

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Order Granting Accelerated Approval of a Proposed Rule Change to Amend Exchange Rules Related to Order Tickets

February 26, 2015.

I. Introduction

On January 23, 2015, the Chicago Board Options Exchange, Incorporated (the “Exchange” or “CBOE”) filed with the Securities and Exchange Commission (the “Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”)¹ and Rule 19b-4 thereunder,² a proposed rule change to amend its rules related to use of order tickets. This proposal was published for comment in the Federal Register on February 4, 2015.³ The Commission received no comments regarding the proposal. This order approves the proposed rule change on an accelerated basis.

II. Description of the Proposed Rule Change

The Exchange proposes to amend its rules governing the use of order tickets. According to the Exchange, system limitations on CBOE currently may prevent a multi-part order with more than a certain number of legs from being entered on a single order ticket for representation and execution in open outcry as a complex order.⁴ As a result, complex orders with more than

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 74169 (January 29, 2015), 80 FR 6145 (“Notice”).

⁴ See Notice, supra note 3 at 6147.

the applicable leg limitation that are represented in open outcry must be split up and entered on multiple order tickets.⁵

The Exchange proposes to amend CBOE Rule 6.53 to require that complex orders of twelve (12) legs or less (one leg of which may be for an underlying security or security future, as applicable) must be entered on a single order ticket at time of systemization to provide consistency in processing, and to enhance the Exchange’s audit trail.⁶ If permitted by the Exchange via Regulatory Circular, complex orders of more than twelve (12) legs (one leg of which may be for an underlying security or security future, as applicable) may be split across multiple order tickets, if the Trading Permit Holder (“TPH”) representing the complex order includes twelve (12) legs on one of the order tickets and identifies for the Exchange the order tickets that are part of the same complex order (in a form and manner prescribed by the Exchange).⁷

The Exchange also proposes to add Interpretation and Policy .01 to CBOE Rule 24.20 (pertaining to SPX Combo Orders) to require that an SPX Combo Order for twelve (12) legs or less be entered on a single order ticket at time of systemization.⁸ An SPX Combo Order that contains more than twelve (12) legs may be represented and executed as a single SPX Combo Order in accordance with CBOE Rule 24.20 if it is split across multiple order tickets and the TPH representing the SPX Combo Order includes twelve (12) legs on one of the order tickets and identifies for the Exchange the order tickets that are part of the same SPX Combo Order (in a

⁵ Id.

⁶ Id.

⁷ Id.

⁸ Id.

manner and form prescribed by the Exchange).⁹ The Exchange will announce by Regulatory Circular whether it will permit SPX Combo Orders with more than 12 legs and, if so permitted, the form and manner in which the TPH must link the multiple order tickets.¹⁰ The Exchanges notes that a TPH may submit an order that does not satisfy these ticket requirements, but such order may not be represented or executed as a single SPX Combo Order in accordance with Rule 24.20.¹¹ The Exchange also notes that Rules 24.20 already specifies an applicable ratio, and it is proposing no changes to the ratio through this rule filing.¹²

III. Discussion and 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.¹³ In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,¹⁴ 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. The Commission also finds that the proposed rule

⁹ If an Open outcry complex order or SPX Combo Order with more than twelve legs is split across multiple order tickets, one of the order tickets must contain twelve legs. For example, a thirteen leg order cannot have seven legs on one ticket and six legs on another ticket; rather, one ticket must have twelve legs and the other ticket must have one leg. Id. at 6147.

¹⁰ Id.

¹¹ Id.

¹² Id.

¹³ In approving this proposal, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

¹⁴ 15 U.S.C. 78f(b)(5).

change is consistent with Section 6(b)(1) of the Act,¹⁵ which provides that the Exchange be organized and have the capacity to be able to carry out the purposes of the Act and to enforce compliance by the Exchange's members, and persons associated with members, with the Act, the rules and regulations thereunder and the rules of the Exchange.

The Commission notes that CBOE's proposal is designed to help enhance the Exchange's audit trail with respect to open outcry complex order processing and SPX Combo Orders. The Commission believes that the proposal will help to protect investors and the public interest because the Commission believes an audit trail serves to provides regulators with information that aids them in surveiling activity on their market.

In addition, the Commission finds good cause, pursuant to Section 19(b)(2) of the Act,¹⁶ for approving the proposed rule change prior to the 45th day after publication of notice in the Federal Register. The Commission notes that the substance of this proposal was noticed for comment as part of changes proposed in a prior CBOE proposed rule change, which CBOE withdrew.¹⁷ The prior CBOE proposed rule change was published for the entire 21 day comment

¹⁵ 15 U.S.C. 78f(b)(1).

¹⁶ 15 U.S.C. 78s(b)(2).

¹⁷ See Securities Exchange Act Release No. 72957 (September 2, 2014), 79 FR 53230 (September 8, 2014) ("SR-CBOE-2014-015 Notice"). CBOE withdrew SR-CBOE-2014-015 on November 21, 2014. The Exchange notes that, unlike the instant filing, SR-CBOE-2014-015 did not impose requirements on how a complex order with more than 12 legs should be split across multiple tickets. While the instant filing imposes such a requirement, the Exchange does not believe TPHs will be adversely affected by the proposed requirement specifying how a complex order with more than 12 legs should be split across multiple tickets. The Exchange states that PULSe, the enhanced version of FBW, and proprietary systems that TPHs have designed to comply with the single order ticket requirements of SR-CBOE-2014-015 are capable of complying with the requirement specifying how orders with more than 12 legs should be split across multiple tickets without further programming or configuration. Id. at 6147.

period, and no comments were received.¹⁸ In addition, the instant proposed rule change was published for a 15-day comment period to ensure that the public had an opportunity to review the proposal in its current form and no comments were received on the instant filing. Finally, the Commission notes that the Exchange represents that it has been in communication with TPHs about the changes proposed in the instant filing and implementation issues since August 19, 2014, and has provided training on a Floor Broker Workstation (“FBW”) to support the combo indicator and the entry of complex orders with up to twelve legs.¹⁹

Accordingly, the Commission finds that good cause exists for approving the proposed rule change on an accelerated basis.

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,²⁰ that the proposed rule change (File No. SR-CBOE-2015-011) be, and hereby is, approved on an accelerated basis.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²¹

Jill M. Peterson,
Assistant Secretary.

¹⁸ SR-CBOE-2014-015 provided for several changes to various CBOE Rules; this proposal specifically relates to Order Ticket requirements. See SR-CBOE-2014-015 Notice, supra note 17.

¹⁹ See Notice, supra note 3 at 6146.

²⁰ 15 U.S.C. 78s(b)(2).

²¹ 17 CFR 200.30-3(a)(12).

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