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SECURITIES AND EXCHANGE COMMISSION

(Release No. 34-71648; File No. SR-CBOE-2014-017)

March 5, 2014

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing of a Proposed Rule Change, as Modified by Amendment 1, to Amend Its Rules Related to Complex Orders

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 19, 2014, Chicago Board Options Exchange, Incorporated (the "Exchange" or "CBOE") filed with the Securities and Exchange Commission (the "Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. On March 3, 2014, the Exchange filed 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 the Substance of the Proposed Rule Change

The Exchange proposes to amend its rules related to complex orders. The text of the proposed rule change is provided below.

(additions are underlined; deletions are [bracketed])

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**Chicago Board Options Exchange, Incorporated
Rules**

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Rule 6.53C. Complex Orders on the Hybrid System
(a) Definition: No change.

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1   15 U.S.C. 78s(b)(1).

2   17 CFR 240.19b-4.

(b) Types of Complex Orders: No change.

(c) Complex Order Book

No change.

(d) Process for Complex Order RFR Auction: Prior to routing to the COB or once on PAR, eligible complex orders may be subject to an automated request for responses ("RFR") auction process.

(i) For purposes of paragraph (d):

   (1) "COA" is the automated complex order RFR auction process.

   (2) A "COA-eligible order" means a complex order that, as determined by the Exchange on a class-by-class basis, is eligible for a COA considering the order's marketability (defined as a number of ticks away from the current market), size, complex order type (as defined in paragraphs (a) and (b) above) and complex order origin types (as defined in subparagraph (c)(i) above). Complex orders processed through a COA may be executed without consideration to prices of the same complex orders that might be available on other exchanges.

(ii) Initiation of a COA: On receipt of (1) a COA-eligible order 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, regardless of the order's routing parameters or handling instructions (except for orders routed for manual handling), the [Exchange]System will send an RFR message to all Trading Permit Holders who have elected to receive RFR messages. Notwithstanding clause (2) of this subparagraph (ii), the System will reject back to a Trading Permit Holder any complex order with three or more legs that includes a request pursuant to Interpretation and Policy .04 that the order not COA. Any complex order with three or more legs on PAR will COA even if the PAR operator requests that the order not COA. 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.

(iii) – (ix) No change.

. . . Interpretations and Policies:

.01 – **.09** No change.

.10 Execution of Complex Orders in Hybrid 3.0 Classes: For each class trading on the Hybrid 3.0 Platform, the Exchange may determine to not allow marketable complex orders entered into COB and/or COA to automatically execute against individual quotes residing in the EBook. The Exchange also may determine for each class trading on the Hybrid 3.0 Platform to not allow leg orders to be generated pursuant to paragraph (c)(iv) for complex orders resting in the COB. The allocation of such marketable complex orders against orders residing in the EBook and other complex orders shall be based on the best net price(s) and, at the same net price, multiple orders will be allocated as provided in paragraphs (c) and/or (d) in the Rule, as applicable, subject to the following:

(a) – (d) No change.

(e) On receipt of any COA-eligible order, the Exchange will send an RFR message to all Trading Permit Holders who have elected to receive RFR messages. 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.

.11 – **.12** No change.

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The text of the proposed rule change is also available on the Exchange's website

(http://www.cboe.com/AboutCBOE/CBOELegalRegulatoryHome.aspx), at the Exchange's Office

of the Secretary, and at the Commission's Public Reference Room.

II.   Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Exchange included statements concerning the

purpose of and basis for the proposed rule change and discussed any comments it received on the

proposed rule change. The text of these statements may be examined at the places specified in

Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of

the most significant aspects of such statements.

A.   Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1.   Purpose

Under Rule 8.18, CBOE offers Market-Makers that are obligated to provide and maintain

continuous electronic quotes in an option class the Quote Risk Monitor Mechanism ("QRM"),

which is functionality to help Market-Makers manage their quotes and related risk. Market-

Makers with appointments in classes that trade on the Exchange's Hybrid Trading System (the

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"System")[3] must, among other things, provide and maintain continuous electronic quotes in a specified percentage of series in each class for a specified percentage of time.[4] To comply with this requirement, each Market-Maker may use its own proprietary quotation and risk management system to determine the prices and sizes at which it quotes. In addition, each Market-Maker may use QRM.

A Market-Maker's risk in a class is not limited to the risk in a single series of that class. Rather, a Market-Maker is generally actively quoting in multiple classes, and each class may comprise hundreds or thousands of individual series. The System automatically executes orders against a Market-Maker's quotes in accordance with the Exchange's priority and allocation rules.[5] As a result, a Market-Maker has exposure and risk in all series in which it is quoting in each of its appointed classes. QRM is an optional functionality that helps Market-Makers, and TPH organizations with which a Market-Maker is associated, limit this overall exposure and risk.

Specifically, if a Market-Maker elects to use QRM, the System will cancel a Market-Maker's quotes in all series in an appointed class if certain parameters the Market-Maker establishes are triggered. Market-Makers may set the following QRM parameters (Market-Makers may set none, some or all of these parameters):

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[3] The System is a trading platform that allows automatic executions to occur electronically and open outcry trades to occur on the floor of the Exchange. To operate in this "hybrid" environment, the Exchange has a dynamic order handling system that has the capability to route orders to the trade engine for automatic execution and book entry, to Trading Permit Holder and PAR Official workstations located in the trading crowds for manual handling, and/or to other order management terminals generally located in booths on the trading floor for manual handling. Where an order is routed for processing by the Exchange order handling system depends on various parameters configured by the Exchange and the order entry firm itself.

[4] See Rules 8.7(d)(ii)(iv) (Market-Makers), 8.13(d) (Preferred Market-Makers), 8.15A(b)(i) (Lead Market-Makers) and 8.85(a)(i) (Designated Primary Market-Makers).

[5] See Rules 6.45A, 6.45B and 6.53C.

- a maximum number of contracts for that class (the "contract limit") and a specified rolling time period in seconds within which such contract limit is to be measured (the "measurement interval");

- a maximum cumulative percentage (which is the sum of the percentages of the original quoted size of each side of each series that trade) (the "cumulative percentage limit") that the Market-Maker is willing to trade within a specified measurement interval; or

- a maximum number of series for which either side of the quote is fully traded (the "number of series fully traded") within a specified measurement interval.

If the Exchange determines the Market-Maker has traded more than the contract limit or cumulative percentage limit, or has traded at least the number of series fully traded, of a class during the specified measurement interval, the System will cancel all of the Market-Maker's electronic quotes in that class (and any other cases with the same underlying security) until the Market-Maker refreshes those quotes (a "QRM Incident"). A Market-Maker, or TPH organization with which the Market-Maker is associated, may also specify a maximum number of QRM Incidents that may occur on an Exchange-wide basis during a specified measurement interval. If the Exchange determines that a Market-Maker or TPH Organization, as applicable, has reached its QRM Incident limit during the specified measurement interval, the System will cancel all of the Market-Maker's or TPH Organization's quotes, as applicable, and the Market-Maker's orders resting in the book in all classes and prevent the Market-Maker and TPH organization from sending additional quotes or orders to the Exchange until the earlier to occur of (1) the Market-Maker or TPH organization reactivates this ability or (2) the next trading day.

The purpose of the QRM functionality is to allow Market-Makers to provide liquidity across most series in their appointed classes without being at risk of executing the full

cumulative size of all their quotes before being given adequate opportunity to adjust their quotes. For example, if a Market-Maker can enter quotes with a size of 25 contracts in 100 series of class ABC, its potential exposure is 2,500 contracts in ABC. To mitigate the risk of having all 2,500 contracts in ABC execute without the opportunity to evaluate its positions, the Market-Maker may elect to use QRM. If the Market-Maker elects to use the contract limit functionality and sets the contract limit at 100 and the measurement interval at five seconds for ABC, the System will automatically cancel the Market-Maker's quotes in all series of ABC if 100 or more contracts in series of ABC execute during any five-second period.

To assure that all quotations are firm for their full size, the System performs the parameter calculations after an execution against a Market-Maker's quote occurs. For example, using the same parameters in class ABC as above, if a Market-Maker has executed a total of 95 contracts in ABC within the previous three seconds, a quote in a series of ABC with a size of 25 contracts continues to be firm for all 25 contracts. An incoming order in that series could execute all 25 contracts of that quote, and, following the execution, the total size parameter would add 25 contracts to the previous total of 95 for a total of 120 contracts executed in ABC. Because the total size executed within the previous five seconds now exceeds the 100 contract limit for ABC, the System would, following the execution, immediately cancel all of the Market-Maker's quotes in series of ABC. The Market-Maker would then enter new quotes for series in ABC. Thus, QRM limits the amount by which a Market-Maker's executions in a class may exceed its contract limit to the largest size of its quote in a single series of the class (or 25 in this example).

The Exchange proposes to amend Rule 6.53C regarding complex orders to limit a potential source of unintended Market-Maker risk related to how the System calculates risk

parameters under Rule 8.18 when complex orders leg into the market.[6] As discussed above, by

checking the risk parameters following each execution in a series, the risk parameters allow a

Market-Maker to provide liquidity across multiple series of a class without being at risk of

executing the full cumulative size of all its quotes. This is not the case, however, when a

complex order legs into the regular market (i.e. the market for individual, or simple, orders).

Because the execution of each leg of a complex order is contingent on the execution of the other

legs, the execution of all the legs in the regular market is processed as a single transaction, not as

a series of individual transactions.

For example, if market participants enter into the System individual orders to buy 25

contracts for the Jan 30 call, Jan 35 call, Jan 40 call and Jan 45 call in class ABC, the System

processes each order as it is received and calculates the Market-Makers parameters in class ABC

following the execution of each 25-contract call. However, if a market participant enters into the

System a complex order to buy all four of these strikes in class ABC 25 times, which complex

order executes against bids and offers for the individual series (i.e. legs into the market), the

System will calculate the Market-Maker's parameters in class ABC following the execution of

all 100 contracts. If the Market-Maker had set the same parameters in class ABC as discussed

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6   Rule 6.53C(c)(ii)(1) provides that complex orders in the complex order book ("COB")
    may execute against individual orders or quotes in the book provided the complex order
    can be executed in full (or a permissible ratio) by the orders and quotes in the book. Rule
    6.53C(d)(v)(1) provides that orders that are eligible for the complex order auction
    ("COA") may trade with individual orders and quotes in the book provided the COA-
    eligible order can be executed in full (or a permissible ratio) by the orders and quotes in
    the book. COA is an automated request for responses ("RFR") auction process. Upon
    initiation of a COA, the Exchange sends an RFR message to all Trading Permit Holders
    who have elected to receive RFR messages, which RFR message identifies the series,
    size and side of the market of the COA-eligible order and any contingencies. Eligible
    market participants may submit responses during a response time interval. At the
    conclusion of the response time interval, COA-eligible orders are allocated in accordance
    with Rule 6.53C(d)(v), including against individual orders and quotes in the book.

above (100-contract limit with five-second measurement interval) and had executed 95 contracts

in class ABC within the previous three seconds, the amount by which the next transaction might

exceed 100 is limited to the largest size of its quote in a single series of the class. In that

example, since the largest size of the Market-Maker's quotes in any series was 25 contracts, the

Market-Maker could not have exceeded the 100-contract limit by more than 20 contracts (95 +

25 = 120). However, with respect to the complex order with four legs 25 times, the next

transaction against the Market-Maker's quotes potentially could be as large as 100 contracts

(depending upon whether there are other market participants at the same price), creating the

potential in this example for the Market-Maker to exceed the 100-contract limit by 95 contracts

(95 + 100 = 195) instead of 20 contracts.

As this example demonstrates, legging of complex orders into the regular market presents

higher risk to Market-Makers than executing their quotes against individual orders entered in

multiple series of a class in the regular market, because it may result in Market-Makers

exceeding their risk parameters by a greater number of contracts. This risk is directly

proportional to the number of legs associated with a complex order. Market-Makers have

expressed concerns to the Exchange regarding this risk.

To address this Market-Maker risk, the Exchange proposes to require all complex orders

with three or more legs to COA prior to entering the COB.[7] Under Rule 6.53C(d)(i)(2), the

Exchange may determine on a class-by-class which complex orders are eligible for COA,

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[7]   This proposed change applies to Hybrid classes only, and not Hybrid 3.0 classes. The
        Exchange does not believe the risk discussed in this rule filing is present in Hybrid 3.0
        classes. The proposed rule change amends Rule 6.53C, Interpretation and Policy .10 to
        indicate that complex orders in Hybrid 3.0 classes, regardless of the number of legs, will
        COA in the same manner they currently do.

including by complex order type and origin type.[8] Rule 6.53C(d)(ii) provides that the Exchange

will initiate a COA on receipt of a COA-eligible order and request from the Trading Permit

Holder representing the order that it be COA'd. The Exchange proposes to amend Rule

6.53C(d)(ii) to provide that the System[9] will initiate a COA on receipt of (1) a COA-eligible

order with two legs and request from the Trading Permit Holder representing the order that it be

COA'd or (2) a complex order with three or more legs, regardless of the order's routing

parameters (e.g., request to route directly to COB, all-or-none order, immediate-or-cancel) or

handling instructions (except for orders routed for manual handling).[10] Thus, all complex orders

in Hybrid classes with three or more legs will automatically COA (other than those routed for

manual handling) prior to entering the COB where they can leg into the market.[11] Additionally,

the Exchange proposes to amend Rule 6.53C(d)(ii) to provide that notwithstanding proposed

clause (2) described above, the System will reject back to a Trading Permit Holder any complex

order with three or more legs that includes a request pursuant to Interpretation and Policy .04 that

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[8]   Currently, in all Hybrid classes, customer, firm and broker-dealer complex orders are
        eligible for COA, and all complex order types except for immediate-or-cancel ("IOC")
        orders are eligible for COA in all Hybrid classes. Additionally, only marketable orders
        and "tweeners" (limit orders bettering the same side of the derived net market) are
        eligible for COA. For Hybrid 3.0 classes (i.e. SPX), all complex order types (including
        IOC orders) are eligible for COA, but only customer complex orders are eligible for
        COA. See Regulatory Circulars RG06-73, RG08-38 and RG08-97.

[9]   The proposed rule change amends the language to say that the System will send the RFR
        message rather than the Exchange. Because the System will automatically send the RFR
        message when the conditions set forth in Rule 6.53C(d)(ii) are met, the Exchange
        believes using the term "System" in the rule text is appropriate.

[10]   The Exchange notes that if a complex order with three or more legs contains an
        instruction to route for manual handling, such as to PAR, and through such manual
        handling routes to the COB, the proposed rule change provides that order will COA prior
        to entry on the COB, even if the PAR operator requests that the order not COA.

[11]   The Exchange notes that this automatic COA applies only to complex orders and not
        stock-option orders.

the order not COA.[12] This will prevent a Trading Permit Holder from using a routing parameter request to not COA a complex order with three or more legs to bypass the protection provided by the automatic COA functionality proposed in this filing while providing the Trading Permit Holder with an opportunity to reconsider how to handle the complex order.

The Exchange notes that approximately 90% of complex orders submitted to the Exchange have only two legs. Additionally, as discussed above, orders in Hybrid classes of all order types except IOC orders and all order origin codes except Market-Maker and away market-maker orders are currently COA-eligible.[13] Currently, all Trading Permit Holders have requested that all of their COA-eligible orders in Hybrid classes process through COA upon entry into the System. Thus, the proposed rule change will only impact a small percentage of complex orders that enter into the System, as a large percentage of complex orders entered into the System are only two legs or already COA prior to execution. The Exchange also notes that complex orders with three or more legs will still have opportunities for execution through COA or on the COB if they do not execute at the end of the COA (including execution with the leg markets). The Exchange notes that the rules contain provisions that prevent the execution of complex orders that might otherwise be executable.[14] Thus, the Exchange believes that requiring complex orders with three or more legs to COA prior to entering COB and legging into the regular market does

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[12] Rule 6.53C, Interpretation and Policy .04 provides that Trading Permit Holders routing complex orders directly to the 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. As discussed above, the Exchange intends to propose in a separate rule filing to amend Interpretation and Policy .04 to allow Trading Permit Holders to request that complex orders not COA on an order-by-order basis, in addition to a class-by-class basis.

[13] See supra note 8.

[14] See, e.g., Rules 6.45A(a) and 6.45B(a) (priority overlays, such as public customer) and Rule 6.53C, Interpretation and Policy .08 (price check parameters).

not create any unusual circumstances for the System. The Exchange believes that the potential

risk to Market-Makers in the regular market of allowing orders with three or more legs to

directly enter COB and leg into the market far outweighs the potential benefit of continuing to

allow COA to be voluntary for a limited number of orders.

The Exchange believes that requiring complex orders in Hybrid classes with three or

more legs to COA prior to entering COB and legging into the market will discourage market

participants from continuing to enter the "complex orders" that expose Market-Makers to the risk

described above. Those "complex orders" that primarily create this risk are generally IOC

complex orders (which are the only order type that currently does not COA in Hybrid classes)

with a large number of legs that generally execute immediately against prices in the leg markets,

which do not appear to have investment strategies similar to traditional complex orders but

instead are specifically designed to circumvent QRM settings. The proposed rule change

eliminates the possibility of immediate executions of these "complex orders." Market

participants may still enter these "complex orders." However, if they do, the "complex orders"

will COA, which COA will allow Market-Makers to become aware of these "complex orders"

and have adequate opportunity to react accordingly, including to adjust their quotes to avoid

circumvention of their QRM settings. If a Market-Maker receives an RFR for a COA for one of

these "complex orders" in one of its appointed Hybrid classes, and the Market-Maker believes

the order may execute against its quotes and cause executions that significantly exceed its

contract limit in that class, the Market-Maker may adjust its quotes as it deems necessary to

reduce its risk exposure prior to the "complex order" legging into the market and being presented

to the Market-Maker for execution. The Exchange believes the proposed rule change will allow

Market-Makers to better manage their risk in their appointments, as it will reduce the risk of

these "complex orders" causing executions that significantly exceed Market-Makers' risk parameters. The Exchange believes this reduced risk will encourage Market-Makers to quote larger size, which will increase liquidity and enhance competition in those classes.

The Exchange notes that the proposed rule change does not impact the allocation of complex orders or relieve Market-Makers of their obligations to provide continuous electronic quotes under the Exchange Rules or to provide "firm" quotes pursuant to CBOE Rule 8.51 or Rule 602 of Regulation NMS.

The proposed rule change also amends Rule 6.53C(d)(ii) to provide that PAR operators handling an order may request that a COA-eligible order be COA'd. Currently, Rule 6.53C(d)(ii) states that a Trading Permit Holder representing an order may request that the order be COA'd. However, other parts of the rules provide that orders resting on PAR may also COA.[15] The introductory language to Rule 6.53C(d) also states that complex orders may be subject to COA once on PAR. Currently, the part of the rule regarding initiation of a COA states that Trading Permit Holders may initiate a COA. In order to have more consistency within the rules, the Exchange believes that it is appropriate to include in the part of the rule that describes the initiation of a COA that orders on PAR may be submitted to COA by the PAR operator, in addition to orders submitted directly to the System by Trading Permit Holders.

The Exchange will announce the implementation date of the proposed rule change in a Regulatory Circular to be published no later than 90 days following the effective date. The implementation date will be no later than 180 days following the effective date.

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[15]   See, e.g., Rule 6.53C, Interpretation and Policy .04(a) (which states that Trading Permit Holders with resting complex orders on PAR may request that complex orders be COA'd).

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2. <u>Statutory Basis</u>

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.[16] Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)[17] 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)[18] 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 it is reasonable to require complex orders in Hybrid classes with three or more legs to COA. In this respect, the Exchange notes that the vast majority of complex orders in Hybrid classes consist of only two legs, and the majority of complex orders already COA upon entry into the System – those orders will be unaffected by this proposed rule change. The proposed rule change will essentially only impact the complex orders in Hybrid classes with three or more legs that are currently not eligible for COA (many of which the Exchange believes do not have investment strategies of traditional complex orders). The Exchange believes this impact is minimal, as these orders will still have opportunities for

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[16]   15 U.S.C. 78f(b).

[17]   15 U.S.C. 78f(b)(5).

[18]   <u>Id.</u>

execution through a COA, in the COB, or in the leg markets following the end of the COA.

Further, the Exchange believes that the potential risk of not requiring these orders to COA prior

to entering the COB and legging into the market limits the amount of liquidity that Market-

Makers are willing to provide in the regular market. In particular, Market-Makers may reduce

the size of their quotations in the regular market because of the presence of these "complex

orders" that are designed to circumvent QRM and risk the execution of the cumulative size of

Market-Makers' quotations across multiple series without Market-Makers' being aware of these

"complex orders" or having an opportunity to adjust their quotes. Accordingly, the Exchange

believes that reducing Market-Maker risk in the regular market by requiring complex orders in

Hybrid classes with three or more legs to COA will benefit investors by encouraging additional

liquidity in the regular market. This potential benefit to investors far exceeds any perceived

detriment to requiring certain "complex" orders to COA prior to potential interaction with the leg

markets. The Exchange also believe it is appropriate to reject any complex orders with three or

more legs for which a Trading Permit Holder does not include a COA request, and to

automatically COA any complex order with three or more legs on PAR even if the PAR operator

requests that the order not COA, because a Trading Permit Holder or PAR operator, as

applicable, would otherwise be able to bypass this Market-Maker protection.

The Exchange also believes the proposed rule change to require all complex orders with

three or more legs to COA is consistent with the requirement that Market-Makers' quotes be firm

under Rule 602 of Regulation NMS.[19] The proposed rule change does not relieve Market-

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[19]   Rule 602(b)(2) obligates a Market-Maker to execute any order to buy or sell a subject
security presented to it by another broker or dealer or any other person belonging to a
category of persons with whom the Market-Maker customarily deals, at a price at least as
favorable to the buyer or sell as the Market-Maker's published bid or offer in any amount
up to its published quotation size. Rule 602(b)(3) provides that no Market-Maker is

Makers of their obligation to provide "firm" quotes. If a complex order in a Hybrid class with three or more legs goes through COA and then legs into the market for execution upon completion of the COA, at which point the complex order would execute against a Market-Maker's quotes based on priority rules, the Market-Maker must execute its quotes against the order at its then-published bid or offer up to its published quote size, even if such execution would cause the Market-Maker to significantly exceed its risk parameters. However, as discussed above, prior to the end of COA (and thus prior to a complex order legging into the market), a Market-Maker may adjust its published quotes to manage its risk in a class as it deems necessary, including to prevent executions that would exceed its risk parameters. In this case, the firm quote rule does not obligate the Market-Maker to execute its quotes against the complex order at the quote price and size that was published when the order entered the System and initiated the COA. Rather, the Market-Maker's firm quote obligation applies only to its disseminated quote at the time an order is presented to the Market-Maker for execution, which presentation does not occur until the System processes the order against the leg markets after completion of the COA.[20] Thus, the proposed rule change is consistent with the firm quote rule.

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obligated to execute a transaction for any subject security to purchase or sell that subject security in an amount greater than its revised quotation size if, prior to the presentation of an order for the purchase or sale of a subject security, the Market-Maker communicated to the Exchange a revised quotation size. Similarly, no Market-Maker is obligated to execute a transaction for any subject security if, before the order sought to be executed is presented, the Market-Maker has communicated to the Exchange a revised bid or offer. CBOE Rule 8.51 imposes a similar obligation (Market-Maker must sell (buy) at least the established number of contracts at the offer (bid) which is displayed when the Market-Maker receives a buy (sell) order at the trading station where the reported security is located for trading; however, no Market-Maker is obligated to execute a transaction for a listed option when, prior to the presentation of an order to sell (buy) to the Market-Maker, the Market-Maker has communicated to the Exchange a revised quote).

[20] See Staff Legal Bulletin No. 16, *Transaction in Listed Options Under Exchange Act Rule 11Ac1-1*, U.S. Securities and Exchange Commission, Division of Market Regulation, January 20, 2004 ("Scenario 3: When an Order is "Presented" . . . If an individual market

The Exchange believes that the proposed rule change to provide that PAR operators handling an order may request a COA for a COA-eligible order is consistent with the Act because the Exchange rules already allow orders on PAR to be submitted to COA, as described above. This proposed rule change merely includes this ability in the rule provision that describes how a COA may be initiated to more completely and accurately describe the circumstances in which an order may COA.

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 to require all complex orders with three or more legs to COA addresses concerns that Market-Makers raised to the Exchange and is intended to reduce risk to Market-Makers that are quoting in the regular market. CBOE believes that the proposed rule change will promote competition by encouraging Market-Makers to increase the size of and to more aggressively price their quotes, which will increase liquidity on the Exchange. The proposed rule change applies in the same manner to all complex orders in Hybrid classes of three or more legs and is intended to reduce risk for all Market-Makers that electronically quote in Hybrid classes.

The proposed rule change to provide that PAR operators handling an order may request a

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maker generates its own quotations . . . and exchange systems route incoming orders to the responsible broker-dealer with priority, when is an order presented to a responsible broker-dealer? **Response:** . . . . When each market maker is the responsible broker-dealer with respect to its own quote, an order is presented to it when received by the market maker from the exchange system."). When a complex order is processing through COA, the order is still in the System and has not yet been presented to a broker or dealer (including a Market-Maker) for execution. Only after completion of the COA, when the System allocates the complex order for execution in accordance with priority rules, will that order be "presented" to the Market-Maker for firm quote purposes.

COA for a COA-eligible order is consistent with current Exchange rules and thus has no competitive impact.

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-2014-017 on the subject line.

Paper comments:

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-CBOE-2014-017. 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. 20549-1090 on official business days between the hours of 10:00

a.m. and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the

principal offices of the Exchange. All comments received will be posted without change; the

Commission does not edit personal identifying information from submissions. You should

submit only information that you wish to make available publicly. All submissions should refer

to File Number SR-CBOE-2014-017, and should be submitted on or before [INSERT DATE 21

DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER].

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

authority.[21]

Kevin M. O'Neill
Deputy Secretary

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[21]   17 CFR 200.30-3(a)(12).