

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-73439; File No. SR-CBOE-2014-082)

October 27, 2014

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to the CBOE Trade Match System

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 October 24, 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 Substance of the Proposed Rule Change

The Exchange proposes to adopt a new rule related to its existing CBOE Trade Match System functionality. 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 is proposing to adopt new Rule 6.67 related to its existing CBOE Trade Match System (“CTM”) functionality. CTM is a systems user interface provided by the Exchange in which authorized Trading Permit Holders (“TPHs”) may receive copies of trade records and add and/or update their trade records. Although references to CTM exist within Regulatory and Information Circulars, as well as technical specifications, the functionality is not currently described in Exchange rules. The Exchange believes it would be beneficial to address and provide further detail in its rules regarding the CTM functionality and permitted uses.

Exchange rules currently contemplate post trade modifications.³ Such modifications may be effected via the CTM system. A rule explicitly detailing the modification process and defining what permitted modifications are allowed however does not currently exist in the Exchange’s rules. The Exchange believes it would be useful to explicitly reference within the rule text the term “CTM” and codify what post trade modifications via CTM are permitted to reduce confusion and add additional transparency to the rules regarding CBOE’s systems.

First, the Exchange proposes to explicitly reference and describe “CTM.” Specifically, CTM is a system in which authorized TPHs may enter and report transactions that have been

³ See, e.g., CBOE Rule 6.61 which provides that a Trading Permit Holder “shall be obligated to reconcile all unmatched trades...and to report all reconciliations and corrections to the Exchange or the Clearing Trading Permit Holder responsible for submission to the Exchange.”

effected on the Exchange in accordance with Exchange rules (e.g., Cabinet Trades⁴ or other trades that have been transacted on the Exchange in accordance with Exchange rules, but were not processed through the Hybrid System⁵) or to correct bona fide errors (e.g., a situation in which a transaction was reported using the wrong strike). Documentation requirements related to changes made through the use of CTM will be announced via a Regulatory Circular.

By way of background, CBOE Rule 6.51 requires that for all transactions made on the Exchange, TPHs must file with the Exchange certain trade information⁶ in order to allow the Exchange to properly match and clear trades. This information is used to provide the comparison of the two sides (i.e., buy and sell) of a transaction. When the two sides match, the trade is successfully compared and will move on to the Options Clearing Corporation (“OCC”) for clearance. For trades that do not match (i.e., trade information from each side do not match) TPHs and their respective representatives must make reasonable efforts to resolve unmatched trades on trade day.⁷ The Exchange notes that unmatched trades may be a result of software problems or systemic problems that cause incorrect information to be filed or a result of other errors such as “key punch” errors which result from manual data entry (i.e., trade information outside the written order instructions may have been mistakenly keyed in during user input). The

⁴ See CBOE Rule 6.54.

⁵ For example, a TPH may not have been able to enter its side of a transaction due to a system issue with the trade match record entry process.

⁶ See CBOE Rule 6.51(d).

⁷ See CBOE Rule 6.61. See also, CBOE Rule 6.60. On each business day the Exchange shall match the trade information submitted by TPHs on that day and issue Unmatched Trade Reports to each Clearing Trading Permit Holder, (“CTPH”) which contains a list of such CTPH’s trades for that day which the Exchange did not receive matching trade data from another CTPH (called “unmatched trades”).⁷ Upon receipt of an Unmatched Trade Report, a TPH must reconcile all unmatched trades and report all reconciliations and corrections to the Exchange or the CTPH responsible for submission to the Exchange.

Exchange notes that CTM may be used by TPHs to change certain fields on a trade record for which it has authority to correct, in order to update a trade record or correct an unmatched field to resolve an out-trade. The Exchange proposes to codify what post trade modifications via CTM are permitted and further specify which changes will require notification to the Exchange.

The Exchange first seeks to specify which fields may be changed by TPHs through the use of CTM without notice to the Exchange. Those fields are: (1) Executing Firm and Contra Firm; (2) Executing Broker and Contra Broker; (3) CMTA⁸; (4) Market-Maker Account and Sub Account; (5) Customer ID; (6) Position Effect (open/close); (7) Optional Data and/or (8) Origin Code (provided the change is not from a customer origin code to any other origin code). The Exchange notes that the information contained in these fields does not affect the terms of a contract or the Consolidated Tape. Rather, the Exchange views these changes to be non-critical backoffice changes and as such, the Exchange does not believe it needs notice from the TPH making the change. The Exchange also notes that such changes would be captured in the Exchange's audit trail.

Next, the Exchange proposes to specify which fields may be changed by TPHs through the use of CTM that require TPHs to give notice to the Exchange in a form and manner determined by the Exchange. Specifically, those fields are: (1) Series; (2) Quantity; (3) Buy or Sell; (4) Premium Price and/or (5) Origin Code (if changing origin code from customer (C) to any other origin code). The Exchange notes that these fields, with the exception of origin code, do

⁸ Under a Clearing Member Trade Agreement ("CMTA"), an Options Clearing Corporation ("OCC") clearing member ("carrying clearing member") authorizes another clearing member ("executing clearing member") to give up the name of the carrying clearing member with respect to any trade executed on a specific exchange (i.e., the re-assignment of a trade to a different Clearing firm occurs post-trade at the OCC).

change the terms of the contract and additionally affect the Consolidated Tape. As such, the Exchange proposes to require notice and further documentation as to why such a change is being made in order to monitor such changes, as well as take the necessary steps to ensure that any such changes are properly reflected in the Consolidated Tape. As to changes from a Customer (C) origin code to any other origin code, the Exchange notes that while such change does not affect the Consolidated Tape or terms of a contract, such changes may affect other substantive aspects of how a trade was processed, including whether a trade should have been given order priority. Accordingly, the Exchange believes that TPHs making changes to these fields should be required to provide to the Exchange notice and documentation relating to the change. The Exchange proposes to require that notification of the change be made as soon as practicable, but no later than fifteen (15) minutes after the change has been made. The Exchange notes that it will not be authorizing any changes prior to the TPH making changes to any of the above-mentioned fields (i.e., the Exchange will not expressly indicate whether or not a change identified in a TPH's notice is in conformity with Exchange rules prior to the change being made). Rather, due to inherent time constraints, such changes will be reviewed by Exchange personnel after the fact, and a TPH that is found to have made an improper modification may be subject to appropriate disciplinary action in accordance with the Rules of the Exchange as described more fully below.

The Exchange lastly proposes to adopt Interpretation and Policy .01 to provide that any action taken by the Exchange pursuant to proposed Rule 6.67(b) and (c) does not constitute a determination by the Exchange that the transaction was effected in conformity with Exchange Rules.⁹ As noted above, any improper change made through CTM shall be processed and given

⁹ For example, if the Exchange provides a TPH the ability to make a change via CTM, such action should not be construed as a determination by the Exchange that the transaction proposed is in conformity with Exchange Rules.

effect, but the TPH may be subject to appropriate disciplinary action in accordance with Exchange rules. Additionally, the Exchange notes that nothing in proposed Rule 6.67 is intended to define or limit the ability of the Exchange to sanction or take other remedial action pursuant to other Exchange rules for rule violations or other activity for which remedial measures may be proposed. The Exchange notes that given the inherent time constraints in making various changes to exchange transactions, the Exchange would not be able to adequately consider the above-mentioned requirements and make a determination within the time required as to whether a change was improper or not. As such the Exchange will not prevent any changes from being processed and given effect, but will review such changes after the fact to ensure compliance with Exchange rules.

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the Securities Exchange Act of 1934 (the “Act”) and the rules and regulations thereunder applicable to the Exchange and, in particular, the requirements of Section 6(b) of the Act.¹⁰ Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)¹¹ 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

¹⁰ 15 U.S.C. 78f(b).

¹¹ 15 U.S.C. 78f(b)(5).

is consistent with the Section 6(b)(5)¹² requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The Exchange views CTM as an important tool that allows TPHs to receive copies of trade records and add and/or update trade records. Specifically, as described above, Exchange rules contemplate post trade modifications and also require that TPHs resolve unmatched trades. The Exchange believes CTM provides TPHs an effective mechanism to make such changes and reconcile out-trades due to bona fide errors, thereby removing impediments to and perfecting the mechanism of a free and open market and a national market system, and protecting investors and the public interest. Additionally, CTM provides a mechanism to enter trade records for trades effected on the Exchange in accordance with Exchange rules, but that were not processed through the Hybrid System and would otherwise be processed outside of CBOE's systems.

The Exchange also believes that clearly defining in the rules existing system functionality (i.e., CTM) provides additional transparency in the rules and provides market participants an additional avenue to easily understand the system and processes CBOE offers. The Exchange believes additional transparency removes a potential impediment to and perfecting the mechanism for a free and open market and a national market system, and, in general, protecting investors and the public interest. Additionally, the Exchange believes that requiring certain changes made through the CTM system allows the Exchange to receive from TPHs information in a uniform format, which aids the Exchange's efforts to monitor and regulate CBOE's markets and TPHs and helps prevent fraudulent and manipulative practices.

Finally, the Exchange believes that the proposed rule changes are designed to not permit unfair discrimination among market participants. For example all TPHs may request access to

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Id.

CTM. Additionally, all TPHs will be subject to the same limitations as to the permitted uses of CTM functionality.

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

The Exchange 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 proposed Rule 6.67 will promote competition by making the CTM functionality more understandable to users and the general public. The Exchange believes that by better explaining its CTM functionality to TPHs and codifying the permitted uses of CTM, TPHs will better understand the Exchange's systems. The Exchange believes that additional clarity and transparency in the Rules will make it easier for market participants to compete with one another on equal footing in the markets and ultimately benefits all investors.

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 written 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 Act¹³ and Rule 19b-4(f)(6)¹⁴ thereunder. At any time within 60 days of the filing of the

¹³ 15 U.S.C. 78s(b)(3)(A).

¹⁴ 17 CFR 240.19b-4(f)(6).

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-2014-082 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-2014-082. 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, 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-2014-082, 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).