



8011-01
SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-80152; File No. SR-CBOE-2017-018)

March 3, 2017

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Related to the Automated Improvement Mechanism

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 23, 2017, 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 Act³ 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 seeks to amend Rule 6.74A. The text of the proposed rule change is provided below.

(additions are italicized; deletions are [bracketed])

* * * * *

**Chicago Board Options Exchange, Incorporated
Rules**

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).

* * * * *

Rule 6.74A. Automated Improvement Mechanism ("AIM")

Notwithstanding the provisions of Rule 6.74, a Trading Permit Holder that represents agency orders may electronically execute an order it represents as agent ("Agency Order") against principal interest or against a solicited order provided it submits the Agency Order for electronic execution into the AIM auction ("Auction") pursuant to this Rule.

(a) No change.

(b) Auction Process. Only one Auction may be ongoing at any given time in a series and Auctions in the same series may not queue or overlap in any manner. The Auction may not be cancelled and shall proceed as follows:

(1) Auction Period and Request for Responses (RFRs).

(A) To initiate the Auction, the Initiating Trading Permit Holder must mark the Agency Order for Auction processing, and specify (i) a single price at which it seeks to cross the Agency Order (with principal interest or a solicited order) (a "single-price submission"), including whether the Initiating Trading Permit Holder elects to have last priority in allocation, [or] (ii) that it is willing to automatically match ("auto-match") as principal the price and size of all Auction responses up to an optional designated limit price in which case the Agency Order will be stopped at the NBBO (if 50 standard option contracts or 500 mini-option contracts or greater) or one cent/one minimum increment better than the NBBO (if less than 50 standard option contracts or 500 mini-option contracts), or (iii) the initial price at which it seeks to cross the Agency Order (with principal interest or a solicited order) and that it is willing to auto-match. Once the Initiating Trading Permit Holder has submitted an Agency Order for processing pursuant to this subparagraph, such submission may not be modified or cancelled.

(B) – (I) No change.

(2) – (3) No change.

* * * * *

The text of the proposed rule change is also available on the Exchange's website (<http://www.cboe.com/AboutCBOE/CBOELegalRegulatoryHome.aspx>), at the Exchange's Office of the Secretary, and at the Commission's Public Reference Room.

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

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

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

1. Purpose

The Exchange seeks to amend Rule 6.74A in order to allow a Trading Permit Holder ("TPH") to input an initial price when selecting the auto-match feature in the Automated Improvement Mechanism ("AIM").

In order to initiate an AIM auction a TPH must specify: (i) a single price at which it seeks to cross the Agency Order (with principal interest or a solicited order) (a "single-price submission"), including whether the Initiating Trading Permit Holder elects to have last priority in allocation, (ii) that it is willing to automatically match ("auto-match") as principal the price and size of all Auction responses up to an optional designated limit price in which case the Agency Order will be stopped at the NBBO (if 50 standard option contracts or 500 mini-option contracts or greater) or one cent/one minimum increment better than the NBBO (if less than 50 standard option contracts or 500 mini-option contracts). When a TPH specifies the auto-match feature the TPH does not identify the initial stop price. Instead, the Agency Order is automatically stopped at the NBBO (if 50 standard option contracts or 500 mini-option contracts or greater) or one cent/one minimum increment better than the NBBO (if less than 50 standard option contracts or 500 mini-option contracts). In order to allow TPHs to offer greater price improvement to Agency Orders the Exchange is seeking to amend Rule 6.74A in order to allow

TPHs to specify the initial auction price when the TPH specifies the auto-match feature.

Currently, if a TPH selects the auto-match feature and there are no auction responses, the Agency Order will execute at either the NBBO (if 50 standard option contracts or 500 mini-option contracts or greater) or one cent/one minimum increment better than the NBBO (if less than 50 standard option contracts or 500 mini-option contracts). In order to allow price-improvement beyond the NBBO or beyond one cent/one minimum increment better than the NBBO when there are no auction responses, the Exchange is amending Rule 6.74A to allow a TPH to input an initial auction price when using the auto-match feature. For example, consider a TPH using the auto-match feature when the NBBO is 1.00-1.20 and the Agency Order is to buy for 50 contracts or less. Currently, the Agency Order is automatically stopped at 1.19. If there are no auction responses the Agency Order will be executed at 1.19. This proposed amendment will allow TPHs to specify the auto-match feature and specify the initial auction price. Thus, in the above example, a TPH could specify the initial auction price as 1.18 instead of 1.19, guaranteeing price improvement beyond the NBBO improved by one minimum increment. If any auction responses are received they would be processed in the same manner as the current auto-match feature (i.e., Rule 6.74A(b)(1)(A)(ii)). Additionally, the Exchange notes that as provided in Rule 6.74A(a) the Agency Order and contra order will be cancelled if the initial auction price does not meet the conditions described in paragraph (a) of Rule 6.74A.

The Exchange will announce the availability of the new feature via Regulatory Circular at least 7 business days prior to the implementation date. The implementation date will be within 120 days of the operative date of this filing.

2. Statutory Basis

The The [sic] Exchange believes the proposed rule change is consistent with the Securities Exchange Act of 1934 (the “Act”) and the rules and regulations thereunder applicable to the Exchange and, in particular, the requirements of Section 6(b) of the Act.⁵ Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)⁶ requirements that the rules of an exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest. Additionally, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)⁷ requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

In particular, the proposed amendment will give TPHs initiating AIM auctions the ability, when utilizing the auto-match feature, to guarantee price improvement beyond the NBBO (if 50 standard option contracts or 500 mini-option contracts or greater) or beyond one cent/one minimum increment better than the NBBO (if less than 50 standard option contracts or 500 mini-option contracts), which generally protects investors and the public interest by giving Agency Orders the possibility of receiving better execution prices. The Exchange also notes that the proposed functionality is not unique as Nasdaq PHLX LLC (“PHLX”) and Nasdaq BX, Inc. (“BX”) currently offer such functionality.⁸

⁵ 15 U.S.C. 78f(b).

⁶ 15 U.S.C. 78f(b)(5).

⁷ Id.

⁸ See PHLX Rule 1080(n)(ii)(A)(1) and BX Rules at Chapter VI, Section 9(ii)(A)(1).

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

CBOE does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act because the proposed amendment simply gives TPHs initiating AIM auctions the ability, when utilizing the auto-match feature, to guarantee price improvement beyond the NBBO (if 50 standard option contracts or 500 mini-option contracts or greater) or beyond one cent/one minimum increment better than the NBBO (if less than 50 standard option contracts or 500 mini-option contracts, which generally protects investors and the public interest by giving Agency Orders the possibility of receiving better execution prices.

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

The Exchange neither solicited nor received comments on the proposed rule change.

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

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 Act⁹ and Rule 19b-4(f)(6)¹⁰ 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

⁹ 15 U.S.C. 78s(b)(3)(A).

¹⁰ 17 CFR 240.19b-4(f)(6).

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:

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-2017-018 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-2017-018. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, D.C. 20549 on official business days between the hours of 10:00 a.m.

and 3:00 p.m. Copies of 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-2017-018, 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.¹¹

Eduardo A. Aleman
Assistant Secretary

¹¹ 17 CFR 200.30-3(a)(12).

[FR Doc. 2017-04604 Filed: 3/8/2017 8:45 am; Publication Date: 3/9/2017]