

through fees charged by PSX for orders that use the BTFY or BCRT routing strategies.

## 2. Statutory Basis

BX believes that the proposed rule change is consistent with the provisions of Section 6 of the Act,<sup>5</sup> in general, and with Sections 6(b)(4) and (5) of the Act,<sup>6</sup> in particular, in that it provides for the equitable allocation of reasonable dues, fees and other charges among members and issuers and other persons using any facility or system which BX operates or controls, and is not designed to permit unfair discrimination between customers, issuers, brokers or dealers. All similarly situated members are subject to the same fee structure, and access to BX is offered on fair and non-discriminatory terms. The change is reasonable because the proposed fee for routing orders to PSX reflects the increase in the fee that will be charged by PSX to BX with respect to such orders.<sup>7</sup> The change is consistent with an equitable allocation of fees because it will bring the economic attributes of routing orders to PSX in line with the cost of executing orders there. Finally, the change is not unfairly discriminatory because it solely applies to members that opt to route orders to PSX.

Finally, BX notes that it operates in a highly competitive market in which market participants can readily favor competing venues if they deem fee levels at a particular venue to be excessive. In such an environment, BX must continually adjust its fees to remain competitive with other exchanges and with alternative trading systems that have been exempted from compliance with the statutory standards applicable to exchanges. BX believes that the proposed rule change reflects this competitive environment because it is designed to ensure that the charges for use of the BX routing facility to route to PSX reflect an increase in the cost of such routing.

<sup>5</sup> 15 U.S.C. 78f.

<sup>6</sup> 15 U.S.C. 78f(b)(4) and (5).

<sup>7</sup> Depending on the listing venue of the security, BX will be charged either \$0.0019 or \$0.0027 per share executed. BX believes that it is appropriate to charge a markup with respect to routed orders to reflect the costs of offering routing services and the value of such services. Although the amount of the markup varies depending on the listing venue of the security and the routing strategy employed, BX believes that it is not inappropriate to establish uniform fees for particular routing strategies, with a goal of reflecting the complexity of the routing strategies and allowing BX to recoup the fees charged by the venues to which BX routes and a share of the fixed costs of operating these services, and earning a return.

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

BX does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act, as amended. Because the market for order execution is extremely competitive, members may readily opt to disfavor BX's routing services if they believe that alternatives offer them better value. The proposed change is designed to ensure that the charges for use of the BX routing facility to route to PSX reflect an increase in the cost of such routing, thereby ensuring that it does not incur a loss when routing to PSX.

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

Written comments were neither solicited nor received.

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(ii) of the Act.<sup>8</sup> 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 shall institute proceedings to determine whether the proposed rule 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 email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-BX-2012-058 on the subject line.

### Paper Comments

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary,

<sup>8</sup> 15 U.S.C. 78s(b)(3)(a)(ii). [sic]

Securities and Exchange Commission, 100 F Street NE., Washington, DC 20549-1090.

All submissions should refer to File Number SR-BX-2012-058. This file number should be included on the subject line if email 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 Web site (<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 Web site viewing and printing in the Commission's Public Reference Room on official business days between the hours of 10 a.m. and 3 p.m. Copies of such filing also will be available for inspection and copying at the principal offices 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-BX-2012-058, and should be submitted on or before August 31, 2012.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>9</sup>

**Kevin M. O'Neill,**  
Deputy Secretary.

[FR Doc. 2012-19607 Filed 8-9-12; 8:45 am]

**BILLING CODE 8011-01-P**

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-67597; File No. SR-CBOE-2012-065]

### Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to the Options Regulatory Fee

August 6, 2012.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the

<sup>9</sup> 17 CFR 200.30-3(a)(12).

“Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on July 31, 2012, the 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 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 the Substance of the Proposed Rule Change**

Chicago Board Options Exchange, Incorporated proposes to amend its Options Regulatory Fee. 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 the 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 the Statutory Basis for, the Proposed Rule Change*

##### **1. Purpose**

The Exchange proposes to amend the Options Regulatory Fee (“ORF”) to increase it from \$0.0045 per contract to \$0.0065 per contract in order to help offset increased regulatory expenses. The Exchange also proposes to apply the ORF to Linkage orders.<sup>3</sup> The Exchange is amending the ORF due to substantial increases in resources devoted to regulatory services, including the recent hiring of many new employees, increased office space and

regulatory systems enhancements. The proposed fee would be operative on August 1, 2012.

The ORF is assessed by the Exchange to each Trading Permit Holder for all options transactions executed or cleared by the Trading Permit Holder that are cleared by The Options Clearing Corporation (“OCC”) in the customer range, i.e., transactions that clear in a customer account at OCC, excluding Linkage orders, regardless of the marketplace of execution. In other words, the Exchange imposes the ORF on all customer-range transactions executed by a Trading Permit Holder, even if the transactions do not take place on the Exchange.<sup>4</sup> The ORF also is charged for transactions that are not executed by a Trading Permit Holder but are ultimately cleared by a Trading Permit Holder. In the case where a Trading Permit Holder executes a transaction and a Trading Permit Holder clears the transaction, the ORF is assessed to the Trading Permit Holder who executed the transaction. In the case where a non-Trading Permit Holder executes a transaction and a Trading Permit Holder clears the transaction, the ORF is assessed to the Trading Permit Holder who clears the transaction. The ORF is collected indirectly from Trading Permit Holders through their clearing firms by OCC on behalf of the Exchange.

Customer-range Linkage orders would no longer be excluded from the ORF. The Exchange believes that its broad regulatory responsibilities with respect to Trading Permit Holder activities, irrespective of where their transactions take place, supports applying the ORF to Linkage orders. The Exchange has a statutory obligation to enforce compliance by Trading Permit Holders and their associated persons with the Exchange Act and the Rules of the Exchange and to surveil for other manipulative conduct by market participants (including non-Trading Permit Holders) trading on the Exchange. The Exchange cannot effectively surveil for such conduct without looking at and evaluating activity across all options markets. Many of the Exchange’s market surveillance programs require the Exchange to look at and evaluate activity across all options markets, such

as surveillance for position limit violations, manipulation, frontrunning and contrary exercise violations/expiring exercise declarations. In addition, the Plan requires Participating Options Exchanges to conduct surveillance of their respective markets on a regular basis to ascertain the effectiveness of the policies and procedures to prevent Trade-Throughs and to take prompt action to remedy deficiencies in such policies and procedures.<sup>5</sup> The Exchange also notes the ORFs currently in place at other exchanges do not exclude Linkage orders.<sup>6</sup>

The ORF is designed to recover a material portion of the costs to the Exchange of the supervision and regulation of Trading Permit Holder customer options business, including performing routine surveillances, investigations, as well as policy, rulemaking, interpretive and enforcement activities. The Exchange believes that revenue generated from the ORF, when combined with all of the Exchange’s other regulatory fees and fines, will cover a material portion, but not all, of the Exchange’s regulatory costs. The Exchange notes that its regulatory responsibilities with respect to Trading Permit Holder compliance with options sales practice rules have been allocated to FINRA under a 17d-2 agreement. The ORF is not designed to cover the cost of options sales practice regulation.

The Exchange will continue to monitor the amount of revenue collected from the ORF to ensure that it, in combination with its other regulatory fees and fines, does not exceed the Exchange’s total regulatory costs. If the Exchange determines regulatory revenues exceed regulatory costs, the Exchange will adjust the ORF by submitting a fee change filing to the Commission. The Exchange notifies Trading Permit Holders of adjustments to the ORF via regulatory circular.

##### **2. Statutory Basis**

The 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.<sup>7</sup> Specifically, the Exchange believes the proposed rule

<sup>4</sup> Exchange rules require each Trading Permit Holder to record the appropriate account origin code on all orders at the time of entry in order to allow the Exchange to properly prioritize and route orders and assess transaction fees pursuant to the rules of the Exchange and report resulting transactions to the OCC. CBOE order origin codes are defined in CBOE Regulatory Circular RG12-057. The Exchange represents that it has surveillances in place to verify that Trading Permit Holders mark orders with the correct account origin code.

<sup>5</sup> See Section 5(a)(ii) of the Plan.

<sup>6</sup> The BOX Options Exchange, LLC (“BOX”), the International Securities Exchange, LLC (“ISE”), NYSE Arca, Inc. (“NYSEArca”), NYSE MKT LLC (“NYSE MKT”), NASDAQ OMX PHLX, LLC (“Phlx”) and NASDAQ Stock Market, LLC (“NASDAQ”) all charge ORFs.

<sup>7</sup> 15 U.S.C. 78ff(b).

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> “Linkage” orders refers to orders routed to and executed on another exchange pursuant to the Options Order Protection and Locked/Crossed Market Plan (the “Plan”).

change is consistent with Section 6(b)(4) of the Act,<sup>8</sup> which provides that Exchange rules may provide for the equitable allocation of reasonable dues, fees, and other charges among its Permit Holders and other persons using its facilities. The Exchange believes the proposed fee change is reasonable because the adjustment would serve to help offset increased regulatory expenses but does not result in total regulatory revenue exceeding total regulatory costs. The Exchange is amending the ORF due to substantial increases in resources devoted to regulatory services, including the recent hiring of many new employees, increased office space and regulatory systems enhancements.

The Exchange believes applying the ORF to customer-range Linkage orders is reasonable and appropriate because the Exchange has broad regulatory responsibilities with respect to Trading Permit Holder activities, irrespective of where their transactions take place. The Exchange has a statutory obligation to enforce compliance by Trading Permit Holders and their associated persons with the Exchange Act and the Rules of the Exchange and to surveil for other manipulative conduct by market participants (including non-Trading Permit Holders) trading on the Exchange. The Exchange cannot effectively surveil for such conduct without looking at and evaluating activity across all options markets. Many of the Exchange's market surveillance programs require the Exchange to look at and evaluate activity across all options markets, such as surveillance for position limit violations, manipulation, frontrunning and contrary exercise advice violations/expiring exercise declarations. In addition, the Plan requires Participating Options Exchanges to conduct surveillance of their respective markets on a regular basis to ascertain the effectiveness of the policies and procedures to prevent Trade-Throughs and to take prompt action to remedy deficiencies in such policies and procedures.<sup>9</sup> The Exchange also notes the ORFs currently in place at other exchanges do not exclude Linkage orders.<sup>10</sup>

The Exchange believes the ORF is equitable and not unfairly discriminatory because it is objectively

allocated to Trading Permit Holders in that it is charged to all Trading Permit Holders on all their transactions that clear as customer at the OCC. Moreover, the Exchange believes the ORF ensures fairness by assessing higher fees to those Trading Permit Holders that require more Exchange regulatory services based on the amount of customer options business they conduct. Regulating customer trading activity is much more labor intensive and requires greater expenditure of human and technical resources than regulating non-customer trading activity, which tends to be more automated and less labor-intensive. As a result, the costs associated with administering the customer component of the Exchange's overall regulatory program are materially higher than the costs associated with administering the non-customer component (e.g., Trading Permit Holder proprietary transactions) of its regulatory program.<sup>11</sup>

The ORF is designed to recover a material portion of the costs of supervising and regulating Trading Permit Holder customer options business including performing routine surveillances, investigations, examinations, financial monitoring, and policy, rulemaking, interpretive, and enforcement activities. The Exchange will continue to monitor the amount of revenue collected from the ORF to ensure that it, in combination with its other regulatory fees and fines, does not exceed the Exchange's total regulatory costs. If the Exchange determines regulatory revenues exceed regulatory costs, the Exchange will adjust the ORF by submitting a fee change filing to the Commission. The Exchange notifies Trading Permit Holders of adjustments to the ORF via regulatory circular.

#### *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.

#### *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.

<sup>11</sup> If the Exchange changes its method of funding regulation or if circumstances otherwise change in the future, the Exchange may decide to impose the ORF or a separate regulatory fee on Trading Permit Holders if the Exchange deems it advisable.

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)<sup>12</sup> of the Act and paragraph (f) of Rule 19b-4<sup>13</sup> 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.

### **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 email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-CBOE-2012-065 on the subject line.

#### *Paper Comments*

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street NE., Washington, DC 20549-1090.

All submissions should refer to File Number SR-CBOE-2012-065. This file number should be included on the subject line if email 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 Web site (<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 Web site viewing and printing in the Commission's Public Reference Room on official business days between the hours of 10 a.m. and

<sup>12</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>13</sup> 17 CFR 240.19b-4(f).

<sup>8</sup> 15 U.S.C. 78f(b)(4).

<sup>9</sup> See Section 5(a)(ii) of the Plan.

<sup>10</sup> The BOX Options Exchange, LLC ("BOX"), the International Securities Exchange, LLC ("ISE"), NYSE Arca, Inc. ("NYSEArca"), NYSE MKT LLC ("NYSE MKT"), NASDAQ OMX PHLX, LLC ("Phlx") and NASDAQ Stock Market, LLC ("NASDAQ") all charge ORFs.

3 p.m. Copies of such filing also will be available for inspection and copying at the principal offices 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-2012-065, and should be submitted on or before August 31, 2012.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>14</sup>

**Kevin M. O'Neill,**  
Deputy Secretary.

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-67600; File No. SR-CBOE-2012-071]

### Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Proposed Rule Change To Increase the Maximum Term for LEAPS to Fifteen Years

August 6, 2012.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on July 24, 2012, the Chicago Board Options Exchange, Incorporated ("Exchange" or "CBOE") filed with the Securities and Exchange Commission (the "Commission") the proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

#### I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

CBOE proposes to amend Rules 5.8, 23.5(b) and 24.9(b) to increase the maximum term for Long-Term Equity Options Series ("LEAPS") to fifteen years. The text of the proposed rule change is available on the Exchange's Web site (<http://www.cboe.org/legal>), 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 self-regulatory organization 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 those 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 parts of such statements.

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

###### 1. Purpose

Long-term equity and index option series (LEAPS) are similar to standard options but have maturities that may expire from 3 to 5 years, respectively, post initial listing. The purpose of the proposed rule change is to increase the maximum term for all LEAPS. Currently, the maximum term for equity and interest rate LEAPS is 36 months and the maximum term for index LEAPS is 60 months.

Specifically, CBOE is proposing to increase the maximum term for all LEAPS to 180 months (fifteen years). CBOE has received numerous requests from market participants that currently enter into over-the-counter ("OTC") positions that have longer dated expirations than are currently available on CBOE. CBOE would like to accommodate requests to list LEAPS with longer dated expirations, but is currently unable to do so because of the existing term limitations set forth in CBOE's rules. Similar fifteen year maximum terms exist for FLEX Options.<sup>3</sup>

CBOE believes that expanding the eligible term for all LEAPS to 180 months is important and necessary to CBOE's efforts to offer products in an exchange-traded environment that compete with OTC products. CBOE believes that LEAPS provide market participants and investors with a competitive comparable alternative to the OTC market in long-term options, which can take on contract characteristics similar to LEAPS but are not subject to the same maximum term

restriction. By expanding the eligible term for LEAPS, market participants will now have greater flexibility in determining whether to execute their long-term options in an exchange environment or in the OTC market. CBOE believes that market participants can benefit from being able to trade these long-term options in an exchange environment in several ways, including, but not limited to the following: (1) Enhanced efficiency in initiating and closing out positions; (2) increased market transparency; and (3) heightened contra-party creditworthiness due to the role of The Options Clearing Corporation ("OCC") as issuer and guarantor of LEAPS.

The Exchange has confirmed with the OCC that OCC can configure its systems to support LEAPS that have a maximum term of fifteen years (180 months).

Finally, the Exchange is making technical, non-substantive changes to Rules 5.8 and 24.9 to delete "@" symbols.

###### 2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the Act<sup>4</sup> and the rules and regulations under the Act applicable to national securities exchanges and, in particular, the requirements of Section 6(b) of the Act.<sup>5</sup> Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>6</sup> requirements that the rules of an exchange be designed to promote just and equitable principles of trade, to prevent fraudulent and manipulative acts, to remove impediments to and to perfect the mechanism for a free and open market and a national market system, and, in general, to protect investors and the public interest.

The Exchange believes that the proposed rule change is designed to promote just and equitable principles of trade in that the availability of LEAPS with longer dated expirations will give market participants an alternative to trading similar products in the OTC market. By trading a product in an exchange traded environment (that is currently being used in the OTC market) will also enable the Exchange to compete more effectively with the OTC market.

The Exchange believes that the proposed rule change is designed to prevent fraudulent and manipulative acts and practices in that it will hopefully lead to the migration of options currently trading in the OTC

<sup>3</sup> See Securities Exchange Act Release No. 58890 (October 30, 2008), 73 FR 66085 (November 6, 2008) (SR-CBOE-2008-98) (notice of filing and immediate effectiveness of proposed rule change to increase the maximum term of flex options) and CBOE Rules 24A.4(a)(4)(i) [sic] 24B.4(a)(5)(i).

<sup>4</sup> 15 U.S.C. 78s(b)(1)

<sup>5</sup> 15 U.S.C. 78f(b).

<sup>6</sup> 15 U.S.C. 78f(b)(5).

<sup>14</sup> 17 CFR 200.30-3(a)(12).

<sup>15</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.