

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-71872; File No. SR-CBOE-2014-026)

April 4, 2014

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing of a Proposed Rule Change to Amend its Rule 24.19

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 21, 2014, 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

The Exchange proposes to amend its rule related to Multi-Class Broad-Based Index Option 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 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

The Exchange proposes to make changes regarding Multi-Class Broad-Based Index Option Spread Orders (“Multi-Class Spread Orders”) and its Rule 24.19. Exchange Rule 24.19 provides a definition of the term “Broad-Based Index Option” for the purposes of Rule 24.19. However, some of the products that qualify as “Broad-Based Index Options” under Rule 24.19 are not, in and of themselves, index options. As such, the Exchange proposes to rename this term “Broad Based Option” and replace the term “Broad-Based Index Option” with “Broad-Based Option” throughout Rule 24.19.

Similarly, Rule 24.19 provides a definition of the term “Multi-Class Broad-Based Index Option Spread Order.” Because of the change proposed above, the Exchange proposes to remove the word “Index” from this term. The Exchange also proposes to replace the word “Spread” with “Complex” in order to achieve continuity within Exchange rules (spread orders are complex orders). As such, the term would now be “Multi-Class Broad-Based Option Complex Order” and the Exchange proposes to replace “Multi-Class Broad-Based Index Option Spread Order” with “Multi-Class Broad-Based Option Complex Order” throughout Rule 24.19 (and to replace the shortened term, “Multi-Class Spread Order” with “Multi-Class Complex Order” throughout Rule 24.19).

The Exchange also proposes to update the definition of Multi-Class Complex Order to more clearly and accurately reflect what such an order is. Currently, the term Multi-Class Complex Order is defined as “an order or quote to buy a stated number of contracts of a Broad-Based Option and to sell an equal number, or an equivalent number, of contracts of a different

Broad-Based Option.”³ The common conception of a Multi-Class Complex Order really involves the transaction (either a buy or a sell) of a stated number of contracts of a Broad-Based Option and the transaction (either a buy or a sell) of an equal number, or equivalent number, of contracts of a different Broad-Based Option to achieve a position in which one leg of the order generally offsets the market exposure of the other leg. Given the inherent nature of options contracts, a buy-sell structure is not necessary to achieve offsetting market exposure.

For example, because OEX is approximately half the value of SPX, a Multi-Class Complex Order including the two products would achieve a position in which one leg of the order offsets the market exposure of the other leg by trading two times as many OEX contracts as SPX contracts. But it would not necessarily require buying and selling contracts. To continue with the example, a market participant could buy 100 SPX calls and buy 200 OEX puts, thereby offsetting the market exposure of the first leg with the second leg (since the first leg creates a long position and the second leg creates a short position (and also since this would involve trading two times as many OEX contracts as SPX contracts)). Therefore, the Exchange proposes to amend this statement to replace the terms “buy” and “sell” with “transact”, and to add the language regarding one leg of the order offsetting the market exposure of the other leg. Also, the description of a Multi-Class Complex Order being “an order or quote” is somewhat misleading, as a quote cannot be submitted for a Multi-Class Complex Order and may only be made in open outcry in response to a Multi-Class Complex Order. As such, the Exchange proposes to clarify that it is an “order (or quote in response to an order).…” Therefore, either an order or a quote that is in response to an order can qualify for the provisions of paragraphs (b)(iii) and (b)(iv) of Rule 24.19. In sum, the Exchange proposes to amend the beginning of Rule 24.19(a)(2) to read: “The

³ See CBOE Rule 24.19(a)(2).

term "Multi-Class Broad-Based Option Complex Order (referred to herein as "Multi-Class Complex Order")" is an order or quote in response to an order to transact a stated number of contracts of a Broad-Based Option and to transact an equal number, or an equivalent number, of contracts of a different Broad-Based Option to achieve a position in which one leg of the order offsets the market exposure of the other leg.”⁴

Currently, not all Multi-Class Complex Orders may be entered electronically due to systems constraints. The Exchange is in the process of modifying its electronic order-entry systems to provide for the electronic entry and validation of all Multi-Class Complex Orders to the floor of the Exchange. This will provide for an enhanced audit trail that will better allow regulatory oversight for the provisions of Rule 24.19. For the Exchange’s systems to be able to determine that two separate legs are part of the same Multi-Class Complex Order in order to receive treatment as a Multi-Class Complex Order, however, both legs must be entered together on a single order ticket. As such, the Exchange proposes to amend Rule 24.19 to state that “Multi-Class Complex Orders must be entered on a single order ticket at time of systemization to be eligible for the procedures and relief set out in this Rule.” The Multi-Class Complex Order type will enforce the permitted combinations of options covered by Rule 24.19. Multi-Class Complex Orders with invalid combinations will be rejected by the Exchange. While the

⁴ Currently, the Exchange permits Multi-Class Complex Orders in the following combinations (pursuant to CBOE Rule 24.19(a)(2) and CBOE Regulatory Circular RG14-033): (i) any combination of options on MNX, NDX, or QQQ (as all these options are based on the NASDAQ 100 Index); (ii) any combination of options on OEF, OEX, XEO (all based on the S&P 100 Index) or SPX, SPXPM, XSP or XSPAM (all of which are based on the S&P 500 Index, which has a close relationship in price movement to the S&P 100 Index); (iii) any combination of options on SPX, SPXPM, XSP, XSPAM or SPY (all of which are based on the S&P 500 Index); (iv) any combination of options on IWM and RUT (both of which are based on the Russell 2000 Index); and (v) any combination of VIX, VXX, VXZ or VXST (all of which are based on the CBOE Volatility Index).

proposed rule change allows for all Multi-Class Complex Orders to be entered electronically, all Multi-Class Complex Orders will still be executed in open outcry on the Exchange's trading floor.

Because the current method for representing and executing Multi-Class Complex Orders is manual and must occur only in open outcry, the current language states that a Multi-Class Complex Order may be represented at the trading station of either Broad-Based 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 appropriate 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 Complex Order must be represented at the primary trading station, and state that the TPH representing the order must contact the DPM or Exchange staff⁵ (as applicable) at the other trading station in order to provide notice of such order for dissemination to the other trading crowd. The current rules states that "Such notice shall be disseminated by the Recipient who shall verbalize the terms of the order to the other trading crowd." However, the Exchange proposes to replace the word "verbalize" with the word "announce", as the Exchange is currently contemplating changes that will allow such notice to be posted on screens electronically to the other trading crowd (which could be a more efficient method of posting such order information). Each Broad-Based Option has a trading station. The primary trading station is the first trading station at which the Multi-Class Complex Order is represented. The floor broker representing the Multi-Class Complex Order may determine which trading station should be the primary trading

⁵ The Exchange proposes to remove the reference to contacting an OBO, as the Exchange no longer has OBOs.

station. This ensures that all market participants at both physical trading locations are aware of the terms of the order being processed.

The proposed rule change will enhance and improve the process of sending Multi-Class Complex Orders to the floor of the Exchange, as well as enhance the Exchange's audit trail with respect to such orders. It will also update the definition of Multi-Class Complex Order to more clearly and accurately reflect the common conception of a Multi-Class Complex Order. 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 30 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

⁶ 15 U.S.C. 78f(b).

⁷ 15 U.S.C. 78f(b)(5).

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.

The Exchange believes that updating the definition of Multi-Class Complex Order to more clearly and accurately reflect the common conception of a Multi-Class Complex Order will remove impediments to and perfect the mechanism of a free and open market and a national market system by allowing investors to receive Multi-Class Complex Order treatment for trades that are commonly viewed as Multi-Class Complex Orders. Additionally, 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 Complex Orders.

Automating the Multi-Class Complex Order creation process for all Multi-Class Complex Orders serves to remove impediments to and to perfect the mechanism for a free and open market and a national market system by providing market participants the ability to route Multi-Class Complex Orders to the Exchange electronically. The Exchange believes the proposed changes will increase opportunities for execution of Multi-Class Complex Orders, which will benefit investors. Further, enhancing the audit trail with respect to Multi-Class Complex Orders promotes transparency and aids in surveillance, thereby protecting investors.

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

⁸ Id.

⁹ 15 U.S.C. 78f(b)(1).

regulations thereunder, and the rules of the Exchange. Enhancing the audit trail with respect to Multi-Class Complex Orders will allow the Exchange to better enforce compliance by the 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 Complex Order creation process for all Multi-Class Complex Orders 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 Complex 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 Complex 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-2014-026 on the subject line.

Paper comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-CBOE-2014-026. 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-2014-026, 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

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Deputy Secretary

¹⁰ 17 CFR 200.30-3(a)(12).