

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-72271; File No. SR-CBOE-2014-046)

May 29, 2014

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to Exchange Rule 24.20

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 May 19, 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 Exchange Rule 24.20 to: (a) require Trading Permit Holders (“TPHs”) that may determine to utilize the special open outcry trading procedures for SPX Combo Orders to indicate an order is eligible for the procedure by including an indicator with the order upon systematization,³ and (b) make other changes to the rule text. The text of the proposed rule change is available on the Exchange’s website

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Orders must be systematized in accordance with Rule 6.24 (Required Order Information). Generally, subject to certain exceptions, each order, cancellation of, or change to an order transmitted to the Exchange must be “systematized,” in a format approved by the Exchange, either before it is sent to the Exchange or upon receipt on the floor of the Exchange. An order is systematized if: (i) the order is sent electronically to the Exchange; or (ii) the order that is sent to the Exchange non-electronically (e.g., telephone orders) is input electronically into the Exchange’s systems contemporaneously upon receipt on the Exchange, and prior to representation of the order.

(<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.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange is proposing to add language to Exchange Rule 24.20 to require TPHs that may determine to utilize the special open outcry trading procedures for the SPX Combo Orders, as described in Rule 24.20, to indicate an order is eligible for the procedure by including an SPX Combo Order indicator with the order upon systematization. The Exchange believes this added requirement to Rule 24.20 will enhance the Exchange's audit trail by identifying orders that are eligible to receive the relief under Rule 24.20, whether or not those orders are ultimately executed using the SPX Combo Order provisions, and limiting the availability of the procedure only to those orders so designated upon systematization as such. Orders without this indicator will not be eligible for the special procedure set out in Rule 24.20.⁴ The Exchange is also proposing to make other edits to the current provisions of Rule 24.20.

⁴ The Exchange notes that the inclusion of the indicator will simply signify that an order is eligible for the special procedure set out in Rule 24.20. It will not obligate a TPH to use the procedure if an order has been designated as eligible for the procedure set out in in

Background

An “SPX Combo Order” is currently defined in Rule 24.20 as an order to purchase or sell SPX options and the offsetting number of SPX combinations defined by the delta. An “SPX combination” is a long SPX call and a short SPX put having the same expiration date and strike price. The “delta” is defined as the positive (negative) number of SPX combinations that must be sold (bought) to establish a market neutral hedge with an SPX option position.

Rule 24.20 provides limited relief by allowing the component legs of an SPX Combo Order to be traded in open outcry outside the market quotes (“out-of-range”) under certain circumstances. Specifically, Rule 24.20(b)(2) currently provides that, if an SPX Combo Order is not executed immediately, the SPX Combo Order may be executed and printed at the prices originally quoted for each of the component options series within two hours after the time of the original quotes, provided that the prices originally quoted satisfy the requirements of paragraph (b)(1) of Rule 24.20.⁵

SPX Combo Order Indicator

Under the current Rule 24.20 procedures, TPHs are required to designate each of the component series of the order as being part of an SPX Combo Order transaction when submitting the trade to the Exchange for price reporting. For example, on a PAR workstation this is accomplished by selecting the “CMBO ENDORSE” button. When an SPX Combo Order execution is reported, the prices of the component series are reported to the trading floor and to the Options Price Reporting Authority (“OPRA”) using an indicator that identifies the trade as

[sic] Rule 24.20 (e.g., the TPH could elect to trade the order as the TPH would trade another complex order under Rule 6.45B(b)). Moreover, it will not obligate a TPH to apply the indicator to an order if the TPH has no intention of utilizing the procedure set out in Rule 24.20.

⁵ See note 5 [sic], *infra*. The Exchange notes that existing paragraphs (b)(1) and (b)(2) of Rule 24.20 are proposed to be renumbered to paragraphs (b)(2) and (b)(3), respectively.

being part of an SPX Combo Order transaction. The SPX Combo Order indicator acts as notice to the public that the reported prices are part of an SPX Combo Order transaction and helps avoid investor confusion regarding out-of-range SPX prices.

The Exchange is now proposing to add language to Rule 24.20 to require the TPH to indicate an order as eligible for the SPX Combo Order trading procedures upon systematization rather than when reporting an execution as currently required. The Exchange believes this requirement will enhance the Exchange's audit trail because it will identify eligible orders even if they are not ultimately executed using the SPX Combo Order trading procedures. In addition, the Exchange notes that TPHs are already required to apply an indicator to identify Combo Order transactions at the time of trade report (via the "CMBO ENDORSE" button). The proposed rule change only seeks to modify the timing to instead require that the indicator be applied at time of order systematization. More specifically, TPHs will merely need to add the indicator to a field upon order entry.⁶ As such, the Exchange does not anticipate the proposed changes will be unduly burdensome on TPHs.

Other Amendments

The Exchange is also proposing to revise the existing SPX Combo Order rule text to make other amendments. The Exchange notes that these amendments are not intended to modify

⁶ The Exchange notes that though TPHs are generally allowed to utilize any Exchange approved device to systematize orders on the trading floor, it is the Exchange's understanding that the majority of SPX Combo Orders are systematized by Exchange Floor Brokers via the Exchange provided devices Floor Broker Workstation and PULSe. Because these are Exchange provided devices, both have been updated by the Exchange to support the proposed SPX Combo Order Indicator. In addition, this order designation was originally announced in June 2013. (See Exchange Regulatory Circular RG13-083.) As such, the Exchange believes that appropriate notice was given to the TPHs not utilizing Floor Broker Workstation or PULSe for compliance with the requirement, and it is the Exchange's understanding that these TPHs will be prepared for the requirement within the timeframes outlined by the Exchange.

the existing operation of the special procedures, and are not intend [sic] to expand the relief granted under current Rule 24.20. The Exchange believes that these amendments will harmonize the language found throughout the current rule along [sic] more sufficiently explain the existing application of the Rule.

In particular, the Exchange is proposing to change the title of the rule from “SPX Combination Orders” to “SPX Combo Orders” to harmonize the references within the Rule. Next, the Exchange is proposing to revise the definition of an “SPX combination.” As noted above, currently an SPX combination is defined as “a long SPX call and a short SPX put having the same expiration date and strike price.” The Exchange is proposing to revise the definition to include a short SPX call and a long SPX put having the same expiration date and strike price. By definition, both strategies are permissible under the existing rule (otherwise one would never have a contra-side with which to trade; also, this clarification is consistent with other provisions of the rule that recognize both buy-side and sell-side interest). In addition, instead of using the terms “long” and “short,” the Exchange is proposing to use the terms “purchase” and “sale” to be consistent with the language in the existing definitions of “SPX Combo Order” and “delta” (which are noted above). Thus, as revised, an “SPX combination” would be defined as “a purchase (sale) of an SPX call and a sale (purchase) of an SPX put having the same expiration date and strike price.”

The Exchange is also proposing to revise the definitions of a “delta” and an “SPX Combo Order” to replace the phrase “SPX option positions” [sic] and “SPX options” that appear within the respective definitions with the phrase “one or more SPX option series.” As revised, a “delta” would be “the positive (negative) number of SPX combinations that must be sold (bought) to establish a market neutral hedge with one or more SPX option series.” The definition of an

“SPX Combo Order” would be “an order to purchase or sell one or more SPX option series and the offsetting number of SPX combinations defined by the delta”. The use of the phrase “one or more SPX option series” is intended to make it clear that an SPX Combo Order is intended to consist of an SPX combination (which has two component legs) that establish a market neutral hedge with one or more SPX option series (which can consist of one or more component legs). The Exchange again notes that it does not intended [sic] to expand the relief granted under the current Rule but only intended [sic] to provide greater clarity on the existing requirements under the Rule.

Finally, the Exchange is proposing to change a reference in the current Rule 24.20(b)(1)(B) from “SPX combination” to the word “order.”⁷ This change is intended to codify the existing application of the rule. The use of the word “order” (which is intended to capture the broader SPX Combo Order) is consistent with the terminology used elsewhere in the existing rule text⁸ and with the Exchange’s general priority provisions for complex orders.⁹ As stated

⁷ The current text of Rule 24.20(b)(1) provides in relevant part as follows: “When a Trading Permit Holder holding an SPX Combo Order and bidding or offering in a multiple of the minimum increment on the basis of a total debit or credit for the order has determined that the order may not be executed by a combination of transactions with the bids and offers displayed in the SPX limit order book or by the displayed quotes of the crowd, then the order may be executed at the best net debit or credit so long as (A) no leg of the order would trade at a price outside the currently displayed bids or offers in the trading crowd or bids or offers in the SPX limit order book and (B) at least one leg of the SPX combination would trade at a price that is better than the corresponding bid or offer in the SPX limit order book.” (emphasis added). As proposed to be revised, the phrase “SPX combination” would be replaced with the word “order.”

⁸ See current CBOE Rule 24.20(b)(1)(A).

⁹ See, e.g., Rules 6.45A(b)(which applies to open outcry equity option trades) and 6.45B(b) (which applies to open outcry index and ETF option trades).

above, the Exchange does not intend to expand the relief under the current Rule but is attempting to harmonize the rule language and conform the existing requirements.¹⁰

The proposed change to the current Rule 24.20(b)(1)(B) would align the language with the language in the current Rule 24.20(b)(1)(A) which states that a Combo Order may receive the relief under the Rule if no leg of the order would trade at a price outside of the currently displayed bids or offers. Thus, the Exchange is proposing to make clear that the price improvement requirement necessary to receive the relief may be on any leg of the SPX Combo Order rather than only on a leg in the SPX combination portion of the SPX Combo Order. The Exchange believes the current representation that the price improvement must be on one leg of the SPX combination is a result of [sic] drafting error and the intent of the Rule has always been that the price improvement occur on any one leg of the SPX Combo Order to remain consistent with the treatment of regular complex orders on the Exchange.¹¹ In addition, in its approval order, the Commission specifically stated that the procedures in the proposed Rule 24.20 “are the same as the procedures set forth in CBOE Rule 6.45(e)” which were the Exchange priority rules

¹⁰ See Securities Exchange Act Release No. 45389 (February 4, 2002), 67 FR 6291 (February 11, 2002) (order approving SR-CBOE-00-040).

¹¹ See note 7 [sic] supra. For example, Rule 6.45B(b)(ii), which applies to index options such as the SPX options class, states that complex orders may be executed in open outcry without giving priority to equivalent bids (offers) in the individual series legs that are represented in the trading crowd or in the public customer limit order book provided, “at least one leg of the order betters the corresponding bid (offer) in the public customer limit order book.” In that regard, consistent with general open outcry complex orders procedures contained Rules 6.45(e), 6.45A(b) and 6.45B(b), for purposes of Rule 24.20 references to the trading crowd include broker-dealer orders resting in the electronic book and electronic quotes of Market-Makers. Also consistent with Rules 6.45(e), 6.45A(b) and 6.45B(b), for purposes of Rule 24.20 references to the SPX limit order book mean the public customer order limit [sic] book. See Rules 6.45(e), 6.45A(b)(ii) and 6.45B(b)(ii). The Exchange notes that Professional and Voluntary Professional orders are treated the same as broker-dealer orders for purposes of Rule 6.45, 6.45A and 6.45B, and that the Professional and Voluntary Professional designation [sic] are not available for SPX options series trading on the Hybrid 3.0 platform (symbols SPX and SPXQ). See, e.g., Rules 1.1(fff)-(ggg).

for complex orders at the time of filing.¹² Thus, the Exchange believes that the intention has always been understood to mean the price improvement can occur on any one leg of the order. The Exchange is now merely proposing to codify this notion.

Conclusion

The Exchange believes that these changes will enhance the Exchange's audit trail along with provide [sic] clarity for TPHs utilizing this trading procedure. Because the SPX Combo Order indicator described above will require minor systems enhancements, the Exchange will announce the implementation date of the proposed rule change in a Regulatory Circular to be published no later than 90 days following the effective date of this proposed rule change. The Exchange understands that all TPHs currently utilizing the relief granted under Rule 24.20 will have this functionality by the time of implementation of the obligation. As such, the implementation date will be no later than 180 days following the effective date of this proposed rule change.

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.¹³ Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)¹⁴ 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

¹² See note 8 [sic].

¹³ 15 U.S.C. 78f(b).

¹⁴ 15 U.S.C. 78f(b)(5).

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)¹⁵ requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

In particular, the proposed addition to Rule 24.20 would promote just and equitable principles of trading by enhancing the Exchange's audit trail. An enhanced audit trail will help the Exchange to regulate these kinds of orders more thoroughly, which should serve to promote just and equitable trading of these orders on the Exchange. Finally, the Exchange believes that the proposed revisions to the existing SPX Combo Order text will not expand the relief currently granted in Rule 24.20. More specifically, the proposed changes to Rule 24.20(a) will harmonize the language found throughout the current rule along with [sic] more sufficiently explain the existing application of the Rule. The proposed changes in current Rule 24.20(b)(1) will conform the text of the SPX Combo Order provisions contained in current Rule 24.20(b)(1)(B) with language in current Rule 24.20(b)(1)(A) and with the general requirements for trading complex orders on the Exchange, consistent with the original intention.

The Exchange also believes the proposed rule change is consistent with Section 6(b)(1) of the Act,¹⁶ 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 TPHs and persons associated with its TPHs with the Act, the rules and regulations thereunder, and the rules of the Exchange. With an enhanced audit trail of orders that TPHs designate as eligible for the

¹⁵ Id.

¹⁶ 15 U.S.C. 78f(b)(1).

SPX Combo Order trading procedures, the Exchange believes it will be able to more comprehensively monitor such trading on 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. In particular, the proposed rule change will not impose any burden on any [sic] intramarket competition as it will be applied to similarly situated groups trading on the Exchange equally. The Exchange does not believe the proposed rule change will impose any burden on intermarket completion [sic] as the proposed changes merely pose a requirement for a TPH that may determine to utilize the special open outcry trading procedures for SPX Combo Orders to apply an indicator to an eligible order upon systematization (as opposed to the current requirement to apply an indicator when reporting an execution) and amend other SPX Combo Order provisions without granting any additional relief.

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:

- A. significantly affect the protection of investors or the public interest;
- B. impose any significant burden on competition; and
- C. 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) of the Act¹⁷ and Rule 19b-4(f)(6)¹⁸ 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. If the Commission takes such action, the Commission will 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-2014-046 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-2014-046. 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

¹⁷ 15 U.S.C. 78s(b)(3)(A).

¹⁸ 17 CFR 240.19b-4(f)(6).

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 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-2014-046, 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.¹⁹

Kevin M. O'Neill
Deputy Secretary

¹⁹ 17 CFR 200.30-3(a)(12).