

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-72892; File No. SR-CBOE-2014-060)

August 21, 2014

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Order Granting Accelerated Approval of a Proposed Rule Change to Amend Rule 24.19

I. Introduction

On July 25, 2014, the Chicago Board Options Exchange, Incorporated (the “Exchange” or “CBOE”) filed with the Securities and Exchange Commission (the “Commission”), 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> a proposed rule change to amend its rule related to Multi-Class Broad-Based Index Option Spread Orders. This proposal was published for comment in the Federal Register on August 5, 2014.<sup>3</sup> The Commission received no comments regarding the proposal. This order approves the proposed rule change on an accelerated basis.

II. Description of the Proposed Rule Change

The Exchange proposes to amend its Rule 24.19 (Multi-Class Broad-Based Index Option Spread Orders).<sup>4</sup> 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.

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

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

<sup>3</sup> See Securities Exchange Act Release No. 72704 (July 29, 2014), 79 FR 45560 (“Notice”).

<sup>4</sup> A Multi-Class Broad-Based Index Options Spread Order is generally defined as an order to buy a stated number of contracts of a broad-based index option or ETF/ETN option derived from a broad-based index and to sell an equal number, or an equivalent number of contracts of a different broad-based index option or ETF/ETN option derived from a broad-based index. See CBOE Rule 24.19(a)(2).

The Exchange represents that currently not all Multi-Class Spread Orders may be entered electronically due to systems constraints, but that it 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. In order 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.<sup>5</sup> Therefore, the Exchange proposes to amend CBOE Rule 24.19 to require that Multi-Class Spread Orders be entered on a single order ticket at time of systemization to be eligible for the procedures and relief provided for in the Rule.<sup>6</sup> The Exchange represents that it will not accept Multi-Class Spread Orders with invalid combinations.<sup>7</sup> The Exchange also explains that 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.<sup>8</sup>

CBOE Rule 24.19 currently states that a Multi-Class Spread Order may be represented at the trading station of either Broad-Based Index Option comprising the order, and also provides that the TPH initiating the order in the trading crowd must 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. CBOE is proposing to modify the Rule to require that a Multi-Class Spread Order be represented at the primary trading station,<sup>9</sup> and require the TPH representing the order

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<sup>5</sup> See Notice, supra note 3, at 45660.

<sup>6</sup> See proposed CBOE Rule 24.19(b).

<sup>7</sup> See Notice, supra note 3, at 45560.

<sup>8</sup> See id.

<sup>9</sup> CBOE Rule 24.19(a)(3) defines the “primary trading station” as “the trading station where a particular Multi-Class Spread Order is first represented.” The Exchange states

to contact the DPM or Exchange staff<sup>10</sup> (as applicable) at the other trading station in order to provide notice of such order for dissemination to the other trading crowd.<sup>11</sup>

CBOE Rule 24.19 requires 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.” 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).<sup>12</sup>

CBOE represents that 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, and that 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).<sup>13</sup>

### III. Discussion and Findings

After careful review, the Commission finds that the proposed change to amend CBOE Rule 24.19 is consistent with the requirements of the Act and the rules and regulations

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that the floor broker representing the Multi-Class Spread Order may determine which trading station should be the primary trading station. See Notice, supra note 3, at 45560.

<sup>10</sup> The Exchange proposes to remove the reference to contacting an OBO, as the Exchange no longer has OBOs.

<sup>11</sup> See proposed CBOE Rule 24.19(c).

<sup>12</sup> See Notice, supra note 3, at 45560.

<sup>13</sup> See id.

thereunder applicable to the Exchange.<sup>14</sup> In particular, the Commission finds that the proposed rule change is consistent with the Section 6(b)(5)<sup>15</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. The Commission believes that CBOE's proposal to require that all Multi-Class Spread Orders be entered on a single order ticket should enhance CBOE's audit trail and automated surveillance program with regard to these order types, thereby enhancing the integrity of the market to the benefit of investors.

The Commission also believes that the proposed rule change is consistent with Section 6(b)(1) of the Act,<sup>16</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 TPHs and persons associated with its TPHs with the Act, the rules and regulations thereunder, and the rules of the Exchange. The Commission believes that by enhancing the audit trail with respect to Multi-Class Spread Orders the Exchange should be better able to ensure that TPHs' orders submitted as Multi-Class Spread Orders meet the requirements of CBOE Rule 24.19.

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<sup>14</sup> In approving this proposal, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

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

<sup>16</sup> 15 U.S.C. 78f(b)(1).

In addition, the Commission finds good cause, pursuant to Section 19(b)(2) of the Act,<sup>17</sup> for approving the proposed rule change prior to the 45th day after publication of notice in the Federal Register. The Commission notes that the substance of this proposal was noticed for comment as part of changes proposed in a prior CBOE proposed rule change, which CBOE withdrew.<sup>18</sup> The prior CBOE proposed rule change was published for the entire 21 day comment period, and no comments were received.<sup>19</sup> In addition, the instant proposed rule change was published for a 15 day comment period to ensure that the public had an opportunity to review the proposal in its current form and no comments were received on the instant filing. The Commission believes that there has been ample notice provided for the public to comment on this proposed rule change if they had concerns. Moreover, the Commission does not believe that this proposed rule change raises any material or novel issues. Accordingly, the Commission finds that good cause exists for approving the proposed rule change on an accelerated basis.

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<sup>17</sup> 15 U.S.C. 78s(b)(2).

<sup>18</sup> See Securities Exchange Act Release No. 72495 (June 27, 2014), 79 FR 38080 (July 3, 2014) (Notice of Withdrawal of SR-CBOE-2014-026).

<sup>19</sup> The prior CBOE proposal provided for several changes to Rule 24.19; this proposal specifically relates to the electronic entry and validation of Multi-Class Spread Orders. See Securities Exchange Act Release No. 71872 (April 4, 2014), 79 FR 19940 (April 10, 2014) (SR-CBOE-2014-026).

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,<sup>20</sup> that the proposed rule change (File No. SR-CBOE-2014-060) be, and hereby is, approved on an accelerated basis.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>21</sup>

Kevin M. O'Neill  
Deputy Secretary

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<sup>20</sup> 15 U.S.C. 78s(b)(2).

<sup>21</sup> 17 CFR 200.30-3(a)(12).