

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-69360; File No. SR-CBOE-2013-041)

April 10, 2013

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing of a Proposed Rule Change to Amend Rule 6.53

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 28, 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 the Substance of the Proposed Rule Change

The Exchange proposes to amend Rule 6.53 – Certain Types of Orders Defined. 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 the 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.

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

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

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

1. Purpose

The Exchange proposes to amend its definition of a Qualified Contingent Cross (“QCC”) Order. A QCC Order is an order to buy (or sell) at least 1,000 standard option contracts or 10,000 mini-option contracts<sup>3</sup> that is identified as being part of a qualified contingent trade<sup>4</sup> coupled with a contra-side order to sell (or buy) an equal number of contracts. QCC Orders were initially adopted by the International Securities Exchange, LLC (“ISE”) and approved by the Commission.<sup>5</sup> The

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<sup>3</sup> The Exchange added language regarding mini-options due to the beginning of trading of mini-options. See SR-CBOE-2013-036, available at <http://www.cboe.com/publish/RuleFilingsSEC/SR-CBOE-2013-036.pdf>.

<sup>4</sup> 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. See CBOE Rule 6.53(u)(i).

<sup>5</sup> ISE first proposed to adopt a qualified contingent cross order type through SR-ISE-2009-35. This proposal was approved by the Commission’s Division of Trading and Markets (the “Division”) pursuant to delegated authority on August 28, 2009, Securities Exchange Act Release No. 60584 (August 28, 2009), 74 FR 45663 (September 3, 2009)(SR-ISE-2009-35), but this approval was stayed by a CBOE petition seeking full Commission review. See Letters from Joanne Moffic-Silver, General Counsel and Corporate Secretary, CBOE, dated September 4 and 14, 2009. ISE thereafter submitted its modified rule change, SR-ISE-2010-73, and a letter requesting that the Commission vacate the Division’s approval of SR-ISE-2009-35 simultaneous with the approval of SR-ISE-2010-73. CBOE submitted numerous letters objecting to ISE’s original and modified qualified contingent cross proposals, however, the Commission approved SR-ISE-2010-73 and set aside SR-ISE-2009-35 on February 24, 2011. See Securities Exchange Act Release Nos. 62523 (July 16, 2010), 75 FR 43211 (July 23, 2010)(SR-ISE-2010-73)(ISE Proposal),

Exchange opposed the ISE proposal and the adoption of QCC Orders, but for competitive reasons elected to adopt QCC Order rules on CBOE.<sup>6</sup> The rules the Exchange adopted regarding QCC Orders were explicit in stating that QCC Orders may only be entered in the standard increments applicable to simple orders in the options class under Exchange Rule 6.42 – Minimum Increments of Bids and Offers.<sup>7</sup> In effect, this language limits the entry of QCC Orders to \$0.10, \$0.05, or \$0.01 increments, with the increment of trading being the standard trading increment applicable to simple orders in the individual option series in question, regardless of whether there are one or multiple options legs of the QCC Order.

Rule 6.42 permits the entry of legs of a complex order in \$0.01 increments (regardless of the standard trading increment applicable to the options class of each leg).<sup>8</sup> This would allow for QCC Orders with multiple legs to be traded in \$0.01 increments (regardless of the standard trading increment applicable to the options class of each leg), were it not for the above-referenced language that limits the entry of QCC Orders to the standard increments applicable to simple orders in the options class of each leg. As such, the Exchange proposes to amend its definition of a QCC Order to state that such 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, but QCC Orders with more than one option leg may be entered in the increments specified for complex orders under Rule 6.42.

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63955 (February 24, 2011)(SR-ISE-2010-73)(ISE Approval), and 69354 (February 24, 2011)(SR-ISE-2009-35); see also, e.g., CBOE comment letters and materials dated July 16, 2009, September 4, 2009, September 14, 2009, September 17, 2009, December 3, 2009, January 20, 2010, April 7, 2010, and April 9, 2010.

<sup>6</sup> See Securities Exchange Act Releases Nos. 64354 (April 27, 2011), 76 FR 25392 (May 4, 2011) (SR-CBOE-2011-041) and 64653 (June 13, 2011), 76 FR 35491 (June 17, 2011) (SR-CBOE-2011-041).

<sup>7</sup> See Exchange Rule 6.53(u).

<sup>8</sup> See Exchange Rule 6.42(4)(a).

(which is \$0.01 increments). This change would put the trading of QCC Orders with multiple legs on the same footing as the trading of other types of complex orders.

## 2. Statutory Basis

The Exchange believes the proposed rule change is consistent with 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>9</sup> Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>10</sup> requirements 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 in that it gives CBOE market participants and investors who enter QCC Orders with multiple legs the same trading increment options as those who enter other types of orders with multiple legs (complex orders). Further, the Exchange believes that ISE permits trading of QCC Orders with multiple legs in \$0.01 increments, regardless of the standard increments applicable to simple orders in the options class.<sup>11</sup>

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<sup>9</sup> 15 U.S.C. 78f(b).

<sup>10</sup> 15 U.S.C. 78f(b)(5).

<sup>11</sup> ISE Rule 721 states that QCC orders “may only be entered in the regular trading increments applicable to the options class under Rule 710” (See ISE Rule 721(b)(2)). ISE Rule 710 states that if an options contract is trading at \$3.00 per option or higher, the minimum trading increment is \$.10, and if an options contract is trading at less than \$3.00 per option, the minimum trading increment is \$.05 (See ISE Rule 710). ISE Rule 722(b)(1) states that the leg(s) of a complex order may be executed in one cent increments, regardless of the minimum increments otherwise applicable to the individual legs of the order (See ISE Rule 722(b)(1)). However, the specification in Rule 721(b)(2) that QCC orders “may only be entered in the regular trading increments applicable to the options class under Rule 710” would seem to overrule Rule 722(b)(2)’s statement regarding complex order increments, or at the very least, create a contradiction that requires clarification. Nonetheless, the Exchange has been informed by ISE market participants that ISE permits the trading of trading of [sic] QCC orders with multiple legs

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 that the proposed rule change will impose an unnecessary burden on intramarket competition because it will apply to all market participants. The Exchange does not believe that the proposed rule change will impose an unnecessary burden on intermarket competition because the Exchange believes that ISE permits trading of QCC orders with multiple legs in \$0.01 increments, regardless of the standard increments applicable to simple orders in the options class,<sup>12</sup> and therefore the proposed change would put CBOE on an even competitive footing with ISE.

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

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in \$0.01 increments, regardless of the standard increments applicable to simple orders in the options class.

<sup>12</sup> See Footnote 11.

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-2013-041 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-2013-041. 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 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-2013-041, 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>13</sup>

Kevin M. O'Neill  
Deputy Secretary

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<sup>13</sup> 17 CFR 200.30-3(a)(12).