

SECURITIES AND EXCHANGE COMMISSION
Release No. 34-74551; File No. SR-CBOE-2015-010

March 20, 2015

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Order Approving a Proposed Rule Change to Amend Rules 6.41 and 24.8

On January 22, 2015, 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 (“Act”)¹ and Rule 19b-4 thereunder,² proposed rules to describe the process of establishing final leg execution prices when a broker receives from a customer a complex order for open-outcry handling at a total cash price for the order. The proposal was published for comment in the Federal Register on February 10, 2015.³ The Commission received no comments regarding the proposal. This order approves the proposed rule change.

Currently Exchange Rules 6.41 (with respect to equities) and 24.8 (with respect to indexes), provide that bids and offers must be expressed in terms of dollars per unit of the underlying security or index, as applicable. However, the Exchange explains that sometimes a customer will request an execution in a complex order at a total cash price for the order (rather than at a price per contract for each leg) and the total number of contracts of each leg.⁴ In this situation, a broker may represent the order to the trading crowd at the total order price, and Trading Permit Holders may respond to trade with the order at that total order price.⁵ The

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4

³ See Securities Exchange Act Release No.74200 (February 4, 2015), 80 FR 7515 (“Notice”).

⁴ Id. at 7516.

⁵ Id.

Exchange notes that in some instances, due to the complexity of the order and the price and number of contracts involved, the complex order may not break down into a per-unit price for each leg based on the existing market for the leg that corresponds to the total order price.⁶

Accordingly, the Exchange proposes to adopt Interpretation and Policy .01 to each of Exchange Rules 6.41 and 24.8. The Interpretations will impose requirements requiring how brokers must determine final leg execution prices when a broker receives from a customer a complex order for open-outcry handling at a total cash price, and the complex order does not break down into a per-unit price for each leg based on the existing market for the leg that corresponds to the total price.⁷ Specifically, the Interpretations will provide that when the complex order does not break down into a per-unit price for each leg, the broker must resolve any difference in a manner that provides price improvement to the customer (i.e. the broker must determine leg prices that correspond to a total purchase (sale) price that is less (greater) than the total order price).⁸

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.⁹ In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,¹⁰ which requires, among other things, that the rules of a national securities exchange be designed to prevent fraudulent and manipulative acts and

⁶ Id.

⁷ Id.

⁸ See Notice, supra note 3, at 7516. In the notice, the Exchange provided examples of how this occurs. Id. at 7516-7.

⁹ 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).

¹⁰ 15 U.S.C. 78f(b)(5).

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. The Commission notes that the proposed rule change maintains the current allocation and priority rules for open outcry trading, including the complex order priority exception, and that any orders represented to the crowd at a customer's total order price will execute in accordance with the Exchange's current allocation and priority rules.¹¹ Further, the Commission notes that orders represented to the crowd at a customer's order price will be executed at the applicable increment for the class (or the complex order minimum increment if eligible) and in accordance with all other pricing rules.¹²

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹³

Brent J. Fields
Secretary

¹¹ See Notice, supra note 3, at 7517.

¹² Id.

¹³ 17 CFR 200.30-3(a)(12).