

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-71859; File No. SR-CBOE-2014-029)

April 3, 2014

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing of a Proposed Rule Change to Enhance the Exchange Audit Trail

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 March 27, 2014, 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 enhance its audit trail by adding an additional element to existing Rules 6.73 (Responsibility of Floor Brokers) and 7.12 (PAR Official). The text of the proposed rule change is provided below.(additions are underlined; deletions are [bracketed])

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**Chicago Board Options Exchange, Incorporated
Rules**

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Rule 6.73. Responsibilities of Floor Brokers

(a) – (c) *No changes.*

. . . Interpretations and Policies:

.01 - .04 *No changes.*

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

.05 Representation. Pursuant to Rule 6.73(a), a Floor Broker's representation of an order shall require the Floor Broker to electronically record the time the order is initially represented in the trading crowd via Exchange-approved functionality.

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Rule 7.12. PAR Official

(a) No change.

(b) The PAR Official shall be responsible for the following obligations with respect to the classes of options assigned to him/her:

(i) – (iv) No change.

(v) A PAR Official shall electronically record the time an order is initially represented by the PAR Official in the trading crowd.

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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 Exchange is proposing to add a new interpretation and policy to Rule 6.73 and new language to Rule 7.12(b). The proposed change will require Floor Brokers and PAR Officials to

electronically capture the time in which orders are initially verbally presented in the Exchange's trading crowd via a "Represent Button" which will be located on PAR workstations and other Exchange-approved devices including, i.e. Floor Broker Workstation ("FBW") and PULSe.³ This will enhance the Exchange's audit trail and surveillance of open out-cry trading.

Currently, Trading Permit Holders are permitted to use Exchange-approved devices to systematize orders pursuant to Exchange Rule 6.24.⁴ However, the Exchange does not currently require an electronic capture of the time when orders are represented in the trading crowd on any of these devices.

The proposed rule change will require the electronic capture of the time an order is initially verbally represented in the trading crowd. As proposed, this obligation will be fulfilled via an electronic mechanism, a "Represent Button," made available on Exchange-approved devices, including, for example, Exchange-supplied PAR workstations, FBWs and PULSe workstations.⁵ The Exchange believes this proposed addition would help to track the time when an order is initially represented in the trading crowd for open outcry trading.

³ The Exchange notes that there are currently other devices utilized on the Exchange's trading floor, but these devices are not utilized to represent orders in Exchange trading crowds and will not be required to have this functionality.

⁴ Orders must be systematized in accordance with Rule 6.24 (Required Order Information). Generally, subject to certain exceptions, each order, cancellation of, or change to an order transmitted to the Exchange must be "systematized," in a format approved by the Exchange, either before it is sent to the Exchange or upon receipt on the floor of the Exchange. An order is systematized if: (i) the order is sent electronically to the Exchange; or (ii) the order that is sent to the Exchange non-electronically (e.g., telephone orders) is input electronically into the Exchange's systems contemporaneously upon receipt on the Exchange, and prior to representation of the order.

⁵ Any newly introduced floor based order management device must have the "Represent Button" functionality before it is approved to be used on the Exchange trading floor if it will be utilized to represent orders.

The procedure Floor Brokers and PAR Officials currently follow to represent orders and consummate trades on the Exchange's trading floor will not change aside from the added step of capturing the time an order was initially represented in the trading crowd.

The following is an example of how the proposed "Represent Button" would operate:

- At 10:00:00, the National Best Bid and Offer ("NBBO") is 1.10 - 1.20. A Floor Broker enters a trading crowd to represent an already systematized order resident on a FBW to buy 200 contracts at 1.15. Concurrent with the representation in the crowd, the "Represent Button" on that FBW must be pressed.
- At 10:00:10, while the NBBO remains 1.10 - 1.20, a Market-Maker ("MM-A") in the trading crowd verbally commits to trade against the order for 200 contracts priced at 1.15. A trade has occurred.
- At 10:00:11, the NBBO updates to 1.05 - 1.10. At the same time, while the NBBO is 1.05 - 1.10, the order is transmitted to a PAR workstation for endorsement and processing.⁶
- Finally, at 10:00:12, while the NBBO is still 1.05 - 1.10, the Floor Broker completes the endorsement of the trade and reporting process via PAR.

With the addition of the proposed rule text, open out-cry trading on the Exchange will generally continue to operate as it currently does. The proposed rule text, however, merely adds another requirement to capture the representation time electronically. With the creation of the additional requirement, the Exchange is attempting to enhance its audit trail for regulatory purposes.

⁶ Orders represented on FBW must be sent to a PAR workstation for endorsement and processing because the post-execution process cannot be completed on FBW. The Exchange notes that, at this time, the PAR workstations are systematically configured to require the usage of the "Represent Button" upon selection of the order.

The Exchange will announce the implementation date of the proposed rule change in a Regulatory Circular to be published no later than 30 days following the approval date. The Exchange represents that all devices currently utilized to represent orders in the trading crowd by Floor Brokers and PAR Officials will have this functionality by the time of implementation of the obligation.

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.⁷ Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)⁸ 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 facilitation [sic] 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)⁹ requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

In particular, the proposed addition to Rules 6.73 and 7.12 would promote just and equitable principles of trading by enhancing the Exchange's audit trail. The proposed requirement applies to all participants that handle agency orders in the trading crowd, and, as

⁷ 15 U.S.C. 78f(b).

⁸ 15 U.S.C. 78f(b)(5).

⁹ Id.

such, we do not believe the requirement is unfairly discriminatory. In addition, all Floor Brokers and PAR Officials will have the same requirement to utilize the Represent Button, making the rule equitable to similarly situated participants on the Exchange's trading floor. These times will promote the Exchange's ability to develop and implement surveillances that adequately cover the Exchange's Rules including, but not limited to, due diligence requirements of Floor Brokers¹⁰ and other Exchange priority rules. The proposed rule change is attempting to protect investors and the public interest by enhancing the audit trail used to monitor trading on the Exchange trading floor.

The Exchange also believes the proposed rule change is consistent with Section 6(b)(1) of the Act¹¹, which provides that the Exchange be organized and have the capacity to be able to carry out the purposes of the Act and to enforce compliance by the Exchange's Trading Permit Holders and persons associated with its Trading Permit Holders with the Act, the rules and regulations thereunder, and the rules of the Exchange. In particular, the proposed additions will enhance the Exchange's audit trail improving the regulation of the Exchange. With an enhanced audit trail, the Exchange will be able to better monitor trading activity on the Exchange.

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. In particular, the proposed rule change will not impose any burden on any intramarket competition as it will be applied to similarly situated groups trading on the Exchange's trading floor equally. The Exchange does not believe the proposed rule change will impose any burden on intermarket completion as the proposed changes merely pose an electronic recording component to the

¹⁰ See Exchange Rule 6.73.

¹¹ 15 U.S.C. 78f(b)(1).

Exchange's open outcry representation requirements on the trading floor to enhance the Exchange's audit trail.

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. Please include File Number SR-CBOE-2014-029 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-2014-029. 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. 20549-1090 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-2014-029, 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.¹²

Kevin M. O'Neill
Deputy Secretary

¹² 17 CFR 200.30-3(a)(12).