SECURITIES AND EXCHANGE COMMISSION


Self-Regulatory Organizations: Chicago Board Options Exchange, Incorporated; Notice of Filing of a Proposed Rule Change Relating to Complex Orders, as Modified by Amendment No. 1

October 27, 2015.

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 October 13, 2015, 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. On October 26, 2015, the Exchange submitted Amendment No. 1 to the proposed rule change. 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 Rule 6.53C. The text of the proposed rule change is available on the Exchange’s Web site (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 proposes to amend Rule 6.53C regarding complex orders. The proposed rule change (1) amends the rule provisions regarding the initiation of a complex order auction (“COA”), (2) adds rule provisions regarding the impact of certain incoming orders and changes in the leg markets on an ongoing COA, and (3) updates the rule text regarding who can submit complex orders. The proposed rule change also makes technical and other nonsubstantive changes.

First, the Exchange proposes to amend Rule 6.53C and Interpretation and Policy .04 regarding the initiation of a COA. Currently, CBOE Rule 6.53Cd(iii) provides that on receipt of (1) a COA-eligible order3 with two legs and request from the Trading Permit Holder representing the order or the PAR operator handling the order, as applicable, that it be COA’d or (2) a complex order with three or more legs that (a) meets the class, marketability, size and complex order type parameters included in the definition of a COA-eligible order or (B) is designated as immediate-or-cancel and meets the class, marketability and size parameters included in the definition of a COA-eligible order,4 in both cases regardless of the order’s routing parameters or handling instructions (except for orders routed for manual handling), the Exchange will send a request for response (“RFR”) message to all Trading Permit Holders who have elected to receive RFR messages.5 Interpretation and Policy .04(a) states that, with respect to the initiation of a COA, Trading Permit Holders routing complex orders directly to the complex order book (“COB”) may request that the complex orders be COA’d on a class-by-class basis, and Trading Permit Holders with resting complex orders on PAR may request that complex orders be COA’d on an order-by-order basis. Currently, all Trading Permit Holders have requested that all of their COA-eligible orders with two legs process through COA upon entry into the System. Therefore, rather than have Trading Permit Holders and PAR operators affirmatively request that their COA-eligible orders with two legs COA, the Exchange proposes to amend Rule 6.53Cd(ii) to provide that incoming COA-eligible orders with two legs (including orders submitted for electronic processing from PAR) will COA by default.6

The Exchange believes Trading Permit Holders should still maintain flexibility to have these two-legged orders not COA. In order to provide Trading Permit Holders with this flexibility, the proposed rule change adds that, notwithstanding the foregoing, Trading Permit Holders may request on an order-by-order basis that a COA-eligible order with two legs not COA (referred to as a “do-not-COA” request). The proposed rule change adds that if a two-legged order with a do-not-COA requests rests on PAR, the PAR operator may not request that the order COA (in other words, if the PAR operator submits that order for electronic processing, the PAR operator cannot override the Trading Permit Holder’s do-not-COA request, and the order will enter the COB). Because of this proposed rule change, the Exchange deletes the language in Interpretation and Policy .04(a) that indicates Trading Permit Holders may request that complex orders be COA’d on a class-by-class basis, as it is no longer necessary.7

2 A “COA-eligible order” means a complex order that, as determined by the Exchange on class-by-class basis, is eligible for a COA considering the order’s marketability (defined as a number of tickets away from the current market), size, complex order type and complex order origin types. Currently, in all Hybrid classes, (a) only complex orders with origin codes for public and professional customers, (b) all complex order types except for immediate-or-cancel (“IOC”) orders, and (c) marketable orders and “sweeper” limit orders bidding the same side of the derived net market are eligible for COA. In Hybrid 3.0 classes (i.e. SPX), (a) all complex order types (including IOC orders) and (b) only customer orders are eligible for COA. See Regulatory Circulars RC06–7, RC08–10 and RC08–57.

3 This description of the current rule includes changes to Rule 6.53C proposed in SR–CBOE–2015–081, which CBOE filed for immediate effectiveness on October 2, 2015.

4 “RFR” stands for a “request for responses” that occurs in the COA process. The RFR message will identify the component series, the size and side of the market of the COA-eligible order and any contingencies if applicable.


7 The proposed rule change applies to all COA-eligible orders with two legs, including eligible stock-option orders, in all Hybrid and Hybrid 3.0 classes. The proposed rule change does not change the allocation or priority provisions of complex orders, nor does it impact leg order functionality described in Rule 6.53C(iii), which functionality the Exchange has the authority to implement (the Exchange that leg order functionality is currently not available in any classes). The proposed rule change also makes a nonsubstantive change to move language regarding the System sending RFR messages to the beginning of the provision.

8 The proposed rule change deletes Interpretation and Policy .04(a) in order to include all information regarding the initiation of a COA in subparagraph (d)(iii) in the same place within the rule. As a result, the proposed rule change deletes the lettering for paragraph (b), which will be the only remaining provision in Interpretation and Policy .04. The proposed rule change makes a corresponding change in subparagraph (d)(iii) to delete a reference.
While the proposed rule change will not permit Trading Permit Holders to not COA orders on a class-by-class basis, the Exchange believes that it will not burden Trading Permit Holders because they have not requested this in the past. Additionally, allowing Trading Permit Holders to make a do-not-COA request on an order-by-order basis will better allow them to make decisions regarding the handling of their orders based on market conditions at the time they submit their orders. While the proposed rule change provides that Trading Permit Holders may include a do-not-COA request on complex orders with two legs, the proposed rule change indicates that an order with a do-not-COA request may still COA after it has rested on the COB pursuant to Interpretation and Policy .04. The Exchange believes that Trading Permit Holders that include a do-not-COA request for an order upon entry into the System do so to receive automatic execution with the leg market or the COB, as applicable, without the delay of the COA. However, if that does not occur and the order enters the COB to rest, the Exchange believes it is appropriate to COA the order after resting on the COB (if that functionality has been activated for the class) to try and obtain an execution even though the Trading Permit Holder initially did not want the order to COA, as the COA will not delay execution at that point. The Exchange notes that an order with a do-not-COA request will still have execution opportunities. For example, such an order may execute automatically upon entry into the System against the leg markets or complex orders on the COB to the extent marketable (in accordance with allocation rules set forth in Rule 6.53C). Additionally, pursuant to Rule 6.53C(d)(viii)(1), such an order on the opposite side of and marketable against a COA-eligible order may trade against the COA-eligible order if the System receives the order while a COA is ongoing. A do-not-COA request merely provides the order with the opportunity to execute upon entry into the System rather than after going through an auction; the order will be subject to the same priority and allocation rules. Second, the proposed rule change adds subparagraphs Rule 6.53C(d)(viii)(4) and (5) to describe additional circumstances that will cause a COA to end early. Proposed subparagraph (viii)(4) describes how an incoming order with a do-not-COA request or that is not COA-eligible may impact an ongoing COA. Rule 6.53C(d)(viii) currently describes the handling of unrelated complex orders that are received prior to the expiration of the COA Response Time Interval.

The proposed rule change states that if an order with a do-not-COA request or an order that is not COA-eligible is received prior to the expiration of the Response Time Interval for the original COA and is on the same side of the market and at a price better than or equal to the starting price, then the original COA will end. Similar to the current provisions regarding incoming unrelated COA-eligible orders on the same side of the COA-eligible order (and at a price better than or equal to the starting price), the processing of the original COA pursuant to subparagraphs (d)(iv) through (d)(vi) remains the same with the addition that the priority of the original COA-eligible order and the order with the do-not-COA request or the order that is not COA-eligible, as applicable, will be according to time priority. In other words, the COA-eligible order would trade before the order with the do-not-COA request or order that is not COA-eligible, regardless of the price of each order. The purpose of this proposed provision (as it is for the current provision (as it is for the current provisions related to unrelated complex orders) is to prevent the order with the do-not-COA request or the order that is not COA-eligible, as applicable, from executing prior to the original COA-eligible order, which, if it did not COA, may have executed or entered the COB.
(because it would have entered the COB first, it potentially would have priority over the incoming order to the extent the algorithm applicable to the class considered time as a factor for allocation).

For example, assume that a COA-eligible order to buy with a not net limit price of $1.20 is received when the book or COB price (and thus the starting price) is a net price bid of $1.10. The System will initiate a COA at a net price of $1.10. An incoming order with a do-not-COA request to buy at a net price of $1.10 or higher can be the original COA to end. To the extent possible, the original COA-eligible order will be filled first, and then the order with the do-not-COA request will be filled (subject to the COA allocation provisions described above). Any remaining balance on the original COA-eligible order or the incoming order with the do-not-COA request will route to COB or back to PAR. The Exchange believes this result to be appropriate, even if the incoming order with the do-not-COA request had a higher buy price than the COA-eligible order (e.g. $1.21), because if the COA-eligible order had not initiated a COA and was marketable at the time it was entered (for example, if the offer in the book was $1.15), it could have executed against the book before the order was entered. Providing the COA-eligible order with time priority is intended to ensure it does not miss an execution opportunity it would have otherwise received if it had not initiated a COA.

Proposed subparagraph (vi)(5) provides that if the leg markets were not marketable against a COA-eligible order when the order entered the System (and thus prior to the initiation of a COA) but became marketable with the COA-eligible order prior to the expiration of the Response Time Interval, it will cause the COA to end. The processing of the original COA pursuant to subparagraphs (d)(iv) through (d)(vi) remains the same.

For example, assume that the derived net leg market is $1.00 to $1.05. A COA-eligible order to buy at a net price of $1.02 entered the System and initiated a COA. During the COA (prior to the end of the Response Time Interval), the derived net leg market offer changes to $1.01.

Because this is marketable against the COA-eligible order, this change in the derived net leg markets will cause the COA to end. Assuming the derived net leg market offer price of $1.01 is the best net price at the end of the COA, the COA-eligible order will execute against the leg markets at that net price, and any remainder will then trade against complex orders in the COB and auction responses. If a complex order to buy was resting on the COB (for example, at a net price of $1.01) at the initiation of the COA (for example, a do-not-COA order or an order that is not COA-eligible), that order and the COA-eligible order would be allocated against the leg markets in the same manner as any other two complex orders pursuant to Rule 6.53C(c)(ii) to buy at a net COB offer price of $1.01 first, because it was entered at (and thus willing to pay) a better net price than the resting complex order (to the extent there was insufficient size in the leg markets to fill the COA-eligible order). The remaining would then execute against complex orders in the COB and auction responses. If there is sufficient size left in the leg markets to trade against the resting complex order, then the resting order will also trade (in full or in a permissible ratio).

Third, the proposed rule change amends Rule 6.53C(c)(iii)(3) and Interpretation and Policy .06(c) to provide that all Trading Permit Holders and PAR Officials may submit orders or quotes to trade against orders in the COB. Currently, the rule provides that market participants may submit these orders or quotes. While the rules allow the Exchange to determine which order origin types (i.e., public customer, Market-Makers, broker-dealers) are eligible for entry into the COB, orders of the eligible origin types submitted by any Trading Permit Holders (as applicable) or PAR Officials may enter the COB. The proposed rule change updates the rule text to match current System functionality.

Finally, the proposed rule change makes technical and other nonsubstantive changes. Currently, Interpretation and Policy .09 provides that the Exchange may determine on a class-by-class basis which electronic matching algorithm from Rule 6.45A or 6.45B, as applicable, will apply to COB executions in lieu of the algorithm specified in Rule 6.53C(c)(ii)(2) and (3). The proposed rule change makes that language from Interpretation and Policy .09 to both of those paragraphs. The Exchange believes it is simpler and more convenient to have the information regarding how COB executions may allocate in one place within the rules. The proposed rule change also amends subparagraph (c)(iii)(3) to provide that, like subparagraph (c)(ii)(2), the allocation of complex orders submitted to trade against orders or quotes in the COB that trade against those orders or quotes (which is the trade activity to which that paragraph applies) will default to the rules of trading priority otherwise applicable to incoming electronic orders in the individual leg components. Interpretation and Policy .09 currently provides the Exchange with the authority to set this as the allocation method for subparagraph (c)(iii)(3). The proposed change merely indicates that, like the allocation of COB to COB trades as set forth in subparagraph (c)(ii)(2), the allocation method will be the same as the legs unless the Exchange provides otherwise.

See supra note 21.

23 Rules 6.45A and 6.45B define market participants as Market-Makers, Designated Primary Market-Makers with an appointment in the subject class, and floor brokers and PAR Officials representing orders in the trading crowd. Trading Permit Holders and PAR Officials as a group is larger than market participants as a group, as the term market participants does not include other types of Trading Permit Holders (such as electronic proprietary traders or brokers or electronic order books on behalf of customers from off of the trading floor).

24 See Rule 6.53C(c)(ii)

25 The Exchange notes that only Market-Makers may submit quotes. See Rule 8.7.
In addition, the proposed rule change amends Rule 6.53C(c)(ii)(3) to provide that order and quote types (not just quote types) not eligible to rest or trade against the COB will be automatically cancelled. The first several sentences in that subparagraph reference orders and quotes eligible to rest on the COB. The Exchange intended for both non-eligible orders and quotes to be cancelled; this proposed change merely makes the language in this paragraph consistent throughout. Additional nonsubstantive changes to Rule 6.53C are discussed above.

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.\textsuperscript{25} Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)\textsuperscript{26} 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)\textsuperscript{27} requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

In particular, the proposed rule change removes impediments to a free and open market and protects investors by providing Trading Permit Holders with more flexibility regarding when complex orders will not COA. The proposed rule change removes the affirmative obligation currently imposed on Trading Permit Holders to request that their COA-eligible orders with two legs COA on a class-by-class basis, as Trading Permit Holders currently request that all of their COA-eligible orders COA upon entry into the System. Therefore, the proposed rule change to have COA as the default setting for COA-eligible orders will have no impact on COA-eligible orders submitted to the Exchange. The proposed rule change will allow Trading Permit Holders to evaluate then-current market conditions and determine if they do not want to COA orders with two legs based on those conditions and instead want those orders to route to the COB for potential immediate execution. These orders with do-not-COA requests will continue to have execution opportunities and be subject to the same priority and allocation rules. In addition, the proposed rule change promotes just and equitable principles of trade and promotes competition because another options exchange has a substantially similar rule, as further described below, which similarly allows members to designate that orders not initiate a complex order auction on that exchange.\textsuperscript{28}

The current rules describe how COA-eligible orders received while a COA is ongoing would impact the COA. The proposed rule change also adds detail regarding how incoming orders with do-not-COA requests or that are not COA-eligible, as well as how changes in the leg markets, may impact ongoing COAs, which protects investors by enhancing the description in CBOE Rules of current COA functionality and circumstances that may cause a COA to end early. Because the proposed rule change adds a provision regarding no-COA orders to the CBOE Rules, the Exchange believes it is appropriate to add the provision regarding how no-COA orders would impact a COA to the CBOE Rules as well to ensure investors understand how these orders may impact a COA. The Exchange believes the proposed rule change promotes just and equitable principles of trade because, if these orders cause a COA to end, any executions that occur following the COA occur in accordance with allocation principles in place, subject to an exception that the original COA-eligible order receive time priority. This exception prevents an order that was entered after the initiation of a COA from trading ahead of an order with the same price that may have executed or entered the COB if it did not COA.

Similarly, the Exchange believe it is fair for a COA-eligible order that was entered at a better price than an order that was resting in the COB prior to initiation of the COA to execute against leg markets that become marketable against the COA-eligible order and resting order during the COA, because the Trading Permit Holder who entered the COA-eligible order was willing to pay a better price than that of the resting order. Incoming orders that do not COA and leg market changes impact a COA in a substantially similar manner as incoming COA-eligible orders; the proposed rule change just applies to different order types not covered by the current Rules. This proposed change does not substantively change the COA or allocation process.

The proposed rule change to update the term market participants to Trading Permit Holders and PAR Officials to reorganize certain provisions eliminates potential confusion regarding the processing of complex orders. This additional information further perfects the mechanism of a free and open market and a national market system and protects investors. Additionally, updating the term market participants to Trading Permit Holders and PAR Officials further benefits investors because it more accurately describes who may enter complex orders into the System. The Exchange notes that the Trading Permit Holders and PAR Officials includes all participants included in the current market participant definition (as well as additional participants).

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 proposed rule change, including the ability to designate orders to not COA, is available to all Trading Permit Holders. The Exchange believes the proposed rule change provides Trading Permit Holders with more flexibility with respect to the submission of their complex orders. The proposed rule change also eliminates the affirmative obligation imposed on Trading Permit Holders to request that COA-eligible orders COA, which they all do for all classes. While Trading Permit Holders may need to undertake system work to allow them to include a do-not-COA request on orders, use of this designation is voluntary. CBOE believes this flexibility may promote competition by encouraging submission of complex orders to the Exchange. To the extent that proposed rule change makes CBOE a more attractive marketplace to market participants on other exchanges, such market participants may elect to send orders to CBOE to take advantage of the additional functionality. Additionally, other exchanges may determine to provide similar functionality and further enhance competition. The Exchange also notes that other options exchanges have substantially similar

\textsuperscript{25} 15 U.S.C. 78f(b).
\textsuperscript{26} 15 U.S.C. 78f(b)(5).
\textsuperscript{27} Id.
\textsuperscript{28} See NASDAQ OMX PHLX LLC (“PHLX”) Rule 1086, Commentary .07[a](viii) and (e) (describing the complex order live auction (“COLA”) process and “do not auction” orders).
provisions as the proposed rule change, as described above.

The proposed rule change to add detail to the rules regarding the impact of changes in the leg markets on a COA describes current functionality and is merely intended to enhance the description of this functionality in the Rules, and thus has no impact on competition. The nonsubstantive and technical changes have no impact on competition.

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 email to rule-comments@sec.gov. Please include File Number SR–CBOE–2015–089 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–2015–089. This file number should be included on the subject line if email 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 Web site (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 Web site viewing and printing in the Commission’s Public Reference Room, 100 F Street NE., Washington, DC 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–2015–089 and should be submitted on or before November 23, 2015.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.29

Robert W. Errett,
Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION


Self-Regulatory Organizations; C2 Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Amend the Certificate of Incorporation and Bylaws of Its Parent Company

October 27, 2015.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),1 and Rule 19b–4 thereunder,2 notice is hereby given that, on October 23, 2015, C2 Options Exchange, Incorporated (the “Exchange”) filed with the Securities and Exchange Commission (“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 amend the certificate of incorporation and bylaws of its parent company, CBOE Holdings, Inc. (“CBOE Holdings”). The text of the proposed rule change is available on the Exchange’s Web site (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

CBOE Holdings is proposing to make certain amendments to its Certificate and Bylaws.

Proposed Amendments to the Certificate

CBOE Holdings proposes to make various amendments to its Certificate. First, CBOE Holdings proposes to eliminate references that are applicable only in connection with the CBOE demutualization and CBOE Holdings initial public offering (“IPO”) in 2010. Currently, the Certificate provides for the designation, preferences and rights related to Class A–1 and Class A–2 common stock that had been authorized by the Board and CBOE Holdings’ stockholders prior to the IPO. No shares of Class A–1 or Class A–2 common stock are currently outstanding, nor would CBOE Holdings be able to issue such shares at any time in the future as the current Certificate limits their use to the conversion of Class A and Class B common stock, which was issued in connection with the IPO and has been retired. Accordingly, CBOE Holdings proposes to delete obsolete provisions
