language states that a Multi-Class Spread Order may be represented at the trading station of either Broad-Based Index Option involved, and also requires that the Trading Permit Holder ("TPH") initiating the order in the trading crowd to contact an Order Book Official ("OBO"), Designated Primary Market-Maker ("DPM"), or Exchange staff, as applicable, at the other trading station to have a notice of such order disseminated to the other trading crowd. The proposed rule change will require a Multi-Class Spread Order must [sic] be represented at the primary trading station, and state that the TPH representing the order must contact an OBO, DPM, or Exchange staff (as applicable) at the other trading station in order to provide notice of such order for dissemination to the other trading crowd. This ensures that all market participants at both physical trading locations are aware of the terms of the order being processed. The proposed change recognizes that a Multi-Class Spread Order may be routed from off of the Exchange floor. Furthermore, the proposed rule change also makes minor changes to the text of the rule in order to enhance reader clarity.

The proposed rule change will simplify the process of creating and executing Multi-Class Spread Orders on the floor of the Exchange, and it will enhance the Exchange's audit trail with

respect to such orders. No later than 90 days following the effective date of the proposed rule change, the Exchange will announce to TPHs via Regulatory Circular the implementation date by which TPHs must be in compliance with the changes described herein. The implementation date will be no later than 180 days following the effective date of the proposed rule change, and will be at least 60 days following the release of the abovementioned Regulatory Circular (in order to give TPHs ample time to come into compliance with the changes described herein).

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the Act and the rules and regulations thereunder applicable to the Exchange and, in particular, the requirements of Section 6(b) of the Act.⁶ Specifically, 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 prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, 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. Additionally, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)⁸ requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

Automating the Multi-Class Spread Order creation process and allowing such orders to be routed from on or off of the floor of the Exchange serves to remove impediments to and to

⁶ 15 U.S.C. 78f(b).

⁷ 15 U.S.C. 78f(b)(5).

⁸ Id.

perfect the mechanism for a free and open market and a national market system by providing market participants the ability to route Multi-Class Spread Orders to the Exchange electronically. More accurately defining the term “Multi-Class Spread Orders” prevents confusion, thereby to [sic] removing impediments to and perfecting the mechanism for a free and open market. The Exchange believes the proposed changes, which include increasing the explicit list of the number of securities that can be included in Multi-Class Spread Orders, will increase opportunities for execution of Multi-Class Spread Orders, which will benefit investors. 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 Multi-Class Spread Orders. Additionally, enhancing the audit trail with respect to Multi-Class Spread Orders promotes transparency and aids in surveillance, thereby protecting investors. Further, updating the definitions of “Broad-Based Index Options” and “Multi-Class Spread Orders” will reduce possible confusion regarding what Multi-Class Spread Orders are and which Broad-Based Index Options may be eligible for representation as a Multi-Class Spread Order in accordance with Rule 24.19, thereby removing impediments to and perfecting the mechanism for a free and open market and a national market system

The Exchange also believes the proposed rule change is consistent with Section 6(b)(1) of the Act,⁹ which provides that the Exchange be organized and have the capacity to be able to carry out the purposes of the Act and to enforce compliance by the Exchange’s Trading Permit Holders and persons associated with its Trading Permit Holders with the Act, the rules and regulations thereunder, and the rules of the Exchange. Enhancing the audit trail with respect to Multi-Class Spread Orders will allow the Exchange to better enforce compliance by the

⁹ 15 U.S.C. 78f(b)(1).

Exchange's TPHs and persons associated with its TPHs with the Act, the rules and regulations thereunder, and the rules of the Exchange.

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.

The Exchange believes that automating the Multi-Class Spread Order creation process and allowing such orders to be routed from on or off of the floor of the Exchange promotes fair and orderly markets, as well as assists the Exchange in its ability to effectively attract order flow and liquidity to its market, and ultimately benefits all CBOE TPHs and all investors.

The Exchange does not believe that the proposed rule change will impose any burden on intramarket competition that is not necessary or appropriate in furtherance of the purposes of the Act because Multi-Class Spread Orders are available to all market participants through CBOE TPHs. The Exchange does not believe that the proposed rule change will impose any burden on intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act because, again, Multi-Class Spread Orders are available to all market participants through CBOE TPHs, which makes CBOE a more effective marketplace. Further, the proposed changes only affect trading on CBOE. To the extent that the proposed changes make CBOE more attractive to market participants at other exchanges, such market participants may elect to become CBOE market participants.

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

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the Exchange 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-2013-113 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-2013-113. 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 offices 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-2013-113, 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).