

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-BOX-2012-010 and should be submitted on or before August 27, 2012.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹¹

Kevin M. O'Neill,
Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-67547; File No. SR-CBOE-2012-048]

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Order Approving a Proposed Rule Change Relating to Distribution of Auction Messages

July 31, 2012.

I. Introduction

On June 6, 2012, the Chicago Board Options Exchange, Incorporated (“CBOE” or the “Exchange”), filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”) ¹ and Rule 19b-4 thereunder,² a proposed rule change to amend rules regarding the universe of eligible responders to certain Exchange auctions and the redistribution of auction messages. The proposed rule change was published for comment in the *Federal Register* on June 22, 2012.³ The Commission received no comment letters regarding the proposed rule change. This order approves the proposed rule change.

II. Description

The Exchange proposes to amend several rules that govern its auction mechanisms to, among other things, permit it to broaden the class of persons that may respond to auction messages as well as specifically allow such participants to rebroadcast auction messages in options classes that have

been opened to such responders. The proposed changes would amend Rule 6.13A, relating to the Simple Auction Liaison (“SAL”); Rule 6.14A, relating to the Hybrid Agency Liaison 2 system (“HAL2”); and Rule 6.53C, relating to Complex Orders on the Hybrid System, each of which are described in more detail below. In addition, CBOE also proposes to delete Rule 6.14, relating to the Hybrid Agency Liaison system (“HAL”), because, since the rollout of HAL2 in 2009, the Exchange has phased out HAL and no longer uses it for any classes.⁴

A. SAL

SAL is a feature within CBOE’s Hybrid System designed to provide price improvement over the national best bid or offer (“NBBO”) by automatically initiating an auction process for an order that is eligible for automatic execution by the Hybrid System (“Agency Order”).⁵ Currently, to the extent CBOE has activated SAL for a particular class, Market-Makers with an appointment in the relevant option class and Trading Permit Holders acting as agent for orders resting at the top of the Exchange’s book opposite the Agency Order (“Qualifying Trading Permit Holders”) are permitted to submit auction responses.⁶ However, the Exchange may determine, on a class-by-class basis, to permit SAL responses by *all* CBOE Market-Makers in addition to Qualifying Trading Permit Holders.⁷

CBOE now proposes to eliminate the concept of Qualifying Trading Permit Holders under Interpretation and Policy .05 to Rule 6.13A, and instead provide more broadly that it may determine on a class-by-class basis to permit *all* Trading Permit Holders,⁸ rather than just CBOE Market-Makers and

⁴ See *id.* at 37725. Further, the Exchange proposes to rename “HAL2” as “HAL” in the CBOE Rules to eliminate any potential confusion investors may have if there was a HAL2 but no HAL. For purposes of this order, however, the Commission is using the current terms to distinguish between “HAL2” and “HAL.” In addition, the Exchange proposes to amend Rules 6.2B, 6.13, 6.14A, 6.25, and 6.53 to delete cross-references to Rule 6.14 and HAL and to correct other cross-references to conform to numbering changes in this proposal throughout the rules. See *id.*

⁵ See *id.* at 37724. The Exchange determines the eligible order size, eligible order types, eligible order origin code (*i.e.*, public customer orders, non-Market-Maker broker-dealer orders, and Market-Maker broker-dealer orders), and classes in which SAL is activated. See CBOE Rule 6.13A(a).

⁶ See CBOE Rule 6.13A(b).

⁷ See CBOE Rule 6.13A, Interpretation and Policy .05.

⁸ According to CBOE, by definition, all Market-Makers are Trading Permit Holders; therefore, references to “Trading Permit Holders” include all Market-Makers. See Notice, *supra* note 3, at 37724 n. 3.

Qualifying Trading Permit Holders, to respond to SAL auction messages.⁹ The Exchange also proposes to amend Interpretation and Policy .02 to Rule 6.13A to allow Trading Permit Holders to redistribute auction messages in classes in which the Exchange allows all Trading Permit Holders to submit SAL auction responses.¹⁰ Finally, CBOE proposes a new Interpretation and Policy .05 to Rule 6.13A to provide that all pronouncements regarding determinations by the Exchange pursuant to Rule 6.13A and the Interpretations and Policies thereunder will be announced to Trading Permit Holders via Regulatory Circular.¹¹

B. HAL2

HAL2 is a feature within CBOE’s Hybrid System that provides automated order handling in designated classes trading on Hybrid for qualifying electronic orders that are not automatically executed by the Hybrid System.¹² For those classes, HAL2 will process (1) an eligible order that is marketable against the Exchange’s disseminated quotation while that quotation is not the NBBO;¹³ (2) an eligible order that would improve the Exchange’s disseminated quotation and that is marketable against quotations by other exchanges that are participants in the Options Order Protection and Locked/Crossed Plan; (3) for Hybrid 3.0 classes, an eligible order that would improve the Exchange’s disseminated quotation; and (4) an order submitted to HAL2 as a result of the price check parameters of Rule 6.13(b)(v).¹⁴ HAL2 electronically exposes these orders at the NBBO price to allow Market-Makers appointed in that class as well as Trading Permit Holders acting as agent for orders at the top of the Exchange’s book in the relevant series to step-up to the NBBO price.¹⁵ Alternatively, the Exchange may determine on a class-by-class basis to make the exposure

⁹ See *id.* at 37724. The Exchange also proposes to move this language from Interpretation and Policy .05 to Rule 6.13A to paragraph (b) of Rule 6.13A.

¹⁰ See *id.*

¹¹ See *id.* at 37725.

¹² See CBOE Rule 6.14A. The Exchange determines the eligible order size, eligible order types, eligible order origin code (*i.e.*, public customer orders, non-Market-Maker broker-dealer orders, and Market-Maker broker-dealer orders), and classes in which HAL2 is activated. See CBOE Rule 6.14A(a).

¹³ Except that HAL2 will not be used to process such an order when the Exchange’s quotation contains resting orders and does not contain sufficient Market-Maker quotation interest to satisfy the entire order. See CBOE Rule 6.14A(a)(i).

¹⁴ See CBOE Rule 6.14A(a)(i)-(iv).

¹⁵ See Notice, *supra* note 3, at 37725; CBOE Rule 6.14A(b). The duration of the exposure period may not exceed one second. See CBOE Rule 6.14A(b).

¹¹ 17 CFR 200.30-3(a)(12).

¹² 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 67209 (June 18, 2012), 77 FR 37724 (“Notice”).

message available to all Market-Makers or to all Trading Permit Holders.¹⁶

Without making a substantive change to this provision, the Exchange now proposes to amend the HAL2 rule to conform the language to the new SAL and COA provisions that it has proposed in this filing. In other words, CBOE would continue to be able to allow *all* Trading Permit Holders to submit responses to the HAL2 exposure message.¹⁷ CBOE also proposes to amend Interpretation and Policy .01 to Rule 6.14A to allow Trading Permit Holders to redistribute HAL2 exposure messages in classes in which the Exchange allows all Trading Permit Holders to submit HAL2 auction responses.¹⁸

In addition, the Exchange proposes a new Interpretation and Policy .03 to Rule 6.14A to provide that all pronouncements regarding determinations by the Exchange pursuant to Rule 6.14A and the Interpretations and Policies thereunder will be announced via Regulatory Circular.¹⁹ Further, CBOE proposes to clarify that the existing provision that allows Trading Permit Holders acting as agent for orders at the top of the Exchange's book in the relevant option series to respond to exposure messages applies to such Trading Permit Holders that are representing orders on the *opposite side* of the order submitted to HAL. According to CBOE, the Hybrid System currently only accepts responses that are on the opposite side of the exposed order, and the proposed rule change amends Rule 6.14A to reflect this current practice.²⁰ Finally, the Exchange proposes to amend Rule 6.14A(b) to change the word "flashed" to "exposed" to create consistency of terminology in the Rule.

C. COA

COA is the automated complex order request for responses ("RFR") auction process by which eligible complex orders²¹ may be given an opportunity for price improvement before being booked in the electronic complex order book ("COB") or on a PAR

workstation.²² To the extent COA is activated in a particular class, Market-Makers with an appointment in the relevant option class and Trading Permit Holders acting as agent for orders resting at the top of the COB in the relevant option series may submit responses to the RFR messages during the Response Time Interval.²³ The Exchange may determine on a class-by-class basis to permit COA responses by *all* CBOE Market-Makers in addition to Qualifying Trading Permit Holders.²⁴

CBOE now proposes changes to the COA rules that mirror the changes, discussed above, that it is proposing for SAL. Specifically, CBOE now proposes to eliminate the concept of Qualifying Trading Permit Holders under Interpretation and Policy .07 to Rule 6.53C, and instead allow the Exchange to determine on a class-by-class basis to permit all Trading Permit Holders to respond to RFR messages.²⁵ In addition, the proposed rule change clarifies that only Trading Permit Holders acting as agent for orders at the top of the Exchange's book in the relevant option series may respond to RFR messages if they represent orders on the *opposite side* of the order submitted to COA.²⁶ Finally, the Exchange proposes to amend Interpretation and Policy .05 to Rule 6.53C to allow Trading Permit Holders to redistribute RFR messages in classes in which the Exchange allows all Trading Permit Holders to submit RFR responses.²⁷

III. Discussion and Commission's Findings

After careful review, the Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange.²⁸ In particular, the

Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,²⁹ which requires, among other things, that the rules of a national securities exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, 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.

In particular, the Commission believes the Exchange's proposal to permit it to open up SAL and COA auctions in specified classes to *all* Trading Permit Holders and allow redistribution of SAL, HAL2, and COA auction messages in those classes where the Exchange has broadened the universe of participation could protect investors and the public interest by enhancing competition in these auctions. CBOE's stated purpose in opening these auctions is to allow a greater number of market participants to submit responses to SAL auctions and COA RFRs, which CBOE believes has the potential to result in better prices for customers as responses to exposure or RFR messages could be at prices better than the NBBO.³⁰ The Commission agrees that broadening the universe of participants that receive these auction messages and that may respond to those messages is consistent with the protection of investors and the public interest. Among other things, if CBOE takes advantage of these new provisions to open up the SAL and COA auctions to more participants, these changes should promote broader awareness of, and provide increased opportunities for greater participation in, these auctions and, consequentially, facilitate the ability of CBOE to bring together participants and encourage more robust competition for price improvement in these auctions. Consistent with the protection of investors and the public interest, increased opportunities for participation and competition in these auctions could result in better prices for customers and participants.

In addition, CBOE proposes to reorganize provisions of Rules 6.13A, 6.14A, and 6.53C regarding which Trading Permit Holders are eligible to respond to auction messages so that the requirements related to auction responses for SAL auctions, HAL2 auctions, and COAs all use similar language. These changes should make

efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

²⁹ 15 U.S.C. 78f(b)(5).

³⁰ See Notice, *supra* note 3, at 37726.

¹⁶ See CBOE Rule 6.14A(b).

¹⁷ See *id.*

¹⁸ See Notice, *supra* note 3, at 37725.

¹⁹ See *id.*

²⁰ See *id.*

²¹ The Exchange determines, on a class-by-class-basis, complex orders eligible for a COA considering the order's marketability (defined as a number of ticks away from the current market), size, complex order type, and complex order origin types (*i.e.*, non-broker-dealer public customer; broker-dealers that are not Market-Makers or specialists on an options exchange; and Market-Makers or specialists on an options exchange). See CBOE Rule 6.53C(d)(i)(2).

²² See Notice, *supra* note 3, at 37725–26; CBOE Rule 6.53C(d). CBOE determines whether to activate COA on a class-by-class basis. See Notice, *supra* note 3, at 37725.

²³ See CBOE Rule 6.53C(d)(iii). "Response Time Interval" means the period of time during which responses to the RFR may be entered, the length of which is determined by the Exchange on a class-by-class basis, but which shall not exceed three seconds. See CBOE Rule 6.53C(d)(ii).

²⁴ See CBOE Rule 6.53C, Interpretation and Policy .07.

²⁵ See Notice, *supra* note 3, at 37726. The Exchange also proposes to move this language from Interpretation and Policy .07 to Rule 6.53C to paragraph (d)(iii) of Rule 6.53C.

²⁶ According to the Exchange, the CBOE Hybrid System currently only accepts responses that are on the opposite side of the Agency Order, and the proposed rule change amends Rule 6.53C to reflect this current practice. See *id.*

²⁷ See *id.*

²⁸ In approving this proposal, the Commission has considered the proposed rule's impact on

these substantially similar provisions easier to understand. CBOE also proposes to delete Rule 6.14, relating to HAL, while renaming "HAL2" as "HAL." The Exchange has indicated that HAL is outdated and no longer in use.³¹ The Commission believes that the deletion of the obsolete HAL rule and the renaming of "HAL2" as "HAL" should alleviate any potential confusion by CBOE Trading Permit Holders as well as investors.

For the reasons stated above, the Commission believes that the proposed changes to the SAL, COA, HAL, and HAL2 rules, discussed above, are consistent with Section 6(b)(5) of the Act.³²

IV. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,³³ that the proposed rule change (SR-CBOE-2012-048) is approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.³⁴

Kevin M. O'Neill,
Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-67548; File No. SR-CBOE-2012-049]

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change To Adopt Four New Order Types on the CBOE Stock Exchange

July 31, 2012.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"),¹ and Rule 19b-4 thereunder,² notice is hereby given that on July 24, 2012, Chicago Board Options Exchange, Incorporated (the "Exchange" or "CBOE") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II, and III 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 four new order types on the CBOE Stock Exchange ("CBSX"). The text of the proposed rule change is available on the Exchange's Web site (<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 proposes to add four new order types to CBSX: silent orders, silent-mid orders, silent-post-mid orders, and silent-mid-seeker orders.

A silent order is an order that is not displayed publicly on the CBSX Book but is to be executed at the National Best Bid ("NBB") (for a "buy" order) or National Best Offer ("NBO") (for a "sell" order). A silent order is an order with an optional contingency price which will indicate the highest price that a buyer is willing to pay or the lowest price at which a seller is willing to accept (such contingency price to be in \$0.01 (full penny) increments only). If NBB is higher than this contingency price for a Buy order, or the NBO is lower than this contingency price for a Sell, Sell Short, or Sell Short Exempt order, the order, or remainder of the order, will be canceled prior to trading. The reason that the order, or remainder of the order, will be canceled prior to trading (as opposed to upon entry) in these circumstances is because it is possible that, when an order comes in, the NBB is lower than the contingency price (for a Buy order), but the order doesn't trade because there is no interest to trade with, and then the NBB moves to a point at which it is higher than the contingency price (at which

point the order would cancel). The reverse would be true for Sell, Sell Short, or Sell Short Exempt orders.

A silent order may trade with any other type of order and is to execute following the execution of any displayed orders at the National Best Bid and Offer ("NBBO") (if there are any displayed orders at the NBBO) and has a higher trading priority than All or None orders. A silent order will never be routed to an away market. When the NBBO is locked or crossed, a silent order will never trade, but instead rest on the CBSX Book and remain eligible to trade once the NBBO is no longer locked or crossed.

The following examples will explain how silent orders will trade on CBSX:

Consider, in example 1, a situation in which the NBBO is quoting at \$1.01—\$1.02, while CBSX is quoting \$0.99—\$1.02. A 100-lot silent order comes in to sell at the market, and rests behind a displayed 100-lot order to sell at \$1.02 in the CBSX Book. A 500-lot order to buy at \$1.02 comes in, and first trades with the displayed 100-lot order to sell at \$1.02. Since there are no more displayed orders to sell at or better than \$1.02, and \$1.02 is at the NBBO, the silent order would then trade with the next 100 contracts in the 500-lot buy order. The remaining 300 lots of the buy order would be routed to the away exchange displaying the NBBO.

Consider now, in example 2, a situation in which the NBBO is once again quoting at \$1.01—\$1.02, while CBSX is quoting \$0.99—\$1.02. Again, a 100-lot silent order comes in to sell at the market, and rests behind a displayed 100-lot order to sell at \$1.02 in the CBSX Book. A 100-lot buy order comes in at \$1.02. This buy order would trade with the displayed 100-lot order to sell at \$1.02, causing the CBSX market to move to \$0.99—\$1.03. The silent order would continue to rest while waiting for the opportunity to trade at the National Best Offer. If the NBO becomes \$1.03, the silent order can then trade with any incoming orders to buy at \$1.03 after any resting displayed orders to sell at \$1.03 have already traded.

In this third example, consider a situation in which the NBBO is quoting at \$1.00—\$1.01 and CBSX is quoting at \$0.99—\$1.02. A 100-lot silent order comes in to buy at the market. A 10,000-lot Intermarket Sweep Order ("ISO") comes in to sell at \$0.99. The silent order would trade first at \$1.00, since that is the NBBO, regardless of the fact that there are no current CBSX displayed orders at the NBBO. The remainder of the ISO trades against CBSX \$0.99 orders until volume is

³¹ See *id.* at 37725.

³² 15 U.S.C. 78f(b)(5).

³³ 15 U.S.C. 78s(b)(2).

³⁴ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.