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SECURITIES AND EXCHANGE COMMISSION
[Release No. 34-72742; File No. SR-CBOE-2014-059]

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to Amend Market-Maker Quoting Obligations

August 1, 2014.

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 July 22, 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 and II 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 its rules regarding Market-Maker quoting obligations. 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.

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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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 purpose of the proposed rule change is to amend Rules 1.1(ccc), 8.7, 8.13, 8.15A, and 8.85: (i) to provide that compliance with continuous quoting obligations apply to Market-Makers' appointed classes collectively and (ii) to provide that the Exchange will determine Market-Makers' compliance with continuous quoting obligations on a monthly basis. These changes do not substantially change Market-Makers' quoting obligations and make CBOE's Market-Maker obligations more consistent with market-maker obligations at other options exchanges. The proposed rule change only changes how and when the Exchange determines a Market-Maker's compliance with continuous quoting obligations.

Collective Application

Rule 1.1(ccc) currently provides that a Market-Maker who is obligated to provide continuous electronic quotes on the Exchange's Hybrid Trading System will be deemed to have provided continuous electronic quotes if the Market-Maker provides electronic two-sided quotes for 90% of the time that the Market-Maker is required to provide electronic quotes in an appointed option class on a given trading day.³ Rules 8.7, 8.13, 8.15A, and 8.85 impose the following continuous electronic quoting obligations on Market-Makers, Preferred Market-

³ Rule 1.1(ccc) also provides that if a technical failure or limitation of a system of the Exchange prevents a Market-Maker from maintaining or communicating to the Exchange timely and accurate electronic quotes in a class, the duration of such failure will not be considered in determining whether the Market-Maker has satisfied the 90% quoting standard with respect to that class. The Exchange may consider other exceptions to this continuous electronic quote obligation based on demonstrated legal or regulatory requirements or other mitigating circumstances.

Makers (“PMMs”), Lead Market-Makers (“LMMs”), and Designated Primary Market-Makers (“DPMs”), respectively (collectively, “Market-Makers” unless the context otherwise requires)⁴:

- Rule 8.7(d)(ii)(B) requires Market-Makers to provide continuous electronic quotes when quoting in a particular class on a given trading day in 60% of the non-adjusted option series of the Market-Maker’s appointed class that have a time to expiration of less than nine months⁵;
- Rule 8.13(d) requires PMMs to provide continuous electronic quotes when the Exchange is open for trading 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 pair⁶ of each class for which it receives Preferred Market-Maker orders;
- Rule 8.15A(b)(i) requires LMMs to provide continuous electronic quotes when the Exchange is open for trading 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 within their assigned classes; and
- Rule 8.85(a)(i) requires DPMs to provide continuous electronic quotes when the Exchange is open for trading in at least the lesser of 99% of the non-adjusted option

⁴ Rule 8.15 imposes obligations on LMMs in Hybrid 3.0 classes. The Exchange intends to propose similar changes to those obligations in a separate rule filing that will update those obligations, including codify Hybrid 3.0 LMMs’ continuous quoting obligations.

⁵ This obligation applies in classes to which a Market-Maker is appointed and transacts more than 20% of its contract volume electronically. The proposed rule change makes nonsubstantive, technical changes to the introductory language and headings in Rule 8.7(d) that are consistent with the existing rule text in that paragraph.

⁶ A “call-put” pair refers to one call and one put that cover the same underlying instrument and have the same expiration date and exercise price.

series or 100% of the non-adjusted option series minus one call-put pair in each of their allocated classes.

These continuous electronic quoting obligations do not apply to intra-day add-on series on the day during which such series are added for trading.

CBOE proposes to amend Rules 1.1(ccc),⁷ 8.7(d)(ii)(B), 8.13(d), 8.15A(b)(i), and 8.85(a)(i) to provide that the continuous electronic quoting obligation for Market-Makers will be applied collectively across all classes in which the Market-Maker has appointments (as discussed above, with respect to each Market-Maker type as the Market-Maker is approved to act), rather than on a class-by-class basis.⁸ The Exchange believes that applying the continuous electronic

⁷ The proposed rule change indicates that the quoting obligation applies collectively with respect to each Market-Maker type as the Hybrid Market-Maker is approved to act. As this rule filing demonstrates, the Exchange has several types of Market-Makers, each of which has separate quoting obligations. Thus, the collective application of the continuous quoting obligation applies to classes for each Market-Maker type (i.e. classes for which the Market-Maker has the same quoting obligation). For example, if a Market-Maker is a Trading Permit Holder organization with appointments in ten classes, with 100 series in each, for a total of 1,000 series (with an obligation to quote in 60% of the series in those classes 90% of the time it is quoting in those classes) and acts as a DPM in three classes, with 100 series in each, for a total of 300 series (with an obligation to quote the lesser of 99% of the series or 100% of the series minus one call-put pair in those classes 90% of the time), for purposes of compliance with the continuous quoting obligation, the Trading Permit Holder must quote in 600 series (or 60% of the series) in the ten Market-Maker classes collectively for 90% of the time it is quoting in those classes and 297 series (or 99% of the series) in the three DPM classes collectively for 90% of the trading day. While other exchanges do not explicitly state this in their rules, the Exchange believes this is consistent with the application of those exchanges' rules, as it would not be possible to apply the collective standard across classes for which a Market-Maker has different quoting obligations.

⁸ With respect to Rule 8.7(d)(ii)(B), the proposed rule change indicates that it applies collectively to all appointed classes for which it must maintain continuous electronic quotes (i.e. those classes in which the Market-Maker transacts more than 20% of its contract volume electronically). The proposed rule change makes a corresponding change to Rule 8.7(d)(iii), including adding an example to demonstrate the collective application of the continuous electronic quoting obligation for Market-Makers. The proposed rule change makes corresponding changes to Rule 8.13(d) to delete rule text that a PMM must quote the specified percentage of series in each class it receives PMM

quoting requirements for Market-Makers collectively across all classes is a fair and efficient way for the Exchange and market participants to evaluate compliance with the continuous electronic quoting obligation. Applying the continuous electronic quoting requirements collectively across all classes rather than on a class-by-class basis is beneficial to Market-Makers by providing some flexibility to choose which series in their appointed classes they will continuously electronically quote – increasing the continuous electronic quoting in the series of one class while allowing for a decrease in the continuous electronic quoting in the series of another class. This flexibility, however, does not diminish the Market-Maker’s obligation to continuously electronically quote in a significant percentage of series for a significant part of the trading day. This flexibility is especially important for classes that have relatively few series and may prevent a Market-Maker from reaching the continuous electronic quoting obligation when failing to quote 90% of the trading day in more than one series in an appointed class. The Exchange believes that the proposed rule change will not diminish, and may in fact increase, market-making activity on the Exchange, by applying continuous electronic quoting obligations in a reasonable manner, which is already in place on other options exchanges.⁹

Monthly Compliance

The continuous electronic quoting obligations described above apply on a daily basis.

CBOE proposes to amend Rules 1.1(ccc), 8.7(d)(iii), 8.13(d), 8.15A(b)(i), and 8.85(a)(i) to

orders, to Rule 8.15A(b)(ii) [sic] to delete rule text that an LMM must quote the specified percentage of series within its assigned classes, and to Rule 8.85(a)(i) to delete rule text that a DPM must quote the specified percentage of series in each class allocated to it. This language is no longer applicable given the proposed collectively application of the continuous quoting obligation.

⁹ See, e.g., Box Options Exchange, LLC (“BOX”) Rule 8050(e); International Securities Exchange, LLC (“ISE”) Rule 804, Supplementary Material .01; Miami International Securities Exchange, LLC (“MIAX”) Rule 604(e); NYSE Arca, Inc. (“NYSE Arca”) Options Rules 6.37B(b) and (c) and 6.88(iv); and NYSE MKT LLC (“NYSE MKT”) Options Rules 925.1NY(b) and (c) and 964.1NY(iv).

provide that the Exchange will determine compliance by Market-Makers with continuous electronic quoting obligations on a monthly basis.¹⁰ Determining compliance with these quoting obligations does not relieve Market-Makers from meeting these quoting obligations on a daily basis, nor does it prohibit the Exchange from taking disciplinary action against Market-Makers for failing to meet any of these requirements each trading day.

Similar to the proposed rule change to apply continuous electronic quoting obligations to all classes collectively, the Exchange believes that reviewing compliance on a monthly basis is a fair and more efficient way for the Exchange and market participants to evaluate compliance with these quoting obligations. Reviewing compliance on a monthly basis allows the Exchange to review a Market-Maker's daily compliance in the aggregate and determine the appropriate disciplinary action for single or multiple compliance failures during a one-month period. CBOE believes that the proposed rule change will not diminish, and in fact may increase, market-making on the Exchange by establishing quoting compliance standards that are reasonable and, with respect to continuous electronic quoting obligations, already in place on other options exchanges.¹¹ CBOE also believes that determining compliance by Market-Makers with all of these quoting obligations on a monthly basis will facilitate CBOE's determination of appropriate penalties or other remedial measures for violation(s) of these obligations.

¹⁰ The Exchange will continue to provide to Market-Makers daily reports to enable them to monitor their compliance with their quoting obligations. On the basis of these daily reports, the Exchange will continue to monitor Market-Maker compliance on a daily basis and inform Market-Makers if they are failing to satisfy their quoting obligations. Additionally, on the basis of this daily monitoring activity, the Exchange can determine whether Market-Makers violated any other Exchange rules, such as Rule 4.1 regarding just and equitable principles of trade. This daily monitoring will allow the Exchange to investigate unusual activity and to take appropriate regulatory action.

¹¹ See, e.g., ISE Rule 804(e), Supplementary Material .01; MIAX Rule 604(e); and NASDAQ OMX PHLX LLC ("PHLX") Rule 1014(b)(ii)(D)(1) and (2).

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. Because the proposed change provides for a monthly compliance standard, the Exchange believes it is appropriate for implementation of the proposed rule change to occur on the first trading day of a month. Additionally, the implementation date will provide sufficient time for the Exchange to make any necessary changes to its surveillances with respect to continuous quoting obligations and for Market-Makers to make any system changes in connection with the proposed collective standard.

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.¹² Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)¹³ 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)¹⁴ requirement

¹² 15 U.S.C. 78f(b).

¹³ 15 U.S.C. 78f(b)(5).

¹⁴ Id.

that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The proposed rule change removes impediments to and perfects the mechanisms of a free and open market and a national market system because it is consistent with standards currently in place on other options exchanges. With respect to the application of continuous electronic quoting obligations collectively, the Exchange believes that providing Market-Makers with flexibility to satisfy their continuous electronic quoting obligations collectively across their appointed classes will not diminish Market-Makers' obligations to provide continuous electronic quotes in a significant percentage of series for a significant part of the trading day. With respect to the monthly compliance standard, the Exchange believes that the proposed rule change will enhance compliance efforts by Market-Makers and the Exchange. The Exchange believes that determining compliance with continuous electronic quoting obligations on a monthly basis will prevent fraudulent and manipulative acts and practices and to promote just and equitable principles of trade, because it will increase regulatory efficiency to the benefit of both the Exchange and market participants. The Exchange believes that the proposed rule change will not diminish, and in fact may increase, market-making activity and liquidity on the Exchange by establishing a quoting compliance standard that is reasonable and is already in place on other options exchanges.

CBOE continues to believe that the balance between the obligations imposed on and benefits provided to Market-Makers under the rules is appropriate. The proposed rule change does not diminish any of the obligations imposed on Market-Makers. Rather, it merely changes how the continuous electronic quoting obligation is applied and when the Exchange determines compliance with continuous electronic quoting obligations. The Exchange notes that Market-

Makers are subject to many obligations under the rules, including the obligation to satisfy bid/ask differential requirements, to meet minimum quote size requirements, and to contribute to the maintenance of a fair and orderly market in their appointed classes, which the Exchange believes will ensure continued liquidity on the Exchange. CBOE believes that its proposed rule change is consistent with the Act in that providing flexibility does not detract from the overall market-making obligations of Market-Makers. The proposed rule change better supports a Market-Maker's continuous obligation to engage in dealings for its own account. Accordingly, any benefits of the proposed rule change to provide flexibility to Market-Makers are offset by the continued responsibilities to provide significant liquidity to the market to the benefit of all market 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 applies to all Market-Makers. All Market-Makers may benefit from the flexibility provided by the proposed rule change, which benefit is offset by the continued responsibilities to provide significant liquidity to the market to the benefit of all market participants. The proposed rule change to the compliance standard does not change the obligations imposed on Market-Makers; it merely changes the time at which the Exchange will determine compliance with these obligations. The proposed rule change is substantially similar to rules in place at other options exchanges, which the Exchange believes may enhance, rather than burden, competition among the options exchanges. CBOE is better able to compete for liquidity providers when its Market-Maker obligations are consistent with those of other options exchanges, which may increase competition and liquidity on CBOE. Market participants on

other exchanges are welcome to trade at CBOE if they determine that this proposed rule change has made CBOE more attractive or favorable to them.

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

The Exchange has filed the proposed rule change pursuant to paragraph (A) of section 19(b)(3) of the Exchange Act¹⁵ and Rule 19b-4(f)(6) thereunder.¹⁶ Because the proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days after the date of the filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act¹⁷ and Rule 19b-4(f)(6)(iii) thereunder.¹⁸

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the

¹⁵ 15 U.S.C. 78s(b)(3)(A).

¹⁶ 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6)(iii) requires the Exchange to give the Commission written notice of the Exchange's intent to file the proposed rule change along with a brief description and the text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this pre-filing requirement.

¹⁷ 15 U.S.C. 78s(b)(3)(A).

¹⁸ 17 CFR 240.19b-4(f)(6)(iii).

Commission will institute proceedings to determine whether the proposed rule change should be approved or 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-2014-059 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-2014-059. 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-2014-059 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.¹⁹

Jill M. Peterson,
Assistant Secretary.

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¹⁹ 17 CFR 200.30-3(a)(12).