

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-75756; File No. SR-CBOE-2015-073)

August 25, 2015

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Qualified Contingent Cross (“QCC”) 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 August 14, 2015, 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 and II 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 seeks to amend its rules related to QCC Orders. The text of the proposed rule change is provided below.

(additions are italicized; deletions are [bracketed])

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**Chicago Board Options Exchange, Incorporated
Rules**

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Rule 6.53. Certain Types of Orders Defined

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(u) Qualified Contingent Cross Order: A qualified contingent cross order is an initiating order to buy (sell) at least 1,000 standard option contracts or 10,000 mini-option contracts that is identified

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

as being part of a qualified contingent trade coupled with a contra-side order or orders totaling [to sell (buy)] an equal number of contracts. Qualified contingent cross orders with one option leg may only be entered in the standard increments applicable to simple orders in the options class under Rule 6.42. Qualified contingent cross orders with more than one option leg may be entered in the increments specified for complex orders under Rule 6.42. For purposes of this order type:

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The text of the proposed rule change is also 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.

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

1. Purpose

The purpose of this proposal is to expand the availability of QCC Orders by permitting multiple contra-parties on a QCC Order. Under the proposal, multiple contra-parties would be allowed; provided however, that the initiating QCC Order be for at least 1,000 contracts (in addition to meeting the other requirements of a QCC Order). This is intended to accommodate multiple contra-parties, as explained further below.

Currently, a qualified contingent cross order must be comprised of an order to buy (sell) at least 1,000 standard option contracts or 10,000 mini-option contracts that is identified as being part of a qualified contingent trade³ coupled with a contra-side order to sell (buy) an equal number of contracts. QCC Orders may execute without exposure provided the execution (1) is not at the same price as a public customer order resting in the electronic book and (2) is at or between the NBBO. A qualified contingent cross order will be cancelled if it cannot be executed.

As noted above, the Exchange is now proposing to amend the definition of a QCC Order to allow multiple contra-parties; provided however, that the initiating QCC Order be for at least 1,000 contracts (in addition to meeting the other requirements of a QCC Order). The Exchange notes that with regard to order entry, the first order submitted into the system is marked as the initiating/agency side and the second order is marked as the contra- side. Additionally, the contra-side order to a QCC Order will always be entered as a single order, even if that order consists of multiple contra-parties who are allocated their portion of the trade in a post-trade allocation.

The Exchange notes that it will surveil QCC Orders to ensure the Trading Permit Holder (“TPH”) on the initiating side of the order is complying with the minimum 1,000 contract size requirement. The Exchange also checks to see if TPHs are aggregating multiple orders to meet the 1,000 contract minimum on the initiating side of the trade in violation of the requirements of the

³ A "qualified contingent trade" is a transaction consisting of two or more component orders, executed as agent or principal, where: (1) at least one component is an NMS stock, as defined in Rule 600 of Regulation NMS under the Exchange Act; (2) all components are effected with a product or price contingency that either has been agreed to by all the respective counterparties or arranged for by a broker-dealer as principal or agent; (3) the execution of one component is contingent upon the execution of all other components at or near the same time; (4) the specific relationship between the component orders (e.g., the spread between the prices of the component orders) is determined by the time the contingent order is placed; (5) the component orders bear a derivative relationship to one another, represent different classes of shares of the same issuer, or involve the securities of participants in mergers or with intentions to merge that have been announced or cancelled; and (6) the transaction is fully hedged (without regard to any prior existing position) as a result of other components of the contingent trade.

rule, enforcing compliance with this portion of the rule by checking to see if a TPH breaks up the initiating side of the order in a post trade allocation to different clearing firms, allocating less than 1,000 contracts to a party or multiple parties.

Accordingly, the Exchange is proposing to amend the definition of QCC Order to clarify that an originating order to buy or sell at least 1,000 contracts coupled with a contra-side order or orders totaling an equal number of contracts is permitted. This is a competitive filing that is based on International Securities Exchange, LLC (“ISE”) Rule 715.⁴

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

⁴ See Securities Exchange Act Release No. 71182 (December 24, 2013), 78 FR 79721 (January 2014) (SR-ISE-2013-71) (providing that QCC Orders can be comprised of multiple contra-parties) and Securities Exchange Act Release No. 71863 (April 3, 2014), 79 FR 19680 (April 9, 2014) (SR-ISE-2013-72) (providing that QCC Orders can be comprised of multiple contra-parties for less than 1,000 contracts).

⁵ 15 U.S.C. 78f(b).

⁶ 15 U.S.C. 78f(b)(5).

is consistent with the Section 6(b)(5)⁷ requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

In particular, the Exchange believes removing the size restriction placed on the contra-side to a QCC Order may increase liquidity and improve the prices at which QCC Orders get executed and, therefore, provide more opportunity to participate in QCC trades, consistent with the key principles behind the QCC Order. Also, consistent with Section 6(b)(8) of the Act, the Exchange seeks to compete with other options exchanges for QCC Orders involving multiple parties, including where there are multiple contra-parties. The Exchange believes that this will be beneficial to participants because allowing multiple contra-parties should foster competition for filling one side of a QCC Order and thereby result in potentially better prices, as opposed to only allowing one contra-party and, thereby requiring that contra-party to do a larger size order which could result in a worse price for the trade.

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. As described above, the current rule change is being proposed as a competitive response to ISE Rule 715. Also, the proposal may relieve burden on competition, which results from ISE and CBOE having different rules regarding QCC Orders.

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.

⁷ Id.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days after the date of the filing, or such shorter time as the Commission may designate, it has become effective pursuant to 19(b)(3)(A) of the Act⁸ and Rule 19b-4(f)(6)⁹ thereunder.

The Commission notes that, given the differing requirements as between the originating side and contra-side for QCC Orders, it is essential that the Exchange be able to clearly identify and monitor - throughout the life of a QCC Order, beginning at the time of order entry on the Exchange through the post-trade allocation process - each side of the QCC Order and ensure that the requirements of the order type are being satisfied including, importantly, those relating to the originating side. The Commission believes this to be critical so that the Exchange can ensure that market participants are not able to circumvent the requirements of the QCC Order (as amended by this proposed rule change), each of which the Commission continues to believe are critical to ensuring that the QCC Order is narrowly drawn.¹⁰ Further, the Commission notes that the Exchange has made certain representations regarding its enforcement and surveillance of its

⁸ 15 U.S.C. 78s(b)(3)(A).

⁹ 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

¹⁰ The Commission expects the Exchange to have the capability to enable it to surveil that such requirements are being met. Though the Exchange has stated its ability to do so, if the Exchange is not able to have such monitoring at any point in time, the Commission would expect the Exchange to take other steps to ensure that the QCC Order cannot be improperly used. For example, if the Exchange were not able to identify and monitor which side of a QCC Order is the originating order, the Commission would expect that it would require that both sides of the QCC Order meet the more stringent requirements of the originating side, i.e., that it be for a single order for at least 1,000 contracts.

TPH's use of QCC Orders, including, for example, not only at the time of order entry, but through the post-trade allocation process as well.

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 shall institute proceedings to determine whether the proposed rule 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-2015-073 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-2015-073. 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, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the 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-2015-073 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.¹¹

Robert W. Errett
Deputy Secretary

¹¹ 17 CFR 200.30-3(a)(12).