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SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-69558; File No. SR-CBOE-2013-035)

May 10, 2013

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Order Approving Proposed Rule Change Relating to Exchange Trading Days and Hours of Business and Trading Halts

I. Introduction

On March 11, 2013, Chicago Board Options Exchange, Incorporated (“Exchange” or “CBOE”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1)¹ of the Securities Exchange Act of 1934 (“Act”),² and Rule 19b-4 thereunder,³ a proposed rule change to amend Rules 6.1 (Days and Hours of Business) and 6.3 (Trading Halts). The proposed rule change was published for comment in the Federal Register on March 29, 2013.⁴ The Commission received no comment letters on the proposal. This order approves the proposed rule change.

II. Description of the Proposal

As further described below, the Exchange proposes to amend various CBOE rules that govern the ability of the Exchange to open and/or halt the trading of an option. Currently, those rules are tied to whether the “primary market” for the underlying security opens or halts trading. The primary focus of the Exchange’s proposal is to allow it to be able to open for trading even if the primary market for the underlying security is not open for trading as well as to allow it to halt trading even if the primary market does not halt (because it is not open for trading).

¹ 15 U.S.C. 78s(b)(1).

² 15 U.S.C. 78a.

³ 17 CFR 240.19b-4.

⁴ See Securities Exchange Act Release No. 69227 (March 25, 2013), 78 FR 19348 (“Notice”).

Changes to Rule 6.1 (Days and Hours of Business). Exchange Rule 6.1 provides that no Trading Permit Holder (“TPH”) “shall make any bid, offer, or transaction on the Exchange before or after” business hours. The Exchange proposes to delete this language because it states that the current language is obsolete. According to the Exchange, the provision is obsolete because TPHs now have the ability to submit information in the electronic system outside of business hours.⁵

Exchange Rule 6.1.01 currently provides that the hours during which transactions in options on individual stocks may be made “shall correspond to the normal hours for business set forth in the rules of the primary exchange listing the stocks underlying CBOE options.” The Exchange proposes to amend Exchange Rule 6.1.01 to provide that business hours correspond to the normal hours for business established by the exchanges “currently trading the stocks underlying CBOE options.”⁶ The proposal would thus delink the Exchange’s rule from the status of the primary market and instead permit the Exchange to open or remain open to trade options during normal business hours even if the primary market for the underlying security is not open for business. The Exchange states that its proposal will allow it to open or remain open to trade options during normal business hours if there is ample liquidity in the underlying market for the security.⁷

Changes to Rule 6.3 (Trading Halts). Exchange Rule 6.3 specifies when the Exchange will halt trading. Exchange Rule 6.3(a) lists the factors that CBOE will consider in making that determination. Currently, Exchange Rule 6.3(a)(i) provides that the Exchange should consider a halt if “trading in the underlying security has been halted or suspended in the primary market.” The

⁵ See Notice, supra note 4 at 19348.

⁶ In the Notice, the Exchange represented that the national equity exchanges all have the same core business hours (e.g., New York Stock Exchange Rule 51(a) and BATS Exchange Rule 1.5(w) mentions regular trading hours of 9:30 a.m. through 4:00 p.m. (Eastern time)). See id.

⁷ See id.

Exchange proposes to amend that provision by removing the reference to the primary market and instead provide that the Exchange may consider whether trading in the underlying security has been halted or suspended in “one or more of the markets trading such security.” For example, if the primary market is unable to open due to a natural disaster, or other circumstance, but other national securities exchanges are trading the underlying security and halt or suspend trading in that security, then the proposed change would allow CBOE to halt trading in the overlying options. The Exchange also proposes to make similar changes to Exchange Rule 6.3(a)(iii), which lists factors that CBOE should consider when determining whether to halt securities other than options.

Similarly, Exchange Rule 6.3.01 currently allows the Post Director or Order Book Official to suspend trading in an option if the underlying security is halted or suspended in the primary market. The Exchange proposes to expand the authority of the Post Director or Order Book Official to halt or suspend trading in an option if the underlying security has been halted or suspended in “one or more of the markets trading the underlying security.” In effect, the proposal would allow the Post Director or Order Book Official to halt or suspend trading in an option in response to a halt or suspension in a market other than the primary market for the underlying security, particularly when the primary market is not open for business but the security is being traded elsewhere.

Finally, the Exchange proposes to amend language in Exchange Rule 6.3.05, which currently allows the Exchange to turn off the Retail Automatic Execution System (“RAES”) with respect to a stock-option order if credible information has been communicated that trading in the underlying stock has been halted or suspended in the primary market for that stock-option order. The Exchange proposes to replace the term “primary market” with “one or more of the markets trading the underlying security.” The proposal would allow the Exchange to turn off RAES with

respect to a stock-option order if credible information has been communicated that one or more of the markets trading the underlying security has halted trading in the underlying security.

III. Discussion and Commission Findings

After careful review, the Commission finds that the proposed rule change is consistent with the requirements of the Act and rules and regulations thereunder applicable to a national securities exchange.⁸ In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,⁹ which requires, among other things, that the rules of a national securities 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 facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest.

The Commission finds that the Exchange's proposal to amend the aforementioned CBOE rules governing the Exchange's ability to open for trading or continue trading an option even if the "primary market" for the underlying security does not open for trading or otherwise closes is consistent with Section 6(b)(5) of the Act.¹⁰ Similarly, the change to allow CBOE to consider whether trading in the underlying security has been halted or suspended in "one or more of the markets trading such security" instead of requiring CBOE to only consider trading in the underlying primary market is consistent with Section 6(b)(5) of the Act.¹¹

⁸ In approving the proposed rule change, the Commission has considered the impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

⁹ 15 U.S.C. 78f(b)(5).

¹⁰ Id.

¹¹ Id.

Under its proposal, CBOE's discretion to open or continue trading in options, or halt trading in options, would not be limited by or solely rely on the status of the primary market for an underlying security. In addition, the proposed changes to Exchange Rule 6.3 would grant the Post Director and Order Book Official of the Exchange greater discretion regarding whether to halt trading by allowing them to consider halts at markets other than the primary market.

The proposed rule changes would grant discretion to the Exchange to trade options when there is sufficient liquidity outside of the primary market and to halt the trading of options if exchanges other than the primary market are trading the underlying security and halt trading rather than limit the Exchange's authority by specific reference to the status of the primary market for the underlying securities. The Commission believes that allowing CBOE to have such discretion has the potential to lessen market disruptions in the event that a primary market for an underlying security is unable to open or remain open for trading, particularly for an extended period. Thus, the proposal is designed to facilitate the trading of options when other cash equity markets are open and able to trade or continue trading in the underlying securities.

Accordingly, the Commission finds that the Exchange's proposal is consistent with the Act, including Section 6(b)(5) thereof, in that it is designed to remove impediments to and perfect the mechanism of a free and open market, and in general, protect investors and the public interest.

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act¹² that the proposed rule change (SR-CBOE-2013-035) be, and hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹³

Kevin M. O'Neill
Deputy Secretary

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¹² 15 U.S.C. 78s(b)(2).

¹³ 17 CFR 200.30-3(a)(12).