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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Form 19b-4

File No.* SR - 2016 - * 009

Amendment No. (req. for Amendments *)

Filing by Chicago Board Options Exchange

Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial *



Amendment *



Withdrawal



Section 19(b)(2) *



Section 19(b)(3)(A) *



Section 19(b)(3)(B) *



Rule

Pilot

Extension of Time Period
for Commission Action *

Date Expires *

☐ 19b-4(f)(1)☐ 19b-4(f)(2)☐ 19b-4(f)(3)☐ 19b-4(f)(4)☐ 19b-4(f)(5)☐ 19b-4(f)(6)

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010

Section 806(e)(1) *



Section 806(e)(2) *

Security-Based Swap Submission pursuant
to the Securities Exchange Act of 1934

Section 3C(b)(2) *



Exhibit 2 Sent As Paper Document



Exhibit 3 Sent As Paper Document

**Description**

Provide a brief description of the action (limit 250 characters, required when Initial is checked *).

Proposed rule change related to LMMs.

Contact InformationProvide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization
prepared to respond to questions and comments on the action.

First Name * Laura

Last Name * Dickman

Title * Lead Counsel

E-mail * Dickman@cboe.com

Telephone * (312) 786-7572

Fax

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

(Title *)

Date 02/08/2016

By Kyle Edwards

(Name *)

Counsel

NOTE: Clicking the button at right will digitally sign and lock
this form. A digital signature is as legally binding as a physical
signature, and once signed, this form cannot be changed.

Persona Not Validated - 1454966232586,

SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549	
For complete Form 19b-4 instructions please refer to the EFFT website.	
<div>Form 19b-4 Information *</div> <div><div>Add</div><div>Remove</div><div>View</div></div>	The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.
<div>Exhibit 1 - Notice of Proposed Rule Change *</div> <div><div>Add</div><div>Remove</div><div>View</div></div>	The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)
<div>Exhibit 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies *</div> <div><div>Add</div><div>Remove</div><div>View</div></div>	The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change, security-based swap submission, or advance notice being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)
<div>Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications</div> <div><div>Add</div><div>Remove</div><div>View</div></div> <div>Exhibit Sent As Paper Document <input type="checkbox"/></div>	Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.
<div>Exhibit 3 - Form, Report, or Questionnaire</div> <div><div>Add</div><div>Remove</div><div>View</div></div> <div>Exhibit Sent As Paper Document <input type="checkbox"/></div>	Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.
<div>Exhibit 4 - Marked Copies</div> <div><div>Add</div><div>Remove</div><div>View</div></div>	The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.
<div>Exhibit 5 - Proposed Rule Text</div> <div><div>Add</div><div>Remove</div><div>View</div></div>	The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.
<div>Partial Amendment</div> <div><div>Add</div><div>Remove</div><div>View</div></div>	If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

Item 1. Text of the Proposed Rule Change

(a) Chicago Board Options Exchange, Incorporated (the “Exchange” or “CBOE”) proposes to (i) reorganize, simplify and make consistent certain text relating to Lead Market-Maker (“LMM”) and Designated Primary Market-Market (“DPM”) obligations generally, (ii) amend its rules related to LMMs, (iii) delete outdated references in its rules to Supplemental Market-Makers (“SMMs”) and other obsolete language and (iv) make other corresponding and clarifying changes. The text of the proposed rule change is provided in Exhibit 5.

(b) Not applicable.

(c) Not applicable.

Item 2. Procedures of the Self-Regulatory Organization

(a) The Exchange’s President (or designee) pursuant to delegated authority approved the proposed rule change on October 6, 2015. The Exchange will issue a Regulatory Circular announcing to Trading Permit Holders the implementation date of the proposed rule changes.

(b) Please refer questions and comments on the proposed rule change to Joanne Moffic-Silver, Executive Vice President, General Counsel, and Corporate Secretary, (312) 786-7462, or Laura G. Dickman, (312) 786-7572, Chicago Board Options Exchange, Incorporated, 400 South LaSalle, Chicago, Illinois 60605.

Item 3. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

(a) Purpose

The Exchange proposes to (i) reorganize, simplify and make consistent certain text relating to LMM and DPM obligations generally, (ii) amend its Rules related to

LMMs, (iii) delete outdated references in its Rules to SMMs and other obsolete language and (iv) make other corresponding and clarifying changes.

First, the Exchange is proposing to amend Rules 8.15 (pertaining to LMMs in Hybrid 3.0 classes), 8.15A (pertaining to LMMs in Hybrid classes)¹ and 8.85 (pertaining to DPMs) to revise the descriptions of certain obligations of LMMs and DPMs (e.g., obligations related to quote accuracy, bid/ask differentials, minimum size and trading rotations, competitive markets and promotion of the Exchange, and material operational or financial change notifications) to be more consistent with each other (and the descriptions of these obligations contained in other rules).² The Exchange proposes these changes merely to make the language regarding these obligations more consistent throughout the Rules and delete outdated and duplicative language.

¹ “Hybrid Trading System” refers to the Exchange’s trading platform that allows Market-Makers to submit electronic quotes in their appointed classes. “Hybrid 3.0 Platform” is an electronic trading platform on the Hybrid Trading System that allows one or more quoters to submit electronic quotes that represent the aggregate Market-Maker quoting interest in a series for the trading crowd. Classes authorized by the Exchange for trading on the Hybrid Trading System are referred to as “Hybrid classes.” Classes authorized by the Exchange for trading on the Hybrid 3.0 Platform are referred to as “Hybrid 3.0 classes.” References to “Hybrid,” “Hybrid System,” or “Hybrid Trading System” include all platforms unless otherwise provided by rule. See Rule 1.1(aaa).

² The proposed language is also consistent with e-DPM obligations as set forth in former Rule 8.93. The Exchange eliminated the e-DPM program. See Securities Exchange Act Release No. 34-71227 (January 2, 2014), 79 FR 1398 (January 8, 2014) (SR-CBOE-2013-110). While the Exchange eliminated the e-DPM program for the reasons set forth in that rule filing, LMMs and DPMs continue to perform similar functions as e-DPMs use to perform, and the Exchange believes it is appropriate to mirror the language describing the LMM and DPM obligations to the language describing the previous e-DPM obligations, which previously had been approved by the Securities and Exchange Commission (the “Commission”), because LMMs and DPM receive substantially similar benefits and are subject to substantially similar obligations as e-DPMs received and were subjected.

The following table shows certain obligations to which LMMs and DPMs are already subject (either pursuant to Rules 8.15, 8.15A and 8.85 or other Rules),³ the location in the Rules of these obligations, and the corresponding proposed provision, when applicable:

<u>Current Provisions in Rules 8.15, 8.15A and 8.85 (as applicable)</u>	<u>Current Provisions in Other Rules</u>	<u>Proposed Provisions in Rules 8.15 and 8.85 (as applicable)</u>
<p>Rules 8.15(a)(4) and 8.15A(a)(D) – CBOE will review and evaluate the conduct of LMMs, including but not limited to compliance with Rules 8.1, 8.2, 8.3, and 8.7</p> <p>Rule 8.85(a) – each DPM must fulfill all of the obligations of a Market-Maker under the Rules</p>	<p>Rules 8.1, 8.2, 8.3, and 8.7 – definition of Market-Maker, registration of Market-Makers appointment of Market-Makers, and obligations of all Market-Makers (including LMMs and DPMs), respectively</p>	<p>Rule 8.15(b) – each LMM must fulfill all of the obligations of a Market-Maker under the Rules (conforms to current Rule 8.85(a))</p>
<p>Rules 8.15A(b)(ii) and 8.85(a)(ii) – LMMs and DPMs, respectively, must assure that their displayed quotations are honored for at least the number of contracts prescribed pursuant to Rule 8.51</p>	<p>Rule 8.7(b)(iii) – Market-Makers must assure that any market quotes they cause to be disseminated are accurate</p> <p>Rule 8.51 – each Market-Maker must sell (buy) at least the established number of contracts at the offer (bid) that is displayed when a Market-Maker receives a buy (sell) order⁴</p>	<p>Rules 8.15(b)(ii) and 8.85(a)(ii) – LMMs and DPMs, respectively, must assure that their market quotations are accurate⁵</p>

³ The Exchange notes that rules that apply to all Market-Makers, such as Rules 8.7 regarding Market-Maker obligations and 8.51 regarding firm quotes, apply to LMMs and DPMs, unless a provision specific to a LMM or DPM conflicts with a provision in one of these common Market-Maker rules. For example, LMMs and DPMs are subject to different continuous quoting obligations pursuant to Rules 8.15A and 8.87, respectively, than the continuous quoting obligation set forth in Rule 8.7.

⁴ The Exchange proposes to exclude the references to Rule 8.51 in proposed Rules 8.15 and 8.85, as Rule 8.51 describes the firm quote obligation and applies to LMMs and DPMs.

⁵ This revised language is consistent with the language in former Rule 8.93(ii). While this provision is not included in current Rule 8.15, LMMs in Hybrid 3.0 classes are currently subject to this obligation pursuant to Rule 8.7(b)(iii) and will be subject to it pursuant to proposed Rule 8.15(b)(ii).

<u>Current Provisions in Rules 8.15, 8.15A and 8.85 (as applicable)</u>	<u>Current Provisions in Other Rules</u>	<u>Proposed Provisions in Rules 8.15 and 8.85 (as applicable)</u>
<p>Rule 8.15A(b)(i) and (v)⁶ – LMMs must quote within Exchange-prescribed bid/ask differentials</p> <p>Rule 8.85(a)(iii) – DPMs must comply with the bid/ask differential requirements determined by the Exchange</p>	<p>Rules 8.7(b)(iv) and (d)(iv) – Market-Makers must comply with the bid/ask differential requirements determined by the Exchange⁷</p>	<p>Rule 8.15(b)(iii) – LMMs must comply with the bid/ask differential requirements determined by the Exchange (conforms to current Rule 8.85(a)(iii))⁸</p>
<p>Rules 8.15A(b)(ii) and 8.85(a)(ii) – LMMs and DPMs, respectively, must assure that their displayed quotations are honored for at least the number of contracts prescribed pursuant to Rule 8.51 (which permits CBOE to prescribe a minimum quote size)</p>	<p>Rule 8.7(d)(ii)(B) and (iv) – Market-Makers must quote for the minimum number of contracts determined by the Exchange⁹</p>	<p>Rules 8.15A(b)(iv) and 8.85(a)(vii) – LMMs and DPMs, respectively, must assure that their market quotations comply with the minimum size requirements prescribed by the Exchange, which minimum must be at least one contract¹⁰</p>
<p>Rule 8.15 (introductory paragraph and paragraphs (b)(1) and (2)) – LMMs in Hybrid 3.0 classes must</p>	<p>Rule 6.2B(c) and Interpretation and Policy .01(a) – LMMs must</p>	<p>Rules 8.15A(b)(v) and 8.85(a)(xi) – LMMs and DPMs, respectively, must enter opening quotes within</p>

⁶ The Exchange proposes to delete current Rule 8.15A(b)(v) because the obligation to quote within the bid/ask differential and minimum size requirements is not limited to open outcry quotes. These obligations are included in proposed Rule 8.15(b)(iii) and (iv). Additionally, Rule 8.7(d) requires all Market-Makers, including LMMs, to respond to open outcry requests for quotes by floor brokers, making this provision redundant. DPMs are similarly subject to this requirement (as all Market-Makers are); however, Rule 8.85 does not list this as a specific obligation for DPMs.

⁷ Rule 6.2B(iii) allows the Exchange to set different bid/ask differential requirements for opening quotations.

⁸ This revised language is consistent with the language in former Rule 8.93(iii). While this provision is not included in current Rule 8.15, LMMs in Hybrid 3.0 classes are currently subject to this obligation pursuant to 8.7(b)(iv) and (d)(iv) and will continue to be subject to it pursuant to proposed Rule 8.15(b)(iii). The proposed rule change also deletes in current Rule 8.15A(b)(i) a reference that an LMM's continuous electronic quotes must comply with the bid/ask differential requirements determined by the Exchange on a class-by-class basis, as this is redundant of the obligation in current Rules 8.15(b)(1) and 8.15A(b)(v) and proposed Rule 8.15(b)(iii). Additionally, the proposed rule change deletes language in Rule 8.85(a)(iii) that says this obligation relates to option contracts. As all securities that trade on CBOE are options, this language is unnecessary.

⁹ Rule 6.2B(c) and Interpretation and Policy .02 allows the Exchange to set a different minimum number of contracts for opening quotations.

¹⁰ This revised language is consistent with the language in former Rule 8.93(iv). While this provision is not included in current Rule 8.15, LMMs in Hybrid 3.0 classes are currently subject to this obligation pursuant to 8.7(d)(ii)(B) and (iv) and will be subject to it pursuant to proposed Rule 8.15(b)(iv).

<u>Current Provisions in Rules 8.15, 8.15A and 8.85 (as applicable)</u>	<u>Current Provisions in Other Rules</u>	<u>Proposed Provisions in Rules 8.15 and 8.85 (as applicable)</u>
<p>participate in opening and other rotations described in Rule 6.2B, accommodate a relatively active opening and facilitate any imbalances</p> <p>Rules 8.15A(b)(iv) and 8.85(a)(xi) – LMMs and DPMs, respectively, must ensure that a trading rotation is initiated promptly following the opening of the underlying security (or promptly after 8:30 a.m. in an index class) in accordance with Rule 6.2B in 100% of the series of each allocated class by entering opening quotes as necessary</p>	<p>participate in trading rotations</p>	<p>one minute of the initiation of an opening rotation in any series that is not open due to the lack of a quote (see Rule 6.2B(e)(i) or Interpretation and Policy .03(a)(i)), and participate in other rotations described in Rule 6.2B or 24.13, as applicable¹¹</p>
<p>Rule 8.85(c)(ii) – DPMs must make competitive markets on the Exchange and otherwise promote the Exchange in a manner that is likely to enhance the ability of the Exchange to compete successfully for order flow in the classes they trade</p>	<p>Rule 8.7(b)(i) – Market-Makers must compete with other Market-Makers to improve markets</p>	<p>Rule 8.15(b)(vi) – LMMs and DPMs must make competitive markets on the Exchange and otherwise promote the Exchange in a manner that is likely to enhance the ability of the Exchange to compete successfully for order flow in the classes they trade (conforms to Rule 8.85(c)(ii))¹²</p>
<p>Rules 8.15(b)(4) and 8.15A(b)(iii) – LMMs must perform obligations for a period of one expiration month commencing on the first day following an expiration, and failure to perform such obligations for such time may result in suspension of up to three months from trading</p>	<p>Rule 8.85(c)(vi) – a DPM must continue to act as a DPM and to fulfill all of the DPM's obligations as a DPM until the Exchange relieves the DPM of its approval and obligations to act as a DPM or the Exchange terminates the DPM's approval to act as a DPM</p>	<p>Rule 8.15(b)(vii) – an LMM must continue to act as an LMM and fulfill the obligations of an LMM until the Exchange relieves it of its approval to act as an LMM or of its appointment and obligations to act as an LMM in a particular class (conforms to Rule 8.85(c)(vi))¹³</p>

¹¹ Current Rule 8.15 already explicitly subjects LMMs in Hybrid 3.0 classes to this obligation. Rule 6.2B(g) and (h) provides that the rotation process described in Rule 6.2B may be used to reopen a class after a trading halt and for a closing rotation. Rule 24.13 also sets forth trading rotations that may be used for index options. Thus, LMMs' and DPMs' may be required to participate in those trading rotations as well to the extent required by those rules.

¹² This revised language is consistent with the language in former Rule 8.93(vi). CBOE does not believe the proposed rule change imposes a new obligation on LMMs, as Rule 8.7 requires Market-Makers to be competitive; rather, it enhances the description of this obligation

¹³ This provision is consistent with former Rule 8.93(v) (with respect to e-DPMs). This provision is also consistent with the Exchange's ability to appoint LMMs and remove LMMs if, for example, they do not fulfill their LMM duties under current Rules

<u>Current Provisions in Rules 8.15, 8.15A and 8.85 (as applicable)</u>	<u>Current Provisions in Other Rules</u>	<u>Proposed Provisions in Rules 8.15 and 8.85 (as applicable)</u>
in all series of the class		
Rule 8.85(c)(iii) – DPMs must promptly inform the Exchange of any material change in the financial or operational condition of the DPM	Rules 3.7(a) and 15.5 – requires Trading Permit Holders to submit documentation regarding their organization, financial structure and ownership, including updates, and other financial information, to the Exchange Rule 8.3(a)(i) – permits the Exchange to consider the financial resources available to a Market-Maker	Rule 8.15(b)(viii) – LMMs must immediately notify the Exchange of any material operational or financial changes to the LMM organization as well as obtain the Exchange’s approval prior to effecting changes to the ownership, capital structure, voting authority, distribution of profits/losses, or controls of the LMM organization ¹⁴
Rules 8.15A(b)(vi) and 8.85(a)(xii) – LMMs and DPMs, respectively, must act as agent for or use their accounts for, respectively, orders routed to other exchanges that are participants in the Intermarket Options Linkage Plan (the “Old Linkage Plan”)	None	Delete ¹⁵

As this table demonstrates, LMMs and DPMs generally are already subject to the obligations in the proposed provisions – any additional obligations imposed by the proposed rule change on LMMs and DPMs are de minimis and will not be burdensome.

8.15 and 8.15A (as described in the previous row of the table). The Exchange believes the proposed language is more appropriate, as it requires LMMs to satisfy their obligations during their entire term (which may be more than one month), and excludes the language about a possible suspension for not performing their obligations, as Chapter XVII of the Rules describes the process for possible suspensions for rule violations.

¹⁴ This revised language is consistent with the language in former Rule 8.93(viii). The Exchange does not propose to add language to Rule 8.85 regarding the need for approval prior to effecting certain organizational changes with respect to DPMs because Rule 8.89 has a similar requirement that covers some of these organizational changes for DPMs. Additionally, other rules applicable to DPMs impose additional financial requirements (Rule 8.86) and allow the Exchange to review a DPM’s operation at any time (Rule 8.88).

¹⁵ This language is outdated, as it relates to the now obsolete Old Linkage Plan, which has been replaced by the Plan for the Purpose of Creating and Operating an Intermarket Option Linkage. See, e.g., Securities Exchange Act Release No. 56761 (November 7, 2007), 72 FR 64094 (November 14, 2007).

LMMs in Hybrid and Hybrid 3.0 classes and DPMs (and formerly e-DPMs), while being different market participants within CBOE's market, generally serve in the same role in their appointed classes, which is a provider of additional liquidity pursuant to quoting obligations that are higher than other Market-Makers) (in exchange for receiving a participation entitlement). LMMs and DPMs have substantially similar functions and obligations (including the same continuous quoting obligations, along with the same participation entitlement percentages), and the Exchange believes having consistent language with respect to these obligations will simplify its rules and reflect the similar roles served by LMMs and DPMs.¹⁶

The Exchange believes the proposed obligation in the fifth row of the table is only a slight modification of the current opening quoting obligations of LMMs and DPMs. The current rules require LMMs and DPMs to enter opening quotes only as necessary to ensure the opening of 100% of series in a class. The Exchange modifies the opening quote requirement to have a specific time (one minute) by when opening quotes must be entered rather than the nonspecific term "promptly."¹⁷ The Exchange believes this gives clearer guidance to LMMs and DPMs regarding the opening quote obligation, which further promotes compliance by LMMs and DPMs with this obligation. Nearly all series open for trading within this timeframe on a daily basis, and thus the Exchange believes this timeframe is appropriate and will not be unduly burdensome on LMMs and DPMs while still ensuring a prompt opening. The proposed rule change also modifies the

¹⁶ Currently, the primary difference between LMMs and DPMs relates to their appointment terms. An LMM receives an appointment for a limited term (e.g., one month), while a DPM serves in that role until it resigns or the Exchange removes it from that role pursuant to Rule 8.90.

¹⁷ The proposed rule change makes a corresponding change to Rule 17.50(g)(14), which includes the opening quoting obligation in the minor rule violation plan.

language to provide that the timing of the opening quoting obligation begins after the initiation of an opening rotation. Trading rotations are not initiated by opening quotes. Therefore, the proposed change is consistent with system functionality related to openings, as described in Rule 6.2B.¹⁸ In addition, the Exchange clarifies that LMMs and DPMs must enter opening quotes when a series does not open due to a lack of quote pursuant (see Rule 6.2B(e)(i) or Interpretation and Policy .03(a)(i), as applicable). There are several conditions that may be present that prevent a series from opening as set forth in Rule 6.2B(e) and Interpretation and Policy .03(a); however, LMMs and DPMs can help “ensure an opening” as required by the current rule only by entering quotes. The Exchange believes the proposed rule language more accurately states the current obligation, as LMMs and DPMs cannot otherwise help ensure an opening if the other conditions are present.¹⁹ The Exchange notes that in the event a series does not open,

¹⁸ The proposed rule change also adds that in option classes in which both an On-Floor LMM and an Off-Floor DPM or Off-Floor LMM have been appointed, this obligation would be that of the Off-Floor DPM or Off-Floor LMM and not the On-Floor LMM (see discussion below for a description of the Off-Floor DPM and Off-/On-Floor LMM programs).

¹⁹ The Exchange notes that the proposed rule change makes corresponding changes to the language describing the opening quoting standard for LMMs during extended trading hours in Rule 6.1A(e) and the Fees Schedule; however, it makes no substantive changes to that opening quoting standard, which requires LMMs enter opening quotes (in no more than a significant percentage of series for 90% of the trading days during extended trading hours in a month) by 2:05 a.m. (which is five minutes after the initiation of the opening rotation) to be eligible for the monthly payment pursuant to Rule 6.1A(e)(iii) and the CBOE Fees Schedule. See Rule 6.1A(e)(iii) and the Fees Schedule. The opening quoting standard for LMMs during extended trading hours is not a regulatory obligation as it is for LMMs during regular trading hours; rather, an LMM’s satisfaction of the opening quoting standard (and heightened continuous quoting standard) during ETH qualifies the LMM for the monthly payment. The opening quoting standard for LMMs during extended trading hours currently and as proposed provides LMMs with a longer timeframe (five minutes) to enter opening quotes than the regular trading hours requirement, and requires quotes in a significant percentage of series rather than all series as is required in regular trading hours. The Exchange continues to believe

Rule 8.7(d)(iv) requires Market-Makers (including LMMs and DPMs) to submit quotes or maintain continuous quotes in a series in their appointed classes if called upon by a designated Exchange official if the official deems it necessary in the interest of maintaining a fair and orderly market.

Second, the Exchange proposes to amend current Rules 8.15 and 8.15A as follows:

<u>Current Provisions in Rules 8.15 and 8.15A</u>	<u>Current Corresponding Provisions in Other Rules</u>	<u>Proposed Provisions in Rule 8.15</u>	<u>Purpose of Proposed Changes</u>
Rules 8.15(a) and 8.15A(a)(i) – LMMs will be appointed on the first day following an expiration	Rule 8.3(a)(i) – authority of the Exchange to make Market-Maker appointments when, in the Exchange’s judgment, the interest of a fair and orderly market are best served by such action	Rule 8.15(a)(i) – LMMs will be appointed for a term of no less than the time until the end of the then-current expiration cycle	CBOE believes additional flexibility regarding the timing of the appointment of LMMs is important so that it can appoint LMMs at any time if necessary in order to ensure liquidity and in the interest of a fair and orderly market (similar to appointments of Market-Makers). For example, if CBOE lists a new product during an expiration cycle (but not the first day following the end of an expiration cycle), the proposed rule change clarifies that the Exchange has authority to appoint an LMM on that first trading days. CBOE believes it is important to ensure sufficient liquidity in a class through the end of an expiration cycle. ²⁰

that a different opening standard during extended trading hours is reasonable given fewer market participants and less liquidity during those hours than during regular trading hours. See Rule 6.1A(e) and Securities Exchange Act Release No. 34-73704 (November 28, 2014), 79 FR 72044 (December 4, 2014) (SR-CBOE-2014-062) for additional information regarding rules related to LMMs during extended trading hours.

²⁰ The proposed rule change also modifies the factor that may be considered by the Exchange regarding experience in trading index options or options on exchange-traded funds to experience in trading options. While the Exchange currently has appointed LMMs only in index option classes, the rules do not restrict LMMs to classes of those types of options. If the Exchange determined to appoint an LMM in an equity option class, it would want to consider experience in trading equity options rather than index options. This proposed change permits that consideration.

<u>Current Provisions in Rules 8.15 and 8.15A</u>	<u>Current Corresponding Provisions in Other Rules</u>	<u>Proposed Provisions in Rule 8.15</u>	<u>Purpose of Proposed Changes</u>
Rules 8.15(a)(3) and 8.15A(a)(i)(C) – if one or more LMMs are removed or if for any reason an LMM is no longer eligible for or resigns his appointment or fails to perform his duties, the Exchange may appoint an interim LMM to complete the monthly obligations of the former LMM	Rule 8.3(a)(i) – authority of the Exchange to make Market-Maker appointments when, in the Exchange’s judgment, the interest of a fair and orderly market are best served by such action	Rule 8.15(a)(iii) – if the Exchange removes one or more LMMs or if for any reason an LMM is no longer eligible for or resigns the LMM’s appointment or fails to perform the LMM’s duties, the Exchange may appoint one or more interim LMMs for the remainder of the term or shorter time period designated by the Exchange ²¹	CBOE believes it is appropriate to have the authority to appoint more than one interim LMM to be consistent with the initial part of the provision that references the removal of one or more LMMs and to give CBOE the flexibility to appoint multiple interim LMMs if necessary to maintain sufficient liquidity and a fair and orderly market. Additionally, CBOE believes it is appropriate to have the authority to appoint interim LMMs for less than the remainder of a term if, for example, an LMM is only temporarily unable to fulfill its duties (for example, it experiences a systems issue beyond its control) but expects to be able to do so during its appointment term.
Rules 8.15 and 8.15A – references to individual LMMs	None	None	There are currently only LMM organizations, and CBOE no longer intends to appoint individual LMMs, making these references no longer necessary. ²²

²¹ The proposed rule change adds a similar provision to proposed Rule 8.15(c)(iii) to provide that an LMM in a Hybrid 3.0 class must serve during such times as may be requested by the Exchange as a backup LMM and assume autoquoting responsibilities in the event the Exchange determined that the LMM originally appointed to run the autoquote is unable to do so. Because of the unique nature of the autoquote functionality on the Hybrid 3.0 system (as described in proposed Rule 8.15(c)(ii)), the Exchange believes it is important to explicitly state that any temporary LMM must be ready to assume that responsibility to ensure sufficient liquidity in the class in the event the original LMM is unable to autoquote (such as if it is experiencing a systems issue).

²² The proposed rule change deletes a related cross-reference to individual LMMs in Rule 3.2 and current Rule 8.15(b)(3), which requires LMMs to assist LMMs in other zones to facilitate excessive imbalances.

<u>Current Provisions in Rules 8.15 and 8.15A</u>	<u>Current Corresponding Provisions in Other Rules</u>	<u>Proposed Provisions in Rule 8.15</u>	<u>Purpose of Proposed Changes</u>
Rules 8.15 and 8.15A – references to CBOE having the ability to hold all LMMs responsible for the performance of each LMM appointed to the same class or zone and a related provision in Rule 8.15(b)(3), which requires LMMs in Hybrid 3.0 classes to assist LMMs in other zones to facilitate excessive imbalances	None	None	CBOE reviews and evaluates the conduct of each LMM organization individually and does not intend to hold an LMM responsible for the performance of another LMM appointed to the same class or group (as discussed below, CBOE may arrange the series of a class into “groups” rather than “zones”). ²³

The Exchange believes the proposed changes to current Rules 8.15 and 8.15A described in this table are not significant. The proposed changes in the first two rows of the table are consistent with the Exchange’s current authority in other Rules. The proposed changes in the last two rows are merely deleting obsolete language.

Third, the Exchange is proposing to amend Rules related to LMMs in Hybrid 3.0 classes as follows:

- The proposed rule change codifies the continuous quoting obligations of LMMs in Hybrid 3.0 classes. Current Rule 8.15A(b)(i) requires an LMM in a Hybrid class to provide continuous electronic quotes in at least the lesser of 99% of the non-adjusted option series or 100% of the non-adjusted option series minus one call-put pair, with the term “call-put pair” referring to one call and one put that cover the same underlying instrument and have the same expiration date and exercise price. This obligation does not apply to intra-day add-on series on the

²³ See proposed Rule 8.15(a)(iv). This Exchange review and evaluation of LMMs individual of other LMMs is similar to the review and evaluation of DPMs pursuant to Rule 8.88 (and e-DPMs pursuant to former Rule 8.94).

day during which such series are added for trading. This obligation applies to an LMM's appointed classes collectively,²⁴ and the Exchange will determine compliance with an LMM's continuous electronic quoting obligation on a monthly basis (however, determining compliance with this obligation on a monthly basis does not relieve an LMM from meeting this obligation on a daily basis, nor does it prohibit the Exchange from taking disciplinary action against an LMM for failing to meet these obligations each trading day). Current Rule 8.15A, Interpretation and Policy .02 provides that when the underlying security for a class is in a limit up-limit down state, LMMs shall have no quoting obligations in the class. Proposed Rule 8.15(b)(i) will apply this continuous quoting obligation (and Interpretation and Policy .02 will apply the limit up-limit down exception) to LMMs in Hybrid 3.0 classes.

The current continuous electronic quoting obligation applicable to LMMs in Hybrid 3.0 classes is to provide continuous electronic quotes in at least 90% of the series of each appointed class for 99% of the time; however, this obligation had not been codified in the Rules. While the proposed rule change modifies the current quoting obligations of LMMs in Hybrid 3.0 classes, it is identical to the obligations imposed on LMMs in Hybrid classes and DPMs.²⁵ LMMs will

²⁴ The proposed rule change amends this provision to apply to classes on each trading platform. Because the nature of quoting and trading on the Hybrid Trading System is significantly different, the Exchange believes it is appropriate to consider separately the collective quoting requirement for each platform.

²⁵ See Rules 8.15A(b)(i) and 8.85(a)(i); see also Securities Exchange Act Release No. 34-67410 (July 11, 2012), 77 FR 42040 (July 17, 2012) (SR-CBOE-2012-064) (proposed rule change to, among other things, amend intraday quoting obligations of LMMs in Hybrid classes from previous obligation to provide continuous electronic quotes in 90% of the series of a class 99% of the time, which is the current obligation of

continue to be required to respond to requests for quotes from the Exchange pursuant to Rule 8.7(d)(iv). As discussed above, the Exchange believes it is appropriate for LMMs in all classes (and DPMs) to be subject to the same quoting obligations given the similarity of their functions. The Exchange also believes it will be simpler for LMMs and the Exchange's surveillances of continuous electronic quoting obligations if LMMs were all subject to the same obligations. The Exchange believes LMMs will continue to be required to provide quotes in a substantial number of series for a large part of the trading day under this revised quoting obligation, and thus believes there will continue to be sufficient liquidity in Hybrid 3.0 classes;

- delete references in Interpretation and Policy .02(c) to an Off-Floor LMM/affiliated Market-Maker pilot. The pilot has expired so it is no longer necessary to include this provision in the rule text;
- replace references to LMMs being assigned to a “zone” within a Hybrid 3.0 class with a reference indicating that the Exchange may arrange the series of a class into “groups” and may appoint LMMs to those groups rather than to an

LMMs in Hybrid 3.0 classes) for a description of why this quoting obligation for LMMs in Hybrid 3.0 classes will result in the same “minimum total quoting minutes” as LMMs for Hybrid classes. The proposed rule change makes the same change to continuous quoting obligations for LMMs in Hybrid 3.0 classes as was made in that previous filing to continuous quoting obligations for LMMs in Hybrid classes and DPMs. In a Hybrid class or Hybrid 3.0 class in which both an On-Floor LMM and an Off-Floor DPM or Off-Floor LMM has been appointed, the On-Floor LMM shall not be obligated to comply with the continuous quoting obligation applicable to LMMs (see later discussion for a description of the Off-Floor DPM and Off-/On-Floor LMM programs). In such circumstances, such an On-Floor LMM in a Hybrid class shall instead be obligated to comply with the continuous quoting obligations applicable to Market-Makers in Hybrid classes in accordance with Rule 8.7(d). By contrast, such an On-Floor LMM in a Hybrid 3.0 class shall not be subject to continuous quoting obligations given the nature of the aggregated quoting interest on the Hybrid 3.0 Platform.

individual option class. Zones functioned in a similar manner to groups, as either classes or groups of series of classes were assigned to zones. The “zone” language is outdated, and the “group” language is more consistent with provisions in other Exchange rules²⁶; and

- delete SMMs from the Rules. The primary purpose of SMMs was to assist LMMs on the trading floor with certain trading rotations (as described in current Rule 8.15(c)). There are currently no SMMs, there have been no SMMs for at least 15 years, and the Exchange no longer intends to appoint SMMs. The rules permit, but do not require, the Exchange to appoint SMMs. In the past, LMMs conducted opening rotations on the trading floor, and the Exchange believed having the ability to appoint SMMs to assist LMMs during particularly busy or unusual openings would help the Exchange maintain a fair and orderly opening. However, the System is currently used to conduct (and has been for quite some time) opening rotations; LMMs primary role with respect to opening rotations is to enter opening quotes. Thus, the purpose for having SMMs no longer exists. The proposed rule change makes corresponding changes to Rules 3.2, 6.2A, 6.8, 8.7, 8.15 and 24.13 to delete all references to SMMs.

²⁶ See, e.g., Rule 8.14, Interpretation and Policy .01, pursuant to which the Exchange may determine (a) to authorize a group of series of a Hybrid 3.0 class for trading on the Hybrid system and determine eligible categories of Market-Makers for that group of series and (b) whether to change the trading platform on which the group of series trades and change the eligible categories of Market-Makers for the group. That rule also allows the Exchange to appoint Market-Makers (including LMMs and DPMs) to a group of series and apply trading parameters on a group basis to the extent the rules otherwise provide that those parameters apply to a class. Rule 8.14 applies to index classes only; the proposed rule change amends current Rules 8.15 and 8.15A and proposed Rule 8.15 to merely extend the authority to have LMM group appointments for all classes.

Fourth, the Exchange proposes to revise the description of the Off-Floor DPM and Off-/On-Floor LMM programs described in current Rules 8.15, 8.15A, 8.83 and 8.85 as follows:

- amend Rule 8.83(g) to provide that, in a Hybrid 3.0 class in which an Off-Floor DPM has been appointed in accordance with Rule 8.83, notwithstanding current Rules 8.15(a) and 8.15A(a) (which provide that the Exchange may appoint an LMM in a class for which a DPM has not been appointed), the Exchange in its discretion may also appoint an On-Floor LMM, which shall be eligible to receive a participation entitlement under current Rule 8.15B with respect to orders represented in open outcry (the provisions in current Rule 8.15A related to the on-floor LMM program will apply to Hybrid 3.0 classes pursuant to proposed Rule 8.15). The Exchange may currently appoint an On-Floor LMM in a class allocated to an Off-Floor DPM for Hybrid classes.²⁷ This proposed change simply provides the Exchange with the same flexibility for Hybrid 3.0 classes;
- provide in proposed Rule 8.15, Interpretation and Policy .01(c) that in any class in which an Off-Floor LMM has been appointed in accordance with Rule 8.15, the Exchange in its discretion may also appoint an On-Floor LMM, which shall be eligible to receive a participation entitlement under current Rule 8.15B with respect to orders represented in open outcry. This proposed change to allow for an On-Floor LMM in a class allocated to an Off-Floor LMM is consistent with the aforementioned program for Off-Floor DPMs/On-Floor LMMs and simply

²⁷ See Rule 8.83(g).

extends the same flexibility to Hybrid and Hybrid 3.0 classes that have Off-Floor LMMs (rather than Off-Floor DPMs)²⁸;

- provide in proposed Rule 8.15(b)(i) that in all classes in which both an On-Floor LMM and an Off-Floor LMM have been appointed, the On-Floor LMM shall not be obligated to comply with the continuous quote requirements for an LMM. This change is consistent with the existing provisions for On-Floor LMMs in classes which both an On-Floor LMM and Off-Floor DPM have been appointed and merely extends it to classes in which there is an Off-Floor LMM (which corresponds to the changes discussed above that would permit an On-Floor LMM to be appointed in a class where an Off-Floor LMM has been appointed); and
- provide in proposed Rule 8.15, Interpretation and Policy .01(c) and Rule 8.83(g) to make it clear that, if the Exchange in its discretion determines to reallocate a class in which an Off-Floor DPM or Off-Floor LMM has been appointed, the On-Floor LMM appointment will automatically terminate. (An On-Floor LMM appointment can also terminate or expire as otherwise provided in the Rules.)²⁹ Pursuant to the Off-Floor/On-Floor program, the Exchange may

²⁸ The Exchange believes that, given the substantially similar functions of LMMs and DPMs, that it is appropriate to have the On-Floor LMM program available for classes that have Off-Floor LMMs just as it is available for classes that have Off-Floor DPMs. The proposed rule change relocates the provisions related to the Exchange's ability to appoint an On-Floor LMM in a class in which an Off-Floor DPM has been appointed and that state that an On-Floor LMM will receive the participation entitlement in open outcry in classes in which an Off-Floor DPM has been appointed from current Rule 8.15A(a) to proposed Rule 8.15, Interpretation and Policy .01(c) in order to keep all provisions related to the On-Floor LMM program in a single place within proposed Rule 8.15.

²⁹ See, e.g., Rules 8.3(a)(i) and 8.15(a). The Exchange notes that a Trading Permit Holder, including a Market-Maker, that is aggrieved by Exchange action may request that

appoint an On-Floor LMM in a class in which there is an Off-Floor DPM or LMM. It is within the Exchange's discretion to determine which types of Market-Makers may be appointed to each class, as set forth in Rule 8.14. If the Exchange reallocates a class, part of that reallocation may involve appointment of a different type of Market-Maker. For example, the Exchange may appoint to the reallocated class a DPM that operates both On-Floor and Off-Floor rather than Off-Floor only. In that case, the Exchange would generally not also have an On-Floor LMM appointed to that class under this program. To the extent an On-Floor LMM's appointment terminates pursuant to this proposed provision, it would have the opportunity to request appointment to the reallocated class in a Market-Maker capacity.

Fifth, the Exchange proposes to combine current Rules 8.15 (pertaining to LMMs in Hybrid 3.0 classes), 8.15A (pertaining to LMMs in Hybrid classes) and 8.15B (pertaining to LMM participation entitlements) into a single proposed Rule 8.15. LMMs in Hybrid and Hybrid 3.0 classes generally have, or will have upon effectiveness of the proposed changes described above, the same obligations and receive the same participation entitlement. Proposed Rule 8.15 explicitly identifies the couple of additional obligations that apply to LMMs in Hybrid 3.0 classes only; all other provisions apply to LMMs in all classes. The Exchange believes having a single rule applicable to LMMs will reduce duplication within and simplify the rules applicable to LMMs. The following table identifies provisions in current Rules 8.15 and 8.15B and their proposed location in proposed Rule 8.15. The proposed rule change makes no substantive changes

an Appeal Committee review any action taken against it under the CBOE Rules. See Chapter XIX.

to current Rule 8.15B (some nonsubstantive changes are identified in the table). Proposed substantive and nonsubstantive changes to provisions in current Rule 8.15 are discussed above (the proposed provision in Rule 8.15 identified below includes these changes).

<u>Current Provisions in Rules 8.15 and 8.15B (as applicable)</u>	<u>Proposed Provision in Rule 8.15 (amended as described above)</u>
Rule 8.15 (intro) – The Exchange may appoint in an option class for which a DPM has not been appointed one or more Market-Makers in good standing as LMMs	Rule 8.15(a)
Rule 8.15 (intro) – LMMs in Hybrid 3.0 classes must participate in the modified opening rotation in Rule 6.2B, Interpretation and Policy .01	Rule 8.15(c)(i)
Rule 8.15 (intro) – LMMs in Hybrid 3.0 classes must participate in other rotations using the Hybrid Opening System described in Rule 6.2B	Rule 8.15(c)(v)
Rule 8.15 (intro) – LMMs must determine a formula for generating automatically updated market quotations during the trading day	Rule 8.15(c)(ii)
Rule 8.15(a) – LMMs shall be appointed on the first day following an expiration for a period of one month and may be assigned to a zone with one or more LMMs. The Exchange shall select the series to be included in a zone.	Rule 8.15(a)
Rule 8.15(a)(1) – (4)	Rule 8.15(a)(i) – (iv)
Rule 8.15(b)(1)	Rule 8.15(b)(v)
Rule 8.15(b)(2)	Rule 8.15(c)(iv)
Rule 8.15(b)(3)	Deleted as described above
Rule 8.15(b)(4)	Rule 8.15(b)(vii)
Rule 8.15(c)	Deleted as described above
Rule 8.15(d)	Rule 8.15(c)(ii)
Rule 8.15, Interpretation and Policy .01	Rule 8.15, Interpretation and Policy .03
Rule 8.15, Interpretation and Policy .02 (intro), (a) and (b)	Rule 8.15, Interpretation and Policy .01
Rule 8.15, Interpretation and Policy .02(c)	Deleted as described above

<u>Current Provisions in Rules 8.15 and 8.15B (as applicable)</u>	<u>Proposed Provision in Rule 8.15 (amended as described above)</u>
Rule 8.15B(a) – (c)	Rule 8.15(d)
Rule 8.15B, Interpretation and Policy .01	Rule 8.15(b)(i) and Interpretation and Policy .04
Rule 8.15B, Interpretation and Policy .02	Rule 8.15, Interpretation and Policy .02

The proposed rule change deletes references in current Rule 8.15A to Hybrid classes, as proposed Rule 8.15 will apply to all classes (both Hybrid and Hybrid 3.0).

Sixth, the Exchange proposes to delete references to the nonapplicability of strike intervals, bid/ask differential and continuity rules to LEAPS contained in Rules 5.8(a)³⁰ and 24.9(b) (which rules contain provisions related to equity LEAPS and index LEAPS, respectively). Other existing rules specifically address strike price intervals, bid/ask differentials and quote continuity, including (i) Rules 5.5, Interpretation and Policy .01 and 24.9, Interpretation and Policy .01, which describe strike price intervals for equity options and index options, respectively³¹; and (ii) Rules 8.7(d), 8.13(d), 8.15(b) (as

³⁰ The Exchange also proposes to correct a cross-reference to Rule 5.6 (which was combined with Rule 5.5 pursuant to rule filing SR-CBOE-1997-023) that is contained in Rule 5.8.

³¹ Some of these rules have provisions describing how LEAPS are sometimes subject to different strike price interval requirements than other options, which implies that the strike price interval requirements without such LEAPS-specific provisions apply to LEAPS in the same manner as they do to all other option types. See, e.g., Rules 5.5, Interpretation and Policy .01 (a)(1) (\$2.50 strike price intervals are not permitted between \$1 and \$50 for non-LEAPS and LEAPS) and (a)(2)(v) and (3) (allowable strike price intervals for LEAPS for stocks in the \$1 Strike Price Interval Program); and 24.9, Interpretation and Policy .01 (f)(iii) (minimum strike price intervals for LEAPS on BXM is \$5), (g)(iii) (minimum strike price intervals for LEAPS on CBOE S&P 500 Three-Month Realized Volatility options is \$1), and (h)(iv) minimum strike price interval for LEAPS on S&P 500 Dividend Index options is \$1).

amended by this rule filing), and 8.83, which describe continuous quoting and bid/ask differential requirements for the various types of Market-Makers.³²

The provisions in these Rules were adopted after the language that the Exchange proposes to delete in Rules 5.8(a) and 24.9(b)(1)(A). Thus, the Exchange views these latter-adopted Rules regarding strike price interval, bid/ask differential and quote continuity requirements referenced above as superseding the language proposed to be deleted. This view is supported by the specific applicability (or nonapplicability) of certain of these requirements to LEAPS. The language proposed to be deleted is outdated (it was adopted prior to the implementation of the Hybrid Trading System) and duplicative, and thus no longer necessary. The Exchange also believes the different timing included in this language (nine months for equity LEAPS versus 12 months for index LEAPS) is no longer necessary and is confusing for investors. The deletion of this language has no impact on the strike price interval, bid/ask differential or quote continuity requirements currently imposed by the Exchange, which will continue to be imposed in a manner consistent with the other existing rules discussed above. The Exchange believes that the deletion of these provisions in 5.8(a) and 24.9(b)(1)(A) will

³² Two of these rules explicitly exclude LEAPS from the continuous quoting obligations of certain Market-Makers. Rule 8.7(d) requires that Market-Makers provide continuous electronic quotes when quoting in a particular class on a given trading day in 60% of the series of the Market-Maker's appointed class that have a time to expiration of less than nine months. Rule 8.13(d) requires that PMMs provide continuous electronic quotes in at least the lesser of 99% of the non-adjusted option series that have a time to expiration of less than nine months or 100% of the non-adjusted option series that have a time to expiration of less than nine months minus one call-put pair of each class for which it receives PMM orders. The other Rules referenced contain no such exclusion, implying that the Exchange intended for the continuous obligations of LMMs and DPMs to apply to LEAPS. See discussion above regarding proposed inclusion of additional descriptions of the bid/ask differential and continuous quoting requirements in proposed Rule 8.15 regarding obligations of LMMs.

provide additional clarity and eliminate any confusion on the applicability of the strike price interval, bid/ask differential and quote continuity requirements that may otherwise result by including duplicative rules on these topics.

Finally, the Exchange is proposing nonsubstantive, technical changes to Rules 1.1(fff) and (ggg), 3.2, 6.1A, 6.2A, 6.45A, 6.45B, 6.74, 8.7, 8.13, 8.14, 8.15, 8.15A, 8.83, 8.85, 17.50, 22.14, 24.9, and 29.17, including amendments to correct typographical errors, update headings, update cross-references to Rules 8.15, 8.15A and 8.15B, make the rule text more plain English, and make the rule text more consistently organized, numbered and worded.

(b) 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.³³ Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)³⁴ 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

³³ 15 U.S.C. 78f(b).

³⁴ 15 U.S.C. 78f(b)(5).

the Section 6(b)(5)³⁵ 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 that the proposed rule changes to amend Rules 8.15, 8.15A and 8.85 to revise descriptions of obligations of LMMs in Hybrid 3.0 classes, LMMs in Hybrid classes, and DPMs, respectively, as well as combining the LMM obligations into a single rule for all classes, will benefit investors by providing more clarity and uniformity to the Rules related to market participants with substantially similar functions and obligations in a manner that is generally consistent with other Rules. Additionally, the Exchange believes that by including the descriptions of applicable obligations within each rule (which currently apply pursuant to other Rules) will promote compliance by LMMs and DPMs.

As demonstrated above, any additional obligations imposed on LMMs by the proposed rule change are de minimis and will not be burdensome, as the obligations as revised generally currently apply to LMMs pursuant to Rules 8.15 and 8.15A or other Rules. With respect to LMMs in Hybrid 3.0 classes, they are currently subject to continuous quoting obligations, which had previously not been codified in the rules. While the proposed rule change amends these obligations, the proposed obligations are identical to the continuous quoting obligations of LMMs in Hybrid classes and DPMs, as well as former e-DPMs, who serve substantially similar functions within CBOE's market. The Exchange believes that subjecting LMMs in Hybrid 3.0 classes to the same continuous quoting obligations as LMMs in Hybrid classes (and DPMs) will promote compliance by LMMs and simplify surveillance processes for the Exchange when

³⁵Id.

determining compliance with these obligations. Additionally, current rules applicable to LMMs in Hybrid classes and DPMs provide an appropriate balance between the benefits for and burdens imposed on them, and the Exchange believes the proposed rule change provides the same appropriate balance to Hybrid 3.0 LMMs, who serve substantially similar functions as Hybrid LMMs and DPMs. Thus, any additional obligations imposed on LMMs in Hybrid 3.0 classes are de minimis and will not be burdensome. Because the proposed rule change does not materially change the benefits or obligations of LMMs, the Exchange believes the rules continue to provide an appropriate balance between LMM benefits and obligations (as they do for Hybrid LMMs and DPMs) and thus promote just and equitable principles of trade.

The proposed rule change slightly modifies the opening quoting obligations of LMMs and DPMs to include a specific time by which opening quotes must be entered. The proposed timeframe is consistent with the amount of time in which the vast majority of series listed on the Exchange open. The Exchange notes this is the same timeframe included in rules of another options exchange regarding opening quoting obligations of similarly situated market participants.³⁶ The Exchange believes this proposed change is not material and will not result in reduced liquidity while still ensuring a prompt opening. The Exchange notes that LMMs and DPMs only need to enter quotes in series that do not open due to a lack of quote (both today and under the proposed rule); if all series in an appointed class open within the proposed timeframe, the proposed rule change will not increase or decrease any obligation of LMMs and DPMs. The Exchange believes having a specified time by which LMMs and DPMs must enter opening quotes, rather than the

³⁶ See, e.g., MIAX Options Exchange (“MIAX”) Rule 603(c).

nonspecific term “prompt,” simplifies this obligation and promotes compliance with these obligations by LMMs and DPMs. The Exchange may request all Market-Makers to submit quotes in the interests of a fair and orderly market. Thus, the Exchange believes there is no significant risk that more series will not open as a result of this proposed rule change or that there will be a material impact on liquidity.

The proposed rule change does not change the majority of obligations currently imposed on LMMs. As discussed above, through other existing rules, LMMs are already subject to the majority of the obligations as revised. With respect to LMMs in Hybrid 3.0 classes, they are currently subject to continuous quoting obligations which had previously not been codified in the rules. While the proposed rule change amends these obligations, the proposed obligations are identical to the continuous quoting obligations of LMMs in Hybrid classes and DPMs, who serve substantially similar functions). The Exchange believes that subjecting LMMs in Hybrid 3.0 classes to the same continuous quoting obligations as LMMs in Hybrid classes (and DPMs) will promote compliance by LMMs and simplify surveillance processes for the Exchange when determining compliance with these obligations. Additionally, current rules applicable to LMMs in Hybrid classes and DPMs provide an appropriate balance between the benefits for and burdens imposed on them, and the Exchange believes the proposed rule change provides the same appropriate balance to Hybrid 3.0 LMMs, who serve substantially similar functions as Hybrid LMMs and DPMs. Thus, any additional obligations imposed on LMMs are de minimis and will not be burdensome. Because the proposed rule change does not materially change the benefits or obligations of LMMs, the Exchange believes the rules continue to provide an

appropriate balance between LMM benefits and obligations (as they do for Hybrid LMMs and DPMs) and thus promote just and equitable principles of trade.

Further, the Exchange believes the proposed revisions to the descriptions of the Off-Floor DPM and Off-/On-Floor LMM programs will make it easier to read and understand this program, including when Off-Floor DPMs and Off/On-Floor LMMs may be appointed by the Exchange and how obligations and benefits are applied when appointments pursuant to the Program have been made. This clarity will benefit investors and promote compliance with the program. The Exchange believes making this program available to classes in which there is an Off-Floor LMM and Hybrid 3.0 classes, in addition to classes in which there is an Off-Floor DPM and Hybrid classes only, is reasonable given the similar roles of LMMs and DPMs and may result in additional liquidity in those classes.

The Exchange also believes that the proposed changes to eliminate obsolete provisions, including those related to individual LMMs, SMMs, an expired pilot program, the Old Linkage Plan, and strike price interval, bid/ask differential and quote continuity requirements, will protect investors by simplifying the rules and eliminating potential confusion that may result from inclusion of duplicative and outdated rules. With respect to strike price interval, bid/ask differential and quote continuity requirements, as discussed above, other existing rules address those requirements and supersede the language regarding these topics included (and proposed to be deleted) in Rules 5.8 and 24.9, thus rendering this language outdated and unnecessary. The Exchange will continue to impose these requirements in the manner it does today,

consistent with the provisions in the other existing rules, and thus the proposed rule change has no impact on how the Exchange imposes these requirements.

The Exchange believes that the nonsubstantive, technical changes proposed throughout the Rules will simplify and provide more clarity and consistent organization in the Rules, which will benefit investors.

Item 4. 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. Specifically, the changes to the descriptions of obligations of LMMs and DPMs also have no impact on competition, because LMMs and DPMs, as discussed above, generally are already subject to these obligations through existing rules. The proposed rule changes are intended to make the rules regarding LMM and DPM obligations more consistent with each other given the substantially similar functions of LMMs and DPMs and reduce duplication within the Rules. With respect to the proposed changes to certain obligations of LMMs and DPMs, the Exchange notes that these changes are not material and will not be burdensome. While the proposed rule change slightly modifies the opening quoting obligations of LMMs and DPMs, the Exchange believes the modified obligation still requires LMMs and DPMs to promptly enter quotes to ensure an opening, and they must continue to submit quotes in response to a request from the Exchange. Therefore, the Exchange believes there is no significant risk that more series will not open as a result of this proposed rule change. Additionally, while the proposed rule change modifies the continuous quoting obligations of LMMs in Hybrid 3.0 classes, the proposed obligation is the same as that of LMMs in Hybrid classes and DPMs, who have substantially functions and obligations as LMMs in Hybrid 3.0 classes, and LMMs in Hybrid 3.0 classes will

continue to be required to provide quotes in a substantial number of series for a large part of the trading day under the revised quoting obligation. The Exchange believes the rules, as amended, continue to provide an appropriate balance of benefits for and obligations on LMMs and DPMs, and result in significant liquidity on CBOE. See the discussion above for additional details regarding the balance of LMM and DPM obligations and benefits.

The proposed rule change regarding the Off-Floor DPM and On-Floor/Off-Floor LMM program merely enhances the description of this program for investors but has no impact on how the Exchange implements the program. The Exchange believes the proposed revisions to the descriptions of the Off-Floor DPM and Off-/On-Floor LMM programs will make it easier to read and understand this program, including when Off-Floor DPMs and Off/On-Floor LMMs may be appointed by the Exchange and how obligations and benefits are applied when appointments pursuant to the Program have been made. This clarity will benefit investors and promote compliance with the program. Additionally, making this program available to classes in which there is an Off-Floor LMM and Hybrid 3.0 classes, in addition to classes in which there is an Off-Floor DPM and Hybrid classes only, may result in additional liquidity in those classes.

The nonsubstantive, technical changes and deletion of obsolete rule provisions have no impact on competition and are intended only to simplify, make consistent and eliminate potential confusion within the rules.

Item 5. 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.

Item 6. Extension of Time Period for Commission Action

Not applicable.

Item 7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2) or Section 19(b)(7)(D)

Not applicable.

Item 8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission

The proposed rule change is not based on a rule either of another self-regulatory organization or of the Commission.

Item 9. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act

Not applicable.

Item 10. Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act

Not applicable.

Item 11. Exhibits

Exhibit 1. Completed Notice of Proposed Rule Change for publication in the Federal Register.

Exhibit 5. Proposed rule text.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34- ; File No. SR-CBOE-2016-009]

[Insert date]

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing of a Proposed Rule Change Relating to LMMs and DPMs

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 [insert date], 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 Substance of the Proposed Rule Change

The Exchange proposes to (i) reorganize, simplify and make consistent certain text relating to Lead Market-Maker (“LMM”) and Designated Primary Market-Market (“DPM”) obligations generally, (ii) amend its rules related to LMMs, (iii) delete outdated references in its rules to Supplemental Market-Makers (“SMMs”) and other obsolete language and (iv) make other corresponding and clarifying changes.

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.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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 (i) reorganize, simplify and make consistent certain text relating to LMM and DPM obligations generally, (ii) amend its Rules related to LMMs, (iii) delete outdated references in its Rules to SMMs and other obsolete language and (iv) make other corresponding and clarifying changes.

First, the Exchange is proposing to amend Rules 8.15 (pertaining to LMMs in Hybrid 3.0 classes), 8.15A (pertaining to LMMs in Hybrid classes)³ and 8.85 (pertaining to DPMs) to revise the descriptions of certain obligations of LMMs and DPMs (e.g., obligations related to quote accuracy, bid/ask differentials, minimum size and trading rotations, competitive markets and promotion of the Exchange, and material operational or financial change notifications) to be more consistent with each other (and the

³ “Hybrid Trading System” refers to the Exchange’s trading platform that allows Market-Makers to submit electronic quotes in their appointed classes. “Hybrid 3.0 Platform” is an electronic trading platform on the Hybrid Trading System that allows one or more quoters to submit electronic quotes that represent the aggregate Market-Maker quoting interest in a series for the trading crowd. Classes authorized by the Exchange for trading on the Hybrid Trading System are referred to as “Hybrid classes.” Classes authorized by the Exchange for trading on the Hybrid 3.0 Platform are referred to as “Hybrid 3.0 classes.” References to “Hybrid,” “Hybrid System,” or “Hybrid Trading System” include all platforms unless otherwise provided by rule. See Rule 1.1(aaa).

descriptions of these obligations contained in other rules).⁴ The Exchange proposes these changes merely to make the language regarding these obligations more consistent throughout the Rules and delete outdated and duplicative language.

The following table shows certain obligations to which LMMs and DPMs are already subject (either pursuant to Rules 8.15, 8.15A and 8.85 or other Rules),⁵ the location in the Rules of these obligations, and the corresponding proposed provision, when applicable:

<u>Current Provisions in Rules 8.15, 8.15A and 8.85 (as applicable)</u>	<u>Current Provisions in Other Rules</u>	<u>Proposed Provisions in Rules 8.15 and 8.85 (as applicable)</u>
<p>Rules 8.15(a)(4) and 8.15A(a)(D) – CBOE will review and evaluate the conduct of LMMs, including but not limited to compliance with Rules 8.1, 8.2, 8.3, and 8.7</p> <p>Rule 8.85(a) – each DPM must fulfill all of the obligations of a Market-Maker under the Rules</p>	<p>Rules 8.1, 8.2, 8.3, and 8.7 – definition of Market-Maker, registration of Market-Makers appointment of Market-Makers, and obligations of all Market-Makers (including LMMs and DPMs), respectively</p>	<p>Rule 8.15(b) – each LMM must fulfill all of the obligations of a Market-Maker under the Rules (conforms to current Rule 8.85(a))</p>

⁴ The proposed language is also consistent with e-DPM obligations as set forth in former Rule 8.93. The Exchange eliminated the e-DPM program. See Securities Exchange Act Release No. 34-71227 (January 2, 2014), 79 FR 1398 (January 8, 2014) (SR-CBOE-2013-110). While the Exchange eliminated the e-DPM program for the reasons set forth in that rule filing, LMMs and DPMs continue to perform similar functions as e-DPMs use to perform, and the Exchange believes it is appropriate to mirror the language describing the LMM and DPM obligations to the language describing the previous e-DPM obligations, which previously had been approved by the Securities and Exchange Commission (the “Commission”), because LMMs and DPM receive substantially similar benefits and are subject to substantially similar obligations as e-DPMs received and were subjected.

⁵ The Exchange notes that rules that apply to all Market-Makers, such as Rules 8.7 regarding Market-Maker obligations and 8.51 regarding firm quotes, apply to LMMs and DPMs, unless a provision specific to a LMM or DPM conflicts with a provision in one of these common Market-Maker rules. For example, LMMs and DPMs are subject to different continuous quoting obligations pursuant to Rules 8.15A and 8.87, respectively, than the continuous quoting obligation set forth in Rule 8.7.

<u>Current Provisions in Rules 8.15, 8.15A and 8.85 (as applicable)</u>	<u>Current Provisions in Other Rules</u>	<u>Proposed Provisions in Rules 8.15 and 8.85 (as applicable)</u>
Rules 8.15A(b)(ii) and 8.85(a)(ii) – LMMs and DPMs, respectively, must assure that their displayed quotations are honored for at least the number of contracts prescribed pursuant to Rule 8.51	<p>Rule 8.7(b)(iii) – Market-Makers must assure that any market quotes they cause to be disseminated are accurate</p> <p>Rule 8.51 – each Market-Maker must sell (buy) at least the established number of contracts at the offer (bid) that is displayed when a Market-Maker receives a buy (sell) order⁶</p>	Rules 8.15(b)(ii) and 8.85(a)(ii) – LMMs and DPMs, respectively, must assure that their market quotations are accurate ⁷
<p>Rule 8.15A(b)(i) and (v)⁸ – LMMs must quote within Exchange-prescribed bid/ask differentials</p> <p>Rule 8.85(a)(iii) – DPMs must comply with the bid/ask differential requirements determined by the Exchange</p>	Rules 8.7(b)(iv) and (d)(iv) – Market-Makers must comply with the bid/ask differential requirements determined by the Exchange ⁹	Rule 8.15(b)(iii) – LMMs must comply with the bid/ask differential requirements determined by the Exchange (conforms to current Rule 8.85(a)(iii)) ¹⁰

⁶ The Exchange proposes to exclude the references to Rule 8.51 in proposed Rules 8.15 and 8.85, as Rule 8.51 describes the firm quote obligation and applies to LMMs and DPMs.

⁷ This revised language is consistent with the language in former Rule 8.93(ii). While this provision is not included in current Rule 8.15, LMMs in Hybrid 3.0 classes are currently subject to this obligation pursuant to Rule 8.7(b)(iii) and will be subject to it pursuant to proposed Rule 8.15(b)(ii).

⁸ The Exchange proposes to delete current Rule 8.15A(b)(v) because the obligation to quote within the bid/ask differential and minimum size requirements is not limited to open outcry quotes. These obligations are included in proposed Rule 8.15(b)(iii) and (iv). Additionally, Rule 8.7(d) requires all Market-Makers, including LMMs, to respond to open outcry requests for quotes by floor brokers, making this provision redundant. DPMs are similarly subject to this requirement (as all Market-Makers are); however, Rule 8.85 does not list this as a specific obligation for DPMs.

⁹ Rule 6.2B(iii) allows the Exchange to set different bid/ask differential requirements for opening quotations.

¹⁰ This revised language is consistent with the language in former Rule 8.93(iii). While this provision is not included in current Rule 8.15, LMMs in Hybrid 3.0 classes are currently subject to this obligation pursuant to 8.7(b)(iv) and (d)(iv) and will continue to be subject to it pursuant to proposed Rule 8.15(b)(iii). The proposed rule change also deletes in current Rule 8.15A(b)(i) a reference that an LMM's continuous electronic quotes must comply with the bid/ask differential requirements determined by the Exchange on a class-by-class basis, as this is redundant of the obligation in current Rules 8.15(b)(1) and 8.15A(b)(v) and proposed Rule 8.15(b)(iii). Additionally, the proposed rule change deletes language in Rule 8.85(a)(iii) that says this obligation relates to option

<u>Current Provisions in Rules 8.15, 8.15A and 8.85 (as applicable)</u>	<u>Current Provisions in Other Rules</u>	<u>Proposed Provisions in Rules 8.15 and 8.85 (as applicable)</u>
Rules 8.15A(b)(ii) and 8.85(a)(ii) – LMMs and DPMs, respectively, must assure that their displayed quotations are honored for at least the number of contracts prescribed pursuant to Rule 8.51 (which permits CBOE to prescribe a minimum quote size)	Rule 8.7(d)(ii)(B) and (iv) – Market-Makers must quote for the minimum number of contracts determined by the Exchange ¹¹	Rules 8.15A(b)(iv) and 8.85(a)(vii) – LMMs and DPMs, respectively, must assure that their market quotations comply with the minimum size requirements prescribed by the Exchange, which minimum must be at least one contract ¹²
<p>Rule 8.15 (introductory paragraph and paragraphs (b)(1) and (2)) – LMMs in Hybrid 3.0 classes must participate in opening and other rotations described in Rule 6.2B, accommodate a relatively active opening and facilitate any imbalances</p> <p>Rules 8.15A(b)(iv) and 8.85(a)(xi) – LMMs and DPMs, respectively, must ensure that a trading rotation is initiated promptly following the opening of the underlying security (or promptly after 8:30 a.m. in an index class) in accordance with Rule 6.2B in 100% of the series of each allocated class by entering opening quotes as necessary</p>	Rule 6.2B(c) and Interpretation and Policy .01(a) – LMMs must participate in trading rotations	Rules 8.15A(b)(v) and 8.85(a)(xi) – LMMs and DPMs, respectively, must enter opening quotes within one minute of the initiation of an opening rotation in any series that is not open due to the lack of a quote (see Rule 6.2B(e)(i) or Interpretation and Policy .03(a)(i)), and participate in other rotations described in Rule 6.2B or 24.13, as applicable ¹³

contracts. As all securities that trade on CBOE are options, this language is unnecessary.

¹¹ Rule 6.2B(c) and Interpretation and Policy .02 allows the Exchange to set a different minimum number of contracts for opening quotations.

¹² This revised language is consistent with the language in former Rule 8.93(iv). While this provision is not included in current Rule 8.15, LMMs in Hybrid 3.0 classes are currently subject to this obligation pursuant to 8.7(d)(ii)(B) and (iv) and will be subject to it pursuant to proposed Rule 8.15(b)(iv).

¹³ Current Rule 8.15 already explicitly subjects LMMs in Hybrid 3.0 classes to this obligation. Rule 6.2B(g) and (h) provides that the rotation process described in Rule 6.2B may be used to reopen a class after a trading halt and for a closing rotation. Rule 24.13 also sets forth trading rotations that may be used for index options. Thus, LMMs' and DPMs' may be required to participate in those trading rotations as well to the extent required by those rules.

<u>Current Provisions in Rules 8.15, 8.15A and 8.85 (as applicable)</u>	<u>Current Provisions in Other Rules</u>	<u>Proposed Provisions in Rules 8.15 and 8.85 (as applicable)</u>
Rule 8.85(c)(ii) – DPMs must make competitive markets on the Exchange and otherwise promote the Exchange in a manner that is likely to enhance the ability of the Exchange to compete successfully for order flow in the classes they trade	Rule 8.7(b)(i) – Market-Makers must compete with other Market-Makers to improve markets	Rule 8.15(b)(vi) – LMMs and DPMs must make competitive markets on the Exchange and otherwise promote the Exchange in a manner that is likely to enhance the ability of the Exchange to compete successfully for order flow in the classes they trade (conforms to Rule 8.85(c)(ii)) ¹⁴
Rules 8.15(b)(4) and 8.15A(b)(iii) – LMMs must perform obligations for a period of one expiration month commencing on the first day following an expiration, and failure to perform such obligations for such time may result in suspension of up to three months from trading in all series of the class	Rule 8.85(c)(vi) – a DPM must continue to act as a DPM and to fulfill all of the DPM’s obligations as a DPM until the Exchange relieves the DPM of its approval and obligations to act as a DPM or the Exchange terminates the DPM’s approval to act as a DPM	Rule 8.15(b)(vii) – an LMM must continue to act as an LMM and fulfill the obligations of an LMM until the Exchange relieves it of its approval to act as an LMM or of its appointment and obligations to act as an LMM in a particular class (conforms to Rule 8.85(c)(vi)) ¹⁵
Rule 8.85(c)(iii) – DPMs must promptly inform the Exchange of any material change in the financial or operational condition of the DPM	Rules 3.7(a) and 15.5 – requires Trading Permit Holders to submit documentation regarding their organization, financial structure and ownership, including updates, and other financial information, to the Exchange Rule 8.3(a)(i) – permits the Exchange to consider the financial	Rule 8.15(b)(viii) – LMMs must immediately notify the Exchange of any material operational or financial changes to the LMM organization as well as obtain the Exchange’s approval prior to effecting changes to the ownership, capital structure, voting authority, distribution of profits/losses, or controls of the LMM organization ¹⁶

¹⁴ This revised language is consistent with the language in former Rule 8.93(vi). CBOE does not believe the proposed rule change imposes a new obligation on LMMs, as Rule 8.7 requires Market-Makers to be competitive; rather, it enhances the description of this obligation

¹⁵ This provision is consistent with former Rule 8.93(v) (with respect to e-DPMs). This provision is also consistent with the Exchange’s ability to appoint LMMs and remove LMMs if, for example, they do not fulfill their LMM duties under current Rules 8.15 and 8.15A (as described in the previous row of the table). The Exchange believes the proposed language is more appropriate, as it requires LMMs to satisfy their obligations during their entire term (which may be more than one month), and excludes the language about a possible suspension for not performing their obligations, as Chapter XVII of the Rules describes the process for possible suspensions for rule violations.

¹⁶ This revised language is consistent with the language in former Rule 8.93(viii). The Exchange does not propose to add language to Rule 8.85 regarding the need for approval prior to effecting certain organizational changes with respect to DPMs because Rule 8.89 has a similar requirement that covers some of these organizational changes for DPMs. Additionally, other rules applicable to DPMs impose additional financial

<u>Current Provisions in Rules 8.15, 8.15A and 8.85 (as applicable)</u>	<u>Current Provisions in Other Rules</u>	<u>Proposed Provisions in Rules 8.15 and 8.85 (as applicable)</u>
	resources available to a Market-Maker	
Rules 8.15A(b)(vi) and 8.85(a)(xii) – LMMs and DPMs, respectively, must act as agent for or use their accounts for, respectively, orders routed to other exchanges that are participants in the Intermarket Options Linkage Plan (the “Old Linkage Plan”)	None	Delete ¹⁷

As this table demonstrates, LMMs and DPMs generally are already subject to the obligations in the proposed provisions – any additional obligations imposed by the proposed rule change on LMMs and DPMs are de minimis and will not be burdensome. LMMs in Hybrid and Hybrid 3.0 classes and DPMs (and formerly e-DPMs), while being different market participants within CBOE’s market, generally serve in the same role in their appointed classes, which is a provider of additional liquidity pursuant to quoting obligations that are higher than other Market-Makers) (in exchange for receiving a participation entitlement). LMMs and DPMs have substantially similar functions and obligations (including the same continuous quoting obligations, along with the same participation entitlement percentages), and the Exchange believes having consistent language with respect to these obligations will simplify its rules and reflect the similar roles served by LMMs and DPMs.¹⁸

requirements (Rule 8.86) and allow the Exchange to review a DPM’s operation at any time (Rule 8.88).

¹⁷ This language is outdated, as it relates to the now obsolete Old Linkage Plan, which has been replaced by the Plan for the Purpose of Creating and Operating an Intermarket Option Linkage. See, e.g., Securities Exchange Act Release No. 56761 (November 7, 2007), 72 FR 64094 (November 14, 2007).

¹⁸ Currently, the primary difference between LMMs and DPMs relates to their appointment terms. An LMM receives an appointment for a limited term (e.g., one

The Exchange believes the proposed obligation in the fifth row of the table is only a slight modification of the current opening quoting obligations of LMMs and DPMs. The current rules require LMMs and DPMs to enter opening quotes only as necessary to ensure the opening of 100% of series in a class. The Exchange modifies the opening quote requirement to have a specific time (one minute) by when opening quotes must be entered rather than the nonspecific term “promptly.”¹⁹ The Exchange believes this gives clearer guidance to LMMs and DPMs regarding the opening quote obligation, which further promotes compliance by LMMs and DPMs with this obligation. Nearly all series open for trading within this timeframe on a daily basis, and thus the Exchange believes this timeframe is appropriate and will not be unduly burdensome on LMMs and DPMs while still ensuring a prompt opening. The proposed rule change also modifies the language to provide that the timing of the opening quoting obligation begins after the initiation of an opening rotation. Trading rotations are not initiated by opening quotes. Therefore, the proposed change is consistent with system functionality related to openings, as described in Rule 6.2B.²⁰ In addition, the Exchange clarifies that LMMs and DPMs must enter opening quotes when a series does not open due to a lack of quote pursuant (see Rule 6.2B(e)(i) or Interpretation and Policy .03(a)(i), as applicable). There are several conditions that may be present that prevent a series from opening as set forth

month), while a DPM serves in that role until it resigns or the Exchange removes it from that role pursuant to Rule 8.90.

¹⁹ The proposed rule change makes a corresponding change to Rule 17.50(g)(14), which includes the opening quoting obligation in the minor rule violation plan.

²⁰ The proposed rule change also adds that in option classes in which both an On-Floor LMM and an Off-Floor DPM or Off-Floor LMM have been appointed, this obligation would be that of the Off-Floor DPM or Off-Floor LMM and not the On-Floor LMM (see discussion below for a description of the Off-Floor DPM and Off-/On-Floor LMM programs).

in Rule 6.2B(e) and Interpretation and Policy .03(a); however, LMMs and DPMs can help “ensure an opening” as required by the current rule only by entering quotes. The Exchange believes the proposed rule language more accurately states the current obligation, as LMMs and DPMs cannot otherwise help ensure an opening if the other conditions are present.²¹ The Exchange notes that in the event a series does not open, Rule 8.7(d)(iv) requires Market-Makers (including LMMs and DPMs) to submit quotes or maintain continuous quotes in a series in their appointed classes if called upon by a designated Exchange official if the official deems it necessary in the interest of maintaining a fair and orderly market.

²¹ The Exchange notes that the proposed rule change makes corresponding changes to the language describing the opening quoting standard for LMMs during extended trading hours in Rule 6.1A(e) and the Fees Schedule; however, it makes no substantive changes to that opening quoting standard, which requires LMMs enter opening quotes (in no more than a significant percentage of series for 90% of the trading days during extended trading hours in a month) by 2:05 a.m. (which is five minutes after the initiation of the opening rotation) to be eligible for the monthly payment pursuant to Rule 6.1A(e)(iii) and the CBOE Fees Schedule. See Rule 6.1A(e)(iii) and the Fees Schedule. The opening quoting standard for LMMs during extended trading hours is not a regulatory obligation as it is for LMMs during regular trading hours; rather, an LMM’s satisfaction of the opening quoting standard (and heightened continuous quoting standard) during ETH qualifies the LMM for the monthly payment. The opening quoting standard for LMMs during extended trading hours currently and as proposed provides LMMs with a longer timeframe (five minutes) to enter opening quotes than the regular trading hours requirement, and requires quotes in a significant percentage of series rather than all series as is required in regular trading hours. The Exchange continues to believe that a different opening standard during extended trading hours is reasonable given fewer market participants and less liquidity during those hours than during regular trading hours. See Rule 6.1A(e) and Securities Exchange Act Release No. 34-73704 (November 28, 2014), 79 FR 72044 (December 4, 2014) (SR-CBOE-2014-062) for additional information regarding rules related to LMMs during extended trading hours.

Second, the Exchange proposes to amend current Rules 8.15 and 8.15A as follows:

<u>Current Provisions in Rules 8.15 and 8.15A</u>	<u>Current Corresponding Provisions in Other Rules</u>	<u>Proposed Provisions in Rule 8.15</u>	<u>Purpose of Proposed Changes</u>
Rules 8.15(a) and 8.15A(a)(i) – LMMs will be appointed on the first day following an expiration	Rule 8.3(a)(i) – authority of the Exchange to make Market-Maker appointments when, in the Exchange’s judgment, the interest of a fair and orderly market are best served by such action	Rule 8.15(a)(i) – LMMs will be appointed for a term of no less than the time until the end of the then-current expiration cycle	CBOE believes additional flexibility regarding the timing of the appointment of LMMs is important so that it can appoint LMMs at any time if necessary in order to ensure liquidity and in the interest of a fair and orderly market (similar to appointments of Market-Makers). For example, if CBOE lists a new product during an expiration cycle (but not the first day following the end of an expiration cycle), the proposed rule change clarifies that the Exchange has authority to appoint an LMM on that first trading days. CBOE believes it is important to ensure sufficient liquidity in a class through the end of an expiration cycle. ²²

²² The proposed rule change also modifies the factor that may be considered by the Exchange regarding experience in trading index options or options on exchange-traded funds to experience in trading options. While the Exchange currently has appointed LMMs only in index option classes, the rules do not restrict LMMs to classes of those types of options. If the Exchange determined to appoint an LMM in an equity option class, it would want to consider experience in trading equity options rather than index options. This proposed change permits that consideration.

<u>Current Provisions in Rules 8.15 and 8.15A</u>	<u>Current Corresponding Provisions in Other Rules</u>	<u>Proposed Provisions in Rule 8.15</u>	<u>Purpose of Proposed Changes</u>
Rules 8.15(a)(3) and 8.15A(a)(i)(C) – if one or more LMMs are removed or if for any reason an LMM is no longer eligible for or resigns his appointment or fails to perform his duties, the Exchange may appoint an interim LMM to complete the monthly obligations of the former LMM	Rule 8.3(a)(i) – authority of the Exchange to make Market-Maker appointments when, in the Exchange’s judgment, the interest of a fair and orderly market are best served by such action	Rule 8.15(a)(iii) – if the Exchange removes one or more LMMs or if for any reason an LMM is no longer eligible for or resigns the LMM’s appointment or fails to perform the LMM’s duties, the Exchange may appoint one or more interim LMMs for the remainder of the term or shorter time period designated by the Exchange ²³	CBOE believes it is appropriate to have the authority to appoint more than one interim LMM to be consistent with the initial part of the provision that references the removal of one or more LMMs and to give CBOE the flexibility to appoint multiple interim LMMs if necessary to maintain sufficient liquidity and a fair and orderly market. Additionally, CBOE believes it is appropriate to have the authority to appoint interim LMMs for less than the remainder of a term if, for example, an LMM is only temporarily unable to fulfill its duties (for example, it experiences a systems issue beyond its control) but expects to be able to do so during its appointment term.
Rules 8.15 and 8.15A – references to individual LMMs	None	None	There are currently only LMM organizations, and CBOE no longer intends to appoint individual LMMs, making these references no longer necessary. ²⁴

²³ The proposed rule change adds a similar provision to proposed Rule 8.15(c)(iii) to provide that an LMM in a Hybrid 3.0 class must serve during such times as may be requested by the Exchange as a backup LMM and assume autoquoting responsibilities in the event the Exchange determined that the LMM originally appointed to run the autoquote is unable to do so. Because of the unique nature of the autoquote functionality on the Hybrid 3.0 system (as described in proposed Rule 8.15(c)(ii)), the Exchange believes it is important to explicitly state that any temporary LMM must be ready to assume that responsibility to ensure sufficient liquidity in the class in the event the original LMM is unable to autoquote (such as if it is experiencing a systems issue).

²⁴ The proposed rule change deletes a related cross-reference to individual LMMs in Rule 3.2 and current Rule 8.15(b)(3), which requires LMMs to assist LMMs in other zones to facilitate excessive imbalances.

<u>Current Provisions in Rules 8.15 and 8.15A</u>	<u>Current Corresponding Provisions in Other Rules</u>	<u>Proposed Provisions in Rule 8.15</u>	<u>Purpose of Proposed Changes</u>
Rules 8.15 and 8.15A – references to CBOE having the ability to hold all LMMs responsible for the performance of each LMM appointed to the same class or zone and a related provision in Rule 8.15(b)(3), which requires LMMs in Hybrid 3.0 classes to assist LMMs in other zones to facilitate excessive imbalances	None	None	CBOE reviews and evaluates the conduct of each LMM organization individually and does not intend to hold an LMM responsible for the performance of another LMM appointed to the same class or group (as discussed below, CBOE may arrange the series of a class into “groups” rather than “zones”). ²⁵

The Exchange believes the proposed changes to current Rules 8.15 and 8.15A described in this table are not significant. The proposed changes in the first two rows of the table are consistent with the Exchange’s current authority in other Rules. The proposed changes in the last two rows are merely deleting obsolete language.

Third, the Exchange is proposing to amend Rules related to LMMs in Hybrid 3.0 classes as follows:

- The proposed rule change codifies the continuous quoting obligations of LMMs in Hybrid 3.0 classes. Current Rule 8.15A(b)(i) requires an LMM in a Hybrid class to provide continuous electronic quotes in at least the lesser of 99% of the non-adjusted option series or 100% of the non-adjusted option series minus one call-put pair, with the term “call-put pair” referring to one call and one put that cover the same underlying instrument and have the same expiration date and exercise price. This obligation does not apply to intra-day add-on series on the

²⁵ See proposed Rule 8.15(a)(iv). This Exchange review and evaluation of LMMs individual of other LMMs is similar to the review and evaluation of DPMs pursuant to Rule 8.88 (and e-DPMs pursuant to former Rule 8.94).

day during which such series are added for trading. This obligation applies to an LMM's appointed classes collectively,²⁶ and the Exchange will determine compliance with an LMM's continuous electronic quoting obligation on a monthly basis (however, determining compliance with this obligation on a monthly basis does not relieve an LMM from meeting this obligation on a daily basis, nor does it prohibit the Exchange from taking disciplinary action against an LMM for failing to meet these obligations each trading day). Current Rule 8.15A, Interpretation and Policy .02 provides that when the underlying security for a class is in a limit up-limit down state, LMMs shall have no quoting obligations in the class. Proposed Rule 8.15(b)(i) will apply this continuous quoting obligation (and Interpretation and Policy .02 will apply the limit up-limit down exception) to LMMs in Hybrid 3.0 classes.

The current continuous electronic quoting obligation applicable to LMMs in Hybrid 3.0 classes is to provide continuous electronic quotes in at least 90% of the series of each appointed class for 99% of the time; however, this obligation had not been codified in the Rules. While the proposed rule change modifies the current quoting obligations of LMMs in Hybrid 3.0 classes, it is identical to the obligations imposed on LMMs in Hybrid classes and DPMs.²⁷ LMMs will

²⁶ The proposed rule change amends this provision to apply to classes on each trading platform. Because the nature of quoting and trading on the Hybrid Trading System is significantly different, the Exchange believes it is appropriate to consider separately the collective quoting requirement for each platform.

²⁷ See Rules 8.15A(b)(i) and 8.85(a)(i); see also Securities Exchange Act Release No. 34-67410 (July 11, 2012), 77 FR 42040 (July 17, 2012) (SR-CBOE-2012-064) (proposed rule change to, among other things, amend intraday quoting obligations of LMMs in Hybrid classes from previous obligation to provide continuous electronic quotes in 90% of the series of a class 99% of the time, which is the current obligation of

continue to be required to respond to requests for quotes from the Exchange pursuant to Rule 8.7(d)(iv). As discussed above, the Exchange believes it is appropriate for LMMs in all classes (and DPMs) to be subject to the same quoting obligations given the similarity of their functions. The Exchange also believes it will be simpler for LMMs and the Exchange's surveillances of continuous electronic quoting obligations if LMMs were all subject to the same obligations. The Exchange believes LMMs will continue to be required to provide quotes in a substantial number of series for a large part of the trading day under this revised quoting obligation, and thus believes there will continue to be sufficient liquidity in Hybrid 3.0 classes;

- delete references in Interpretation and Policy .02(c) to an Off-Floor LMM/affiliated Market-Maker pilot. The pilot has expired so it is no longer necessary to include this provision in the rule text;
- replace references to LMMs being assigned to a “zone” within a Hybrid 3.0 class with a reference indicating that the Exchange may arrange the series of a class into “groups” and may appoint LMMs to those groups rather than to an

LMMs in Hybrid 3.0 classes) for a description of why this quoting obligation for LMMs in Hybrid 3.0 classes will result in the same “minimum total quoting minutes” as LMMs for Hybrid classes. The proposed rule change makes the same change to continuous quoting obligations for LMMs in Hybrid 3.0 classes as was made in that previous filing to continuous quoting obligations for LMMs in Hybrid classes and DPMs. In a Hybrid class or Hybrid 3.0 class in which both an On-Floor LMM and an Off-Floor DPM or Off-Floor LMM has been appointed, the On-Floor LMM shall not be obligated to comply with the continuous quoting obligation applicable to LMMs (see later discussion for a description of the Off-Floor DPM and Off-/On-Floor LMM programs). In such circumstances, such an On-Floor LMM in a Hybrid class shall instead be obligated to comply with the continuous quoting obligations applicable to Market-Makers in Hybrid classes in accordance with Rule 8.7(d). By contrast, such an On-Floor LMM in a Hybrid 3.0 class shall not be subject to continuous quoting obligations given the nature of the aggregated quoting interest on the Hybrid 3.0 Platform.

individual option class. Zones functioned in a similar manner to groups, as either classes or groups of series of classes were assigned to zones. The “zone” language is outdated, and the “group” language is more consistent with provisions in other Exchange rules²⁸; and

- delete SMMs from the Rules. The primary purpose of SMMs was to assist LMMs on the trading floor with certain trading rotations (as described in current Rule 8.15(c)). There are currently no SMMs, there have been no SMMs for at least 15 years, and the Exchange no longer intends to appoint SMMs. The rules permit, but do not require, the Exchange to appoint SMMs. In the past, LMMs conducted opening rotations on the trading floor, and the Exchange believed having the ability to appoint SMMs to assist LMMs during particularly busy or unusual openings would help the Exchange maintain a fair and orderly opening. However, the System is currently used to conduct (and has been for quite some time) opening rotations; LMMs primary role with respect to opening rotations is to enter opening quotes. Thus, the purpose for having SMMs no longer exists. The proposed rule change makes corresponding changes to Rules 3.2, 6.2A, 6.8, 8.7, 8.15 and 24.13 to delete all references to SMMs.

²⁸ See, e.g., Rule 8.14, Interpretation and Policy .01, pursuant to which the Exchange may determine (a) to authorize a group of series of a Hybrid 3.0 class for trading on the Hybrid system and determine eligible categories of Market-Makers for that group of series and (b) whether to change the trading platform on which the group of series trades and change the eligible categories of Market-Makers for the group. That rule also allows the Exchange to appoint Market-Makers (including LMMs and DPMs) to a group of series and apply trading parameters on a group basis to the extent the rules otherwise provide that those parameters apply to a class. Rule 8.14 applies to index classes only; the proposed rule change amends current Rules 8.15 and 8.15A and proposed Rule 8.15 to merely extend the authority to have LMM group appointments for all classes.

Fourth, the Exchange proposes to revise the description of the Off-Floor DPM and Off-/On-Floor LMM programs described in current Rules 8.15, 8.15A, 8.83 and 8.85 as follows:

- amend Rule 8.83(g) to provide that, in a Hybrid 3.0 class in which an Off-Floor DPM has been appointed in accordance with Rule 8.83, notwithstanding current Rules 8.15(a) and 8.15A(a) (which provide that the Exchange may appoint an LMM in a class for which a DPM has not been appointed), the Exchange in its discretion may also appoint an On-Floor LMM, which shall be eligible to receive a participation entitlement under current Rule 8.15B with respect to orders represented in open outcry (the provisions in current Rule 8.15A related to the on-floor LMM program will apply to Hybrid 3.0 classes pursuant to proposed Rule 8.15). The Exchange may currently appoint an On-Floor LMM in a class allocated to an Off-Floor DPM for Hybrid classes.²⁹ This proposed change simply provides the Exchange with the same flexibility for Hybrid 3.0 classes;
- provide in proposed Rule 8.15, Interpretation and Policy .01(c) that in any class in which an Off-Floor LMM has been appointed in accordance with Rule 8.15, the Exchange in its discretion may also appoint an On-Floor LMM, which shall be eligible to receive a participation entitlement under current Rule 8.15B with respect to orders represented in open outcry. This proposed change to allow for an On-Floor LMM in a class allocated to an Off-Floor LMM is consistent with the aforementioned program for Off-Floor DPMs/On-Floor LMMs and simply

²⁹ See Rule 8.83(g).

extends the same flexibility to Hybrid and Hybrid 3.0 classes that have Off-Floor LMMs (rather than Off-Floor DPMs)³⁰;

- provide in proposed Rule 8.15(b)(i) that in all classes in which both an On-Floor LMM and an Off-Floor LMM have been appointed, the On-Floor LMM shall not be obligated to comply with the continuous quote requirements for an LMM. This change is consistent with the existing provisions for On-Floor LMMs in classes which both an On-Floor LMM and Off-Floor DPM have been appointed and merely extends it to classes in which there is an Off-Floor LMM (which corresponds to the changes discussed above that would permit an On-Floor LMM to be appointed in a class where an Off-Floor LMM has been appointed); and
- provide in proposed Rule 8.15, Interpretation and Policy .01(c) and Rule 8.83(g) to make it clear that, if the Exchange in its discretion determines to reallocate a class in which an Off-Floor DPM or Off-Floor LMM has been appointed, the On-Floor LMM appointment will automatically terminate. (An On-Floor LMM appointment can also terminate or expire as otherwise provided in the Rules.)³¹ Pursuant to the Off-Floor/On-Floor program, the Exchange may

³⁰ The Exchange believes that, given the substantially similar functions of LMMs and DPMs, that it is appropriate to have the On-Floor LMM program available for classes that have Off-Floor LMMs just as it is available for classes that have Off-Floor DPMs. The proposed rule change relocates the provisions related to the Exchange's ability to appoint an On-Floor LMM in a class in which an Off-Floor DPM has been appointed and that state that an On-Floor LMM will receive the participation entitlement in open outcry in classes in which an Off-Floor DPM has been appointed from current Rule 8.15A(a) to proposed Rule 8.15, Interpretation and Policy .01(c) in order to keep all provisions related to the On-Floor LMM program in a single place within proposed Rule 8.15.

³¹ See, e.g., Rules 8.3(a)(i) and 8.15(a). The Exchange notes that a Trading Permit Holder, including a Market-Maker, that is aggrieved by Exchange action may request that

appoint an On-Floor LMM in a class in which there is an Off-Floor DPM or LMM. It is within the Exchange's discretion to determine which types of Market-Makers may be appointed to each class, as set forth in Rule 8.14. If the Exchange reallocates a class, part of that reallocation may involve appointment of a different type of Market-Maker. For example, the Exchange may appoint to the reallocated class a DPM that operates both On-Floor and Off-Floor rather than Off-Floor only. In that case, the Exchange would generally not also have an On-Floor LMM appointed to that class under this program. To the extent an On-Floor LMM's appointment terminates pursuant to this proposed provision, it would have the opportunity to request appointment to the reallocated class in a Market-Maker capacity.

Fifth, the Exchange proposes to combine current Rules 8.15 (pertaining to LMMs in Hybrid 3.0 classes), 8.15A (pertaining to LMMs in Hybrid classes) and 8.15B (pertaining to LMM participation entitlements) into a single proposed Rule 8.15. LMMs in Hybrid and Hybrid 3.0 classes generally have, or will have upon effectiveness of the proposed changes described above, the same obligations and receive the same participation entitlement. Proposed Rule 8.15 explicitly identifies the couple of additional obligations that apply to LMMs in Hybrid 3.0 classes only; all other provisions apply to LMMs in all classes. The Exchange believes having a single rule applicable to LMMs will reduce duplication within and simplify the rules applicable to LMMs. The following table identifies provisions in current Rules 8.15 and 8.15B and their proposed location in proposed Rule 8.15. The proposed rule change makes no substantive changes

an Appeal Committee review any action taken against it under the CBOE Rules. See Chapter XIX.

to current Rule 8.15B (some nonsubstantive changes are identified in the table). Proposed substantive and nonsubstantive changes to provisions in current Rule 8.15 are discussed above (the proposed provision in Rule 8.15 identified below includes these changes).

<u>Current Provisions in Rules 8.15 and 8.15B (as applicable)</u>	<u>Proposed Provision in Rule 8.15 (amended as described above)</u>
Rule 8.15 (intro) – The Exchange may appoint in an option class for which a DPM has not been appointed one or more Market-Makers in good standing as LMMs	Rule 8.15(a)
Rule 8.15 (intro) – LMMs in Hybrid 3.0 classes must participate in the modified opening rotation in Rule 6.2B, Interpretation and Policy .01	Rule 8.15(c)(i)
Rule 8.15 (intro) – LMMs in Hybrid 3.0 classes must participate in other rotations using the Hybrid Opening System described in Rule 6.2B	Rule 8.15(c)(v)
Rule 8.15 (intro) – LMMs must determine a formula for generating automatically updated market quotations during the trading day	Rule 8.15(c)(ii)
Rule 8.15(a) – LMMs shall be appointed on the first day following an expiration for a period of one month and may be assigned to a zone with one or more LMMs. The Exchange shall select the series to be included in a zone.	Rule 8.15(a)
Rule 8.15(a)(1) – (4)	Rule 8.15(a)(i) – (iv)
Rule 8.15(b)(1)	Rule 8.15(b)(v)
Rule 8.15(b)(2)	Rule 8.15(c)(iv)
Rule 8.15(b)(3)	Deleted as described above
Rule 8.15(b)(4)	Rule 8.15(b)(vii)
Rule 8.15(c)	Deleted as described above
Rule 8.15(d)	Rule 8.15(c)(ii)
Rule 8.15, Interpretation and Policy .01	Rule 8.15, Interpretation and Policy .03
Rule 8.15, Interpretation and Policy .02 (intro), (a) and (b)	Rule 8.15, Interpretation and Policy .01
Rule 8.15, Interpretation and Policy .02(c)	Deleted as described above

<u>Current Provisions in Rules 8.15 and 8.15B (as applicable)</u>	<u>Proposed Provision in Rule 8.15 (amended as described above)</u>
Rule 8.15B(a) – (c)	Rule 8.15(d)
Rule 8.15B, Interpretation and Policy .01	Rule 8.15(b)(i) and Interpretation and Policy .04
Rule 8.15B, Interpretation and Policy .02	Rule 8.15, Interpretation and Policy .02

The proposed rule change deletes references in current Rule 8.15A to Hybrid classes, as proposed Rule 8.15 will apply to all classes (both Hybrid and Hybrid 3.0).

Sixth, the Exchange proposes to delete references to the nonapplicability of strike intervals, bid/ask differential and continuity rules to LEAPS contained in Rules 5.8(a)³² and 24.9(b) (which rules contain provisions related to equity LEAPS and index LEAPS, respectively). Other existing rules specifically address strike price intervals, bid/ask differentials and quote continuity, including (i) Rules 5.5, Interpretation and Policy .01 and 24.9, Interpretation and Policy .01, which describe strike price intervals for equity options and index options, respectively³³; and (ii) Rules 8.7(d), 8.13(d), 8.15(b) (as

³² The Exchange also proposes to correct a cross-reference to Rule 5.6 (which was combined with Rule 5.5 pursuant to rule filing SR-CBOE-1997-023) that is contained in Rule 5.8.

³³ Some of these rules have provisions describing how LEAPS are sometimes subject to different strike price interval requirements than other options, which implies that the strike price interval requirements without such LEAPS-specific provisions apply to LEAPS in the same manner as they do to all other option types. See, e.g., Rules 5.5, Interpretation and Policy .01 (a)(1) (\$2.50 strike price intervals are not permitted between \$1 and \$50 for non-LEAPS and LEAPS) and (a)(2)(v) and (3) (allowable strike price intervals for LEAPS for stocks in the \$1 Strike Price Interval Program); and 24.9, Interpretation and Policy .01 (f)(iii) (minimum strike price intervals for LEAPS on BXM is \$5), (g)(iii) (minimum strike price intervals for LEAPS on CBOE S&P 500 Three-Month Realized Volatility options is \$1), and (h)(iv) minimum strike price interval for LEAPS on S&P 500 Dividend Index options is \$1).

amended by this rule filing), and 8.83, which describe continuous quoting and bid/ask differential requirements for the various types of Market-Makers.³⁴

The provisions in these Rules were adopted after the language that the Exchange proposes to delete in Rules 5.8(a) and 24.9(b)(1)(A). Thus, the Exchange views these latter-adopted Rules regarding strike price interval, bid/ask differential and quote continuity requirements referenced above as superseding the language proposed to be deleted. This view is supported by the specific applicability (or nonapplicability) of certain of these requirements to LEAPS. The language proposed to be deleted is outdated (it was adopted prior to the implementation of the Hybrid Trading System) and duplicative, and thus no longer necessary. The Exchange also believes the different timing included in this language (nine months for equity LEAPS versus 12 months for index LEAPS) is no longer necessary and is confusing for investors. The deletion of this language has no impact on the strike price interval, bid/ask differential or quote continuity requirements currently imposed by the Exchange, which will continue to be imposed in a manner consistent with the other existing rules discussed above. The Exchange believes that the deletion of these provisions in 5.8(a) and 24.9(b)(1)(A) will

³⁴ Two of these rules explicitly exclude LEAPS from the continuous quoting obligations of certain Market-Makers. Rule 8.7(d) requires that Market-Makers provide continuous electronic quotes when quoting in a particular class on a given trading day in 60% of the series of the Market-Maker's appointed class that have a time to expiration of less than nine months. Rule 8.13(d) requires that PMMs provide continuous electronic quotes in at least the lesser of 99% of the non-adjusted option series that have a time to expiration of less than nine months or 100% of the non-adjusted option series that have a time to expiration of less than nine months minus one call-put pair of each class for which it receives PMM orders. The other Rules referenced contain no such exclusion, implying that the Exchange intended for the continuous obligations of LMMs and DPMs to apply to LEAPS. See discussion above regarding proposed inclusion of additional descriptions of the bid/ask differential and continuous quoting requirements in proposed Rule 8.15 regarding obligations of LMMs.

provide additional clarity and eliminate any confusion on the applicability of the strike price interval, bid/ask differential and quote continuity requirements that may otherwise result by including duplicative rules on these topics.

Finally, the Exchange is proposing nonsubstantive, technical changes to Rules 1.1(ff) and (ggg), 3.2, 6.1A, 6.2A, 6.45A, 6.45B, 6.74, 8.7, 8.13, 8.14, 8.15, 8.15A, 8.83, 8.85, 17.50, 22.14, 24.9, and 29.17, including amendments to correct typographical errors, update headings, update cross-references to Rules 8.15, 8.15A and 8.15B, make the rule text more plain English, and make the rule text more consistently organized, numbered and worded.

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.³⁵ Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)³⁶ 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)³⁷ requirement that the rules of

³⁵ 15 U.S.C. 78f(b).

³⁶ 15 U.S.C. 78f(b)(5).

³⁷ Id.

an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

In particular, the Exchange believes that the proposed rule changes to amend Rules 8.15, 8.15A and 8.85 to revise descriptions of obligations of LMMs in Hybrid 3.0 classes, LMMs in Hybrid classes, and DPMs, respectively, as well as combining the LMM obligations into a single rule for all classes, will benefit investors by providing more clarity and uniformity to the Rules related to market participants with substantially similar functions and obligations in a manner that is generally consistent with other Rules. Additionally, the Exchange believes that by including the descriptions of applicable obligations within each rule (which currently apply pursuant to other Rules) will promote compliance by LMMs and DPMs.

As demonstrated above, any additional obligations imposed on LMMs by the proposed rule change are de minimis and will not be burdensome, as the obligations as revised generally currently apply to LMMs pursuant to Rules 8.15 and 8.15A or other Rules. With respect to LMMs in Hybrid 3.0 classes, they are currently subject to continuous quoting obligations, which had previously not been codified in the rules. While the proposed rule change amends these obligations, the proposed obligations are identical to the continuous quoting obligations of LMMs in Hybrid classes and DPMs, as well as former e-DPMs, who serve substantially similar functions within CBOE's market. The Exchange believes that subjecting LMMs in Hybrid 3.0 classes to the same continuous quoting obligations as LMMs in Hybrid classes (and DPMs) will promote compliance by LMMs and simplify surveillance processes for the Exchange when determining compliance with these obligations. Additionally, current rules applicable to

LMMs in Hybrid classes and DPMs provide an appropriate balance between the benefits for and burdens imposed on them, and the Exchange believes the proposed rule change provides the same appropriate balance to Hybrid 3.0 LMMs, who serve substantially similar functions as Hybrid LMMs and DPMs. Thus, any additional obligations imposed on LMMs in Hybrid 3.0 classes are de minimis and will not be burdensome. Because the proposed rule change does not materially change the benefits or obligations of LMMs, the Exchange believes the rules continue to provide an appropriate balance between LMM benefits and obligations (as they do for Hybrid LMMs and DPMs) and thus promote just and equitable principles of trade.

The proposed rule change slightly modifies the opening quoting obligations of LMMs and DPMs to include a specific time by which opening quotes must be entered. The proposed timeframe is consistent with the amount of time in which the vast majority of series listed on the Exchange open. The Exchange notes this is the same timeframe included in rules of another options exchange regarding opening quoting obligations of similarly situated market participants.³⁸ The Exchange believes this proposed change is not material and will not result in reduced liquidity while still ensuring a prompt opening. The Exchange notes that LMMs and DPMs only need to enter quotes in series that do not open due to a lack of quote (both today and under the proposed rule); if all series in an appointed class open within the proposed timeframe, the proposed rule change will not increase or decrease any obligation of LMMs and DPMs. The Exchange believes having a specified time by which LMMs and DPMs must enter opening quotes, rather than the nonspecific term “prompt,” simplifies this obligation and promotes compliance with

³⁸ See, e.g., MIAX Options Exchange (“MIAX”) Rule 603(c).

these obligations by LMMs and DPMs. The Exchange may request all Market-Makers to submit quotes in the interests of a fair and orderly market. Thus, the Exchange believes there is no significant risk that more series will not open as a result of this proposed rule change or that there will be a material impact on liquidity.

The proposed rule change does not change the majority of obligations currently imposed on LMMs. As discussed above, through other existing rules, LMMs are already subject to the majority of the obligations as revised. With respect to LMMs in Hybrid 3.0 classes, they are currently subject to continuous quoting obligations which had previously not been codified in the rules. While the proposed rule change amends these obligations, the proposed obligations are identical to the continuous quoting obligations of LMMs in Hybrid classes and DPMs, who serve substantially similar functions). The Exchange believes that subjecting LMMs in Hybrid 3.0 classes to the same continuous quoting obligations as LMMs in Hybrid classes (and DPMs) will promote compliance by LMMs and simplify surveillance processes for the Exchange when determining compliance with these obligations. Additionally, current rules applicable to LMMs in Hybrid classes and DPMs provide an appropriate balance between the benefits for and burdens imposed on them, and the Exchange believes the proposed rule change provides the same appropriate balance to Hybrid 3.0 LMMs, who serve substantially similar functions as Hybrid LMMs and DPMs. Thus, any additional obligations imposed on LMMs are de minimis and will not be burdensome. Because the proposed rule change does not materially change the benefits or obligations of LMMs, the Exchange believes the rules continue to provide an appropriate balance between LMM benefits and obligations (as they do for Hybrid LMMs and DPMs) and thus promote just and equitable principles of trade.

Further, the Exchange believes the proposed revisions to the descriptions of the Off-Floor DPM and Off-/On-Floor LMM programs will make it easier to read and understand this program, including when Off-Floor DPMs and Off/On-Floor LMMs may be appointed by the Exchange and how obligations and benefits are applied when appointments pursuant to the Program have been made. This clarity will benefit investors and promote compliance with the program. The Exchange believes making this program available to classes in which there is an Off-Floor LMM and Hybrid 3.0 classes, in addition to classes in which there is an Off-Floor DPM and Hybrid classes only, is reasonable given the similar roles of LMMs and DPMs and may result in additional liquidity in those classes.

The Exchange also believes that the proposed changes to eliminate obsolete provisions, including those related to individual LMMs, SMMs, an expired pilot program, the Old Linkage Plan, and strike price interval, bid/ask differential and quote continuity requirements, will protect investors by simplifying the rules and eliminating potential confusion that may result from inclusion of duplicative and outdated rules. With respect to strike price interval, bid/ask differential and quote continuity requirements, as discussed above, other existing rules address those requirements and supersede the language regarding these topics included (and proposed to be deleted) in Rules 5.8 and 24.9, thus rendering this language outdated and unnecessary. The Exchange will continue to impose these requirements in the manner it does today, consistent with the provisions in the other existing rules, and thus the proposed rule change has no impact on how the Exchange imposes these requirements.

The Exchange believes that the nonsubstantive, technical changes proposed throughout the Rules will simplify and provide more clarity and consistent organization in the Rules, which will benefit investors.

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. Specifically, the changes to the descriptions of obligations of LMMs and DPMs also have no impact on competition, because LMMs and DPMs, as discussed above, generally are already subject to these obligations through existing rules. The proposed rule changes are intended to make the rules regarding LMM and DPM obligations more consistent with each other given the substantially similar functions of LMMs and DPMs and reduce duplication within the Rules. With respect to the proposed changes to certain obligations of LMMs and DPMs, the Exchange notes that these changes are not material and will not be burdensome. While the proposed rule change slightly modifies the opening quoting obligations of LMMs and DPMs, the Exchange believes the modified obligation still requires LMMs and DPMs to promptly enter quotes to ensure an opening, and they must continue to submit quotes in response to a request from the Exchange. Therefore, the Exchange believes there is no significant risk that more series will not open as a result of this proposed rule change. Additionally, while the proposed rule change modifies the continuous quoting obligations of LMMs in Hybrid 3.0 classes, the proposed obligation is the same as that of LMMs in Hybrid classes and DPMs, who have substantially functions and obligations as LMMs in Hybrid 3.0 classes, and LMMs in Hybrid 3.0 classes will continue to be required to provide quotes in a substantial number of series for a large part of the trading day under the revised quoting obligation. The Exchange believes the rules,

as amended, continue to provide an appropriate balance of benefits for and obligations on LMMs and DPMs, and result in significant liquidity on CBOE. See the discussion above for additional details regarding the balance of LMM and DPM obligations and benefits.

The proposed rule change regarding the Off-Floor DPM and On-Floor/Off-Floor LMM program merely enhances the description of this program for investors but has no impact on how the Exchange implements the program. The Exchange believes the proposed revisions to the descriptions of the Off-Floor DPM and Off-/On-Floor LMM programs will make it easier to read and understand this program, including when Off-Floor DPMs and Off/On-Floor LMMs may be appointed by the Exchange and how obligations and benefits are applied when appointments pursuant to the Program have been made. This clarity will benefit investors and promote compliance with the program. Additionally, making this program available to classes in which there is an Off-Floor LMM and Hybrid 3.0 classes, in addition to classes in which there is an Off-Floor DPM and Hybrid classes only, may result in additional liquidity in those classes.

The nonsubstantive, technical changes and deletion of obsolete rule provisions have no impact on competition and are intended only to simplify, make consistent and eliminate potential confusion within the rules.

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

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds

such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the Exchange consents, the Commission will:

- A. by order approve or disapprove such proposed rule change, or
- B. institute proceedings to determine whether the proposed rule change should be 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-2016-009 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-2016-009. 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 the 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-2016-009 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.³⁹

Secretary

³⁹ 17 CFR 200.30-3(a)(12).

EXHIBIT 5

(additions are underlined; deletions are [bracketed])

* * * * *

**Chicago Board Options Exchange, Incorporated
Rules**

* * * * *

Rule 1.1. Definitions

When used in these Rules, unless the context otherwise requires:

(a) – (eee) No change.

Voluntary Professional

(fff) The term “Voluntary Professional” means any person or entity that is not a broker or dealer in securities that elects, in writing, to be treated in the same manner as a broker or dealer in securities for purposes of Rules 6.2A, 6.2B, 6.8C, 6.9, 6.13A, 6.13B, 6.25, 6.45, 6.45A (except for Interpretation and Policy .02), 6.45B (except for Interpretation and Policy .02), 6.53C(c)(ii), 6.53C(d)(v), subparagraphs (b) and (c) under Interpretation and Policy .06 to Rule 6.53C, 6.74 (except Voluntary Professional orders may be considered public customer orders subject to facilitation under paragraphs (b) and (d)), 6.74A, 6.74B, 8.13, 8.15(d)[B], 8.87, 24.19, 43.1, 44.4, 44.14, and for cancellation fee treatment. The Voluntary Professional designation is not available in Hybrid 3.0 classes.

Professional

(ggg) The term “Professional” means any person or entity that (i) is not a broker or dealer in securities, and (ii) places more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s). A Professional will be treated in the same manner as a broker or dealer in securities for purposes of Rules 6.2A, 6.2B, 6.8C, 6.9, 6.13A, 6.13B, 6.25, 6.45, 6.45A (except for Interpretation and Policy .02), 6.45B (except for Interpretation and Policy .02), 6.53C(c)(ii), 6.53C(d)(v), subparagraphs (b) and (c) under Interpretation and Policy .06 to Rule 6.53C, 6.74 (except Professional orders may be considered public customer orders subject to facilitation under paragraphs (b) and (d)), 6.74A, 6.74B, 8.13, 8.15(d)[B], 8.87, 24.19, 43.1, 44.4, 44.14. The Professional designation is not available in Hybrid 3.0 classes. All Professional orders shall be marked with the appropriate origin code as determined by the Exchange.

... Interpretations and Policies:

.01 No change.

(hhh) – (sss) No change.

... *Interpretations and Policies:*

.01 – .05 No change.

* * * * *

Rule 3.2. Qualifications of Individual Trading Permit Holders

(a) No change.

(b) The individual must be approved to engage in one or more of the following trading functions authorized for individual Trading Permit Holders under the Rules: (i) Market-Maker (Rule 8.2); (ii) Floor Broker (Rule 6.71); (iii) Proprietary Trading Permit Holder (Rule 1.1(kkk)); (iv) Trading Permit Holder eligible to trade securities traded pursuant to Chapter L (Rule 50.4); (v) DPM Designee (Rule 8.81); (vi) FLEX Appointed Market-Maker (Rules 24A.9 and [Rule]24B.9); (vii) FLEX Qualified Market-Maker (Rules 24A.9 and 24B.9); and (viii) [Lead Market-Maker (Rules 8.15 and Rule 8.15A); (ix) Supplemental Market-Maker (Rule 8.15); and (x)]all categories of SBT Traders including SBT Market-Makers, SBT Brokers, and SBT Proprietary Traders (Rule 41.2).

Rule 3.3. Qualifications of TPH Organizations

(a) No change.

(b) An organization also must be approved to engage in one or more of the following trading functions authorized for TPH organizations under the Rules: (i) TPH organization approved to transact business with the public (Rule 9.1); (ii) Clearing Trading Permit Holder; (iii) order service firm (Rule 6.77); (iv) Market-Maker (Rule 8.1); (v) Lead Market-Maker (Rule[s] 8.15[and Rule 8.15A]); (vi) Designated Primary Market-Maker (Rule 8.83); [(vi) Reserved.](vii) Proprietary Trading Permit Holder (Rule 1.1(kkk)); (viii) SBT Designated Primary Market-Maker and SBT Lead Market-Maker (Rule 41.2); and (ix) Trading Permit Holder eligible to trade securities traded pursuant to Chapter L (Rule 50.4).

* * * * *

Rule 5.8. Long-Term Equity Option Series (LEAPS)

(a) Notwithstanding conflicting language in Exchange Rule 5.[6]5, the Exchange may list long-term equity option series (LEAPS) that expire from 12 to 180 months from the time they are listed. There may be up to six additional expiration months. [Strike price interval, bid/ask differential and continuity rules shall not apply to such option series until the time to expiration is less than nine months.]

(b) – (d) No change.

* * * * *

Rule 6.1A. Extended Trading Hours

(a) – (d) No change.

(e) *Market-Makers.*

(i) – (ii) No change.

(iii) *Lead Market-Makers.*

(A) The Exchange may approve one or more Market-Makers to act as LMMs in each class during Extended Trading Hours in accordance with Rule 8.15[A] for terms of at least one month.

(B) During Extended Trading Hours, LMMs must comply with the continuous quoting obligation and other obligations of Market-Makers set forth in subparagraph (ii) above but not with the obligations in Rule 8.15[A]. LMMs do not receive a participation entitlement as set forth in Rules 6.45B and 8.15[B] during Extended Trading Hours.

(C) If an LMM (1) provides continuous electronic quotes in at least the lesser of 99% of the non-adjusted series or 100% of the non-adjusted series minus one call-put pair in an Extended Trading Hours allocated class (excluding intra-day add-on series on the day during which such series are added for trading) and (2) enters opening quotes within five minutes of the initiation of an opening rotation in any series that is not open due to the lack of a quote (see Rule 6.2B(e)(i) or Interpretation and Policy .03(a)(i)), provided that the LMM will not be required to enter opening quotes in more than [ensures an opening of]the same percentage of series set forth in clause (1) [by 2:05 a.m.] for at least 90% of the trading days during Extended Trading Hours in a month, then the LMM receives a rebate for that month in an amount set forth in the Fees Schedule. Notwithstanding Rule 1.1(ccc), for purposes of this subparagraph(C), an LMM is deemed to have provided “continuous electronic quotes” if the LMM provides electronic two-sided quotes for 90% of the time during Extended Trading Hours in a given month. If a technical failure or limitation of a system of the Exchange prevents the LMM from maintaining, or prevents the LMM from communicating to the Exchange, timely and accurate electronic quotes in a class, the duration of such failure shall not be considered in determining whether the LMM has satisfied the 90% quoting standard with respect to that option class. The Exchange may consider other exceptions to this quoting standard based on demonstrated legal or regulatory requirements or other mitigating circumstances.

(iv) No change.

(f) – (k) No change.

* * * * *

Rule 6.2A. Rapid Opening System

This rule applies only to Regular Trading Hours. This rule has no applicability to series trading on the CBOE Hybrid Opening System. Such series will be governed by Rule 6.2B.

(a) – (c) No change.

... Interpretations and Policies:

.01 ROS may be used by LMMs[and SMMs], appointed pursuant to Rule 8.15, to conduct rotations in options classes. Notwithstanding paragraph (b) of this Rule, ROS contracts to trade will be assigned to the LMMs [and SMMs]logged onto the ROS system. In addition, subject to the review of the Board of Directors, the Exchange may establish from time to time a participation entitlement formula that is applicable to the LMM who determines the formula for generating automatically updated market quotations during the trading day and provides the primary quote feed for an option class during an expiration cycle. The participation entitlement formula only applies to ROS contracts to trade and is subject to the following conditions: (i) the LMM will receive this participation right only during expiration cycles ([]and only with respect to time periods during those expiration cycles) when the LMM is providing the primary quote feed, and (ii) the LMM logs onto ROS the designated number of times as established by the Exchange.

.02 No change.

.03 Modified ROS Opening Procedure For Calculation of Settlement Prices of Volatility Indexes.

All provisions set forth in Rule 6.2A and the accompanying interpretations and policies shall remain in effect unless superseded or modified by this Rule 6.2A.03. To facilitate the calculation of a settlement price for futures and options contracts on volatility indexes, the Exchange shall utilize a modified ROS opening procedure for any index option series with respect to which a volatility index is calculated (including any index option series opened under Rule 6.2A.01). This modified ROS opening procedure will be utilized only on the final settlement date of the options and futures contracts on the applicable volatility index in each expiration month.

The following provisions shall be applicable when the modified ROS opening procedure set forth in this Rule 6.2A.03 is in effect for an index option with respect to which a volatility index is calculated:

(i) No change.

(ii) All Market-Makers, including any LMMs[and SMMs], if applicable, who are required to log on to ROS or RAES for the current expiration cycle shall be required to log on to ROS during the modified ROS opening procedure if the Market-Maker is physically present in the trading crowd for that index option class.

(iii) No change.

(iv) ROS contracts to trade for that index option series will be assigned equally, to the greatest extent possible, to all logged-on Market-Makers, including any LMMs[and SMMs], if applicable.

(v) – (ix) No change.

* * * * *

Rule 6.8. RAES Operations

This rule has no applicability to options classes traded on the CBOE Hybrid System.

This Rule governs RAES operations in all classes of options, except to the extent otherwise expressly provided in this or other Rules in respect of specified classes of options.

(a) – (g) No change.

... Interpretations and Policies:

.01 – .08 No change.

.09 (a) No change.

(b) If the Exchange disseminates options quotations with size in a particular class, the entity responsible for determining a formula for generating automatically updated market quotations for that class pursuant to Rule 8.7(b) and (c) shall also have responsibility for determining the size of the undecrementd disseminated quote for that same class. For those classes in which a DPM, LMM, [or SMM,]or Market-Maker in good standing has been appointed the responsibility to determine the size of the disseminated quote, the DPM, LMM, [SMM]or appointed Market-Maker may, but is not required to, consult with and/or agree with members of the trading crowd in determining the size of the disseminated quote. The members of the trading crowd are not required to provide input in these decisions, and in all instances, the DPM, LMM, [SMM,]or appointed Market-Maker has the responsibility to make the final determination as to the size of the undecrementd disseminated quote. For those classes in which a DPM, LMM, [SMM,]or appointed Market-Maker does not have the responsibility set forth in Rule 8.7(b), the trading crowd shall determine the size of the undecrementd disseminated quote.

* * * * *

Rule 6.45A. - Priority and Allocation of Equity Option Trades on the CBOE Hybrid System

Generally: No change.

(a) Allocation of Incoming Electronic Orders: The Exchange will determine to apply, for each class of options, one of the following rules of trading priority described in paragraphs (i) or (ii). The Exchange will issue a Regulatory Circular periodically specifying which

priority rules will govern which classes of options any time the Exchange changes the priority.

(i) Ultimate Matching Algorithm (“UMA”): Under this method, a market participant who enters a quotation or order and whose quote or order is represented by the disseminated CBOE best bid or offer (“BBO”) shall be eligible to receive allocations of incoming electronic orders for up to the size of its quote or order, in accordance with the principles described below. As an initial matter, if the number of contracts represented in the disseminated quote is less than the number of contracts in an incoming electronic order(s), the incoming electronic order(s) shall only be entitled to receive a number of contracts up to the size of the disseminated quote, in accordance with Rule 6.45A(a)(i)(B). The balance of the electronic order will be eligible to be filled at the refreshed quote either electronically (in accordance with paragraph (a)(i)(B) below) or manually (in accordance with Rule 6.45A(b)) and, as such, may receive a split price execution.

(A) – (B) No change.

(C) Participation Entitlement: If a Market-Maker is eligible for an allocation pursuant to the operation of the Algorithm described in paragraph (a) of Rule 6.45A and is also eligible for an allocation pursuant to a participation entitlement under Rules 8.13, 8.15[B], or 8.87, the Market-Maker shall be entitled to receive an allocation (not to exceed the size of its quote) equal to either:

(1) – (2) No change.

The Exchange shall determine which of the preceding two entitlement formulas will be in effect on a class-by-class basis. All pronouncements regarding the entitlement formula shall be made via Regulatory Circular. The participation entitlement percentage is expressed as a percentage of the remaining quantity after all public customer orders in the electronic book have been executed.

(ii) Price-Time or Pro-Rata Priority

Price-Time Priority: No change.

Pro-Rata Priority: No change.

Additional Priority Overlays Applicable to Price-Time or Pro-Rata Priority Methods

In addition to the base allocation methodologies set forth above, the Exchange may determine to apply, on a class-by-class basis, one or more of the following designated market participant overlay priorities in a sequence determined by the Exchange. The Exchange will issue a Regulatory Circular periodically which will specify which classes of options are subject to these additional priorities as well as any time the Exchange changes these priorities.

(1) No change.

(2) Participation Entitlement: The Exchange may determine to grant Market-Makers participation entitlements pursuant to the provisions of Rules 8.87, 8.13, or 8.15[B]. More than one such participation entitlements may be activated for an option class (including at different priority sequences), however in no case may more than one participation entitlement be applied on the same trade. For example, the Preferred Market-Maker participation entitlement of Rule 8.13 and the DPM participation entitlement of Rule 8.87 may be in effect, along with other priorities that are allowed under this Rule, for an option class at different priority levels (*e.g.* public customer has first priority, Preferred entitlement is second priority, Market Turner is third priority, and DPM entitlement - if the Preferred entitlement was not applied on the trade - has fourth priority). In allocating the participation entitlement, all of the following shall apply:

(A) – (D) No change.

(3) No change.

(iii) Additional Priority Overlays Applicable to All Priority Methods

No change.

(b) – (e) No change.

... Interpretations and Policies:

.01 – .04 No change.

Rule 6.45B - Priority and Allocation of Trades in Index Options and Options on ETFs on the CBOE Hybrid System

Generally: No change.

(a) Allocation of Incoming Electronic Orders: The Exchange will determine to apply, for each class of options, one of the following rules of trading priority described in paragraphs (i) or (ii). The Exchange will issue a Regulatory Circular periodically specifying which priority rules will govern which classes of options any time the Exchange changes the priority.

(i) Price-Time or Pro-Rata Priority

Price-Time Priority: No change.

Pro-Rata Priority: No change.

Additional Priority Overlays Applicable to Price-Time or Pro-Rata Priority Methods

In addition to the base allocation methodologies set forth above, the Exchange may determine to apply, on a class-by-class basis, one or more of the following designated market participant overlay priorities in a sequence determined by the Exchange. The Exchange will issue a Regulatory Circular periodically which will specify which classes of options are subject to these additional priorities as well as any time the Exchange changes these priorities.

(1) No change.

(2) Participation Entitlement: The Exchange may determine to grant Market-Makers participation entitlements pursuant to the provisions of Rules 8.87, 8.13, or 8.15[B]. More than one such participation entitlements may be activated for an option class (including at different priority sequences), however in no case may more than one participation entitlement be applied on the same trade. For example, the Preferred Market-Maker participation entitlement of Rule 8.13 and the DPM participation entitlement of Rule 8.87 may be in effect, along with other priorities that are allowed under this Rule, for an option class at different priority levels (*e.g.* public customer has first priority, Preferred entitlement is second priority, Market Turner is third priority, and DPM entitlement - if the Preferred entitlement was not applied on the trade - has fourth priority). In allocating the participation entitlement, all of the following shall apply:

(A) – (D) No change.

(3) No change.

(ii) Ultimate Matching Algorithm (“UMA”): Under this method, a market participant who enters a quotation and whose quote is represented by the disseminated CBOE best bid or offer (“BBO”) shall be eligible to receive allocations of incoming electronic orders for up to the size of its quote, in accordance with the principles described below. As an initial matter, if the number of contracts represented in the disseminated quote is less than the number of contracts in an incoming electronic order(s), the incoming electronic order(s) shall only be entitled to receive a number of contracts up to the size of the disseminated quote, in accordance with Rule 6.45B(a)(ii)(B). The balance of the electronic order will be eligible to be filled at the refreshed quote either electronically (in accordance with paragraph (a)(ii)(B) below) or manually (in accordance with Rule 6.45B(b)) and, as such, may receive a split price execution.

(A) – (B) No change.

(C) Participation Entitlement: If a Market-Maker is eligible for an allocation pursuant to the operation of the Algorithm described in paragraph (a) of Rule 6.45B and is also eligible for an allocation pursuant to a participation entitlement under Rules 8.13, 8.15[B], or 8.87, the Market-Maker may be entitled to receive an allocation (not to exceed the size of its quote) equal to either:

(1) – (3) No change.

The Exchange shall determine which of the preceding three entitlement formulas will be in effect on a class-by-class basis. All pronouncements regarding the entitlement formula shall be made via Regulatory Circular. The participation entitlement percentage is expressed as a percentage of the remaining quantity after all public customer orders in the electronic book have been executed.

(iii) Additional Priority Overlays Applicable to All Priority Methods

No change.

(b) – (d) No change.

... Interpretations and Policies:

.01 – .05 No change.

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Rule 6.74. Crossing Orders

Generally. No change.

(a) – (c) No change.

(d) Notwithstanding the provisions of paragraphs (a) and (b) of this Rule, when a Floor Broker holds an option order for the eligible order size or greater (“original order”), the Floor Broker is entitled to cross a certain percentage of the order with other orders that he is holding or in the case of a public customer order with a facilitation order of the originating firm (*i.e.*, the firm from which the original customer order originated). The Exchange may determine on a class-by-class basis to include solicited orders within the provisions of paragraph (d) of this Rule. In addition, the Exchange may determine on a class-by-class basis the eligible size for an order that may be transacted pursuant to paragraph (d) of this Rule, however, the eligible order size may not be less than 50 standard option contracts or 500 mini-option contracts. In accordance with his responsibilities for due diligence, a Floor Broker representing an order of the eligible order size or greater that he wishes to cross shall request bids and offers for such option series and make all persons in the trading crowd, including the Order Book Official or the PAR Official, aware of his request.

(i) – (iv) No change.

(v) If a trade pursuant to paragraph (d) of this Rule occurs at the On-Floor DPM’s or On-Floor LMM’s principal bid or offer in its appointed class, then the On-Floor DPM’s guaranteed participation level which is established pursuant to Exchange Rule 8.87 (or Exchange circulars issued pursuant to Exchange Rule 8.87) or On-Floor LMM’s guaranteed participation level which is established pursuant to Exchange Rule 8.15[B] shall apply only to the number of contracts remaining after all those public customer orders which trade ahead of the cross transaction and the number of contracts crossed, each as described in paragraph (d)(ii) of this Rule, have been satisfied. The On-Floor DPM’s or On-Floor LMM’s guaranteed participation will be a percentage that when

combined with the percentage the originating firm crossed, does not exceed 40% of the order. If the trade occurs at a price other than the On-Floor DPM's or On-Floor LMM's principal bid or offer, the On-Floor DPM or On-Floor LMM is entitled to no guaranteed participation.

(vi) – (viii) No change.

(e) No change.

... Interpretations and Policies:

.01 – .10 No change.

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Rule 8.7. Obligations of Market-Makers

(a) – (d) No change.

... Interpretations and Policies:

.01 – .06 No change.

.07 Additional Obligations for Hybrid 3.0 Classes[in Which CBOE Hybrid System is NOT Implemented]:

(a) No change.

(b) For those classes in which a DPM[,]or LMM[, or SMM] has been appointed, the responsibility to determine a formula for generating automatically updated market quotations is done by either the DPM pursuant to Rule 8.85(a)(x) or the LMM[or SMM] pursuant to Rule 8.15(c). The DPM[,]or LMM[or SMM] may choose to use either the Exchange's AutoQuote system or a proprietary automated quotation updating systems to monitor and update market quotations. For those options classes in which a DPM[,]or LMM[, or SMM] has not been appointed, the Exchange may appoint one or more [m]Market-[m]Makers in good standing with an appointment in the particular option class to determine a formula for generating automatically updated market quotations for a particular period of time using the Exchange's AutoQuote system or a proprietary automated quotation updating system.

(c) For those option classes in which a DPM, LMM, [SMM,]or appointed [m]Market-[m]Maker does not have the responsibility set forth in paragraph (b) above, the components in the formula used in each trading crowd to generate automatically updated market quotations shall be as agreed upon by the respective trading crowds. For those classes in which a DPM, LMM, [or SMM,]or [a m]Market-[m]Maker in good standing has been appointed the responsibility to determine a formula for generating automatically updated market quotations, the DPM, LMM, [SMM]or appointed [m]Market-[m]Maker may, but is not required to, consult with and/or agree with members of the trading crowd in setting the components of the formula, but the members of the trading crowd are not required to

provide input in these decisions, and in all instances, the DPM, LMM, [SMM,]or appointed [m]Market-[m]Maker has the responsibility to make the final determination as to the components. The provisions of this Interpretation and Policy.07 shall also apply to the use of automated quotation updating systems to generate indicative prices that are indications of interest and not firm quotes.

.08 – .13 No change.

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Rule 8.13. Preferred Market-Maker Program

(a) – (b) No change.

(c) *Entitlement Rate*. Provided the provisions of subparagraph (b) above have been met, the Preferred Market-Maker participation entitlement shall be 40% when there are two or more Market-Makers also quoting at the best bid/offer on the Exchange, and 50% when there is only one other Market-Maker quoting at the best bid/offer on the Exchange. In addition, the following shall apply:

(i) – (ii) No change.

(iii) If a Preferred Market-Maker receives a participation entitlement under this Rule, then no other participation entitlements set forth in Exchange Rules (*e.g.* Rules 8.87 [Participation Entitlement of DPMs]and [Rule]8.15[B Participation Entitlement of LMMs]) shall apply to such order.

(d) No change.

... Interpretations and Policies:

.01 – .03 No change.

Rule 8.14. [Index]Hybrid Trading System[Classes:] Platforms & Market-Maker Participants

(a) Generally: The Exchange (i) may authorize for trading on the [CBOE]Hybrid Trading System or the Hybrid 3.0 Platform [index]options[and options on ETFs] trading on the Exchange and (ii) if that authorization is granted, shall determine the eligible categories of Market-Maker participants for those options. The Exchange shall also have the authority to determine whether to change the trading platform on which those options trade and to change the eligible categories of Market-Maker participants for those options. The eligible categories of Market-Maker participants may include:

Designated Primary Market-Makers (“DPMs”): Market-Makers as defined in Rule 8.80 whose activities are governed by, among other rules, [CBOE]Rules 8.80 – 8.91.

Lead Market-Makers (“LMMs”): Market-Makers as defined in Rule[s] 8.15 [and 8.15A]whose activities are governed by, among other rules, [CBOE]Rule[s] 8.15[and 8.15A].

Market-Makers (“MMs”): Market-Makers as defined in Rule 8.1 whose activities are governed by, among other rules, [CBOE]Rules 8.1– 8.11.

(b) Each class designated for trading on the Hybrid Trading System or the Hybrid 3.0 Platform shall have a[n assigned] DPM or LMM. The Exchange may determine to designate classes for trading on Hybrid without a DPM or LMM provided the following conditions are satisfied:

1. No change.
2. Each Market-Maker with an appointment in the class is subject to the continuous quoting obligations imposed by [CBOE]Rule 8.7(d);
3. No change.

... Interpretations and Policies:

.01 No change.

[Rule 8.15. Lead Market-Makers and Supplemental Market-Makers in Hybrid 3.0 Classes

The Exchange may appoint, in an option class for which a DPM has not been appointed, one or more Market-Makers in good standing as Lead Market-Makers (“LMMs”) and Supplemental Market-Makers (“SMMs”) to participate in the modified opening rotation described in Interpretation .01 to Rule 6.2B, to participate in other opening rotations using the Exchange’s Hybrid Opening System described in Rule 6.2B, and/or to determine a formula for generating automatically updated market quotations during the trading day as described in paragraph (d) below.

(a) LMMs and SMMs shall be appointed on the first day following an expiration for a period of one month (“expiration month”) and shall be assigned to a zone with one or more LMMs or SMMs. The Exchange shall select the series to be included in a zone.

1. Factors to be considered by the Exchange in selecting LMMs and SMMs include: adequacy of capital, experience in trading index options or options on ETFs, presence in the trading crowd, adherence to Exchange rules and ability to meet the obligations specified below. An individual may be appointed as an LMM in only one zone for an expiration month but may also be appointed as an SMM in other zones. An individual may be appointed to be an SMM in more than one zone. When individual Trading Permit Holders are associated with one or more other Trading Permit Holders, only one Trading Permit Holder may receive an LMM appointment.
2. Removal of one or all LMMs and SMMs in a zone may be effected by the Exchange on the basis of the failure of one or more LMMs or SMMs assigned to the zone to meet the obligations set forth in paragraphs b and c below, or any other applicable Exchange rule. An LMM or SMM removed under this rule may seek review of that decision under Chapter XIX of the Rules.

3. If one or more LMMs are removed or if for any reason an LMM shall no longer be eligible for or shall resign his appointment or shall fail to perform his duties, the Exchange may appoint an interim LMM to complete the monthly obligations of the former LMM.
 4. The Exchange shall review and evaluate the conduct of LMMs and SMMs, including but not limited to compliance with Rules 8.1, 8.2, 8.3, and 8.7 and may hold all LMMs and SMMs in a zone responsible for the performance of each LMM and SMM in the zone.
- (b)** The obligations of an LMM are as follows:
1. to quote a firm two-sided market of sufficient size to accommodate a relatively active opening within the bid/ask differential requirements determined by the Exchange on a class by class basis in all option series assigned to the zone;
 2. to facilitate any imbalances of customer orders in all series assigned to the zone;
 3. to assist LMMs in other zones to facilitate excessive imbalances;
 4. to perform the above obligations for a period of one expiration month commencing on the first day following an expiration. Failure to perform such obligations for such time may result in suspension of up to three months from trading in all series of the option class; and
- (c)** The obligations of an SMM are as follows:
1. to accept the previously agreed to portion of opening order imbalances; and
 2. to participate with the LMM in the modified trading rotation for a period of one calendar week. Failure to perform such obligations for such time may result in suspension of up to three months from participation as an LMM or SMM.
- (d)** Each LMM or SMM appointed in accordance with this Rule to determine a formula for generating automatically updated market quotations shall for the period in which it acts as LMM or SMM use the Exchange's AutoQuote system or a proprietary automated quotation updating system to update market quotations during the trading day. In addition, the LMM or SMM shall disclose the following components of the formula to the other Trading Permit Holders trading at the trading station at which the formula is used: option pricing calculation model, volatility, interest rate, dividend, and what is used to represent the price of the underlying. Notwithstanding the foregoing, the Exchange shall have the discretion to exempt LMMs and SMMs using proprietary automated quotation updating systems from having to disclose proprietary information concerning the formulas used by those systems.

... Interpretations and Policies:

.01 The requirements of Interpretation and Policy .07 to Rule 8.7 as they relate to LMMs and SMMs apply to paragraph (d) of this Rule 8.15.

.02 An LMM generally will operate on CBOE's trading floor ("On-Floor LMM"). However, as provided below, an LMM can request that the Exchange authorize the LMM to function remotely away from CBOE's trading floor ("Off-Floor LMM") on a class-by-class basis.

(a) An LMM can request that the Exchange authorize it to operate as an Off-Floor LMM in one or more Hybrid 3.0 classes. The Exchange will consider the factors specified in paragraph (a)(1) above, as well as the factors applicable to Off-Floor DPMs specified in Rule 8.83(g), in determining whether to permit an LMM to operate as an Off-Floor LMM. If an LMM is approved to operate as an Off-Floor LMM in one or more Hybrid 3.0 classes, the Off-Floor LMM can have an LMM designee trade in open outcry in the option classes allocated to the Off-Floor LMM, but the Off-Floor LMM shall not receive a participation entitlement under Rule 8.15B with respect to orders represented in open outcry.

(b) An LMM that is approved to operate as an Off-Floor LMM in one or more Hybrid 3.0 classes can request that the Exchange authorize it to operate as an On-Floor LMM in those option classes. In making a determination pursuant to this paragraph, the Exchange should evaluate whether the change is in the best interests of the Exchange, and may consider any information that it believes will be of assistance to it. Factors to be considered may include, but are not limited to, performance, operational capacity of the Exchange or LMM, efficiency, number and experience of personnel of the LMM who will be performing functions related to the trading of the applicable securities, number of securities involved, number of Market-Makers affected, and trading volume of the securities.

(c) Each Off-Floor LMM shall, as part of a pilot program until March 14, 2009, not allow more than one Market-Maker affiliated with the Off-Floor LMM to trade on CBOE's trading floor in any specific option class allocated to the Off-Floor LMM and provided such Market-Maker is trading on a separate Trading Permit (absent the pilot program, an Off-Floor LMM may not allow any Market-Makers affiliated with the Off-Floor LMM to trade on CBOE's trading floor in any class allocated to the Off-Floor LMM) and provided the Off-Floor LMM does not have an LMM designee trading in open outcry in the option classes allocated to the Off-Floor LMM.]

Rule 8.15[A]. Lead Market-Makers[in Hybrid Classes]¹

(a) **Assignment, Removal, and Evaluation of LMMs:** The Exchange may appoint one or more Market-Makers in good standing with an appointment in a [Hybrid Trading System ("Hybrid") option] class for which a DPM has not been appointed as Lead Market-Makers ("LMMs"). [Additionally, in an option class in which an Off-Floor DPM has been appointed in accordance with Rule 8.83, the Exchange in its discretion may also appoint an On-Floor LMM, which shall be eligible to receive a participation entitlement under Rule 8.15B with respect to orders represented in open outcry. (i)]The Exchange will appoint an LMM[s shall be appointed on the first day following an] for a term of no less than the time until the end of the then-current expiration cycle ("term")][for a period of no less than one month

¹ The Exchange notes it recently amended Rules 8.15 and 8.15A, which changes became effective on filing. See SR-CBOE-2016-007. The rule text above reflects those changes.

(“expiration month”)], which appointment [and]may be [assigned]to a class with one or more LMMs[, or a class in which an Off-Floor DPM has been appointed]. The Exchange may arrange the series of a class into groups and may appoint LMMs to those groups rather than to an individual option class.

[A.](i) Factors to be considered by the Exchange in selecting LMMs include: adequacy of capital, experience in trading [index]options[or options on ETFs], presence in the trading crowd, adherence to Exchange rules and ability to meet the obligations specified below. [An individual may be appointed as an LMM for one expiration month at a time. When individual Trading Permit Holders are associated with one or more other Trading Permit Holders, only one Trading Permit Holder may receive an LMM appointment.]

[B.](ii) Removal of an LMM[s] may be effected by the Exchange on the basis of the failure of [one or more]the LMM[s assigned to the class] to meet the obligations set forth below, or any other applicable Exchange rule. An LMM removed under this rule may seek review of that decision under Chapter XIX of the Rules.

[C.](iii) If [one or more]an LMM[s are] is removed or if for any reason an LMM [shall]is no longer [be]eligible for or [shall]resigns [his]its appointment or [shall]fails to perform [his]its duties, the Exchange may appoint [an]one or more interim LMMs for the remainder of the term or shorter time period designated by the Exchange[to complete the monthly obligations of the former LMM].

[D.](iv) The Exchange [shall]will review and evaluate the conduct of LMMs, including but not limited to compliance with Rules 8.1, 8.2, 8.3, and 8.7[and may hold all LMMs responsible for the performance of each LMM in the class].

(b) LMM Obligations[.]: Each LMM must fulfill all the obligations of a Market-Maker under the Rules and satisfy each of the following requirements[LMMs are required to]:

(i) provide continuous electronic quotes (as defined in Rule 1.1 (ccc)) [that comply with the bid/ask differential requirements determined by the Exchange on a class by class basis]in at least the lesser of 99% of the non-adjusted option series or 100% of the non-adjusted option series minus one call-put pair, with the term “call-put pair” referring to one call and one put that cover the same underlying instrument and have the same expiration date and exercise price. This obligation does not apply to intra-day add-on series on the day during which such series are added for trading. Compliance with this quoting obligation applies to all of an LMM’s appointed classes on each platform collectively. The Exchange will determine compliance by an LMM with this quoting obligation on a monthly basis. However, determining compliance with this obligation on a monthly basis does not relieve an LMM from meeting this obligation on a daily basis, nor does it prohibit the Exchange from taking disciplinary action against an LMM for failing to meet this obligation each trading day. In option classes in which both an On-Floor LMM and an Off-Floor DPM or Off-Floor LMM have been appointed, the On-Floor LMM [shall]will not be obligated to comply with this paragraph (b)(i) and instead [shall]will be obligated to comply with the obligations of Market-Makers [in Hybrid classes]in Rule 8.7(d);

(ii) assure that its market quotations are accurate[each of its displayed market quotations is honored for at least the number of contracts prescribed pursuant to Rule 8.51];

(iii) comply with the bid/ask differential requirements determined by the Exchange on a class-by-class basis[perform the above obligations for a period of one expiration month commencing on the first day following an expiration. Failure to perform such obligations for such time may result in suspension of up to three months from trading in all series of the option class];

(iv) assure that its market quotations comply with the minimum size requirements prescribed by the Exchange, which minimum must be at least one contract;

(v) enter opening quotes within one minute of the initiation of an opening rotation in any series that is not open due to the lack of a quote (see Rule 6.2B(e)(i) or Interpretation and Policy .03(a)(i)) [ensure that a trading rotation is initiated promptly following the opening of the underlying security (or promptly after 8:30 a.m. (CT) in an index class) in accordance with Rule 6.2B in 100% of the series of each allocated class by entering opening quotes as necessary] and participate in other rotations described in Rule 6.2B (including the modified opening rotations set forth in Interpretations and Policies .01 and .08) or 24.13, as applicable. In option classes in which both an On-Floor LMM and an Off-Floor DPM or Off-Floor LMM have been appointed, the obligation set forth in this paragraph (b)(i)v) [shall]will be that of the Off-Floor DPM or Off-Floor LMM and not the On-Floor LMM[.];

[(v) respond to any open outcry request for quote by a floor broker with a two-sided quote complying with the bid-ask differential requirements determined by the Exchange on a class by class basis, for the minimum number of contracts determined by the Exchange on a class by class basis, which minimum shall be at least one contract and which minimum can vary for non-broker-dealer orders and for broker-dealer orders;]

(vi) [act as agent for orders routed to other exchanges that are participants in the Intermarket Options Linkage Plan. The LMM's account shall be used for P/A and Satisfaction orders routed by the Order Book Official for the benefit of an underlying order, and the LMM shall be responsible for any charges incurred from the execution of such orders. LMMs shall also provide written instructions to Order Book Officials regarding the routing of P/A and Satisfaction orders. In option classes in which both an On-Floor LMM and an Off-Floor DPM have been appointed, the obligations in this paragraph (b)(vi) shall be that of the Off-Floor DPM; and]make competitive markets on the Exchange and otherwise promote the Exchange in a manner that is likely to enhance the ability of the Exchange to compete successfully for order flow in the classes it trades;

(vii) continue to act as an LMM and fulfill the obligations of an LMM until the end of its term or until the Exchange relieves the LMM of its approval to act as an LMM or of its appointment and obligations to act as an LMM in a particular class; and

(viii) immediately notify the Exchange of any material operational or financial changes to the LMM organization as well as obtain the Exchange's approval prior to effecting changes to the ownership, capital structure, voting authority, distribution of profits/losses, or control of the LMM organization.

(c) Additional LMM Obligations in Hybrid 3.0 Classes: In addition to satisfying the obligations set forth in paragraph (b) above, each LMM in Hybrid 3.0 classes must satisfy the following requirements:

(i) determine a formula for generating automatically updated market quotations during the trading day for the period in which it acts as LMM using the Exchange's AutoQuote system or a proprietary automated quotation updating system. In addition, the LMM must disclose the following components of the formula to the other Trading Permit Holders trading at the trading station at which the formula is used: option pricing calculation model, volatility, interest rate, dividend, and what is used to represent the price of the underlying. Notwithstanding the foregoing, the Exchange may in its discretion exempt LMMs using proprietary automated quotation updating systems from having to disclose proprietary information concerning the formulas used by those systems;

(ii) serve during such times as may be requested by the Exchange as a backup LMM, which must assume autoquoting responsibilities in the event the Exchange determined that the LMM originally appointed to run the autoquote is unable to do so; and

(iii) facilitate any imbalances of customer orders in all series in its appointed classes.

(d) Participation Entitlement: The Exchange may establish, on a class-by-class basis, a participation entitlement formula that is applicable to LMMs for purposes of electronic and/or open outcry trading.

(i) To be entitled to a participation entitlement, the LMM must be quoting at the best bid/offer on the Exchange and the LMM may not be allocated a total quantity greater than the quantity for which the LMM is quoting at the best bid/offer on the Exchange. The participation entitlement is based on the number of contracts remaining after all public customer orders in the book at the best bid/offer on the Exchange have been satisfied. In option classes in which both an On-Floor LMM and an Off-Floor DPM have been appointed, the On-Floor LMM may receive a participation entitlement with respect to orders represented in open outcry, but will not be eligible to receive a participation entitlement for trades executed electronically. The participation entitlement set forth in this Rule will not apply in instances where a Preferred Market-Maker receives a participation entitlement pursuant to Rule 8.13 and is subject to the limitations for Off-Floor LMMs set forth in Rule 8.15, Interpretation and Policy .01 (a).

(ii) The LMM participation entitlement will be: 50% when there is one Market-Maker also quoting at the best bid/offer on the Exchange; 40% when there are two Market-Makers also quoting at the best bid/offer on the Exchange; and, 30% when there are three or more Market-Makers also quoting at the best bid/offer on the Exchange. If more

than one LMM is entitled to a participation entitlement, such entitlement will be distributed equally among all eligible LMMs provided, however, that an LMM may not be allocated a total quantity greater than the quantity for which the LMM is quoting at the best bid/offer on the Exchange.

The Exchange may determine, on a class-by-class basis, to decrease the LMM participation entitlement percentages from the percentages specified in paragraph (d)(ii) above. Such changes will be announced to the Trading Permit Holders in advance of implementation via Regulatory Circular.

... Interpretations and Policies:

.01 An LMM generally will operate on CBOE's trading floor ("On-Floor LMM"). However, as provided below, an LMM can request that the Exchange authorize the LMM to function remotely away from CBOE's trading floor ("Off-Floor LMM") on a class-by-class basis.

(a) An LMM can request that the Exchange authorize it to operate as an Off-Floor LMM in one or more [Hybrid]classes. The Exchange will consider the factors specified in paragraph (a)(i)[(A)] above, as well as the factors applicable to Off-Floor DPMs specified in Rule 8.83(g), in determining whether to permit an LMM to operate as an Off-Floor LMM. If an LMM is approved to operate as an Off-Floor LMM in one or more [Hybrid]classes, the Off-Floor LMM can have an LMM designee trade in open outcry in the [option]classes [allocated]to which the Off-Floor LMM is appointed, but the Off-Floor LMM [shall]will not receive a participation entitlement under Rule 8.15[B] with respect to orders represented in open outcry.

(b) No change.

(c) Notwithstanding Rule 8.15(a), in an option class in which an Off-Floor LMM or Off-Floor DPM has been appointed in accordance with this Rule 8.15 or Rule 8.83, as applicable, the Exchange in its discretion may also appoint an On-Floor LMM, which will be eligible to receive a participation entitlement under this Rule 8.15 with respect to orders represented in open outcry. If the Exchange in its discretion determines to reallocate a class in which an Off-Floor LMM or Off-Floor DPM has been appointed, the On-Floor LMM appointment will automatically terminate.

.02 When the underlying security for a class is in a limit up-limit down state, as defined in Rule 6.3A, LMMs [shall]will have no quoting obligations in the class. However, an LMM may still receive a participation entitlement in series of such a class when the underlying security is in a limit up-limit down state if it elects to quote in such series and otherwise satisfies the requirements set forth in Rule 8.15(d).

.03 With respect to Hybrid 3.0 classes, the requirements of Interpretation and Policy .07 to Rule 8.7 as they relate to LMMs apply to paragraph (c)(ii) of this Rule 8.15.

.04 An LMM may receive a participation entitlement in intra-day add-on series on the day during which such series are added for trading if it elects to quote in such series and otherwise satisfies the requirements set forth in Rule 8.15(d).

[Rule 8.15B. Participation Entitlement of LMMs

(a) The Exchange may establish, on a class-by-class basis, a participation entitlement formula that is applicable to LMMs for purposes of electronic and/or open outcry trading.

(b) To be entitled to a participation entitlement, the LMM must be quoting at the best bid/offer on the Exchange and the LMM may not be allocated a total quantity greater than the quantity for which the LMM is quoting at the best bid/offer on the Exchange. The participation entitlement is based on the number of contracts remaining after all public customer orders in the book at the best bid/offer on the Exchange have been satisfied. In option classes in which both an On-Floor LMM and an Off-Floor DPM have been appointed, the On-Floor LMM may receive a participation entitlement with respect to orders represented in open outcry, but shall not be eligible to receive a participation entitlement for trades executed electronically. The participation entitlement set forth in this Rule shall not apply in instances where a Preferred Market-Maker receives a participation entitlement pursuant to Rule 8.13 and is subject to the limitations for Off-Floor LMMs set forth in Rule 8.15A.01(a).

(c) The LMM participation entitlement shall be: 50% when there is one Market-Maker also quoting at the best bid/offer on the Exchange; 40% when there are two Market-Makers also quoting at the best bid/offer on the Exchange; and, 30% when there are three or more Market-Makers also quoting at the best bid/offer on the Exchange. If more than one LMM is entitled to a participation entitlement, such entitlement shall be distributed equally among all eligible LMMs provided, however, that an LMM may not be allocated a total quantity greater than the quantity for which the LMM is quoting at the best bid/offer on the Exchange.

The Exchange may determine, on a class-by-class basis, to decrease the LMM participation entitlement percentages from the percentages specified in paragraph (c). Such changes will be announced to the Trading Permit Holders in advance of implementation via Regulatory Circular.

... Interpretations and Policies:

.01 Rule 8.15A(b)(i) does not require a LMM to provide continuous electronic quotes in intra-day add-on series on the day during which such series are added for trading. However, a LMM may still receive a participation entitlement in such series if it elects to quote in such series and otherwise satisfies the requirements set forth in Rule 8.15B(b).

.02 When the underlying security for a class is in a limit up-limit down state, as defined in Rule 6.3A, LMMs shall have no quoting obligations in the class. However, an LMM may still receive a participation entitlement in series of such a class when the underlying security is in a limit up-limit down state if it elects to quote in such series and otherwise satisfies the requirements set forth in Rule 8.15B(b).]

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Rule 8.83. Approval to Act as a DPM

(a) – (f) No change.

(g) An On-Floor DPM can request that the Exchange authorize it to operate as an Off-Floor DPM in one or more option classes traded on the Hybrid Trading System (including in Hybrid 3.0 classes). The Exchange will consider the factors specified in paragraph (b) above in determining whether to permit an On-Floor DPM to operate as an Off-Floor DPM. If an On-Floor DPM is approved to operate as an Off-Floor DPM in one or more option classes, the Off-Floor DPM can have a DPM Designee trade in open outcry in the option classes allocated to the Off-Floor DPM, but the Off-Floor DPM [shall]will not receive a participation entitlement under Rule 8.87 with respect to orders represented in open outcry. Additionally, in an option class in which an Off-Floor DPM has been appointed, the Exchange in its discretion may also appoint an On-Floor LMM in accordance with Rule 8.15[A], which [shall]will be eligible to receive a participation entitlement under Rule 8.15[B] with respect to orders represented in open outcry. If the Exchange in its discretion determines to reallocate a class in which an Off-Floor DPM has been appointed, the On-Floor LMM appointment will automatically terminate.

... Interpretations and Policies:**.01** No change.

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Rule 8.85. DPM Obligations

(a) *Dealer Transactions*. Each DPM [shall]must fulfill all of the obligations of a Market-Maker under the Rules, and [shall]must satisfy each of the following requirements in respect of each of the securities allocated to the DPM. To the extent that there is any inconsistency between the specific obligations of a DPM set forth in subparagraphs (a)(i) through (a)(xi[i]) of this Rule and the general obligations of a Market-Maker under the Rules, subparagraphs (a)(i) through (a)(xi[i]) of this Rule [shall]will govern. Each DPM [shall]must:

(i) No change.

(ii) assure that [each of]its [displayed]market quotations are accurate[is honored for at least the number of contracts prescribed pursuant to Rule 8.51];

(iii) [in the case of option contracts,]comply with the bid/ask differential requirements determined by the Exchange on a class[]-by[]-class basis;

(iv) – (vi) No change.

(vii) [Reserved.]assure that its market quotations comply with the minimum size requirements prescribed by the Exchange, which minimum must be at least one contract;

(viii) – (ix) No change.

(x) for classes in which the CBOE Hybrid System is not operational, determine a formula for generating automatically updated market quotations and disclose the following components of the formula to the other Trading Permit Holders trading at the trading station at which the formula is used: option pricing calculation model, volatility, interest rate, dividend, and what is used to represent the price of the underlying. Notwithstanding the provisions of subparagraph (a)(x) of this Rule, the Exchange shall have the discretion to exempt DPMs using proprietary automated quotation updating systems from having to disclose proprietary information concerning the formulas used by those systems[.]; and

(xi) enter opening quotes within one minute of the initiation of an opening rotation in any series that is not open due to the lack of a quote (see Rule 6.2B(e)(i) or Interpretation and Policy .03(a)(i)) [ensure that a trading rotation is initiated promptly following the opening of the underlying security (or promptly after 8:30 a.m. (CT) in an index class) in accordance with Rule 6.2B in 100% of the series of each allocated class by entering opening quotes as necessary]and participate in other rotations described in Rule 6.2B (including the modified opening rotations set forth in Interpretations and Policies .01 and .08) or 24.13, as applicable. In option classes in which both an On-Floor LMM and an Off-Floor DPM or Off-Floor LMM have been appointed, the obligation set forth in this paragraph (a)(xi) will be that of the Off-Floor DPM or Off-Floor LMM and not on the On-Floor LMM.

[(xii) The DPM's account shall be used for P/A Orders and Satisfaction Orders routed by the Exchange for the benefit of an underlying customer order, and shall be used for P Orders routed by the Exchange for the benefit of an underlying broker-dealer order and to fill incoming Satisfaction Orders that result from a Trade Through that the Exchange effects. Further, the DPM shall be responsible for any charges incurred in the execution of such linkage orders.

A DPM must provide to the Exchange written instructions for routing P/A Orders, P Orders on behalf of orders in the custody of the Exchange that are for the account of a broker-dealer, and Satisfaction Orders to other markets.]

(b) – (e) No change.

... Interpretations and Policies

.01 – .02 No change.

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Rule 17.50. Imposition of Fines for Minor Rule Violations

(a) – (f) No change.

(g) The following is a list of the rule violations subject to, and the applicable fines that may be imposed by the Exchange pursuant to, this Rule:

(1) – (13) No change.

(14) Failure to Meet Exchange Quoting Obligations

A fine shall be imposed upon a Market-Maker, Designated Primary Market-Maker or Lead Market Maker (as applicable) in accordance with the fine schedule set forth below for the following conduct:

- Failure to meet the continuous quoting obligation (Rules 8.7, 8.15[A], and [Rule 8.85]);
- Failure to meet the applicable quote width requirements (Rule 8.7);
- Failure to meet the initial quote volume requirements (Rule 8.7); and
- Failure of a Lead Market[]-Maker or Designated Primary Market-Maker to enter opening quotes within one minute following the initiation of an opening rotation (e.g. 8:31 a.m. (CT)) in a series in its appointed or allocated class, respectively, that is not open due to the lack of a quote (see Rule 6.2B(e)(i) or Interpretation and Policy .03(a)(i), as applicable)[ensure that a trading rotation is initiated promptly following the opening of the underlying security (or promptly after 8:30 a.m. (CT) in an index class) in accordance with Rule 6.2B in 100% of the series of each allocated class by entering opening quotes as necessary] (Rules 8.15[A] and [Rule 8.85, respectively)]; and].

<i>Number of Offenses in any Rolling Twenty-Four Month Period</i>	<i>Fine Amount</i>
1st Offense	\$2,000 to \$4,000
2nd Offense	\$4,000 to \$5,000
Subsequent Offenses	Referral to Business Conduct Committee

(15) – (19) No change.

... Interpretations and Policies:

.01 – .03 No change.

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Rule 22.14. Maximum Bid-Ask Differentials; Market-Maker Appointments & Obligations

(a) No change.

(b) Rules 8.3, 8.4, 8.14, 8.15, [8.15A]and 8.95 and the Interpretations and Policies thereunder shall apply to binary options.

... Interpretations and Policies:

.01 No change.

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Rule 24.9. Terms of Index Option Contracts

(a) No change.

(b) *Long-Term Index Option Series ("LEAPS")*.

(1) Notwithstanding the provisions of Paragraph (a)(2)[,] above, the Exchange may list long-term index option series that expire from 12 to 180 months from the date of issuance.

(A) Index LEAPS may be based on either the full or reduced value of the underlying index. There may be up to 10 expiration months, none further out than one-hundred eighty (180) months. [Strike price interval, bid/ask differential and continuity rules shall not apply to such option series until the time to expiration is less than twelve (12) months.]

(B) No change.

(2) *Reduced-Value LEAPS*. No change.

(c) – (e) No change.

... Interpretations and Policies:

.01 – .14 No change.

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Rule 24.13. Trading Rotations

No change.

... Interpretations and Policies:

.01 No change.

.02 Modified Opening Rotation—In conducting the opening rotation in S&P 100 options, certain option series having the nearest expiration may be opened as described in Interpretation .01 to Rule 6.2 ("main rotation"). The remaining series having the nearest expiration and other series having more distant expirations may be divided into one or more zones and be opened simultaneously with the main rotation by an OBO in the following manner. One or more LMMs in each zone shall be responsible for quoting a two-sided market in each of the series assigned to the zone. The markets will generally be set without prior indication of the imbalances to be facilitated. Only in the case of extreme market conditions or an extremely large imbalance of opening orders may the OBO indicate the

direction or size of the order imbalance. Upon receiving the LMM market, the OBO will state the net imbalance in each series to the LMM who shall buy or sell it.

Instead of the procedure described in the paragraph above, the opening rotation in S&P 100 options may be conducted using the Exchange's Rapid Opening System. Index options that trade on the Hybrid System must utilize the Hybrid Opening System, as described in CBOE Rule 6.2B.

Upon conclusion of the main rotation, the OBO conducting the main rotation will declare open trading in all series. Such declaration shall apply to the main rotation and to all zones which have completed opening rotation. Open trading in the series assigned to the zones shall not commence before the OBO conducting the main rotation has made such declaration.

Market-Makers who wish to participate in the opening of series in which they do not hold LMM [or Supplemental Market-Maker ("SMM")] appointments may transmit written non-cancellable proprietary and Market-Maker orders to the LMM in that zone ten minutes prior to the opening of trading. [The participation on the opening imbalance will not exceed the participation of a SMM in that zone.]

.03 No change.

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Rule 29.17. Market-Maker Appointments & Obligations

(a) Market-Makers shall be appointed to Credit Option classes in accordance with the requirements of Rules 8.3, 8.4, 8.15[A] and 8.95, as applicable.

(b) – (c) No change.

... Interpretations and Policies:

.01 No change.

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Chicago Board Options Exchange, Incorporated Fees Schedule

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Footnotes (Continued):	
Footnote Number	Description
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38	For SPX and VIX, if an LMM (1) provides continuous electronic quotes in at least the lesser of 99% of the non-adjusted series or 100% of the non-adjusted series minus one call-put pair in an ETH allocated class (excluding intra-day add-on series on the day during which such series are added for trading) during ETH in a given month and (2) <u>enters opening quotes within five minutes of the initiation of</u>

	<p><u>an opening rotation in any series that is no open due to the lack of a quote, provided that the LMM will not be required to enter opening quotes in more than [ensures an opening of]the same percentage of series set forth in clause (1) [by 2:05 a.m.]for at least 90% of the trading days during ETH in a given month, the LMM will receive a rebate for that month and will receive a pro-rata share of a compensation pool equal to \$25,000 times the number of LMMs in that class. For example, if three LMMs are appointed in SPX, a compensation pool will be established each month totaling \$75,000. If each LMM meets the heightened continuous quoting standard in SPX during a month, each will receive \$25,000. If two LMM's meet the heightened continuous quoting standard in SPX during a month, those two LMM's would each receive \$37,500 and the third LMM would receive nothing. If only one LMM meets the heightened continuous quoting standard in SPX during a month, that LMM would receive \$75,000 and the other two would receive nothing.</u></p>
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