

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-69277; File No. SR-CBOE-2013-035)

March 25, 2013

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing of a Proposed Rule Change Relating to Exchange Trading Days and Hours of Business and Trading Halts

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 March 11, 2013, 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 amend Exchange rules to clarify Rules 6.1, “Days and Hours of Business,” and 6.3, “Trading Halts.” 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

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

<sup>2</sup> 17 CFR 240.19b-4.

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 the Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange is proposing to change its rules to clarify when it will be open for trading along with when trading halts on underlying securities will inhibit trading on the Exchange. The Exchange is proposing to amend its rules to clarify that it will not be solely dependent upon the “primary market” when determining when to open and/or halt securities. Instead, the Exchange is proposing to clarify in its rules that it will be open if there is ample liquidity in the underlying market for the security. Generally, the national equity exchanges have the same core business hours.<sup>3</sup> With this proposal, the Exchange is attempting to clarify in its rules that it can remain open to trade options during such business hours even if the “primary market” of the underlying securities is not open for business. The Exchange believes that the proposed changes will allow the markets to continue to function in an instance where all exchanges may not be open. In addition, the Exchange believes the proposed changes will bring greater clarity to its Trading Permit Holders (“TPHs”) regarding when the Exchange will be open for trading.

Currently, Exchange Rule 6.1 provides that no TPH “shall make any bid, offer, or transaction on the Exchange before or after” business hours.<sup>4</sup> As an administrative clean-

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<sup>3</sup> See, e.g., New York Stock Exchange Rule 51(a) and Bats Exchange Rule 1.5(w) which describes regular trading hours as 9:30 a.m. through 4:00 p.m. Eastern.

<sup>4</sup> See Exchange Rule 6.1.

up change, the Exchange is proposing to eliminate this language as it is no longer relevant. Executions may only happen during business hours, however, TPHs now have the ability to submit information in the electronic system outside of business hours. The Exchange believes deleting this language would bring greater clarity to Exchange rules while updating the rule text to the current trading environment.

Next, the Exchange is proposing to add language to Rule 6.1.01 to specify that the Exchange will not solely rely on the “primary market” of an underlying security to determine whether the Exchange may trade the option for such security. The Exchange believes that the proposed rule change will specify that if there is an ample market in the underlying security, the Exchange has the authority to trade the option even if the primary market is not open. The Exchange believes that allowing such discretion will create a lesser market disruption if the primary exchange is unable to open for trading.

Exchange Rule 6.3 specifies when the Exchange will halt trading.<sup>5</sup> Specifically, Rule 6.3(a) lists factors that may be considered in making that determination. Currently, Rule 6.3(a)(i) lists, as a factor in the decision with respect to options, “trading in the underlying security has been halted or suspended in the primary market.” The Exchange is proposing to add language to state, instead of the “primary market,” that the Exchange may factor in if “trading in the underlying security has been halted or suspended in one or more of the markets trading the underlying security.” The Exchange is proposing to make similar changes in 6.3(a)(iii) which lists factors in making the determination in securities other than options. The Exchange believes the proposed changes will grant

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<sup>5</sup> See Exchange Rule 6.3

discretion for the Exchange to be open for trading when there is a robust market in the underlying security rather than limit it to only when the “primary” exchange is open.

Next, the Exchange is proposing to add language to Rule 6.3.01 to expand the authority of a Post Director or Order Book Official to suspend trading in an option not only if the “primary market” of the security has halted or suspended trading but if the security has been halted in “one or more of the markets trading the underlying security” The Exchange believes this change will give the authority to a Post Director or Order Book Official to halt trading in an option if the primary market for an underlying security is not open for business however that security is being traded elsewhere. For example, if the primary market is unable to open due to a natural disaster, or other circumstance, but other stock exchanges are trading the underlying security, the proposed change will allow the Exchange to continue trading the overlaying options.

Finally, the Exchange is proposing to amend language in Rule 6.3.05. Rule 6.3.05 currently allows the Exchange to turn off the Retail Automation Execution System (“RAES”) with respect to a stock-option order if credible information has been communicated that trading in the underlying stock has been halted for that stock-option order.<sup>6</sup> The Exchange is proposing to add language to specifically state that the information communicated may be that “one or more of the markets trading the underlying security” have suspended trading in the underlying security. Again, the Exchange believes this language would allow the Exchange to continue trading stock-option orders even if the primary market has not opened for business.

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<sup>6</sup> See Exchange Rule 6.3.05.

The Exchange believes the proposed changes will allow the Exchange to trade options for underlying stocks even if that underlying listing market shall be unable to trade due to an emergency or other circumstance unique to that stock exchange. Making these proposed changes will allow the Exchange to trade options when an underlying security is trading on any national securities exchange regardless of where that security is formally listed. The proposed discretion attempts to create a lessor market disruption if a listing or primary market is unable to trade due to some circumstance. Because of the connectivity of the national securities exchanges today, the Exchange believes limiting its ability to trade options to when the primary market of the underlying security is open might hurt investors if some circumstance should render the primary exchange inoperable. In addition, the Exchange believes that the reference to “primary market” is ambiguous and has the potential to cause confusion. Thus, the Exchange believes by further clarifying the language, it is clearer when the Exchange will be open for trading.

## 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.<sup>7</sup> Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>8</sup> 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,

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

<sup>8</sup> 15 U.S.C. 78f(b)(5).

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 is consistent with the Section 6(b)(5)<sup>9</sup> 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 the proposed rule change protects investors by allowing trading in options as long as the underlying security is trading on another exchange. Instead of only relying on the “primary market,” the proposed rule change attempts to clarify when options will trade on the Exchange to allow greater continuity in the marketplace. By allowing the Exchange to trade options whenever the underlying securities are trading, the proposed changes seek to create less of a disconnect if the “primary” market should be experiencing technical difficulties, an emergency, or other situation that may inhibit it to be connected to the marketplace.

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. The Exchange does not believe the proposed rule change imposes any burden on intramarket competition because it is applied to all TPHs. In addition, the Exchange does not believe the proposed rule change will impose any burden on intermarket competition as it will merely give the Exchange discretion to trade options when there is an ample market for the underlying security of those options. Thus, the Exchange believes the

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<sup>9</sup> Id.

proposed rule change will promote competition by giving the Exchange the ability to trade options when the underlying security is trading anywhere, and, thus, helping the Exchange to better participate in the marketplace.

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 up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the Exchange 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-2013-035 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-2013-035. 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 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-2013-035, 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>10</sup>

Elizabeth M. Murphy  
Deputy Secretary

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<sup>10</sup> 17 CFR 200.30-3(a)(12).