

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-66860; File No. SR-CBOE-2012-013)

April 25, 2012

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing of a Proposed Rule Change to Adopt Self-Trade Prevention Modifiers on the CBOE Stock Exchange

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on April 12, 2012, the Chicago Board Options Exchange, Incorporated (“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 Self-Trade Prevention modifiers for its CBOE Stock Exchange (“CBSX”). The text of the proposed rule change is available on the Exchange’s Web site (<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

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 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 the Statutory Basis for, the Proposed Rule Change

1. Purpose

CBSX proposes to adopt three forms of Self-Trade Prevention modifiers: The Cancel Newest, Cancel Oldest, and Cancel Both Self-Trade Prevention modifiers. A CBSX Trader may elect for all of his proprietary orders and quotes to be marked with a Self-Trade Prevention modifier. If a CBSX Trader makes such an election, any quote or order he submits will be prevented from executing against a resting opposite side order or quote that is labeled as originating from the same associated acronym and trading for the same account (for the purposes of this Rule, the “Same CBSX Trader”). A CBSX Trader may only elect for one of the three Self-Trade Prevention options, as the CBSX System may only be configured to permit one such election. Such election shall apply to all of the CBSX Trader’s eligible proprietary orders and quotes. As such, Self-Trade Prevention elections cannot be made on a per-order, per-quote, or security-by-security basis due to CBSX System limitations. Any of the Cancel Newest, Cancel Oldest, or Cancel Both Self-Trade Prevention modifiers may be accommodated on the CBSX System.

The Self-Trade Prevention modifiers only apply to proprietary orders and quotes. The purpose of limiting the Self-Trade Prevention modifiers to proprietary orders and quotes is to avoid preventing agency orders from trading with each other, as agency orders for the Same CBSX Trader may actually be for different customers. In circumstances in which both the Market-Maker Trade Prevention Order and a Self-Trade Prevention Modifier are implicated, the Self-Trade Prevention Modifier shall rule and take precedence.

### Cancel Newest

If a CBSX Trader has made the election for the Cancel Newest Self-Trade Prevention modifier, any incoming order or quote submitted by that CBSX Trader will not execute against opposite side resting interest from the Same CBSX Trader. The incoming order or quote (or any portion thereof) will be canceled back to the originating CBSX Trader if such order or quote cannot trade with another eligible order or quote originating from any origin other than the Same CBSX Trader (“Another CBSX Trader”) (the incoming order or quote may only trade with another eligible order or quote originating from Another CBSX Trader if the order or quote originating from Another CBSX Trader is at as good a price as the order or quote from the Same CBSX Trader that is being “skipped over”). The resting order or quote from the Same CBSX Trader will remain on the book. In the case of an opening or re-opening, the newer of the two orders or quotes submitted by the Same CBSX Trader will be canceled, and the older order or quote will [sic] permitted to trade with eligible orders or quotes originating from Another CBSX Trader, and any remaining portion thereof will remain in the book.

### Cancel Newest Example 1:

An order to buy 500 shares @ \$20.00 from a CBSX Trader who has elected for the Cancel Newest Self-Trade Prevention modifier rests on the CBSX Book with no resting interest behind it. An order to sell 500 shares @ \$20.00 comes in from the Same CBSX Trader. The incoming sell order for 500 shares @ \$20.00 is then canceled back to the originating CBSX Trader. The resting buy order for 500 shares @ \$20.00 remains on the CBSX Book.

### Cancel Newest Example 2:

An order to buy 500 shares @ \$20.00 from a CBSX Trader who has elected for the Cancel Newest Self-Trade Prevention modifier rests on the CBSX Book with another order to

buy 500 shares @ \$20.00 from Another CBSX Trader resting behind it. An order to sell 500 shares @ \$20.00 comes in from the Same CBSX Trader. The incoming sell order for 500 shares @ \$20.00 would not trade with the order to buy 500 shares @ \$20.00 from the Same CBSX Trader, but would trade with the order to buy 500 shares @ \$20.00 from the other CBSX Trader resting behind the buy order from the Same CBSX Trader. That resting buy order for 500 shares @ \$20.00 from the Same CBSX Trader remains on the CBSX Book.

Cancel Newest Example 3:

An order to buy 500 shares @ \$20.00 from a CBSX Trader who has elected for the Cancel Newest Self-Trade Prevention modifier rests on the CBSX Book with another order to buy 500 shares @ \$19.99 from Another CBSX Trader resting behind it. The incoming sell market order for 500 shares would not trade with the order to buy 500 shares @ \$20.00 from the Same CBSX Trader and would also not trade with the order to buy 500 shares @ \$19.99 from Another CBSX Trader resting behind the buy order from the Same CBSX Trader. The incoming sell market order for 500 shares is then canceled back to the originating CBSX Trader. The resting buy order for 500 shares @ \$20.00 from the Same CBSX Trader remains on the CBSX Book.

Cancel Newest Example 4:

An order to buy 500 shares @ \$20.00 from a CBSX Trader who has elected for the Cancel Newest Self-Trade Prevention modifier rests on the CBSX Book with no resting interest behind it. An order to sell 700 shares @ \$20.00 comes in from the Same CBSX Trader. The incoming sell order for 700 shares @ \$20.00 is then canceled back to the originating CBSX Trader. The resting buy order for 500 shares @ \$20.00 remains on the CBSX Book.

Cancel Newest Example 5:

An order to buy 500 shares @ \$20.00 from a CBSX Trader who has elected for the Cancel Newest Self-Trade Prevention modifier rests on the CBSX Book with no resting interest behind it. An order to sell 400 shares @ \$20.00 comes in from the Same CBSX Trader. The incoming sell order for 400 shares @ \$20.00 is then canceled back to the originating CBSX Trader. The resting buy order for 500 shares @ \$20.00 remains on the CBSX Book.

Cancel Newest Example 6:

Upon the opening, a CBSX Trader who has elected for the Cancel Newest Self-Trade Prevention modifier submits an order to buy 500 shares @ \$20.00 and the Same CBSX Trader then submits an order to sell 500 shares @ \$20.00. The order to sell 500 shares @ \$20.00 would be canceled back to the CBSX Trader (because it was the newest), and the order to buy 500 shares @ \$20.00 would be permitted to trade against any eligible interest other than that from the Same CBSX Trader, and then any remaining portion thereof would be entered into the CBSX Book.

Cancel Oldest

If a CBSX Trader has made the election for the Cancel Oldest Self-Trade Prevention modifier, any incoming order or quote submitted by that CBSX Trader will not execute against opposite side resting interest from the Same CBSX Trader. When a CBSX Trader submits an incoming order or quote that would trade against opposite side resting interest from the Same CBSX Trader, that opposite side resting interest will be canceled. The incoming order or quote will be eligible to trade with another eligible order or quote originating from Another CBSX Trader. If any portion of the incoming order or quote does not trade with another eligible order or quote originating from Another CBSX Trader, it will be entered into the book. In the case of an opening or re-opening, the older of the two orders or quotes submitted by the Same CBSX

Trader will be canceled, and the newer order or quote will be permitted to trade with eligible orders or quotes originating from Another CBSX Trader, and any remaining portion thereof will be entered into the book.

Cancel Oldest Example 1:

An order to buy 500 shares @ \$20.00 from a CBSX Trader who has elected for the Cancel Oldest Self-Trade Prevention modifier rests on the CBSX Book with no resting interest behind it. An order to sell 500 shares @ \$20.00 comes in from the Same CBSX Trader. The resting buy order for 500 shares @ \$20.00 is then canceled back to the originating CBSX Trader. The incoming sell order for 500 shares @ \$20.00 is entered into the CBSX Book.

Cancel Oldest Example 2:

An order to buy 500 shares @ \$20.00 from a CBSX Trader who has elected for the Cancel Oldest Self-Trade Prevention modifier rests on the CBSX Book with another order to buy 500 shares @ \$20.00 from Another CBSX Trader resting behind it. An order to sell 500 shares @ \$20.00 comes in from the Same CBSX Trader. The resting buy order for 500 shares @ \$20.00 from the Same CBSX Trader is canceled back to the Same CBSX Trader. The incoming sell order for 500 shares @ \$20.00 would trade with the order to buy 500 shares @ \$20.00 from the other (Another) CBSX Trader resting behind the buy order from the Same CBSX Trader.

Cancel Oldest Example 3:

An order to buy 500 shares @ \$20.00 from a CBSX Trader who has elected for the Cancel Oldest Self-Trade Prevention modifier rests on the CBSX Book with another order to buy 500 shares @ \$19.99 from Another CBSX Trader resting behind it. A market order to sell 500 shares comes in from the Same CBSX Trader. The resting buy order for 500 shares @ \$20.00 is canceled back to the originating CBSX Trader. The incoming sell market order for 500 shares

would trade with the order to buy 500 shares @ \$19.99 from Another CBSX Trader that had been resting behind the buy order from the Same CBSX Trader (since the resting buy order from the Same CBSX Trader was canceled).

Cancel Oldest Example 4:

An order to buy 500 shares @ \$20.00 from a CBSX Trader who has elected for the Cancel Oldest Self-Trade Prevention modifier rests on the CBSX Book with no resting interest behind it. An order to sell 700 shares @ \$20.00 comes in from the Same CBSX Trader. The resting buy order for 500 shares @ \$20.00 is canceled back to the originating CBSX Trader. The incoming sell order for 700 shares @ \$20.00 is entered into the CBSX Book.

Cancel Oldest Example 5:

An order to buy 500 shares @ \$20.00 from a CBSX Trader who has elected for the Cancel Oldest Self-Trade Prevention modifier rests on the CBSX Book with no resting interest behind it. An order to sell 400 shares @ \$20.00 comes in from the Same CBSX Trader. The resting buy order for 500 shares @ \$20.00 is canceled back to the originating CBSX Trader. The incoming sell order for 400 shares @ \$20.00 is entered into the CBSX Book.

Cancel Oldest Example 6:

Upon the opening, a CBSX Trader who has elected for the Cancel Oldest Self-Trade Prevention modifier submits an order to buy 500 shares @ \$20.00 and the Same CBSX Trader then submits an order to sell 500 shares @ \$20.00. The order to buy 500 shares @ \$20.00 would be canceled back to the CBSX Trader (because it was the oldest), and the order to sell 500 shares @ \$20.00 would be permitted to trade against any eligible interest other than that from the Same CBSX Trader, and then any remaining portion thereof would be entered into the CBSX Book.

Cancel Both

If a CBSX Trader has made the election for the Cancel Both Self-Trade Prevention modifier, any incoming order or quote submitted by that CBSX Trader will not execute against opposite side resting interest from the Same CBSX Trader. When a CBSX Trader submits an incoming order or quote that would trade against opposite side resting interest from the Same CBSX Trader, that opposite side resting interest will be canceled. The incoming order or quote (or any portion thereof) will be canceled back to the Same CBSX Trader if such order or quote (or part of such order or quote) cannot trade with another eligible order or quote originating from Another CBSX Trader. In the case of an opening or re-opening, both of the two orders or quotes will be canceled.

Cancel Both Example 1:

An order to buy 500 shares @ \$20.00 from a CBSX Trader who has elected for the Cancel Both Self-Trade Prevention modifier rests on the CBSX Book with no resting interest behind it. An order to sell 500 shares @ \$20.00 comes in from the Same CBSX Trader. Both orders would be canceled back to the CBSX Trader.

Cancel Both Example 2:

An order to buy 500 shares @ \$20.00 from a CBSX Trader who has elected for the Cancel Both Self-Trade Prevention modifier rests on the CBSX Book with another order to buy 500 shares @ \$20.00 from another CBSX Trader resting behind it. An order to sell 500 shares @ \$20.00 comes in from the Same CBSX Trader. The resting buy order for 500 shares @ \$20.00 from the Same CBSX Trader is canceled back to the Same CBSX Trader. The incoming sell order for 500 shares @ \$20.00 would trade with the order to buy 500 shares @ \$20.00 from Another CBSX Trader that had been resting behind the buy order from the Same CBSX Trader.

Cancel Both Example 3:

An order to buy 500 shares @ \$20.00 from a CBSX Trader who has elected for the Cancel Both Self-Trade Prevention modifier rests on the CBSX Book with another order to buy 500 shares @ \$19.99 from Another CBSX Trader resting behind it. A market order to sell 500 shares comes in from the Same CBSX Trader. The resting buy order for 500 shares @ \$20.00 from the Same CBSX Trader is canceled back to the Same CBSX Trader. The incoming sell market order for 500 shares would trade with the order to buy 500 shares @ \$19.99 from Another CBSX Trader that had been resting behind the buy order from the Same CBSX Trader (since the resting buy order from the Same CBSX Trader was canceled).

Cancel Both Example 4:

An order to buy 500 shares @ \$20.00 from a CBSX Trader who has elected for the Cancel Both Self-Trade Prevention modifier rests on the CBSX Book with no resting interest behind it. An order to sell 700 shares @ \$20.00 comes in from the Same CBSX Trader. Both orders would be canceled back to the CBSX Trader.

Cancel Both Example 5:

An order to buy 500 shares @ \$20.00 from a CBSX Trader who has elected for the Cancel Both Self-Trade Prevention modifier rests on the CBSX Book with no resting interest behind it. An order to sell 400 shares @ \$20.00 comes in from the Same CBSX Trader. Both orders would be canceled back to the CBSX Trader.

Cancel Both Example 6:

Upon the opening, a CBSX Trader who has elected for the Cancel Both Self-Trade Prevention modifier submits an order to buy 500 shares @ \$20.00 and the Same CBSX Trader then submits an order to sell 500 shares @ \$20.00. Both orders would be canceled back to the CBSX Trader.

The Self-Trade Prevention modifiers are designed to prevent a market participant from unintentionally causing a proprietary self-trade. The Exchange believes that the Self-Trade Prevention modifiers will allow firms to better manage order flow and prevent undesirable executions with themselves or the potential for (or appearance of) “wash sales” that may occur as a result of the velocity of trading in today’s high-speed marketplace. CBSX Traders may have multiple connections into CBSX due to capacity- and speed-related demands. Orders routed by the same CBSX Trader via different connections may, in certain circumstances, trade against each other. The new Self-Trade Prevention modifiers provide CBSX Traders the opportunity to prevent these potentially undesirable trades. The Exchange notes that offering the Self-Trade Prevention modifiers will streamline certain regulatory functions by reducing false positive results that may occur on Exchange-generated wash trading surveillance reports when orders are executed by the same CBSX Trader. For these reasons, the Exchange believes the Self-Trade Prevention modifiers provide market participants with enhanced order processing functionality to prevent potentially unwanted trades from occurring.

Orders marked with the Self-Trade Prevention modifiers operate in a different fashion during openings and re-openings than during normal trading due to CBSX System limitations. Also, because under the proposed Self-Trade Prevention modifier rules, orders or quotes skip over orders or quotes from the Same CBSX Trader and are given the opportunity to trade against eligible orders or quotes with lower priority that originate from Another CBSX Trader (provided the prices are the same), the Exchange proposes adding an interpretation to Rule 52.1, the CBSX Matching Algorithm/Priority rule, to provide that in instances in which the Self-Trade Prevention modifiers are implicated, the Self-Trade Prevention modifier rules will supersede other allocation methods only for the purpose of preventing self-trades, as described in the proposed Self-Trade

Prevention modifier rule. Similarly, because CBSX Rule 51.8(t) already provides for a Market-Maker Self-Trade Prevention Order which, if combined with a Self-Trade Prevention modifier, could cause a conflict in order handling, the Exchange proposes clarifying that, in circumstances where both the Market-Maker Self-Trade Prevention Order and a Self-Trade Prevention modifier are implicated, the Self-Trade Prevention modifier shall rule and take precedence.

A number of other exchanges offer modifiers similar to the ones proposed here. The Cancel Newest, Cancel Oldest, and Cancel Both Self-Trade Prevention modifiers are similar to counterpart Anti-Internalization Qualifier Modifiers offered on EDGA Exchange, Inc. (“EDGA”) and EDGX Exchange, Inc. (“EDGX”), Match Trade Prevention Modifiers offered on BATS Exchange, Inc. (“BATS”) and BATS-Y Exchange, Inc. (“BYX”),<sup>3</sup> and namesake Self Trade Prevention Modifiers offered on NYSE Arca, Inc. (“Arca”)<sup>4</sup> and National Stock Exchange, Inc. (“NSX”).<sup>5</sup> While the other exchanges’ rules apply to orders, we determined to apply Self-Trade Prevention modifier rules to orders and quotes because the application of the modifier rules to quotes as well as orders allows for the modifiers to be used in a more complete, comprehensive, and consistent fashion. Some of the other exchanges make the Self-Trade Prevention modifiers available on per-order, per-quote, or per-security bases, and allow for the election of more than one Self-Trade Prevention modifier. However, CBSX System limitations prevent CBSX from offering such options. Other exchanges also do not specify that their modifiers are limited to proprietary orders. CBSX believes that it is important to limit the Self-Trade Prevention modifiers to proprietary orders and quotes to avoid preventing agency orders from trading with each other, as agency orders for the Same CBSX Trader may actually be for

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<sup>3</sup> See EDGA, EDGX, BATS and BYX Rules 11.9(f).

<sup>4</sup> See Arca Equities Rule 7.31(qq).

<sup>5</sup> See NSX Rule 11.11(c)(1).

different customers. Finally, other exchanges do not specify how their modifiers work during openings and re-openings. CBSX feels that it is important to clarify how the Self-Trade Prevention modifiers will work differently during openings and re-openings because the CBSX System cannot easily process orders marked with the Self-Trade Prevention modifiers in the same manner during openings and re-openings as during regular trading.

Once the CBSX System is so enabled to permit the use of the Self-Trade Prevention modifiers, and such use has been appropriately tested, CBSX intends to announce the availability of the Self-Trade Prevention modifiers to the CBSX Traders via Regulatory Circular prior to the implementation of the Self-Trade Prevention modifiers.

## 2. Statutory Basis

The proposed rule change is consistent with Section 6(b) of the Act,<sup>6</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act<sup>7</sup> in particular that the rules of an exchange be designed to promote just and equitable principles of trade, to prevent fraudulent and manipulative acts, to remove impediments to and to perfect the mechanism for a free and open market and a national market system, and, in general, to protect investors and the public interest. The proposed rule change advances these objectives by making available to market participants an order and quote modifier that will assist them in preventing unwanted executions against themselves. Allowing market participants to prevent unwanted executions against themselves removes impediments to and perfects the mechanism for a free and open market by allowing market participants to better manage order flow and prevent the potential for (or appearance of) “wash sales” that may occur as a result of the velocity of trading in today’s high-speed marketplace, and by streamlining certain regulatory functions by reducing false positive results

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<sup>6</sup> 15 U.S.C. 78f(b).

<sup>7</sup> 15 U.S.C. 78f(b)(5).

that may occur on Exchange-generated wash trading surveillance reports when orders are executed by the same CBSX Trader.

Finally, adding an interpretation to Rule 52.1 to provide that, in instances in which the Self-Trade Prevention modifiers are implicated, the Self-Trade Prevention modifier rules will supersede other allocation methods only for the purposes of preventing self-trades, as described in the proposed Self-Trade Prevention modifier rule, and also clarifying that, in circumstances where both the Market-Maker Self-Trade Prevention Order and a Self-Trade Prevention modifier are implicated, the Self-Trade Prevention modifier shall rule and take precedence, perfects the mechanism for a free and open national market system and protects investors and the public interest by removing any potential confusion regarding priority and allocation methods.

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.

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 (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization 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](mailto:rule-comments@sec.gov). Please include File Number SR-CBOE-2012-013 on the subject line.

##### Paper comments:

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

All submissions should refer to File Number SR-CBOE-2012-013. 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 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-2012-013 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.<sup>8</sup>

Kevin M. O'Neill  
Deputy Secretary

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<sup>8</sup> 17 CFR 200.30-3(a)(12).