8011-01p

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-74351; File No. SR-CBOE-2015-021]

February 23, 2015

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to Chicago Board Options Exchange, Incorporated's Order Handling System and Order Management Terminal

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, 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. The Exchange filed the proposal as a "non-controversial" proposed rule change pursuant to Section 19(b)(3)(A)(iii) of the Act[3] and Rule 19b-4(f)(6) thereunder.[4] 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 is proposing to adopt a rule that further describes its existing order handling system (also referred to below as "OHS") and order management terminal (also referred to below as "OMT") operations, and to make corresponding amendments to its opening, automatic execution and complex order processing rules. 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

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

2 17 CFR 240.19b-4.

3 15 U.S.C. 78s(b)(3)(A)(iii).

4 17 CFR 240.19b-4(f)(6).

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 is proposing to adopt new Rule 6.12 to further describe its existing OHS and OMT operations, and to make corresponding amendments to its opening, automatic execution and complex order processing rules (Rules 6.2B, 6.13, and 6.53C, respectively). The Exchange notes that these OHS and OMT operations are currently in use and referenced in the Exchange Rules. The purpose of this rule change is simply to codify further details of the existing operations within the Exchange Rules.

Background

The CBOE Hybrid System[5] is a trading platform that allows automatic executions to

5 The CBOE "Hybrid System" or "Hybrid Trading System" refers to the Exchange's trading platform that allows Market-Makers to submit electronic quotes in their appointed classes. The "Hybrid 3.0 Platform" is an electronic trading platform on the Hybrid Trading System that allows one or more quoters to submit electronic quotes which represent the aggregate Market-Maker quoting interest in a series for the trading crowd. Classes authorized by the Exchange for trading on the Hybrid Trading System shall be referred to as Hybrid classes. Classes authorized by the Exchange for trading on the Hybrid 3.0 Platform shall be referred to as Hybrid 3.0 classes. References to "Hybrid,"

occur electronically and open outcry trades to occur on the floor of the Exchange. To operate in this "hybrid" environment, the Exchange has made available to Trading Permit Holders ("TPHs") a dynamic order handling system, also referred herein as OHS, that has the capability to route orders to the Hybrid System for automatic execution and book entry, to PAR workstations located in the trading crowds for open outcry and other manual handling by TPHs and Exchange PAR Officials, 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. Thus, the OHS provides TPHs with some flexibility to determine how to process their orders in the CBOE Hybrid System.

The Exchange believes these routing parameters assist with the maintenance of a fair and orderly market and help to mitigate potential risks associated with orders executing at potentially erroneous prices or inconsistent with a particular investment strategy by routing certain orders to a PAR workstation or a booth order management terminal for manual handling based on parameters determined by the Exchange under Rule 6.2B, 6.13 or 6.53C, by routing certain orders to an order management terminal based on parameters prescribed by the Exchange, by routing certain orders to an order management terminal or a PAR workstation or for electronic process, based on parameters prescribed by the order entry firm itself, and by routing certain orders to an order management terminal in the event of certain Exchange system disruptions or malfunctions. The order handling system also permits orders to be routed from a PAR workstation to an order management terminal (and vice versa) and from a PAR workstation or an order management terminal to the Hybrid System for automatic execution or book entry. The

---

"Hybrid System," or "Hybrid Trading System" in the Exchange's Rules shall include all platforms unless otherwise provided by rule. See, e.g., Rule 1.1(aaa).

Exchange also views the order handling system as an important tool to assist order entry firms in their ability to efficiently manage, process and execute orders in a "hybrid" trading environment. The Exchange believes this, again, promotes fair and orderly markets, as well as assists the Exchange in its ability to effectively attract order flow and liquidity to its market, and ultimately benefits all CBOE TPHs and all investors.

Regarding booth routing parameters in particular, an order may route to an order management terminal generally located in a booth depending on various circumstances. One such set of circumstances pertains to automatic execution/book "kick-outs." In that regard, the electronic processes under Rules 6.2B (pertaining to opening transactions), 6.13 (pertaining to simple orders) and 6.53C (pertaining to complex orders), provide that an order that is not eligible for automatic execution or book entry due to certain Exchange-defined parameters may route to PAR or, at the order entry firm's discretion, to the order entry firm's booth.[6] In the event an order is not eligible to route to PAR, the order would be cancelled.[7] Once routed to a PAR

---

6 For example, under Rule 6.13(b)(v), a marketable order may not be eligible for automatic execution because the execution would follow an initial partial execution on the Exchange and would be at a subsequent execution price that is not within an acceptable tick distance from the initial execution (the "acceptable tick distance" is determined by the Exchange on a series-by-series and premium basis and may not be less than 2 minimum increment ticks). Under this "drill through" provision, for example, if the acceptable tick distance in a series quoted in $0.01 increments is set at 3 ($0.03), then a marketable buy order that received an initial partial execution at $1.20 would not automatically execute at a subsequent price of $1.25 (which is $0.02 beyond the acceptable tick distance). In such a circumstance, the execution of the order would be suspended and any remaining portion would be exposed for price improvement pursuant to the HAL process in Rule 6.14A, Hybrid Agency Liaison, using the acceptable tick distance as the exposure price. If a quantity remains at the conclusion of the HAL process, the remaining quantity will route to PAR or, at the order entry firm's discretion, to the order entry firm's booth, so that the order can be manually addressed. (In the event an order is not eligible to route to PAR, the order will be cancelled).

7 For example, assume an order entry firm has chosen to route its orders that are not eligible for automatic execution to a PAR workstation (and the order entry firm has also not specified that its orders can route to a booth order management terminal if PAR is

workstation or a booth, an order can be manually addressed (e.g., an individual might determine to resubmit the order to the Hybrid System for automatic execution, route the order from a booth to a PAR workstation, represent the order in open outcry, cancel the order, etc.). Thus, as part of establishing their connectivity for routing orders to the Exchange, order entry firms designate PAR workstations and/or booth order management terminals as the destination for their automatic execution/book kick-outs.

Apart from the foregoing processes for automatic execution/book kick-outs, orders may be routed through the order handling system to an order management terminal under various other circumstances. For instance, orders may route to an order management terminal from a PAR workstation. In addition, certain orders may route directly from an order entry firm to an order management terminal for manual handling based on certain limit order price parameter settings established by the Exchange[8] or based on certain other parameters established by the

---

unavailable). With this configuration, if an order is routed by that firm to the CBOE Hybrid System but the order is not eligible for automatic execution or book entry (e.g., because an incoming order is marketable and would execute at a price outside an acceptable price range under Rule 6.13(b)(v)), then: (i) the order would route to a PAR workstation so the order can be manually addressed, or (ii) if it is not eligible to route to PAR (e.g., because the particular order type is not eligible for PAR and the order entry firm has not specified that its orders can route to a booth if PAR is unavailable), then the remaining balance of the order will be cancelled.

8 Currently the Exchange has determined for all classes where the limit order price parameters are activated, except those noted below, that the limit order price parameters would be applied for the series within each class such that the Exchange would not accept the following simple limit orders for execution: (i) if the market quote is less than or equal to $3, limit orders to buy priced more than $0.50 above the offer and limit orders to sell priced more than $0.50 below the bid; (ii) if the market quote is greater than $3 and less than or equal to $10, limit orders to buy priced more than $1.00 above the offer and limit orders to sell priced more than $1.00 below the bid; (iii) if the market quote is greater than $10 and less than or equal to $30, limit orders to buy priced more than $1.50 above the offer and limit orders to sell priced more than $1.50 below the bid; (iv) if the market quote is greater than $30 and less than or equal to $50, limit orders to buy priced more than $2.00 above the offer and limit orders to sell priced more than $2.00 below the bid; or (v) if the market quote is equal to or greater than $50, limit orders to buy priced

more than $3.00 above the offer and limit order to sell priced more than $3.00 below the bid. For the same classes, the Exchange has determined that limit orders received before a series is opened (including before a series is opened following a halt) will be checked against the previous trading day's closing price using the same parameters noted above. Exchange Market Maker and away Market Maker orders received pre-open are excluded from this pre-opening aspect of the limit order price parameters. The foregoing limit order price parameters , which are referred to as the "Price Check Level A" or "Level A" settings, are in effect in all classes except option classes AAPL, DJX, NDX, OEX, RUT, SPX (which includes symbols SPX, SPXW and SPXQ), SPXpm, SPY andSPY7. There is no limit order price parameter currently activated for option class AAPL. (According to the Exchange, volume for options class AAPL is higher and trading is more volatile, while the price of the underlying stock is higher (e.g., Apple Inc. closed at $94.72 on July 22, 2014). The Exchange believes that application of the limit order price parameter in these circumstances may serve as more of a hindrance to the orderly processing orders (e.g., application of the parameter may result in an inordinate number of orders being excepted from automated process and instead routing for manual handling) and, as a result, has determined to not apply the parameter to option class AAPL for the time being.) However, the Exchange may evaluate whether to apply the parameter to the option class and any determination to do so would be announced via Regulatory Circular.

For the remaining seven classes, the limit order price parameter levels for the premium ranges noted above are $1.00, $2.00, $3.00, $4.00 and $6.00, respectively. These limit order price parameters are referred to as the "Price Check Level B" or "Level B" settings. The Exchange has determined to apply the settings to immediate-or-cancel orders in option classes SPX (which includes symbols SPX, SPXW and SPXQ), SPXpm and SRO. For all other classes where the limit order price parameter is activated, it is not applied to immediate-or-cancel orders. For complex limit orders, the limit order price parameters are the same as the parameters for simple orders, but the complex order parameter levels are based on the derived net market (as opposed to an individual bid or offer).

See CBOE Regulatory Circular RG13-145, which is available at http://www.cboe.com/publish/RegCir/RG13-145.pdf.

The senior official in the Help Desk or two Floor Officials might also widen or inactivate one or more of these price check parameters for simple and/or complex orders on an intra-day basis in the interest of a fair and orderly market. For example, if an underlying stock is high priced or volatile and is experiencing significant price movement and the existing parameters would result in an inordinate number of limit orders not being accepted, the senior official in the Help Desk may determine to widen the parameters on an intra-day basis in the overlying or related options series. As another example, if the overall market is experiencing significant volatility, the senior official in the Help Desk or two Floor Officials may determine to widen the parameters for a group of series or classes. In that regard, the Exchange has determined that on any trading day where the front-month E-mini S&P 500 Futures (symbol ES/1) are trading more than 20 points above or below the previous day's closing values by 8:00 a.m. (all times noted are Central Time), the Exchange will widen the Price Check Level A settings to the Price Check Level B settings for the trading day for all classes where the limit order price order entry firm itself.[9] Orders may also route to a booth order management terminal in the event of certain system disruptions or malfunctions (e.g., if the Exchange's experiences a system outage that prevents orders from routing to a particular PAR workstation, the order will route to the firm's next available alternate destination listed in the order handling system, which is usually defined as an order management terminal).[10] Thus, as part of establishing their

---

check is activated at the Level A setting (referred to herein as the "Standing Intraday Relief Condition"). See CBOE Regulatory Circular RG13-145. The next trading day, the parameter levels for those classes would revert back to the normal Level A setting, unless the E-mini S&P 500 Future is more than 20 points above or below the previous day's closing values by 8:00 a.m.

Example of Standing Intraday Relief Condition: If on Monday the E-mini S&P 500 Futures close at 1700 and by 8:00 a.m. on Tuesday the E-mini S&P 500 Future is trading at 1730 (30 points above the prior day's close of 1700), then the Exchange would adjust the limit order price parameter settings from Level A to Level B in all classes where Level A is the normal setting). If the E-mini S&P 500 Futures close on Tuesday at 1725 and by 8:00 a.m. on Wednesday are trading at 1720 (only 5 points below the prior day's close of 1725), then the limit order price parameter settings would revert back to the Level A settings that were in place on Monday. However, if by 8:00 a.m. on Wednesday the E-mini S&P 500 Futures are trading at 1700 (25 points below the prior day's close of 1725), then the limit order price parameter settings would remain at the Level B settings that were in place on Tuesday.)

The Exchange notes that these examples are non-exhaustive and for illustrative purposes only. (For example, see also CBOE Regulatory Circular RG14-019, which is available at http://www.cboe.com/publish/RegCir/RG14-019.pdf and which sets forth limit order price parameters settings for certain option classes on volatility index product settlement days.) The Exchange also notes that it may determine for the parameters to differ among classes and between pre-open and intra-day.

9 For example, a firm might establish routing parameters so that all its orders, or a subset of orders that exceed certain size, price or other parameters, submitted to the Exchange order handling system route directly to a booth OMT (while other orders might route directly to a PAR workstation or for electronic processing).

10 The Exchange notes that CBOE also utilizes the OMT technology as a back-up in the event of a system failure, malfunction or other issue where an order does not route to an OMT. In these circumstances where an order(s) fails to route to an OMT, the order would route to an Exchange Help Desk OMT. Once on the Exchange Help Desk terminal, orders with an immediate-or-cancel ("IOC") contingency are manually cancelled and all other orders are manually routed by the Help Desk to the respective firm's OMT. To be clear, the use of the Help Desk terminal is a back-up, safety feature that is designed to assist the Exchange in maintaining an orderly market. The back-up

connectivity for routing orders to the Exchange, order entry firms designate booth order management terminals as a destination for routes from PAR, direct routes from an order entry firm due to Exchange settings and/or optional order entry firm settings, and routes due to Exchange system disruption or malfunction.

When it comes to selecting an order management terminal, some order entry firms elect to route orders to terminals located in their own booths on the floor, others elect to route orders to terminals located in another TPH's booth, and still others a combination of the foregoing. For example, a firm that only trades remotely and does not maintain a physical presence on the Exchange trading floor may elect to route its orders to one or more TPHs' booth order management terminals, or a firm might elect to have all equity option orders route to its own booth order management terminal and all index option trades route to another TPH's booth order management terminal because the firm does not wish to maintain a physical presence on the floor for index trades. A firm may also elect to route orders to another TPH's booth order management terminal because the firm may have a large number of orders to address or is experiencing system issues and has designated the other TPH's booth as a back-up.

Proposal

While there are various references to the Exchange's order routing system and order management terminal functions throughout the Exchange Rules (see, e.g., Rules 6.2B, 6.8B, 6.13, 6.53C), the Exchange believes it would be useful to have a more detailed description of the functionality within the rule text. Therefore, the Exchange is proposing to adopt new Rule 6.12 and amend existing Rules 6.2B, 6.13 and 6.53C to include additional information about the foregoing OHS and OMT functionality. These changes are intended to more fully describe the

terminal is used by the Exchange for all order entry firms' and Trading Permit Holders' orders.

existing operation of the routing parameters and conditions necessary for an order entry firm to elect to route orders to an order management terminal.

Proposed Rule 6.12 will include an introductory paragraph indicating that the rule describes the process for routing orders through the Exchange's OHS, which is available for classes designated for trading on the CBOE Hybrid System. The introduction will also indicate that the OHS is a feature within the Hybrid System to route orders for automatic execution, book entry, open outcry, or further handling by a broker, agent, or PAR Official, in a manner consistent with Exchange Rules and Section 6(b) of the Act.[11]

Paragraph (a) of proposed Rule 6.12 includes a general description of the OHS's existing parameters for routing orders to OMTs. The proposed text provides that orders may route through the OHS to an OMT designated by an order entry firm in any of the circumstances described below. (The particular routing designations may be established based on various parameters established by the Exchange or order entry firm, as applicable.)

- <u>AutoEx and Book Kick-Outs:</u> Under Rules 6.3B, 6.13 and 6.53C, orders or the remaining balance of orders initially routed from an order entry firm for electronic processing that are not eligible for automatic execution or book entry will by default route to a PAR workstation designated by the order entry firm. If an order entry firm has not designated a PAR workstation or if a PAR workstation is unavailable, the remaining balance will route to an OMT designated by the firm. If it is not eligible to route, the remaining balance of the order will be returned to the order entry firm.
- <u>OMT/PAR Workstation Routing:</u> Orders may be routed back and forth between an OMT and a PAR workstation by TPHs. Orders may also be routed from a PAR

[11] 15 U.S.C. 78f(b).

workstation to an order management terminal by a PAR Official based on instructions from the TPH or if the PAR Official is unable to book or execute the order from, or maintain the order on, the PAR workstation.

- Limit Order Price Parameter for Simple Orders: Limit orders will route directly from an order entry firm to an OMT designated by the order entry firm when initially routed to the Exchange if: (i) prior to the opening (including before a series is opened following a halt),[12] the order is to buy at more than an acceptable tick distance above the Exchange's previous day's close or the order is to sell at more than an acceptable tick distance below the Exchange's previous day's close (not applicable to Exchange Market-Makers or away Market-Makers),[13] or (ii) once a series has opened, the order is to buy at more than an acceptable tick distance above the disseminated Exchange offer or the order is to sell at more than an acceptable tick distances below the disseminated Exchange bid. For purposes of this provision, an acceptable tick distance or "ATD" will be determined by the Exchange on a series by series and premium basis and announced to TPHs via Regulatory Circular, and shall be no less

12 This includes halts that may occur at any time after the opening of trading on a particular trading day. The Exchange notes that this is the manner in which the limit order price parameter functionality currently operates. The Exchange believes that this functionality provides an additional safeguard to consider the reasonableness of limit order pricing prior to a reopening following a trading halt.

13 This parameter for limit orders received prior to the opening (including before a series is opened following a halt) is not applicable to limit orders of Exchange Market-Makers and away Market-Makers. The Exchange believes that Market-Makers actively evaluate the pre-opening market and utilize their own risk management parameters when entering, maintaining and cancelling orders prior to the opening, minimizing the likelihood of a Market-Maker order resulting from an error from being entered and continuing to rest prior to the opening of trading. In that regard, while the Exchange believes that the application of its limit order price parameters serve to promote a fair and orderly market, the parameters are not a substitute for a broker-dealer's compliance with Rule 15c3-5 under the Act, 17 CFR 240.15c3-5 (commonly referred to as the "Market Access Rule").

than 5 minimum increment ticks. The Exchange may also determine on a class by class basis and announce via Regulatory Circular whether to apply the parameters in (i) and/or (ii) above to immediate-or-cancel orders.[14] In addition, the senior official on the Exchange Help Desk[15] or two Floor Officials may widen or inactivate one or more of the applicable ATD parameter settings on an intra-day basis in the interest of a fair and orderly market.[16] If a limit order is routed to an OMT because the ATD has not been met, the order can be manually addressed (e.g., an individual might determine to route the order to the Hybrid System for automatic execution or book entry (and the limit order price parameter would not be applied for such routing),

---

14 See note 8, supra, for current parameter settings.

15 The Help Desk is sometimes referred to elsewhere within the Exchange Rules as the "Control Room" and these two terms are used interchangeably. For consistency, the Exchange is proposing to change a reference in Rule 6.13 from the "Control Room" to the "Exchange Help Desk."

16 Under proposed Rule 6.12.01, (i) notification of such intra-day relief will be announced as soon as reasonably practical via verbal message to the trading floor, OMT message to TPH organizations on the trading floor, and electronic message to TPHs that request to receive such messages; (ii) such intra-day relief will not extend beyond the trade day on which it is granted, unless a determination to extend such relief is announced to TPHs via Regulatory Circular; and (iii) the Exchange will make and keep records to document all determinations to grant intra-day relief under this Rule, and shall maintain those records in accordance with Rule 17a-1 under the Exchange Act. The Exchange notes that conditions when the Standing Intraday Relief will be instituted and the particular form of relief have been announced via Regulatory Circular. See note 8, supra. The announcement of the pre-established conditions and relief is intended to serve the circular notification requirement and, as such, a separate circular would not be issued if this relief is instituted over multiple days. However, if the Exchange would determine to modify the conditions for Standing Intraday Relief, then the Exchange would announce those changes by issuing another Regulatory Circular.

The Exchange also notes that the OMT messaging is now used in place of former printer messaging. Therefore, for consistency, the Exchange is proposing to update a reference in Rule 6.13 from "printer message" to "OMT message." The Exchange is also notes that the verbal messages to the trading crowds are announced over a speaker system which can be heard in the particular trading crowd as well as the trading floor. Therefore, for consistency, the Exchange is proposing to update a reference in Rule 6.13 from "trading crowd" to "trading floor."

route the order from a booth to a PAR workstation, represent the order in open outcry, cancel the order, etc.).[17]

- Limit Order Price Parameter for Complex Orders: Under this parameter, which is comparable to the parameter applicable to simple orders described above, incoming limit priced complex orders will route directly from an order entry firm to an OMT designated by the order entry firm if: (i) prior to the opening (including before a series is opened following a halt), the order is priced at a net debit that is more than an acceptable tick distance above the derived net market using the Exchange's previous day's close in the individual series legs comprising the complex order or priced at a net credit that is more than an acceptable tick distance below the derived net market using the Exchange's previous day's close in the individual series legs comprising the complex order (such ATD will be as determined by the Exchange on a class by class and net premium basis and announced via Regulatory Circular);[18] or (ii) once a series has opened, the order is priced at a net debit that is more than an acceptable tick distance above the opposite side derived net market using the Exchange's best bid or offer in the individual series legs comprising the complex order or priced at a net credit that is more than an acceptable tick distance below the opposite side derived net market using the Exchange's best bid or offer in the individual series legs comprising the complex order (such ATD will be as determined by the Exchange on a class by class and net premium basis and announced via

---

17 The limit order price parameter will take precedence over another routing parameter to the extent that both are applicable to an incoming limit order.

18 Similar to simple orders, this parameter for limit priced complex orders received prior to the opening is not applicable to limit orders of Exchange Market-Makers and away Market-Makers. See, e.g., note 13, supra.

Regulatory Circular). The Exchange may determine on a class by class basis and announce via Regulatory Circular whether to apply the parameters in (i) and/or (ii) above to immediate-or-cancel complex orders (similar to the discussion above for simple orders). The Exchange also notes that the limit order price parameter is not applicable to stock-option orders.[19] Similar to simple orders, the ATD for the limit order price parameter will be no less than 5 minimum net price increment ticks (where the "minimum net price increment" is the minimum increment for net priced bids and offers for the given complex order strategy). For example, if the minimum net price increment for complex orders in a given series in a class is $0.01, then the ATD would be no less than $0.05 (5 X $0.01). If the minimum net price increment is $0.05, then the ATD would be no less than $0.25 (5 X $0.05). Also similar to simple orders, the senior official on the Exchange Help Desk or two Floor Officials may widen or inactivate one or more of the applicable ATD parameter settings for complex orders on an intra-day basis in the interest of a fair and orderly market.[20]

---

19 Stock-options orders are excluded from the calculation because the individual component stock leg is not traded on the Exchange and, as a result, calculation of a derived net market by the Exchange's automated system would be a more complicated function. If in the future the Exchange would decide to enhance the limit order price parameter functionality to address stock-option orders, the Exchange would file a rule change to address stock-option orders.

20 See also notes 8 and 16, supra. In addition, the limit order price parameter takes precedence over other complex order routing parameters to the extent that others are applicable to an incoming limit order. Once routed to an OMT, an order can be manually addressed (e.g., an individual might determine to resubmit the order to the Hybrid System for automatic execution or book entry (and the limit order price parameter would not be applied to such routing), route the order from a booth to a PAR workstation, represent the order in open outcry, cancel the order, etc.)

- Direct Routing: Orders may route directly from an order entry firm to an OMT (or to a PAR workstation or to the Hybrid System for electronic processing) based on parameters prescribed by the order entry firm itself.[21]
- System Disruptions or Malfunctions: Orders will route to an OMT designated by the order entry firm or TPH, or a terminal designated and maintained by the Exchange as a back-up to order entry firms' and TPHs' designated order management terminals, in the event of certain system disruptions or malfunctions that affect the ability of orders to reach or be processed at their intended destination. For example, if an order cannot route to a PAR workstation due to a malfunction of the PAR workstation, the order will route to an OMT either automatically or by Exchange personnel, as necessary.[22]

Paragraph (b) of proposed Rule 6.12 would provide that each order entry firm must designate an OMT(s) for receiving routed orders and would reflect the Exchange's current practice that permits an order entry firm to elect to have its orders routed to a booth OMT operated by the order entry firm itself and/or a booth OMT operated by another TPH.

In conjunction with the foregoing, various corresponding changes to Rules 6.2B, 6.13 and 6.53C are being proposed. In particular, existing references in the rule text to routing orders to "… PAR or, at the order entry firm's discretion, to the order entry firm's booth [and, if] an order is not eligible to route to PAR, then the remaining balance will be cancelled" (or substantially similar wording) will be replaced with references to routing orders "… via the order handling system pursuant to Rule 6.12" (or substantially similar wording).) [sic] Given the above-described proposal to further describe the routing process in proposed Rule 6.12 and to include

---

21 See note 9, supra.

22 See pages 30-32, supra, and surrounding discussion.

cross-references to proposed Rule 6.12 within Rules 6.2B, 6.13 and 6.53C, the Exchange does not believe it is necessary to continue to include the routing process descriptions within Rules 6.2B, 6.13 and 6.53C.

The Exchange is proposing various miscellaneous changes to the existing text of Rule 6.13. In particular, the Exchange is proposing to include a title for each type of price check parameter within the existing rule text (i.e., the existing market width and drill through price parameters). The addition of these titles is non-substantive and is intended for ease of reference only. In addition, the existing text in Rule 6.13(b)(v)(A) provides that the "acceptable price range" or "APR" for the national best bid and national best offer width price check parameter (for market orders and/or marketable limit orders) shall be determined by the Exchange on a class by class basis, and also indicates elsewhere in the existing rule text that the parameters for each class are applied on a series by series basis. The Exchange is proposing to replace this class by class reference in Rule 6.13(b)(v)(A) with series by series for consistency. The existing rule text also provides that, as soon as reasonably practicable, the senior official in the Help Desk or two Floor Officials may grant intra-day relief by widening the APR and ATD parameter settings for one or more option series and that notification of intraday relief will be announced via verbal message to the trading crowd, printer message to TPH organizations on the trading floor, and electronic message to TPHs that request to receive such messages. The Exchange is proposing to amend this provision to replace references from "trading crowd" to "trading floor" and from "printer message" to "OMT message."[23] The Exchange is also proposing to make clear that the relief can be granted intra-day by widening or inactivating the applicable APR and/or ATD setting in the interest of a fair and orderly market. The Exchange believes including the

[23] See note 16, supra.

reference to inactivating the applicable settings is not substantive because an applicable APR or ATD parameter could be widened to such a level that it would be in effect inactive. Similar to proposed Rule 6.12.01, the Exchange is also proposing to provide within the text of Rule 6.13(b)(v) that the intra-day relief granted in the interest of a fair and orderly market by the senior official in the Help Desk or two Floor Officials will not extend beyond the trade day on which it is granted, unless a determination to extend such relief is announced to TPHs via Regulatory Circular. The Exchange is also proposing to provide within the rule text that the Exchange will make and keep records to document all determinations to grant intra-day relief under Rule 6.13(b)(v), and shall maintain those records in accordance with Rule 17a-1 under the Act.[24] The rule text will also provide that the Exchange will periodically review determinations to grant intra-day relief for consistency with the interest of a fair and orderly market. The Exchange is also proposing to make clear that, for proposes of the drill through price parameters, if an order has already been subject to the HAL process or if the order is not eligible for HAL, then the remaining quantity of the order will route via the OHS pursuant to proposed Rule 6.12.

Finally, the Exchange is proposing a miscellaneous change to Rule 6.53C.08 (pertaining to complex order price check parameters) to specifically identify the price check parameters that are not applicable to stock-option orders in the introductory text to this provision. The particular parameters to which stock-option orders may be subjected are already identified within the rule

---

24 17 CFR 240.17a-1. The Exchange notes that determinations to grant intra-day relief under Rule 6.13(b)(v) will be made in compliance with the provisions of the Act and the rules thereunder, including, but not limited to, the requirements in Section 6(b)(5) of the Act, 15 U.S.C. 78f(b), that the rules of a national securities exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

text. This proposed change is simply to include a list of those parameters which are not applicable to stock-option orders in the introductory paragraph for ease of reference.[25]

2. Statutory Basis

The proposed rule change is consistent with Section 6(b) of the Act[26] in general and furthers the objectives of Section 6(b)(5) of the Act[27] in particular in that it should promote just and equitable principles of trade, serve to remove impediments to and perfect the mechanism of a free and open market and a national market system, and protect investors and the public interest, and it is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The Exchange views these routing parameters as important tools that assist order entry firms in their ability to efficiently manage, process and execute orders in a "hybrid" trading environment. In addition, the Exchange believes these routing parameters assist with the maintenance of fair and orderly markets and help to mitigate potential risks associated with orders executing at potentially erroneous prices or inconsistent with a particular investment strategy by routing certain orders to PAR or an OMT for manual handling based on parameters determined by the Exchange under Rule 6.2B, 6.13 or 6.53C, by routing certain orders directly from an order entry firm to an order management terminal based on parameters prescribed by the Exchange (and announced via regulatory circular) or to an order management terminal or PAR workstation or for electronic processing based on parameters prescribed by the order entry firm itself, and by routing certain orders to an OMT in the event of certain Exchange system

25 Specifically, paragraphs (b)(credit-to-debit parameters), (c)(same expiration strategy parameters), and (e)(percentage distance parameters) of Rule 6.53C.08 are not applicable to stock-option orders.

26 15 U.S.C. 78f(b).

27 15 U.S.C. 78f(b)(5).

disruptions or malfunctions. The OHS also permits orders to be routed from a PAR to an OMT (and vice versa) and from either PAR or an OMT to the Hybrid System for automatic execution or book entry. In addition, the Exchange believes that the routing parameters generally are not unfairly discriminatory because they are made available to all order entry firms on an equal basis. Further, at discussed above, they are intended to assist order entry firms in their ability to efficiently manage, process and execute orders in a "hybrid" trading environment, which promotes fair and orderly markets, as well as assists the Exchange in its ability to effectively attract order flow and liquidity to its market, and ultimately benefits all CBOE TPHs and all investors.

Furthermore, the Exchange believes the proposed rule change furthers the objective of Section 6(b)(5) of the Act in that it permits the Exchange to address the entry of simple and complex limit orders that are priced significantly away from the market that may likely have resulted from human or operational error. By being able to quickly and efficiently address orders that likely resulted from such error, the proposed use of the limit order price parameter checks would promote a fair and orderly market. Additionally, by having the flexibility to determine the series or classes where the limit order price parameter checks would be applied (or not applied) and the levels at which the ATD settings would be applied, and to grant relief on an intra-day basis, the Exchange is able to effectively structure and efficiently react to particular option characteristics and market conditions - including (without limitation) price, volatility, and significant price movements - which contributes to its ability to maintain a fair and orderly market. Accordingly, the Exchange believes that this proposal is designed to promote just and equity principles of trade, remove impediments to, and perfect the mechanism of, a free and open market.[28]

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange 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 Exchange believes that the proposed rule change will promote competition in that the routing parameters assist with the maintenance of a fair and orderly market and help to mitigate potential risks associated with orders executing at potentially erroneous prices or inconsistent with a particular investment strategy by routing certain orders based on various parameters prescribed by the Exchange or the order entry firm itself. The Exchange also views these routing parameters as important tools to assist order entry firms in their ability to efficiently manage, process and execute orders in a "hybrid" trading environment. The Exchange believes this, again, promotes fair and orderly markets, as well as assists the Exchange in its ability to effectively attract order flow and liquidity to its market, and ultimately benefits all CBOE TPHs

28 The Exchange notes that limit order price parameters are in effect in all classes except options on Apple Inc. (AAPL). There is no limit order price parameter currently activated for option class AAPL. See CBOE Regulatory Circular RG13-145, which is available at http://www.cboe.com/publish/RegCir/RG13-145.pdf. According to the Exchange, volume for options class AAPL is higher and trading is more volatile, while the price of the underlying stock is higher (e.g., Apple Inc. closed at $128.715 on February 18, 2015). The Exchange believes that application of the limit order price parameters in these circumstances may serve as more of a hindrance to the orderly processing orders (e.g., application of the parameters may result in an inordinate number of orders being excepted from automated process and instead routing for manual handling) and, as a result, has determined to not apply the parameter to option class AAPL for the time being. The Exchange believes that because of these factors different treatment of the AAPL class is warranted. However, the Exchange may evaluate whether to apply the parameters to the option class and any determination to do so would be announced via Regulatory Circular.

and all investors. Thus, the Exchange does not believe the proposal creates any significant impact on competition.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

No written comments were solicited or received with respect to the proposed rule change.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Because the foregoing proposed rule change does not:

A. significantly affect the protection of investors or the public interest;

B. impose any significant burden on competition; and

C. become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act[29] and Rule 19b-4(f)(6)[30] thereunder.

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 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:

---

29 15 U.S.C. 78s(b)(3)(A).

30 17 CFR 240.19b-4(f)(6).

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-2015-021 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-2015-021. 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, 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-2015-021 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.[31]

Jill M. Peterson,
Assistant Secretary.

[FR Doc. 2015-04067 Filed 02/26/2015 at 8:45 am; Publication Date: 02/27/2015]

[31] 17 CFR 200.30-3(a)(12).