

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-72704; File No. SR-CBOE-2014-060)

July 29, 2014

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing of a Proposed Rule Change to Amend Rule 24.19

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 July 25, 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 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 proposes to amend its rule related to Multi-Class Broad-Based Index Option Spread Orders. 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 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 Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange proposes to amend Rule 24.19. This Rule allows Trading Permit Holders (“TPHs”) to execute Multi-Class Broad-Based Index Option Spread Orders (“Multi-Class Spread Orders”) that meet certain qualifying criteria. Currently, not all Multi-Class Spread Orders may be entered electronically due to systems constraints. The Exchange is in the process of modifying its electronic order-entry systems to provide for the electronic entry and validation of all Multi-Class Spread Orders to the floor of the Exchange. This will provide for an enhanced audit trail that will better allow regulatory oversight in connection with the provisions of Rule 24.19. For the Exchange’s systems to determine that two separate legs are part of the same Multi-Class Spread Order (allowing for treatment as a Multi-Class Spread Order), both legs must be entered together on a single order ticket. As such, the Exchange proposes to amend Rule 24.19 to state that “Multi-Class Spread Orders must be entered on a single order ticket at time of systemization to be eligible for the procedures and relief set out in this Rule.”<sup>3</sup> The Multi-Class Spread Order type will enforce the permitted combinations of options covered by Rule 24.19. The Exchange will not accept Multi-Class Spread Orders with invalid combinations. While the proposed rule change allows for all Multi-Class Spread Orders to be entered electronically, all Multi-Class Spread Orders will still be executed in open outcry on the Exchange’s trading floor.

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<sup>3</sup> The Exchange notes that the substance of this proposal was published in a prior proposal which was published for the entire 21 day comment period, and no comments were received. That prior proposal provided for several changes to Rule 24.19; however, this proposal specifically relates to the electronic entry and validation of Multi-Class Spread Orders and can be considered and approved without reference to the other proposed changes in the prior proposal. See Securities Exchange Act Release No. 71872 (April 4, 2014), 79 FR 19940 (April 10, 2014) (SR-CBOE-2014-026).

Because the current method for representing and executing Multi-Class Spread Orders is manual and must occur only in open outcry, the current language states that a Multi-Class Spread Order may be represented at the trading station of either Broad-Based Option comprising the order, and also requires that the TPH initiating the order in the trading crowd to contact an Order Book Official (“OBO”), Designated Primary Market-Maker (“DPM”), or appropriate Exchange staff, as applicable, at the other trading station to have a notice of such order disseminated to the other trading crowd. The proposed rule change will require that a Multi-Class Spread Order be represented at the primary trading station, and states that the TPH representing the order must contact the DPM or Exchange staff<sup>4</sup> (as applicable) at the other trading station in order to provide notice of such order for dissemination to the other trading crowd. Each Broad-Based Index Option has a trading station. The primary trading station is the first trading station at which the Multi-Class Spread Order is represented. The floor broker representing the Multi-Class Spread Order may determine which trading station should be the primary trading station. The current rule states that notice of a Multi-Class Spread order “shall be disseminated by the Recipient who shall verbalize the terms of the order to the other trading crowd.” However, the Exchange proposes to replace the word “verbalize” with the word “announce”, as the Exchange is currently contemplating changes that will allow such notice to be posted on screens electronically to the other trading crowd (which could be a more efficient method of posting such order information). This ensures that all market participants at both physical trading locations are aware of the terms of the order being processed.

The proposed rule change will enhance and improve the process of sending Multi-Class Spread Orders to the floor of the Exchange, as well as enhance the Exchange’s audit trail with

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<sup>4</sup> The Exchange proposes to remove the reference to contacting an OBO, as the Exchange no longer has OBOs.

respect to such orders. No later than 90 days following the effective date of the proposed rule change, the Exchange will announce to TPHs via Regulatory Circular the implementation date by which TPHs must be in compliance with the changes described herein. The implementation date will be no later than 180 days following the effective date of the proposed rule change, and will be at least 30 days following the release of the abovementioned Regulatory Circular (in order to give TPHs ample time to come into compliance with the changes described herein).

## 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>5</sup> Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>6</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, 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>7</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 that automating the Multi-Class Spread Order creation process for all Multi-Class Spread Orders serves to remove impediments to and to

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

<sup>6</sup> 15 U.S.C. 78f(b)(5).

<sup>7</sup> Id.

perfect the mechanism for a free and open market and a national market system by providing market participants the ability to route Multi-Class Spread Orders to the Exchange electronically. Further, enhancing the audit trail with respect to Multi-Class Spread Orders promotes transparency and aids in surveillance, thereby protecting investors.

The Exchange also believes the proposed rule change is consistent with Section 6(b)(1) of the Act<sup>8</sup>, 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. Enhancing the audit trail with respect to Multi-Class Spread Orders will allow the Exchange to better enforce compliance by the Exchange's TPHs and persons associated with its TPHs with the Act, the rules and regulations thereunder, and the rules of 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. The Exchange believes that automating the Multi-Class Spread Order creation process for all Multi-Class Spread Orders promotes fair and orderly markets, as well as assists the Exchange in its ability to effectively attract order flow and liquidity to its market, and ultimately benefits all CBOE TPHs and all investors. The Exchange does not believe that the proposed rule change will impose any burden on intramarket competition that is not necessary or appropriate in furtherance of the purposes of the Act because Multi-Class Spread Orders are available to all market participants through CBOE TPHs. The Exchange does not believe that the proposed rule

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<sup>8</sup> 15 U.S.C. 78f(b)(1).

change will impose any burden on intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act because, again, Multi-Class Spread Orders are available to all market participants through CBOE TPHs, which makes CBOE a more effective marketplace. Further, the proposed changes only affect trading on CBOE. To the extent that the proposed changes make CBOE more attractive to market participants at other exchanges, such market participants may elect to become CBOE market participants.

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.

The Exchange has requested accelerated approval of the proposed rule change. The Commission is considering granting accelerated approval of the proposed rule change at the end of a 15-day comment period.

**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-2014-060 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-2014-060. 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 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-2014-060 and should be submitted on or before [insert date 15 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>9</sup>

Deputy Secretary  
Kevin M. O'Neill

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<sup>9</sup> 17 CFR 200.30-3(a)(12).