

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-77200; File No. SR-CBOE-2016-009)

February 22, 2016

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing of a Proposed Rule Change Relating to LMMs and DPMs

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 February 8, 2016, 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 (i) reorganize, simplify and make consistent certain text relating to Lead Market-Maker (“LMM”) and Designated Primary Market-Market (“DPM”) obligations generally, (ii) amend its rules related to LMMs, (iii) delete outdated references in its rules to Supplemental Market-Makers (“SMMs”) and other obsolete language and (iv) make other corresponding and clarifying changes.

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.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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 proposes to (i) reorganize, simplify and make consistent certain text relating to LMM and DPM obligations generally, (ii) amend its Rules related to LMMs, (iii) delete outdated references in its Rules to SMMs and other obsolete language and (iv) make other corresponding and clarifying changes.

First, the Exchange is proposing to amend Rules 8.15 (pertaining to LMMs in Hybrid 3.0 classes), 8.15A (pertaining to LMMs in Hybrid classes)³ and 8.85 (pertaining to DPMs) to revise the descriptions of certain obligations of LMMs and DPMs (e.g., obligations related to quote accuracy, bid/ask differentials, minimum size and trading rotations, competitive markets and promotion of the Exchange, and material operational or financial change notifications) to be

³ “Hybrid Trading System” refers to the Exchange’s trading platform that allows Market-Makers to submit electronic quotes in their appointed classes. “Hybrid 3.0 Platform” is an electronic trading platform on the Hybrid Trading System that allows one or more quoters to submit electronic quotes that represent the aggregate Market-Maker quoting interest in a series for the trading crowd. Classes authorized by the Exchange for trading on the Hybrid Trading System are referred to as “Hybrid classes.” Classes authorized by the Exchange for trading on the Hybrid 3.0 Platform are referred to as “Hybrid 3.0 classes.” References to “Hybrid,” “Hybrid System,” or “Hybrid Trading System” include all platforms unless otherwise provided by rule. See Rule 1.1(aaa).

more consistent with each other (and the descriptions of these obligations contained in other rules).⁴ The Exchange proposes these changes merely to make the language regarding these obligations more consistent throughout the Rules and delete outdated and duplicative language.

The following table shows certain obligations to which LMMs and DPMs are already subject (either pursuant to Rules 8.15, 8.15A and 8.85 or other Rules),⁵ the location in the Rules of these obligations, and the corresponding proposed provision, when applicable:

<u>Current Provisions in Rules 8.15, 8.15A and 8.85 (as applicable)</u>	<u>Current Provisions in Other Rules</u>	<u>Proposed Provisions in Rules 8.15 and 8.85 (as applicable)</u>
<p>Rules 8.15(a)(4) and 8.15A(a)(D) – CBOE will review and evaluate the conduct of LMMs, including but not limited to compliance with Rules 8.1, 8.2, 8.3, and 8.7</p> <p>Rule 8.85(a) – each DPM must fulfill all of the obligations of a Market-Maker under the Rules</p>	<p>Rules 8.1, 8.2, 8.3, and 8.7 – definition of Market-Maker, registration of Market-Makers appointment of Market-Makers, and obligations of all Market-Makers (including LMMs and DPMs), respectively</p>	<p>Rule 8.15(b) – each LMM must fulfill all of the obligations of a Market-Maker under the Rules (conforms to current Rule 8.85(a))</p>

⁴ The proposed language is also consistent with e-DPM obligations as set forth in former Rule 8.93. The Exchange eliminated the e-DPM program. See Securities Exchange Act Release No. 34-71227 (January 2, 2014), 79 FR 1398 (January 8, 2014) (SR-CBOE-2013-110). While the Exchange eliminated the e-DPM program for the reasons set forth in that rule filing, LMMs and DPMs continue to perform similar functions as e-DPMs use to perform, and the Exchange believes it is appropriate to mirror the language describing the LMM and DPM obligations to the language describing the previous e-DPM obligations, which previously had been approved by the Securities and Exchange Commission (the “Commission”), because LMMs and DPM receive substantially similar benefits and are subject to substantially similar obligations as e-DPMs received and were subjected.

⁵ The Exchange notes that rules that apply to all Market-Makers, such as Rules 8.7 regarding Market-Maker obligations and 8.51 regarding firm quotes, apply to LMMs and DPMs, unless a provision specific to a LMM or DPM conflicts with a provision in one of these common Market-Maker rules. For example, LMMs and DPMs are subject to different continuous quoting obligations pursuant to Rules 8.15A and 8.87, respectively, than the continuous quoting obligation set forth in Rule 8.7.

<u>Current Provisions in Rules 8.15, 8.15A and 8.85 (as applicable)</u>	<u>Current Provisions in Other Rules</u>	<u>Proposed Provisions in Rules 8.15 and 8.85 (as applicable)</u>
Rules 8.15A(b)(ii) and 8.85(a)(ii) – LMMs and DPMs, respectively, must assure that their displayed quotations are honored for at least the number of contracts prescribed pursuant to Rule 8.51	Rule 8.7(b)(iii) – Market-Makers must assure that any market quotes they cause to be disseminated are accurate Rule 8.51 – each Market-Maker must sell (buy) at least the established number of contracts at the offer (bid) that is displayed when a Market-Maker receives a buy (sell) order ⁶	Rules 8.15(b)(ii) and 8.85(a)(ii) – LMMs and DPMs, respectively, must assure that their market quotations are accurate ⁷
Rule 8.15A(b)(i) and (v) ⁸ – LMMs must quote within Exchange-prescribed bid/ask differentials Rule 8.85(a)(iii) – DPMs must comply with the bid/ask differential requirements determined by the Exchange	Rules 8.7(b)(iv) and (d)(iv) – Market-Makers must comply with the bid/ask differential requirements determined by the Exchange ⁹	Rule 8.15(b)(iii) – LMMs must comply with the bid/ask differential requirements determined by the Exchange (conforms to current Rule 8.85(a)(iii)) ¹⁰

⁶ The Exchange proposes to exclude the references to Rule 8.51 in proposed Rules 8.15 and 8.85, as Rule 8.51 describes the firm quote obligation and applies to LMMs and DPMs.

⁷ This revised language is consistent with the language in former Rule 8.93(ii). While this provision is not included in current Rule 8.15, LMMs in Hybrid 3.0 classes are currently subject to this obligation pursuant to Rule 8.7(b)(iii) and will be subject to it pursuant to proposed Rule 8.15(b)(ii).

⁸ The Exchange proposes to delete current Rule 8.15A(b)(v) because the obligation to quote within the bid/ask different and minimum size requirements is not limited to open outcry quotes. These obligations are included in proposed Rule 8.15(b)(iii) and (iv). Additionally, Rule 8.7(d) requires all Market-Makers, including LMMs, to respond to open outcry requests for quotes by floor brokers, making this provision redundant. DPMs are similarly subject to this requirement (as all Market-Makers are); however, Rule 8.85 does not list this as a specific obligation for DPMs.

⁹ Rule 6.2B(iii) allows the Exchange to set different bid/ask differential requirements for opening quotations.

¹⁰ This revised language is consistent with the language in former Rule 8.93(iii). While this provision is not included in current Rule 8.15, LMMs in Hybrid 3.0 classes are currently subject to this obligation pursuant to 8.7(b)(iv) and (d)(iv) and will continue to be subject to it pursuant to proposed Rule 8.15(b)(iii). The proposed rule change also deletes in current Rule 8.15A(b)(i) a reference that an LMM's continuous electronic quotes must comply with the bid/ask differential requirements determined by the Exchange on a class-by-class basis, as this is redundant of the obligation in current Rules 8.15(b)(1) and

<u>Current Provisions in Rules 8.15, 8.15A and 8.85 (as applicable)</u>	<u>Current Provisions in Other Rules</u>	<u>Proposed Provisions in Rules 8.15 and 8.85 (as applicable)</u>
<p>Rules 8.15A(b)(ii) and 8.85(a)(ii) – LMMs and DPMs, respectively, must assure that their displayed quotations are honored for at least the number of contracts prescribed pursuant to Rule 8.51 (which permits CBOE to prescribe a minimum quote size)</p>	<p>Rule 8.7(d)(ii)(B) and (iv) – Market-Makers must quote for the minimum number of contracts determined by the Exchange¹¹</p>	<p>Rules 8.15A(b)(iv) and 8.85(a)(vii) – LMMs and DPMs, respectively, must assure that their market quotations comply with the minimum size requirements prescribed by the Exchange, which minimum must be at least one contract¹²</p>
<p>Rule 8.15 (introductory paragraph and paragraphs (b)(1) and (2)) – LMMs in Hybrid 3.0 classes must participate in opening and other rotations described in Rule 6.2B, accommodate a relatively active opening and facilitate any imbalances</p> <p>Rules 8.15A(b)(iv) and 8.85(a)(xi) – LMMs and DPMs, respectively, must ensure that a trading rotation is initiated promptly following the opening of the underlying security (or promptly after 8:30 a.m. in an index class) in accordance with Rule 6.2B in 100% of the series of each allocated class by entering opening quotes as necessary</p>	<p>Rule 6.2B(c) and Interpretation and Policy .01(a) – LMMs must participate in trading rotations</p>	<p>Rules 8.15A(b)(v) and 8.85(a)(xi) – LMMs and DPMs, respectively, must enter opening quotes within one minute of the initiation of an opening rotation in any series that is not open due to the lack of a quote (see Rule 6.2B(e)(i) or Interpretation and Policy .03(a)(i)), and participate in other rotations described in Rule 6.2B or 24.13, as applicable¹³</p>

8.15A(b)(v) and proposed Rule 8.15(b)(iii). Additionally, the proposed rule change deletes language in Rule 8.85(a)(iii) that says this obligation relates to option contracts. As all securities that trade on CBOE are options, this language is unnecessary.

¹¹ Rule 6.2B(c) and Interpretation and Policy .02 allows the Exchange to set a different minimum number of contracts for opening quotations.

¹² This revised language is consistent with the language in former Rule 8.93(iv). While this provision is not included in current Rule 8.15, LMMs in Hybrid 3.0 classes are currently subject to this obligation pursuant to 8.7(d)(ii)(B) and (iv) and will be subject to it pursuant to proposed Rule 8.15(b)(iv).

¹³ Current Rule 8.15 already explicitly subjects LMMs in Hybrid 3.0 classes to this obligation. Rule 6.2B(g) and (h) provides that the rotation process described in Rule 6.2B may be used to reopen a class after a trading halt and for a closing rotation. Rule 24.13 also sets forth trading rotations that may be used for index options. Thus, LMMs' and DPMs' may be required to participate in those trading rotations as well to the extent required by those rules.

<u>Current Provisions in Rules 8.15, 8.15A and 8.85 (as applicable)</u>	<u>Current Provisions in Other Rules</u>	<u>Proposed Provisions in Rules 8.15 and 8.85 (as applicable)</u>
Rule 8.85(c)(ii) – DPMs must make competitive markets on the Exchange and otherwise promote the Exchange in a manner that is likely to enhance the ability of the Exchange to compete successfully for order flow in the classes they trade	Rule 8.7(b)(i) – Market-Makers must compete with other Market-Makers to improve markets	Rule 8.15(b)(vi) – LMMs and DPMs must make competitive markets on the Exchange and otherwise promote the Exchange in a manner that is likely to enhance the ability of the Exchange to compete successfully for order flow in the classes they trade (conforms to Rule 8.85(c)(ii)) ¹⁴
Rules 8.15(b)(4) and 8.15A(b)(iii) – LMMs must perform obligations for a period of one expiration month commencing on the first day following an expiration, and failure to perform such obligations for such time may result in suspension of up to three months from trading in all series of the class	Rule 8.85(c)(vi) – a DPM must continue to act as a DPM and to fulfill all of the DPM’s obligations as a DPM until the Exchange relieves the DPM of its approval and obligations to act as a DPM or the Exchange terminates the DPM’s approval to act as a DPM	Rule 8.15(b)(vii) – an LMM must continue to act as an LMM and fulfill the obligations of an LMM until the Exchange relieves it of its approval to act as an LMM or of its appointment and obligations to act as an LMM in a particular class (conforms to Rule 8.85(c)(vi)) ¹⁵
Rule 8.85(c)(iii) – DPMs must promptly inform the Exchange of any material change in the financial or operational condition of the DPM	<p>Rules 3.7(a) and 15.5 – requires Trading Permit Holders to submit documentation regarding their organization, financial structure and ownership, including updates, and other financial information, to the Exchange</p> <p>Rule 8.3(a)(i) – permits the Exchange to consider the financial</p>	Rule 8.15(b)(viii) – LMMs must immediately notify the Exchange of any material operational or financial changes to the LMM organization as well as obtain the Exchange’s approval prior to effecting changes to the ownership, capital structure, voting authority, distribution of profits/losses, or controls of the LMM organization ¹⁶

¹⁴ This revised language is consistent with the language in former Rule 8.93(vi). CBOE does not believe the proposed rule change imposes a new obligation on LMMs, as Rule 8.7 requires Market-Makers to be competitive; rather, it enhances the description of this obligation.

¹⁵ This provision is consistent with former Rule 8.93(v) (with respect to e-DPMs). This provision is also consistent with the Exchange’s ability to appoint LMMs and remove LMMs if, for example, they do not fulfill their LMM duties under current Rules 8.15 and 8.15A (as described in the previous row of the table). The Exchange believes the proposed language is more appropriate, as it requires LMMs to satisfy their obligations during their entire term (which may be more than one month), and excludes the language about a possible suspension for not performing their obligations, as Chapter XVII of the Rules describes the process for possible suspensions for rule violations.

¹⁶ This revised language is consistent with the language in former Rule 8.93(viii). The Exchange does not propose to add language to Rule 8.85 regarding the need for approval prior to effecting certain organizational changes with respect to DPMs because Rule 8.89 has a similar requirement that covers some of these organizational changes for DPMs.

<u>Current Provisions in Rules 8.15, 8.15A and 8.85 (as applicable)</u>	<u>Current Provisions in Other Rules</u>	<u>Proposed Provisions in Rules 8.15 and 8.85 (as applicable)</u>
	resources available to a Market-Maker	
Rules 8.15A(b)(vi) and 8.85(a)(xii) – LMMs and DPMs, respectively, must act as agent for or use their accounts for, respectively, orders routed to other exchanges that are participants in the Intermarket Options Linkage Plan (the “Old Linkage Plan”)	None	Delete ¹⁷

As this table demonstrates, LMMs and DPMs generally are already subject to the obligations in the proposed provisions – any additional obligations imposed by the proposed rule change on LMMs and DPMs are de minimis and will not be burdensome. LMMs in Hybrid and Hybrid 3.0 classes and DPMs (and formerly e-DPMs), while being different market participants within CBOE’s market, generally serve in the same role in their appointed classes, which is a provider of additional liquidity pursuant to quoting obligations that are higher than other Market-Makers (in exchange for receiving a participation entitlement). LMMs and DPMs have substantially similar functions and obligations (including the same continuous quoting obligations, along with the same participation entitlement percentages), and the Exchange believes having consistent language with respect to these obligations will simplify its rules and reflect the similar roles served by LMMs and DPMs.¹⁸

Additionally, other rules applicable to DPMs impose additional financial requirements (Rule 8.86) and allow the Exchange to review a DPM’s operation at any time (Rule 8.88).

¹⁷ This language is outdated, as it relates to the now obsolete Old Linkage Plan, which has been replaced by the Plan for the Purpose of Creating and Operating an Intermarket Option Linkage. *See, e.g.*, Securities Exchange Act Release No. 56761 (November 7, 2007), 72 FR 64094 (November 14, 2007).

¹⁸ Currently, the primary difference between LMMs and DPMs relates to their appointment terms. An LMM receives an appointment for a limited term (e.g., one month), while a DPM serves in that role until it resigns or the Exchange removes it from that role

The Exchange believes the proposed obligation in the fifth row of the table is only a slight modification of the current opening quoting obligations of LMMs and DPMs. The current rules require LMMs and DPMs to enter opening quotes only as necessary to ensure the opening of 100% of series in a class. The Exchange modifies the opening quote requirement to have a specific time (one minute) by when opening quotes must be entered rather than the nonspecific term “promptly.”¹⁹ The Exchange believes this gives clearer guidance to LMMs and DPMs regarding the opening quote obligation, which further promotes compliance by LMMs and DPMs with this obligation. Nearly all series open for trading within this timeframe on a daily basis, and thus the Exchange believes this timeframe is appropriate and will not be unduly burdensome on LMMs and DPMs while still ensuring a prompt opening. The proposed rule change also modifies the language to provide that the timing of the opening quoting obligation begins after the initiation of an opening rotation. Trading rotations are not initiated by opening quotes. Therefore, the proposed change is consistent with system functionality related to openings, as described in Rule 6.2B.²⁰ In addition, the Exchange clarifies that LMMs and DPMs must enter opening quotes when a series does not open due to a lack of quote pursuant (see Rule 6.2B(e)(i) or Interpretation and Policy .03(a)(i), as applicable). There are several conditions that may be present that prevent a series from opening as set forth in Rule 6.2B(e) and Interpretation and Policy .03(a); however, LMMs and DPMs can help “ensure an opening” as required by the

pursuant to Rule 8.90.

¹⁹ The proposed rule change makes a corresponding change to Rule 17.50(g)(14), which includes the opening quoting obligation in the minor rule violation plan.

²⁰ The proposed rule change also adds that in option classes in which both an On-Floor LMM and an Off-Floor DPM or Off-Floor LMM have been appointed, this obligation would be that of the Off-Floor DPM or Off-Floor LMM and not the On-Floor LMM (see discussion below for a description of the Off-Floor DPM and Off-/On-Floor LMM programs).

current rule only by entering quotes. The Exchange believes the proposed rule language more accurately states the current obligation, as LMMs and DPMs cannot otherwise help ensure an opening if the other conditions are present.²¹ The Exchange notes that in the event a series does not open, Rule 8.7(d)(iv) requires Market-Makers (including LMMs and DPMs) to submit quotes or maintain continuous quotes in a series in their appointed classes if called upon by a designated Exchange official if the official deems it necessary in the interest of maintaining a fair and orderly market.

²¹ The Exchange notes that the proposed rule change makes corresponding changes to the language describing the opening quoting standard for LMMs during extended trading hours in Rule 6.1A(e) and the Fees Schedule; however, it makes no substantive changes to that opening quoting standard, which requires LMMs enter opening quotes (in no more than a significant percentage of series for 90% of the trading days during extended trading hours in a month) by 2:05 a.m. (which is five minutes after the initiation of the opening rotation) to be eligible for the monthly payment pursuant to Rule 6.1A(e)(iii) and the CBOE Fees Schedule. See Rule 6.1A(e)(iii) and the Fees Schedule. The opening quoting standard for LMMs during extended trading hours is not a regulatory obligation as it is for LMMs during regular trading hours; rather, an LMM's satisfaction of the opening quoting standard (and heightened continuous quoting standard) during ETH qualifies the LMM for the monthly payment. The opening quoting standard for LMMs during extended trading hours currently and as proposed provides LMMs with a longer timeframe (five minutes) to enter opening quotes than the regular trading hours requirement, and requires quotes in a significant percentage of series rather than all series as is required in regular trading hours. The Exchange continues to believe that a different opening standard during extended trading hours is reasonable given fewer market participants and less liquidity during those hours than during regular trading hours. See Rule 6.1A(e) and Securities Exchange Act Release No. 34-73704 (November 28, 2014), 79 FR 72044 (December 4, 2014) (SR-CBOE-2014-062) for additional information regarding rules related to LMMs during extended trading hours.

Second, the Exchange proposes to amend current Rules 8.15 and 8.15A as follows:

<u>Current Provisions in Rules 8.15 and 8.15A</u>	<u>Current Corresponding Provisions in Other Rules</u>	<u>Proposed Provisions in Rule 8.15</u>	<u>Purpose of Proposed Changes</u>
<p>Rules 8.15(a) and 8.15A(a)(i) – LMMs will be appointed on the first day following an expiration</p>	<p>Rule 8.3(a)(i) – authority of the Exchange to make Market-Maker appointments when, in the Exchange’s judgment, the interest of a fair and orderly market are best served by such action</p>	<p>Rule 8.15(a)(i) – LMMs will be appointed for a term of no less than the time until the end of the then-current expiration cycle</p>	<p>CBOE believes additional flexibility regarding the timing of the appointment of LMMs is important so that it can appoint LMMs at any time if necessary in order to ensure liquidity and in the interest of a fair and orderly market (similar to appointments of Market-Makers). For example, if CBOE lists a new product during an expiration cycle (but not the first day following the end of an expiration cycle), the proposed rule change clarifies that the Exchange has authority to appoint an LMM on that first trading days. CBOE believes it is important to ensure sufficient liquidity in a class through the end of an expiration cycle.²²</p>

²²

The proposed rule change also modifies the factor that may be considered by the Exchange regarding experience in trading index options or options on exchange-traded funds to experience in trading options. While the Exchange currently has appointed LMMs only in index option classes, the rules do not restrict LMMs to classes of those types of options. If the Exchange determined to appoint an LMM in an equity option class, it would want to consider experience in trading equity options rather than index options. This proposed change permits that consideration.

<u>Current Provisions in Rules 8.15 and 8.15A</u>	<u>Current Corresponding Provisions in Other Rules</u>	<u>Proposed Provisions in Rule 8.15</u>	<u>Purpose of Proposed Changes</u>
<p>Rules 8.15(a)(3) and 8.15A(a)(i)(C) – if one or more LMMs are removed or if for any reason an LMM is no longer eligible for or resigns his appointment or fails to perform his duties, the Exchange may appoint an interim LMM to complete the monthly obligations of the former LMM</p>	<p>Rule 8.3(a)(i) – authority of the Exchange to make Market-Maker appointments when, in the Exchange’s judgment, the interest of a fair and orderly market are best served by such action</p>	<p>Rule 8.15(a)(iii) – if the Exchange removes one or more LMMs or if for any reason an LMM is no longer eligible for or resigns the LMM’s appointment or fails to perform the LMM’s duties, the Exchange may appoint one or more interim LMMs for the remainder of the term or shorter time period designated by the Exchange²³</p>	<p>CBOE believes it is appropriate to have the authority to appoint more than one interim LMM to be consistent with the initial part of the provision that references the removal of one or more LMMs and to give CBOE the flexibility to appoint multiple interim LMMs if necessary to maintain sufficient liquidity and a fair and orderly market. Additionally, CBOE believes it is appropriate to have the authority to appoint interim LMMs for less than the remainder of a term if, for example, an LMM is only temporarily unable to fulfill its duties (for example, it experiences a systems issue beyond its control) but expects to be able to do so during its appointment term.</p>
<p>Rules 8.15 and 8.15A – references to individual LMMs</p>	<p>None</p>	<p>None</p>	<p>There are currently only LMM organizations, and CBOE no longer intends to appoint individual LMMs, making these references no longer necessary.²⁴</p>

²³ The proposed rule change adds a similar provision to proposed Rule 8.15(c)(iii) to provide that an LMM in a Hybrid 3.0 class must serve during such times as may be requested by the Exchange as a backup LMM and assume autoquoting responsibilities in the event the Exchange determined that the LMM originally appointed to run the autoquote is unable to do so. Because of the unique nature of the autoquote functionality on the Hybrid 3.0 system (as described in proposed Rule 8.15(c)(ii)), the Exchange believes it is important to explicitly state that any temporary LMM must be ready to assume that responsibility to ensure sufficient liquidity in the class in the event the original LMM is unable to autoquote (such as if it is experiencing a systems issue).

²⁴ The proposed rule change deletes a related cross-reference to individual LMMs in Rule 3.2 and current Rule 8.15(b)(3), which requires LMMs to assist LMMs in other zones to facilitate excessive imbalances.

<u>Current Provisions in Rules 8.15 and 8.15A</u>	<u>Current Corresponding Provisions in Other Rules</u>	<u>Proposed Provisions in Rule 8.15</u>	<u>Purpose of Proposed Changes</u>
Rules 8.15 and 8.15A – references to CBOE having the ability to hold all LMMs responsible for the performance of each LMM appointed to the same class or zone and a related provision in Rule 8.15(b)(3), which requires LMMs in Hybrid 3.0 classes to assist LMMs in other zones to facilitate excessive imbalances	None	None	CBOE reviews and evaluates the conduct of each LMM organization individually and does not intend to hold an LMM responsible for the performance of another LMM appointed to the same class or group (as discussed below, CBOE may arrange the series of a class into “groups” rather than “zones”). ²⁵

The Exchange believes the proposed changes to current Rules 8.15 and 8.15A described in this table are not significant. The proposed changes in the first two rows of the table are consistent with the Exchange’s current authority in other Rules. The proposed changes in the last two rows are merely deleting obsolete language.

Third, the Exchange is proposing to amend Rules related to LMMs in Hybrid 3.0 classes as follows:

- The proposed rule change codifies the continuous quoting obligations of LMMs in Hybrid 3.0 classes. Current Rule 8.15A(b)(i) requires an LMM in a Hybrid class to provide continuous electronic quotes in at least the lesser of 99% of the non-adjusted option series or 100% of the non-adjusted option series minus one call-put pair, with the term “call-put pair” referring to one call and one put that cover the same underlying instrument and have the same expiration date and exercise price. This obligation does not apply to intra-day add-on series on the day during which such series are added for

²⁵ See proposed Rule 8.15(a)(iv). This Exchange review and evaluation of LMMs individual of other LMMs is similar to the review and evaluation of DPMs pursuant to Rule 8.88 (and e-DPMs pursuant to former Rule 8.94).

trading. This obligation applies to an LMM's appointed classes collectively,²⁶ and the Exchange will determine compliance with an LMM's continuous electronic quoting obligation on a monthly basis (however, determining compliance with this obligation on a monthly basis does not relieve an LMM from meeting this obligation on a daily basis, nor does it prohibit the Exchange from taking disciplinary action against an LMM for failing to meet these obligations each trading day). Current Rule 8.15A, Interpretation and Policy .02 provides that when the underlying security for a class is in a limit up-limit down state, LMMs shall have no quoting obligations in the class. Proposed Rule 8.15(b)(i) will apply this continuous quoting obligation (and Interpretation and Policy .02 will apply the limit up-limit down exception) to LMMs in Hybrid 3.0 classes.

The current continuous electronic quoting obligation applicable to LMMs in Hybrid 3.0 classes is to provide continuous electronic quotes in at least 90% of the series of each appointed class for 99% of the time; however, this obligation had not been codified in the Rules. While the proposed rule change modifies the current quoting obligations of LMMs in Hybrid 3.0 classes, it is identical to the obligations imposed on LMMs in Hybrid classes and DPMs.²⁷ LMMs will continue to be required to respond to

²⁶ The proposed rule change amends this provision to apply to classes on each trading platform. Because the nature of quoting and trading on the Hybrid Trading System is significantly different, the Exchange believes it is appropriate to consider separately the collective quoting requirement for each platform.

²⁷ See Rules 8.15A(b)(i) and 8.85(a)(i); see also Securities Exchange Act Release No. 34-67410 (July 11, 2012), 77 FR 42040 (July 17, 2012) (SR-CBOE-2012-064) (proposed rule change to, among other things, amend intraday quoting obligations of LMMs in Hybrid classes from previous obligation to provide continuous electronic quotes in 90% of the series of a class 99% of the time, which is the current obligation of LMMs in Hybrid 3.0 classes) for a description of why this quoting obligation for LMMs in Hybrid 3.0 classes will result in the same "minimum total quoting minutes" as LMMs for Hybrid classes. The proposed rule change makes the same change to continuous quoting obligations for LMMs in Hybrid 3.0 classes as was made in that previous filing to

requests for quotes from the Exchange pursuant to Rule 8.7(d)(iv). As discussed above, the Exchange believes it is appropriate for LMMs in all classes (and DPMs) to be subject to the same quoting obligations given the similarity of their functions. The Exchange also believes it will be simpler for LMMs and the Exchange's surveillances of continuous electronic quoting obligations if LMMs were all subject to the same obligations. The Exchange believes LMMs will continue to be required to provide quotes in a substantial number of series for a large part of the trading day under this revised quoting obligation, and thus believes there will continue to be sufficient liquidity in Hybrid 3.0 classes;

- delete references in Interpretation and Policy .02(c) to an Off-Floor LMM/affiliated Market-Maker pilot. The pilot has expired so it is no longer necessary to include this provision in the rule text;
- replace references to LMMs being assigned to a "zone" within a Hybrid 3.0 class with a reference indicating that the Exchange may arrange the series of a class into "groups" and may appoint LMMs to those groups rather than to an individual option class. Zones functioned in a similar manner to groups, as either classes or groups of series of classes were assigned to zones. The "zone" language is outdated, and the "group" language is more consistent with provisions in other Exchange rules²⁸; and

continuous quoting obligations for LMMs in Hybrid classes and DPMs. In a Hybrid class or Hybrid 3.0 class in which both an On-Floor LMM and an Off-Floor DPM or Off-Floor LMM has been appointed, the On-Floor LMM shall not be obligated to comply with the continuous quoting obligation applicable to LMMs (see later discussion for a description of the Off-Floor DPM and Off-/On-Floor LMM programs). In such circumstances, such an On-Floor LMM in a Hybrid class shall instead be obligated to comply with the continuous quoting obligations applicable to Market-Makers in Hybrid classes in accordance with Rule 8.7(d). By contrast, such an On-Floor LMM in a Hybrid 3.0 class shall not be subject to continuous quoting obligations given the nature of the aggregated quoting interest on the Hybrid 3.0 Platform.

²⁸ See, e.g., Rule 8.14, Interpretation and Policy .01, pursuant to which the Exchange may

- delete SMMs from the Rules. The primary purpose of SMMs was to assist LMMs on the trading floor with certain trading rotations (as described in current Rule 8.15(c)). There are currently no SMMs, there have been no SMMs for at least 15 years, and the Exchange no longer intends to appoint SMMs. The rules permit, but do not require, the Exchange to appoint SMMs. In the past, LMMs conducted opening rotations on the trading floor, and the Exchange believed having the ability to appoint SMMs to assist LMMs during particularly busy or unusual openings would help the Exchange maintain a fair and orderly opening. However, the System is currently used to conduct (and has been for quite some time) opening rotations; LMMs primary role with respect to opening rotations is to enter opening quotes. Thus, the purpose for having SMMs no longer exists. The proposed rule change makes corresponding changes to Rules 3.2, 6.2A, 6.8, 8.7, 8.15 and 24.13 to delete all references to SMMs.

Fourth, the Exchange proposes to revise the description of the Off-Floor DPM and Off-/On-Floor LMM programs described in current Rules 8.15, 8.15A, 8.83 and 8.85 as follows:

- amend Rule 8.83(g) to provide that, in a Hybrid 3.0 class in which an Off-Floor DPM has been appointed in accordance with Rule 8.83, notwithstanding current Rules 8.15(a) and 8.15A(a) (which provide that the Exchange may appoint an LMM in a class for which a DPM has not been appointed), the Exchange in its discretion may also

determine (a) to authorize a group of series of a Hybrid 3.0 class for trading on the Hybrid system and determine eligible categories of Market-Makers for that group of series and (b) whether to change the trading platform on which the group of series trades and change the eligible categories of Market-Makers for the group. That rule also allows the Exchange to appoint Market-Makers (including LMMs and DPMs) to a group of series and apply trading parameters on a group basis to the extent the rules otherwise provide that those parameters apply to a class. Rule 8.14 applies to index classes only; the proposed rule change amends current Rules 8.15 and 8.15A and proposed Rule 8.15 to merely extend the authority to have LMM group appointments for all classes.

appoint an On-Floor LMM, which shall be eligible to receive a participation entitlement under current Rule 8.15B with respect to orders represented in open outcry (the provisions in current Rule 8.15A related to the on-floor LMM program will apply to Hybrid 3.0 classes pursuant to proposed Rule 8.15). The Exchange may currently appoint an On-Floor LMM in a class allocated to an Off-Floor DPM for Hybrid classes.²⁹ This proposed change simply provides the Exchange with the same flexibility for Hybrid 3.0 classes;

- provide in proposed Rule 8.15, Interpretation and Policy .01(c) that in any class in which an Off-Floor LMM has been appointed in accordance with Rule 8.15, the Exchange in its discretion may also appoint an On-Floor LMM, which shall be eligible to receive a participation entitlement under current Rule 8.15B with respect to orders represented in open outcry. This proposed change to allow for an On-Floor LMM in a class allocated to an Off-Floor LMM is consistent with the aforementioned program for Off-Floor DPMs/On-Floor LMMs and simply extends the same flexibility to Hybrid and Hybrid 3.0 classes that have Off-Floor LMMs (rather than Off-Floor DPMs)³⁰;
- provide in proposed Rule 8.15(b)(i) that in all classes in which both an On-Floor LMM and an Off-Floor LMM have been appointed, the On-Floor LMM shall not be

²⁹ See Rule 8.83(g).

³⁰ The Exchange believes that, given the substantially similar functions of LMMs and DPMs, that it is appropriate to have the On-Floor LMM program available for classes that have Off-Floor LMMs just as it is available for classes that have Off-Floor DPMs. The proposed rule change relocates the provisions related to the Exchange's ability to appoint an On-Floor LMM in a class in which an Off-Floor DPM has been appointed and that state that an On-Floor LMM will receive the participation entitlement in open outcry in classes in which an Off-Floor DPM has been appointed from current Rule 8.15A(a) to proposed Rule 8.15, Interpretation and Policy .01(c) in order to keep all provisions related to the On-Floor LMM program in a single place within proposed Rule 8.15.

obligated to comply with the continuous quote requirements for an LMM. This change is consistent with the existing provisions for On-Floor LMMs in classes which both an On-Floor LMM and Off-Floor DPM have been appointed and merely extends it to classes in which there is an Off-Floor LMM (which corresponds to the changes discussed above that would permit an On-Floor LMM to be appointed in a class where an Off-Floor LMM has been appointed); and

- provide in proposed Rule 8.15, Interpretation and Policy .01(c) and Rule 8.83(g) to make it clear that, if the Exchange in its discretion determines to reallocate a class in which an Off-Floor DPM or Off-Floor LMM has been appointed, the On-Floor LMM appointment will automatically terminate. (An On-Floor LMM appointment can also terminate or expire as otherwise provided in the Rules.)³¹ Pursuant to the Off-Floor/On-Floor program, the Exchange may appoint an On-Floor LMM in a class in which there is an Off-Floor DPM or LMM. It is within the Exchange's discretion to determine which types of Market-Makers may be appointed to each class, as set forth in Rule 8.14. If the Exchange reallocates a class, part of that reallocation may involve appointment of a different type of Market-Maker. For example, the Exchange may appoint to the reallocated class a DPM that operates both On-Floor and Off-Floor rather than Off-Floor only. In that case, the Exchange would generally not also have an On-Floor LMM appointed to that class under this program. To the extent an On-Floor LMM's appointment terminates pursuant to this proposed provision, it would have the opportunity to request appointment to the reallocated class in a Market-Maker capacity.

³¹ See, e.g., Rules 8.3(a)(i) and 8.15(a). The Exchange notes that a Trading Permit Holder, including a Market-Maker, that is aggrieved by Exchange action may request that an Appeal Committee review any action taken against it under the CBOE Rules. See Chapter XIX.

Fifth, the Exchange proposes to combine current Rules 8.15 (pertaining to LMMs in Hybrid 3.0 classes), 8.15A (pertaining to LMMs in Hybrid classes) and 8.15B (pertaining to LMM participation entitlements) into a single proposed Rule 8.15. LMMs in Hybrid and Hybrid 3.0 classes generally have, or will have upon effectiveness of the proposed changes described above, the same obligations and receive the same participation entitlement. Proposed Rule 8.15 explicitly identifies the couple of additional obligations that apply to LMMs in Hybrid 3.0 classes only; all other provisions apply to LMMs in all classes. The Exchange believes having a single rule applicable to LMMs will reduce duplication within and simplify the rules applicable to LMMs. The following table identifies provisions in current Rules 8.15 and 8.15B and their proposed location in proposed Rule 8.15. The proposed rule change makes no substantive changes to current Rule 8.15B (some nonsubstantive changes are identified in the table). Proposed substantive and nonsubstantive changes to provisions in current Rule 8.15 are discussed above (the proposed provision in Rule 8.15 identified below includes these changes).

<u>Current Provisions in Rules 8.15 and 8.15B (as applicable)</u>	<u>Proposed Provision in Rule 8.15 (amended as described above)</u>
Rule 8.15 (intro) – The Exchange may appoint in an option class for which a DPM has not been appointed one or more Market-Makers in good standing as LMMs	Rule 8.15(a)
Rule 8.15 (intro) – LMMs in Hybrid 3.0 classes must participate in the modified opening rotation in Rule 6.2B, Interpretation and Policy .01	Rule 8.15(c)(i)
Rule 8.15 (intro) – LMMs in Hybrid 3.0 classes must participate in other rotations using the Hybrid Opening System described in Rule 6.2B	Rule 8.15(c)(v)
Rule 8.15 (intro) – LMMs must determine a formula for generating automatically updated market quotations during the trading day	Rule 8.15(c)(ii)
Rule 8.15(a) – LMMs shall be appointed on the first day following an expiration for a period of one month and may be assigned to a zone with one or more LMMs. The Exchange shall select the series to be included in a zone.	Rule 8.15(a)
Rule 8.15(a)(1) – (4)	Rule 8.15(a)(i) – (iv)

<u>Current Provisions in Rules 8.15 and 8.15B (as applicable)</u>	<u>Proposed Provision in Rule 8.15 (amended as described above)</u>
Rule 8.15(b)(1)	Rule 8.15(b)(v)
Rule 8.15(b)(2)	Rule 8.15(c)(iv)
Rule 8.15(b)(3)	Deleted as described above
Rule 8.15(b)(4)	Rule 8.15(b)(vii)
Rule 8.15(c)	Deleted as described above
Rule 8.15(d)	Rule 8.15(c)(ii)
Rule 8.15, Interpretation and Policy .01	Rule 8.15, Interpretation and Policy .03
Rule 8.15, Interpretation and Policy .02 (intro), (a) and (b)	Rule 8.15, Interpretation and Policy .01
Rule 8.15, Interpretation and Policy .02(c)	Deleted as described above
Rule 8.15B(a) – (c)	Rule 8.15(d)
Rule 8.15B, Interpretation and Policy .01	Rule 8.15(b)(i) and Interpretation and Policy .04
Rule 8.15B, Interpretation and Policy .02	Rule 8.15, Interpretation and Policy .02

The proposed rule change deletes references in current Rule 8.15A to Hybrid classes, as proposed Rule 8.15 will apply to all classes (both Hybrid and Hybrid 3.0).

Sixth, the Exchange proposes to delete references to the nonapplicability of strike intervals, bid/ask differential and continuity rules to LEAPS contained in Rules 5.8(a)³² and 24.9(b) (which rules contain provisions related to equity LEAPS and index LEAPS, respectively). Other existing rules specifically address strike price intervals, bid/ask differentials and quote continuity, including (i) Rules 5.5, Interpretation and Policy .01 and 24.9,

³² The Exchange also proposes to correct a cross-reference to Rule 5.6 (which was combined with Rule 5.5 pursuant to rule filing SR-CBOE-1997-023) that is contained in Rule 5.8.

Interpretation and Policy .01, which describe strike price intervals for equity options and index options, respectively³³; and (ii) Rules 8.7(d), 8.13(d), 8.15(b) (as amended by this rule filing), and 8.83, which describe continuous quoting and bid/ask differential requirements for the various types of Market-Makers.³⁴

The provisions in these Rules were adopted after the language that the Exchange proposes to delete in Rules 5.8(a) and 24.9(b)(1)(A). Thus, the Exchange views these latter-adopted Rules regarding strike price interval, bid/ask differential and quote continuity requirements referenced above as superseding the language proposed to be deleted. This view is supported by the specific applicability (or nonapplicability) of certain of these requirements to LEAPS. The language proposed to be deleted is outdated (it was adopted prior to the implementation of the Hybrid Trading System) and duplicative, and thus no longer necessary.

³³ Some of these rules have provisions describing how LEAPS are sometimes subject to different strike price interval requirements than other options, which implies that the strike price interval requirements without such LEAPS-specific provisions apply to LEAPS in the same manner as they do to all other option types. See, e.g., Rules 5.5, Interpretation and Policy .01 (a)(1) (\$2.50 strike price intervals are not permitted between \$1 and \$50 for non-LEAPS and LEAPS) and (a)(2)(v) and (3) (allowable strike price intervals for LEAPS for stocks in the \$1 Strike Price Interval Program); and 24.9, Interpretation and Policy .01 (f)(iii) (minimum strike price intervals for LEAPS on BXM is \$5), (g)(iii) (minimum strike price intervals for LEAPS on CBOE S&P 500 Three-Month Realized Volatility options is \$1), and (h)(iv) (minimum strike price interval for LEAPS on S&P 500 Dividend Index options is \$1).

³⁴ Two of these rules explicitly exclude LEAPS from the continuous quoting obligations of certain Market-Makers. Rule 8.7(d) requires that Market-Makers provide continuous electronic quotes when quoting in a particular class on a given trading day in 60% of the series of the Market-Maker's appointed class that have a time to expiration of less than nine months. Rule 8.13(d) requires that PMMs provide continuous electronic quotes in at least the lesser of 99% of the non-adjusted option series that have a time to expiration of less than nine months or 100% of the non-adjusted option series that have a time to expiration of less than nine months minus one call-put pair of each class for which it receives PMM orders. The other Rules referenced contain no such exclusion, implying that the Exchange intended for the continuous obligations of LMMs and DPMs to apply to LEAPS. See discussion above regarding proposed inclusion of additional descriptions of the bid/ask differential and continuous quoting requirements in proposed Rule 8.15 regarding obligations of LMMs.

The Exchange also believes the different timing included in this language (nine months for equity LEAPS versus 12 months for index LEAPS) is no longer necessary and is confusing for investors. The deletion of this language has no impact on the strike price interval, bid/ask differential or quote continuity requirements currently imposed by the Exchange, which will continue to be imposed in a manner consistent with the other existing rules discussed above. The Exchange believes that the deletion of these provisions in 5.8(a) and 24.9(b)(1)(A) will provide additional clarity and eliminate any confusion on the applicability of the strike price interval, bid/ask differential and quote continuity requirements that may otherwise result by including duplicative rules on these topics.

Finally, the Exchange is proposing nonsubstantive, technical changes to Rules 1.1(ff) and (ggg), 3.2, 6.1A, 6.2A, 6.45A, 6.45B, 6.74, 8.7, 8.13, 8.14, 8.15, 8.15A, 8.83, 8.85, 17.50, 22.14, 24.9, and 29.17, including amendments to correct typographical errors, update headings, update cross-references to Rules 8.15, 8.15A and 8.15B, make the rule text more plain English, and make the rule text more consistently organized, numbered and worded.

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.³⁵ Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)³⁶ 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

³⁵ 15 U.S.C. 78f(b).

³⁶ 15 U.S.C. 78f(b)(5).

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)³⁷ 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 the proposed rule changes to amend Rules 8.15, 8.15A and 8.85 to revise descriptions of obligations of LMMs in Hybrid 3.0 classes, LMMs in Hybrid classes, and DPMs, respectively, as well as combining the LMM obligations into a single rule for all classes, will benefit investors by providing more clarity and uniformity to the Rules related to market participants with substantially similar functions and obligations in a manner that is generally consistent with other Rules. Additionally, the Exchange believes that by including the descriptions of applicable obligations within each rule (which currently apply pursuant to other Rules) will promote compliance by LMMs and DPMs.

As demonstrated above, any additional obligations imposed on LMMs by the proposed rule change are de minimis and will not be burdensome, as the obligations as revised generally currently apply to LMMs pursuant to Rules 8.15 and 8.15A or other Rules. With respect to LMMs in Hybrid 3.0 classes, they are currently subject to continuous quoting obligations, which had previously not been codified in the rules. While the proposed rule change amends these obligations, the proposed obligations are identical to the continuous quoting obligations of LMMs in Hybrid classes and DPMs, as well as former e-DPMs, who serve substantially similar functions within CBOE's market. The Exchange believes that subjecting LMMs in Hybrid 3.0 classes to the same continuous quoting obligations as LMMs in Hybrid classes (and DPMs) will

³⁷

Id.

promote compliance by LMMs and simplify surveillance processes for the Exchange when determining compliance with these obligations. Additionally, current rules applicable to LMMs in Hybrid classes and DPMs provide an appropriate balance between the benefits for and burdens imposed on them, and the Exchange believes the proposed rule change provides the same appropriate balance to Hybrid 3.0 LMMs, who serve substantially similar functions as Hybrid LMMs and DPMs. Thus, any additional obligations imposed on LMMs in Hybrid 3.0 classes are de minimis and will not be burdensome. Because the proposed rule change does not materially change the benefits or obligations of LMMs, the Exchange believes the rules continue to provide an appropriate balance between LMM benefits and obligations (as they do for Hybrid LMMs and DPMs) and thus promote just and equitable principles of trade.

The proposed rule change slightly modifies the opening quoting obligations of LMMs and DPMs to include a specific time by which opening quotes must be entered. The proposed timeframe is consistent with the amount of time in which the vast majority of series listed on the Exchange open. The Exchange notes this is the same timeframe included in rules of another options exchange regarding opening quoting obligations of similarly situated market participants.³⁸ The Exchange believes this proposed change is not material and will not result in reduced liquidity while still ensuring a prompt opening. The Exchange notes that LMMs and DPMs only need to enter quotes in series that do not open due to a lack of quote (both today and under the proposed rule); if all series in an appointed class open within the proposed timeframe, the proposed rule change will not increase or decrease any obligation of LMMs and DPMs. The Exchange believes having a specified time by which LMMs and DPMs must enter opening quotes, rather than the nonspecific term “prompt,” simplifies this obligation and promotes

³⁸ See, e.g., MIAX Options Exchange (“MIAX”) Rule 603(c).

compliance with these obligations by LMMs and DPMs. The Exchange may request all Market-Makers to submit quotes in the interests of a fair and orderly market. Thus, the Exchange believes there is no significant risk that more series will not open as a result of this proposed rule change or that there will be a material impact on liquidity.

The proposed rule change does not change the majority of obligations currently imposed on LMMs. As discussed above, through other existing rules, LMMs are already subject to the majority of the obligations as revised. With respect to LMMs in Hybrid 3.0 classes, they are currently subject to continuous quoting obligations which had previously not been codified in the rules. While the proposed rule change amends these obligations, the proposed obligations are identical to the continuous quoting obligations of LMMs in Hybrid classes and DPMs, who serve substantially similar functions). The Exchange believes that subjecting LMMs in Hybrid 3.0 classes to the same continuous quoting obligations as LMMs in Hybrid classes (and DPMs) will promote compliance by LMMs and simplify surveillance processes for the Exchange when determining compliance with these obligations. Additionally, current rules applicable to LMMs in Hybrid classes and DPMs provide an appropriate balance between the benefits for and burdens imposed on them, and the Exchange believes the proposed rule change provides the same appropriate balance to Hybrid 3.0 LMMs, who serve substantially similar functions as Hybrid LMMs and DPMs. Thus, any additional obligations imposed on LMMs are de minimis and will not be burdensome. Because the proposed rule change does not materially change the benefits or obligations of LMMs, the Exchange believes the rules continue to provide an appropriate balance between LMM benefits and obligations (as they do for Hybrid LMMs and DPMs) and thus promote just and equitable principles of trade.

Further, the Exchange believes the proposed revisions to the descriptions of the Off-Floor DPM and Off-/On-Floor LMM programs will make it easier to read and understand this program, including when Off-Floor DPMs and Off/On-Floor LMMs may be appointed by the Exchange and how obligations and benefits are applied when appointments pursuant to the Program have been made. This clarity will benefit investors and promote compliance with the program. The Exchange believes making this program available to classes in which there is an Off-Floor LMM and Hybrid 3.0 classes, in addition to classes in which there is an Off-Floor DPM and Hybrid classes only, is reasonable given the similar roles of LMMs and DPMs and may result in additional liquidity in those classes.

The Exchange also believes that the proposed changes to eliminate obsolete provisions, including those related to individual LMMs, SMMs, an expired pilot program, the Old Linkage Plan, and strike price interval, bid/ask differential and quote continuity requirements, will protect investors by simplifying the rules and eliminating potential confusion that may result from inclusion of duplicative and outdated rules. With respect to strike price interval, bid/ask differential and quote continuity requirements, as discussed above, other existing rules address those requirements and supersede the language regarding these topics included (and proposed to be deleted) in Rules 5.8 and 24.9, thus rendering this language outdated and unnecessary. The Exchange will continue to impose these requirements in the manner it does today, consistent with the provisions in the other existing rules, and thus the proposed rule change has no impact on how the Exchange imposes these requirements.

The Exchange believes that the nonsubstantive, technical changes proposed throughout the Rules will simplify and provide more clarity and consistent organization in the Rules, which will benefit investors.

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. Specifically, the changes to the descriptions of obligations of LMMs and DPMs also have no impact on competition, because LMMs and DPMs, as discussed above, generally are already subject to these obligations through existing rules. The proposed rule changes are intended to make the rules regarding LMM and DPM obligations more consistent with each other given the substantially similar functions of LMMs and DPMs and reduce duplication within the Rules. With respect to the proposed changes to certain obligations of LMMs and DPMs, the Exchange notes that these changes are not material and will not be burdensome. While the proposed rule change slightly modifies the opening quoting obligations of LMMs and DPMs, the Exchange believes the modified obligation still requires LMMs and DPMs to promptly enter quotes to ensure an opening, and they must continue to submit quotes in response to a request from the Exchange. Therefore, the Exchange believes there is no significant risk that more series will not open as a result of this proposed rule change. Additionally, while the proposed rule change modifies the continuous quoting obligations of LMMs in Hybrid 3.0 classes, the proposed obligation is the same as that of LMMs in Hybrid classes and DPMs, who have substantially functions and obligations as LMMs in Hybrid 3.0 classes, and LMMs in Hybrid 3.0 classes will continue to be required to provide quotes in a substantial number of series for a large part of the trading day under the revised quoting obligation. The Exchange believes the rules, as amended, continue to provide an appropriate balance of benefits for and obligations on LMMs and DPMs, and result in significant liquidity on CBOE. See the discussion above for additional details regarding the balance of LMM and DPM obligations and benefits.

The proposed rule change regarding the Off-Floor DPM and On-Floor/Off-Floor LMM program merely enhances the description of this program for investors but has no impact on how the Exchange implements the program. The Exchange believes the proposed revisions to the descriptions of the Off-Floor DPM and Off-/On-Floor LMM programs will make it easier to read and understand this program, including when Off-Floor DPMs and Off/On-Floor LMMs may be appointed by the Exchange and how obligations and benefits are applied when appointments pursuant to the Program have been made. This clarity will benefit investors and promote compliance with the program. Additionally, making this program available to classes in which there is an Off-Floor LMM and Hybrid 3.0 classes, in addition to classes in which there is an Off-Floor DPM and Hybrid classes only, may result in additional liquidity in those classes.

The nonsubstantive, technical changes and deletion of obsolete rule provisions have no impact on competition and are intended only to simplify, make consistent and eliminate potential confusion within the rules.

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-2016-009 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-2016-009. 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-2016-009 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.³⁹

Robert W. Errett
Deputy Secretary

³⁹ 17 CFR 200.30-3(a)(12).