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SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-79610; File No. SR-CBOE-2016-090)

December 20, 2016

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to Compression of S&P 500(R) Index Options Positions

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")[1] and Rule 19b-4 thereunder,[2] notice is hereby given that on December 15, 2016, Chicago Board Options Exchange, Incorporated ("CBOE" or the "Exchange") filed with the Securities and Exchange Commission ("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 adopt Rule 6.56 regarding "compression forums." 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 Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of

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

2 17 CFR 240.19b-4.

the most significant aspects of such statements.

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

1. Purpose

The Exchange proposes to adopt Rule 6.56 (Compression Forums) to describe the Exchange's "compression forum" process. Under proposed Rule 6.56, the Exchange would facilitate closing-only transactions in series of S&P 500(R) Index ("SPX") options on the final three trading days of each calendar month as described below.

Background

The Exchange's proposal is intended to provide a procedure for Trading Permit Holders ("TPHs") to efficiently reduce open positions in series of SPX options at the end of each calendar month in order to mitigate the effects of capital constraints on market participants and help ensure continued depth of liquidity in the SPX options market.

SEC Rule 15c3-1 (Net Capital Requirements for Brokers or Dealers) ("Net Capital Rules") requires that every registered broker-dealer maintain certain specified minimum levels of capital.[3] The Net Capital Rules are designed to protect securities customers, counterparties, and creditors by requiring that broker-dealers have sufficient liquid resources on hand, at all times, to meet their financial obligations. Notably, hedged positions, including offsetting futures and options contract positions, result in certain net capital requirement reductions under the Net Capital Rules.[4]

All Options Clearing Corporation ("OCC") clearing members are subject to the Net

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[3] 17 CFR §240.15c3-1.

[4] In addition, the Net Capital Rules permit various offsets under which a percentage of an option position's gain at any one valuation point is allowed to offset another position's loss at the same valuation point (e.g. vertical spreads).

Capital Rules. However, a subset of clearing members are subsidiaries of U.S. bank holding companies, which, due to their affiliations with their parent U.S. bank holding companies, must comply with additional bank regulatory capital requirements pursuant to rulemaking required under the Dodd–Frank Wall Street Reform and Consumer Protection Act.[5] Pursuant to this mandate, the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have approved a comprehensive regulatory capital framework for subsidiaries of U.S. bank holding company clearing firms.[6] Generally, these rules impose higher minimum capital requirements, more restrictive capital eligibility standards, and higher asset risk weights than were previously mandated for clearing members that are subsidiaries of U.S. bank holding companies under the Net Capital Rules. Furthermore, the new rules do not permit deductions for hedged securities or offsetting options positions.[7] Rather, capital charges under these standards are based on the aggregate notional value of short positions regardless of offsets. As a result, Clearing Trading Permit Holders ("CTPHs") generally must hold substantially more bank regulatory capital than would otherwise

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5 H.R. 4173 (amending section 3(a) of the Act) (15 U.S.C. § 78c(a))).

6 12 CFR §50; 79 FR 61440 (Liquidity Coverage Ratio: Liquidity Risk Measurement Standards).

7 Many options strategies, including relatively simple strategies often used by retail customers and more sophisticated strategies used by market-makers and institutions, are risk-limited strategies or options spread strategies that employ offsets or hedges to achieve certain investment outcomes. Such strategies typically involve the purchase and sale of multiple options (and may be coupled with purchases or sales of the underlying assets), executed simultaneously as part of the same strategy. In many cases, the potential market exposure of these strategies is limited and defined. Whereas regulatory capital requirements have historically reflected the risk-limited nature of carrying offsetting positions, these positions may now be subject to large regulatory capital requirements. Various factors, including administration costs; transaction fees; and limited market demand or counterparty interest, however, discourage market participants from closing these positions even though many market participants likely would prefer to close the positions rather than carry them to expiration.

be required under the Net Capital Rules. The impact of these regulatory capital rules are compounded in the SPX options market due to the large notional value of SPX contracts.

The Exchange believes that these regulatory capital requirements could impede efficient use of capital and undermine the critical liquidity role that Market-Makers play in the SPX options market by limiting the amount of capital CTPHs can allocate to clearing member transactions. Specifically, the rules may cause CTPHs to impose stricter position limits on their clearing members. These stricter position limits may impact the liquidity Market-Makers might supply in the SPX market, and this impact may be compounded when a CTPH has multiple Market-Maker client accounts, each having largely risk-neutral portfolio holdings.[8]

The Exchange believes that permitting TPHs to reduce open interest in offsetting SPX options positions would have a beneficial effect on the bank regulatory capital requirements of CTPHs' parent companies without adversely affecting the quality of the SPX options market. Accordingly, the Exchange seeks to codify a process in the rules to encourage the compression of open interest in SPX at the end of each calendar month. The Exchange believes that periodic reductions in open interest would likely contribute additional liquidity and continued competitiveness to the SPX market. In addition, the Exchange believes that the proposed rule change will promote more efficient capital deployment in light of the regulatory capital requirements rules and help ensure depth of liquidity in the SPX options market.

Proposal

Currently, TPHs seeking to reduce open interest in SPX options for regulatory capital purposes could simply trade out of positions at the end of each month as they would trade any

8 Several TPHs have indicated to the Exchange that these rules could hamper their ability to provide consistent liquidity in the SPX options market unless they reduce their positions in SPX by the end of the year.

open positions. However, the Exchange believes that wide-scale reduction of open interest in SPX options in such a manner is burdensome. First, the range of positions held by different TPHs in SPX varies greatly. In some cases, a TPH may hold positions in thousands of series of SPX. With no way of efficiently determining whether opposite (long/short) open interest is present in the trading crowd or whether there is counterparty interest for a particular closing transaction across multiple series, in order to close a position, a TPH would need to represent an order and wait for a response, if any. Second, given that there are more than 10,000 series of SPX held by numerous TPHs, attempting to close positions during normal trading is inefficient and sometimes ineffective. Accordingly, the Exchange proposes to adopt a procedure to facilitate these types of transactions on the Exchange in proposed Rule 6.56. The Exchange believes that its proposal would allow TPHs seeking to close positions in SPX options to more easily identify counterparty interest and efficiently conduct closing transactions in SPX options on the Exchange without interfering with normal SPX trading.

In general, the process described in proposed Rule 6.56 would permit TPHs to submit lists of open positions to the Exchange that they wish to close against opposing (long/short) positions of other TPHs, which the Exchange would then aggregate into a single list that would allow TPHs to more easily identify those positions with counterparty interest on the Exchange. The Exchange would then provide a forum in the SPX trading crowd during which TPHs could conduct closing-only transactions in series of SPX options.

The procedure for conducting a compression forum would be set forth in paragraph (a) to proposed Rule 6.56. Under paragraph (a)(1), prior to the close of Regular Trading Hours on the fourth to last business day of each calendar month, in a manner and format determined by the Exchange, a TPH could provide the Exchange with a list of open SPX options positions with either a required capital charge equal to the minimum capital charge pursuant to the risk-based haircut ("RBH") calculator in OCC's rules[9] or comprised of option series with a delta of ten[10] (i.e. 0.1 or -0.1) or less that it would like to close during the compression forum for that calendar month ("compression-list positions"). Compression-list positions may consist of multi-legged

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[9] Under OCC rules, the required capital charge is equal to either the minimum capital charge or an amount equal to the largest potential loss pursuant to OCC's RBH calculator. The RBH methodology may be used to calculate theoretically based capital charges as set forth within the SEC net capital rule http://apps.theocc.com/pmc/pmc.do. For example, a Market-Maker has the following eight-leg position: long 1000 Jan 1000 SPX calls, short 1000 Jan 2000 SPX calls, short 842 Jan 2500 SPX calls, short 89 Jan 2600 SPX calls, long 200 Jan 700 puts, short 200 Jan 750 SPX puts, short 1000 Jan 1000 SPX puts, and long 1000 Jan 2000 SPX puts. Under OCC rules, the minimum capital charge for this position is $128,435. Using the RBH calculator, there is no potential loss that is greater than this amount; in fact, under each of the 10 equidistant theoretical valuation points of the underlying index, this strategy would net a profit. Therefore, the clearing firm incurs a charge of $128,435. However, as the RBH calculator values demonstrate, this is essentially a riskless position for which there is a minimal chance that a theoretical loss of $128,435 could ever occur. Therefore, this position is eligible for submission to the Exchange as a compression-list position, because the OCC theoretical minimum capital charge is larger than any potential loss that may result within the range of an 8% decrease to a 6% increase in the underlying index value. Alternatively, a Market-Maker has the following five-leg strategy position: short 892 Jan 1400 SPX calls, short 80 Jan 1500 SPX calls, long 200 Jan 1950 SPX puts, short 200 Jan 2000 SPX puts, and long 165 Jan 2100 SPX puts. Under OCC rules, the minimum capital charge for this position is $38,425. Using the RBH calculator, an increase in the underlying index value of 6% could cause this position to lose $12,801,718 (which is the highest potential loss under each of the 10 equidistant theoretical valuation points of the underlying index). Because this potential loss is larger than the theoretical minimum charge, the actual capital requirement is this amount of $12,801,718. This position is therefore not eligible for submission to the Exchange as a compression-list position, as there is a risk of a potential large loss on this position.

[10] Delta is the ratio comparing the change in the price of the underlying asset to the corresponding change in the price of a derivative. For example, if a stock option has a delta value of 0.65, this means that if the underlying stock increases in price by $1, the option will rise by $0.65, all else equal. Delta values can be positive or negative depending on the type of option. For example, the delta for a call option always ranges from 0 to 1, because as the underlying asset increases in price, call options increase in price. Put option deltas always range from -1 to 0 because as the underlying security increases, the value of put options decrease. For example, if a put option has a delta of -0.33, if the price of the underlying asset increases by $1, the price of the put option will decrease by $0.33. Generally speaking, an at-the-money option usually has a delta of approximately 0.5 or -0.5.

positions in series of SPX options, which satisfy the conditions set forth in this paragraph of the proposed rule. The Exchange proposes to limit compression-list positions to those positions, the closing of which the Exchange believes would have the greatest impact on bank regulatory capital requirements and which also have little economic risk associated with them.[11] The Exchange believes compression of these positions would improve market liquidity by freeing capital currently tied up in positions for which there is a minimal chance that a significant loss would occur.[12]

Under paragraph (a)(1) to proposed Rule 6.56, TPHs may also permit their CTPHs or the Clearing Corporation to submit a list of these positions to the Exchange on their behalf.[13] The Exchange recognizes that a CTPH or OCC may more easily identify all of the positions that are held across a TPH firm as well as those that will have the largest impact with respect to regulatory capital reductions. The Exchange believes that such assistance would help to facilitate the compression forum process further.

Under paragraph (a)(2) of proposed Rule 6.56, prior to the open of Regular Trading Hours on the third to last business day of each calendar month, the Exchange would make available[14] to all TPHs an aggregate two-sided (long/short) list of compression-list positions for

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11 As further discussed below, positions on this list as well as other open SPX positions may be closed during a compression forum.

12 This definition of compression-list positions is similar to the transaction fee rebate described in SR-CBOE-2015-117, which was adopted for reasons similar to those underlying this proposal. See Securities Exchange Act Release No. 76842 (January 6, 2016), 81 FR 1455 (January 12, 2016) (Notice of Filing and Immediate Effectiveness of a Proposed Rule To Amend the Fees Schedule) (SR-CBOE-2015-117).

13 The Exchange notes that while CTPHs may request that their clients holding the out-of-the-money and riskless positions permit the CTPHs to attempt to close these positions out, firms are not required to do so (i.e., these transactions are voluntary and within the discretion of the CTPHs' clients).

14 The Exchange expects to publish this list on its website.

which open interest has been submitted to the Exchange on both sides pursuant to paragraph (a)(1), including the aggregate size of open interest on each side of each series ("compression-list positions file").[15] This aggregate two-sided list may also include multi-legged positions of SPX options with opposite open interest submitted to the Exchange according to the parameters described in paragraph (a)(1) to proposed Rule 6.56. This would allow the Exchange to identify multi-leg strategy orders with opposing interest of particular TPHs in the various series of the strategy (e.g. vertical spreads, calendar spreads, butterflies, iron condors). The Exchange believes that a list containing such multi-leg or complex positions may help facilitate a more efficient forum by facilitating closing transactions in multiple series at a time.

Under paragraph (a)(3) to proposed Rule 6.56, in addition to making the compression-list positions file available to all TPHs, the Exchange would electronically send the compression-list positions file to the TPHs that submitted compression-list positions to the Exchange pursuant to paragraph (a)(1), including a list of those TPHs that contributed to the compression-list positions file. The list will not include the name of any TPH that requests its name be excluded from this list. Pursuant to paragraph (a)(3), TPHs would be identified as having contributed to the list only and would not be identified as holding any specific position. The Exchange believes this process to identify TPHs that seek to close compression-list positions in advance of a compression forum will increase opportunities for TPHs to ultimately close compression-list positions during a compression forum while, at the same time, providing the opportunity for anonymity. TPHs that do not want to be listed as having contributed compression-list positions may inform the Exchange and will not be included in the listed TPHs.

Under paragraph (a)(4) of proposed Rule 6.56, the Exchange would conduct an open

15 This list would not identify which TPH holds these positions.

outcry "compression forum" in which all TPHs may participate[16] on each of the last three business days of every calendar month at a location on the trading floor determined by the Exchange. Compression forums would be held for four (4) hours during Regular Trading Hours on each of the last three business days of every calendar month, or three (3) hours if any of those days is an abbreviated trading day (such as the day before a holiday), at times determined by the Exchange. All such notices would be provided to TPHs reasonably in advance of any forum as announced via Regulatory Circular in accordance with paragraph (d) to proposed Rule 6.56 discussed below. The Exchange believes that multiple hours across multiple trading days will allow TPHs to close as many positions as possible during this process without interfering with normal SPX trading. In some cases, an appropriate counterparty may not be present in the crowd at [sic] particular time on a particular day when a TPH with an opposite position represents the position in the crowd. In other cases, a TPH may wish to break up a complex order into single legs after trying unsuccessfully to close the multi-leg positions or may have residual positions that could not be closed in full. Additionally, news may be reported causing a high amount of activity preventing TPHs for [sic] participating in the forum at certain times. The Exchange believes that the three-day format will provide TPHs sufficient time to close these positions in a forum without interfering with normal trading.

Under paragraph (b) of proposed Rule 6.56, trades executed during compression forums would be subject to trading rules applicable to trading in SPX during Regular Trading Hours, including manner of bids and offers and allocation and priority rules, except: (1) only closing transactions in SPX options (including compression-list positions) may be executed during a compression forum; and (2) the minimum increment for all series will be $0.01 during a

16 As compression forums will be conducted in open outcry, TPHs that may participate include Floor Brokers and Market-Makers with SPX appointments.

compression forum. In other words, although trades executed during a compression forum may only be closing transactions and may be in penny increments within a specified timeframe and at a specific location on the trading floor, trades executing during a compression forum will occur in the same manner as all other open outcry SPX trades, including in accordance with systemization requirements under Rule 6.24, and order allocation and priority rules under Rule 6.45B(b). The purpose of the compression forum would simply be to facilitate closing transactions in series of SPX options so that TPHs would have the opportunity to free up capital and eliminate riskless and low delta positions that they may otherwise hold until expiration.

Notably, TPHs would not be required to submit a list of positions to the Exchange pursuant to paragraph (a)(1) in order to participate in a compression forum, and positions SPX series other than compression-list positions may be closed during a compression forum, as long as it involves only closing transactions. The compression forums will be limited to closing only transactions, because if opening transactions were permitted during a compression forum, it would defeat the purpose of the proposed rule, which is to encourage the closing of positions that are creating high bank regulatory capital requirements, often with positions that are of low economic benefit and risk and could otherwise be offset. Similarly, the minimum increment for series traded during a compression forum will be $0.01 to further encourage closing of these positions. Because many series the Exchange expects to trade during the compression forum will be out-of-the-money, and essentially worthless, TPHs may not otherwise close positions in these series if a higher minimum increment causes the price to be too much higher than the option's value.

Under paragraph (c) to proposed Rule 6.56, and as noted above in the example, TPHs would be permitted to communicate with other TPHs to determine: a TPH's open single-legged or multi-legged SPX positions and/or (2) whether a TPH anticipates participating in a compression forum at a particular date and time. During these communications, TPHs may not discuss the price of a potential transaction involving these positions during a compression forum. Trades executed during a compression forum pursuant to proposed Rule 6.56 and otherwise in compliance with the Rules would not be deemed prearranged trades in violation of the Rules.[17] The purpose of the compression forum process is to facilitate closing transactions in series of SPX options between counterparties holding opposite open positions. The proposed rule is intended to help counterparties find one another so they can more efficiently trade out of open positions at the end of each calendar month. Communications between one another as to what positions they hold and when they will be available to potentially trade out of such positions will provide this efficiency and increase opportunities for TPHs to close these positions. Without communications regarding these logistics, it would be left to chance whether TPH with opposite positions would be present to close those positions during a compression forum, making it more difficult to close these positions. As long as communications are limited to which positions are held and timing of participation in a compression forum and do not include discussions of other

[17] Under Section 9(a)(1) of the Act, it shall be unlawful for any member of a national securities exchange, for the purpose of creating a false or misleading appearance of active trading in any security registered on a national securities exchange or a false or misleading appearance with respect to the market for any such security, (A) to effect any transaction in such security which involves no change in the beneficial ownership thereof, or (B) to enter an order or orders for the purchase of such security with the knowledge that an order or orders of substantially the same size, at substantially the same time, and at substantially the same price, for the sale of any such security, has been or will be entered by or for the same or different parties. Prearranged trading could result in also result in [sic] a violation of CBOE Rule 4.1, which prohibits conduct inconsistent with just and equitable principles of trade, Rule 6.45A or 6.45B which addresses the priority of bids and offers, and/or Rule 10b-5 of the Act, which prohibits any act, practice or course of business which operates or would operate as a fraud or deceit upon any person, in connection with the purchase or sale of any security, respectively. See Regulatory Circular RG16-190 (Prearranged Trades) (December 6, 2016).

elements of a potential trade, such as the price, the Exchange would not deem such communications to form the basis of a prearranged trade. The Exchange notes again all orders placed during a compression forum must be represented in the crowd and executed against the best responsive bid or offer, as they would during normal trading. Additionally, as noted above, all TPHs that are able to trade SPX on the trading floor may participate in a compression forum in accordance with the proposed procedure. TPHs participating in a compression forum must continue to comply with all other trading rules.

Finally, paragraph (d) to proposed Rule 6.56 states the Exchange will announce to TPHs determinations it makes pursuant to the proposed rule via Regulatory Circular with reasonable notice.

The following is an example of how the compression forum process would work under paragraph (a) of proposed Rule 6.56. On December 20, 2016, the Exchange issues a regulatory circular stating a compression forum will be held on December 28 and 29 between 10:00 a.m. and 2:00 p.m. each day, and on December 30 between 9:00 a.m. and 12:00 p.m. The circular and [sic] invites all TPHs to submit a password protected .CSV file containing SPX positions with either a required capital charge equal to the minimum capital charge under Clearing Corporation rules risk-based haircut calculator and/or positions in series of SPX options with a delta of ten (10) or less via email with appropriate security measures containing the following fields: MARKET PARTICIPANT; SYMBOL, EXPIRATION DATE, STRIKE, CALL/PUT (either call or put), and SIZE (negative size denoting short size). The circular notes that all submissions must be received by the Exchange no later than December 27, 2016 at 3:15 p.m. Additionally, the circular notes a TPH should state in its e-mail to CBOE if it does not want its name with the other submitting TPHs. Additionally, each submitting TPH must designate a point person.

Prior to 3:15 p.m. on December 27, 2016, the Exchange receives the following .CSV files: XYZ closing postions.csv; ABC closing trades.csv; and 123 compression.csv.[18]

MARKET PARTICIPANT	**SYMBOL**	**EXPIRATION DATE**	**STRIKE**	**CALL/PUT**	**SIZE**
XYZ TRADING	SPXW	12/30/2016	1500	C	-125
XYZ TRADING	SPXW	12/30/2016	1505	P	25
XYZ TRADING	SPX	1/20/2017	1610	P	-75
XYZ TRADING	SPX	1/20/2017	1700	P	-166
XYZ TRADING	SPXW	1/8/2016	1800	C	250
XYZ TRADING	SPXW	1/8/2016	1850	C	500
XYZ TRADING	SPXW	1/8/2016	1900	C	250
XYZ TRADING	SPXW	12/30/2016	2350	C	-652
XYZ TRADING	SPXW	12/30/2016	2460	C	-1425

MARKET PARTICIPANT	**SYMBOL**	**EXPIRATION DATE**	**STRIKE**	**CALL/PUT**	**SIZE**
ABC TRADING	SPXW	12/30/2016	1500	C	-76
ABC TRADING	SPXW	12/30/2016	1505	P	-105
ABC TRADING	SPX	2/17/2017	1850	P	-166

[18] For purposes of this example, it is assumed that all the positions submitted to the Exchange by XYZ Trading, ABC Trading, and 123 Trading are either positions with a delta of ten or less or positions with a required capital charge equal to the minimum capital charge under the risk-based haircut calculator in the Clearing Corporation rules.

ABC TRADING	SPXW	12/30/2016	2350	C	-62
ABC TRADING	SPXW	12/30/2016	2460	C	322
ABC TRADING	SPX	2/17/2017	2500	P	-50

MARKET PARTICIPANT	**SYMBOL**	**EXPIRATION DATE**	**STRIKE**	**CALL/PUT**	**SIZE**
123 TRADING	SPXW	12/30/2016	1500	C	50
123 TRADING	SPX	1/20/2017	1610	P	-105
123 TRADING	SPXW	1/8/2016	1800	C	-200
123 TRADING	SPXW	1/8/2016	1850	P	-400
123 TRADING	SPX	2/17/2017	1850	C	-107
123 TRADING	SPXW	1/8/2016	1900	C	-200
123 TRADING	SPXW	12/30/2016	2350	P	-62
123 TRADING	SPXW	12/30/2016	2460	C	25
123 TRADING	SPXW	12/30/2017	2500	P	-300

The e-mail identify the following point people: XYZ Trading Firm – John Smith; ABC Trading Firm – Jane Doe; and 123 Trading Company – Sam Jones. No TPH requests to remain anonymous.

The Exchange then aggregates the closing positions and publishes the aggregated position data on its website for series of SPX options with two-sided compression-list positions submitted to the Exchange. Additionally, it distributes the list, as well as the TPHs that submitted individual position lists, to those TPHs:

SYMBOL	EXPIRATION DATE	STRIKE	CALL/PUT	LONG SIZE	SHORT SIZE
SPXW	12/30/2016	1500	C	50	-201
SPXW	12/30/2016	1505	P	25	-105
SPXW	1/8/2016	1800	C	250	-200
SPXW	1/8/2016	1850	P	500	-400
SPXW	1/8/2016	1900	C	250	-200
SPXW	12/30/2016	2350	P	0	-62
SPXW	12/30/2016	2460	C	347	-1425
MARKET PARTICIPANTS	DESIGNATED LEAD				
XYZ TRADING	John Smith				
ABC TRADING	Jane Doe				
123 TRADING	Sam Jones				

Following the dissemination of the .CSV file, TPHs discuss the positions included in the disseminated .CSV file with the designated leads in order to determine when each intended to participate in an upcoming compression forum. Each TPH coordinates with another TPH that holds an opposite position when they will be present at one of the upcoming compression forums. During the compression forums held on December 28 through 30, these three TPHs conducted the following trades:[19]

1. 123 Trading sells 25 SPXW 12/30/16 1500 C to each of ABC Trading and XYZ Trading.
2. XYZ Trading sells 25 SPXW 12/30/16 1505 P to ABC Trading.
3. XYZ Trading sells 200 butterflies consisting of 200 SPXW1/8/2016 1800 C, 400 SPXW 1/8/2016 1850 C, and 200 SPXW 1/8/16 1900 C to 123 Trading.
4. 123 Trading sells 12 SPXW 12/30/2016 2460 C to each of ABC Trading and XYZ Trading (and the parties determine which of ABC Trading and XYZ Trading receive the extra contract).

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.[20] Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)[21] 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

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19 This example assumes: (1) no customer orders are on the book at the same or better price of the compression forum transaction; (2) if two TPHs respond to an order represented in the compression forum, they do so at the same price and time and, thus, the order is allocated equally among them; and (3) no other TPHs enter the compression forum to attempt to participate in the trades.

20 15 U.S.C. 78f(b).

21 15 U.S.C. 78f(b)(5).

Exchange believes the proposed rule change is consistent with the Section 6(b)(5)[22] 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 the proposed rule change is reasonable, equitable, and does not unfairly discriminate against any market participants. The Exchange notes that all TPHs with open SPX positions may participate in a compression forum in accordance with the proposed procedure. Other market participants with open SPX positions may participate through CBOE floor brokers, as they would for any other SPX trading. Participation in compression forums, as well as advanced submission of compression-list positions, is optional, and TPHs may continue to attempt to trade open SPX positions during normal trading.

The Exchange believes it is reasonable, equitable and not unfairly discriminatory to limit compression-list positions to certain riskless and low delta positions and trading in compression forums to closing only transactions because these types of positions and transactions will result in large bank regulatory capital requirements impacts for CTPHs even though there is minimal chance for large losses to occur. The Exchange notes that if opening transactions were permitted during a compression forum, it would defeat the purpose of the proposed rule, which is to encourage the closing of positions that are creating high bank regulatory capital requirements, often with positions that are of low economic benefit and risk and could otherwise be offset. The Exchange notes that there are other circumstances involving liquidity concerns in which the Exchange limits transactions in particular securities to closing only transactions. For example, the Exchange [sic] transactions in restricted option classes to [sic] closing only (subject to certain

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22 Id.

exceptions).[23] Additionally, cabinet trades are limited to closing only (subject to certain exceptions).[24] Similarly, the minimum increment for series traded during a compression forum will be $0.01 to further encourage closing of these positions. Because many series the Exchange expects to trade during the compression forum will be out-of-the-money, and essentially worthless, TPHs may not otherwise close positions in these series if a higher minimum increment causes the price to be too much higher than the option's value.

In addition, the Exchange believes it's reasonable, equitable and not unfairly discriminatory to limit the compression forum process to SPX options (including SPXW and SPXPM) because SPX has a substantially higher notional value than other options classes. As such, open interest in SPX has a much greater effect on a bank's regulatory capital requirements. Compressing out-of-the-money and riskless SPX option positions therefore has a greater impact on reducing a bank regulatory capital requirement.

Furthermore, the Exchange believes that its proposal is consistent with the Act in that it seeks to mitigate the potentially negative effects of the bank capital requirements on liquidity in the SPX options market. As described above, the Exchange believes that the new regulatory capital requirements could potentially impede efficient use of capital and undermine the critical liquidity role that Market-Makers play in the SPX options market by limiting the amount of capital CTPHs an [sic] allocate to clearing member transactions. Specifically, the rules may cause CTPHs to impose stricter position limits on their clearing members. In turn, this could force Market-Makers to reduce the size of their quotes in SPX and result in reduced liquidity in the market. The Exchange believes that permitting TPHs to reduce open interest in offsetting SPX options positions would likely contribute to the availability of liquidity in the SPX options

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23 See Rule 5.4.

24 See Rule 6.54.

market and help ensure that the SPX options market retains its competitive balance. The Exchange believes that the proposed rule would serve to protect investors by helping to ensure consistent continued depth of liquidity in the SPX options market.

The Exchange also believes the proposed rule change is consistent with the Act, because the proposed procedure is consistent with its current rules. The proposed rule would direct that all trading during compression forums be conducted in accordance with normal SPX trading rules and thus, all transactions that would occur during compression forums would occur in the same manner as transactions during normal SPX trading, except transactions must be closing only and may be in penny increments. This process is narrowly tailored for a for [sic] the specific purpose of facilitating the closing of positions in the SPX options market, which the Exchange believes will serve to protect investors by helping to ensure continued depth of liquidity in the SPX options market. The Exchange also notes the proposed provisions regarding the position lists are optional procedures to help facilitate compression transactions. Submission of lists of positions for compression is completely voluntary, open to all TPHs, and non-binding, in that submission of a list does not require a TPH to trade any position or even represent any position in a trading crowd. Furthermore, the list of positions will be made available to all market participants and contain very limited information regarding open interest in positions in SPX. The list will not advantage or disadvantage any TPH, but rather simply alert TPHs to certain SPX positions that other TPHs are interested in closing at the end of each calendar month.

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 intramarket competition that is not necessary or appropriate in furtherance of the Act because it applies to all market participants in the same manner with positions that meet the eligible criteria. The proposed change would encourage the closing of positions that needlessly result in burdensome capital requirements, which, once closed, would alleviate the capital requirement constraints on TPHs and improve overall market liquidity by freeing capital currently tied up in certain unwanted SPX positions. The Exchange does not believe that the proposed rule changes will impose any burden on intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act because the proposed rule change applies only to the trading of SPX options, which are exclusively-listed on CBOE. To the extent that the proposed changes make the Exchange a more attractive marketplace for market participants at other exchanges, such market participants are welcome to become CBOE market participants. Furthermore, as stated in Item 3(b) above, submission of lists of positions for compression is completely voluntary, open to all TPHs, and non-binding, in that submission of a list does not require a TPH to trade any position or even represent any position in a trading crowd. Lists of positions will be made available to all TPHs and contain very limited information regarding open interest in positions in SPX. The list will simply alert TPHs to certain SPX positions that other TPHs are interested in closing at the end of each calendar month.

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 written 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 Section 19(b)(3)(A)(iii) of the Act[25] and Rule 19b-4(f)(6) thereunder.[26] Because the proposed rule change does not: (i)

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25 15 U.S.C. 78s(b)(3)(A)(iii).

significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative prior to 30 days from the date on which it was filed, 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 Act and Rule 19b-4(f)(6)(iii) thereunder.

The Exchange has asked the Commission to waive the 30-day operative delay to allow the compression forum process to begin in December 2016 and trading to take place on the final three days of trading in 2016. The Exchange stated that it is requesting this waiver because it believes that bank capital requirements will have substantial adverse consequences on some CTPHs if TPHs are not able to sufficiently reduce their open interest in SPX by the end of the year. The Exchange understands that bank-imposed capital limits for TPHs, measured at the end of the year and based on the aggregate notional value of short positions regardless of offsets, may impact CTPHs and the firms for which they clear depending on the open interest they hold. CBOE believes, as it explained above, that the impact of these rules uniquely affects the SPX options market due to the large notional value of SPX contracts. In response, CTPHs may impose stricter position limits on the firms for which they clear and, to the extent they do so, it may effectively limit the amount of liquidity that some TPHs, notably Market-Makers, will be able to provide in SPX options. The Exchange believes that it is in the best interest of investors to use this new compression forum process to help foster continued liquidity in the SPX options market by allowing firms to free up capital by finding opportunities to trade out of relatively

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[26] 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6)(iii) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change, along with a brief description and 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 requirement.

worthless positions.

The Commission believes that waiving the 30-day operative delay is consistent with the protection of investors and the public interest because this waiver will enable the Exchange to hold compression forums for SPX options prior to the end of the year, thereby helping to facilitate transactions and remove impediments to year-end trading in SPX options, through a limited process designed to protect investors and the public interest. The Commission notes that CBOE's compression forum rule is limited in its application, involves no material changes to how trading is conducted on the Exchange, creates a process in which participation is voluntary and open to all, and is provided as a means to help Market Makers and other market participants, as well as their clearing brokers, avoid the need to limit their activities as a result of out-of-the-money positions on SPX options that such firms wish to exit. For this reason, the Commission hereby waives the 30-day operative delay requirement and designates the proposed rule change as operative upon filing.[27]

At any time within 60 days of the filing of such 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 shall institute proceedings under Section 19(b)(2)(B)[28] of the Act to determine whether the proposed rule change should be approved or disapproved.

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27 For purposes only of waiving the 30-day operative delay, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

28 15 U.S.C. 78s(b)(2)(B).

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-2016-090 on the subject line.

Paper comments:

- Send paper comments in triplicate to Brent J. Fields, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-CBOE-2016-090. 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 such 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-2016-090, 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.[29]

Eduardo A. Aleman
Assistant Secretary

[29] 17 CFR 200.30-3(a)(12).

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