Required fields are shown with yellow backgrounds and asterisks.

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

File No.* SR - 2016 - * 014

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

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

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

Section 806(e)(1) * ☐	Section 806(e)(2) * ☐

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 *).

Proposal to amend Exchange rules related to complex orders.

Contact Information

Provide 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 * Kyle   Last Name * Edwards

Title * Counsel

E-mail * edwards@cboe.com

Telephone * (312) 786-7304   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 02/25/2016   Counsel

By Kyle Edwards

(Name *)

Persona Not Validated - 1454966232586,

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.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFS website.

Form 19b-4 Information *

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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.

Exhibit 1 - Notice of Proposed Rule Change *

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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)

Exhibit 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies *

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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)

Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications

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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.

Exhibit 3 - Form, Report, or Questionnaire

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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.

Exhibit 4 - Marked Copies

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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.

Exhibit 5 - Proposed Rule Text

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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.

Partial Amendment

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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 amend its rules related to complex orders. The text of the proposed

rule change is provided below and in Exhibit 1.

(additions are <u>underlined</u>; deletions are [bracketed])

* * * * *

Chicago Board Options Exchange, Incorporated
Rules

* * * * *

Rule 6.53C. Complex Orders on the Hybrid System
(a) Definition: No change.

(b) Types of Complex Orders: No change.

(c) Complex Order Book

No change.

(d) Process for Complex Order RFR Auction: Prior to routing to the COB or once on
PAR, eligible complex orders may be subject to an automated request for responses ("RFR")
auction process.

(i) For purposes of paragraph (d):

(1) "COA" is the automated complex order RFR auction process.

(2) A "COA-eligible order" means a complex order that, as determined by the
Exchange on a class-by-class basis, is eligible for a COA considering the order's
[marketability (defined as a number of ticks away from the current market),] size,
complex order type (as defined in paragraphs (a) and (b) above) and complex order
origin types (as defined in subparagraph (c)(i) above). Complex orders processed
through a COA may be executed without consideration to prices of the same
complex orders that might be available on other exchanges.

(ii) Initiation of a COA:

(A) The System will send an RFR message to all Trading Permit Holders who have elected
to receive RFR messages on receipt of (1) a COA-eligible order with two legs (including
orders submitted for electronic processing from PAR) <u>that is better than the same side of the</u>
<u>derived net market </u>or (2) a complex order with three or more legs that (A) meets the class[,

marketability], size, and complex order type parameters of subparagraph (d)(i)(2) <u>and is better than the same side of the derived net market</u> or (B) is <u>marketable against the derived net market,</u> designated as immediate or cancel<u>,</u> and meets the class[, marketability,] and size parameters of subparagraph (d)(i)(2).[, in both cases] <u>Complex orders as described in subparagraph (ii)(A)(2) will initiate a COA</u> regardless of the order's routing parameters or handling instructions (except for orders routed for manual handling). <u>Immediate or cancel orders that are not marketable against the derived net market in accordance with subparagraph (ii)(A)(2)(B) will be cancelled.</u> The RFR message will identify the component series, the size and side of the market of the COA-eligible order and any contingencies, if applicable.

(B) No change.

(iii) – (ix) No change.

* * * * *

(b)   Not applicable

(c)   Not applicable.

Item 2.   <u>Procedures of the Self-Regulatory Organization</u>

(a)   The Exchange's President (or designee) pursuant to delegated authority approved the proposed rule change on February 16, 2016.

(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 Kyle Edwards, (312) 786-7304, Chicago Board Options Exchange, Incorporated, 400 South LaSalle, Chicago, Illinois 60605.

Item 3.   <u>Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change</u>

(a)   <u>Purpose</u>

On October 2, 2015, the Exchange submitted immediately effective filing SR-CBOE-2015-081, which amended Exchange rules related to the initiation of a complex

order auction ("COA").[1] The purpose of SR-CBOE-2015-081 (as well as predecessor filing SR-CBOE-2014-017)[2] was to limit a potential source of unintended Market-Maker risk (fully described below) related to how the Exchange's Hybrid Trading System (the "System")[3] calculates risk parameters under Rule 8.18 when complex orders leg into the market.

Under Rule 8.18, CBOE offers Market-Makers that are obligated to provide and maintain continuous electronic quotes in an option class the Quote Risk Monitor Mechanism ("QRM"), which is functionality to help Market-Makers manage their quotes and related risk. Market-Makers with appointments in classes that trade on the System must, among other things, provide and maintain continuous electronic quotes in a specified percentage of series in each class for a specified percentage of time.[4] To comply with this requirement, each Market-Maker may use its own proprietary quotation and risk management system to determine the prices and sizes at which it quotes. In addition, each Market-Maker may use QRM.

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[1]   See Securities Exchange Act Release No. 76106 (October 8, 2015), 80 FR 62125 (October 15, 2015) (SR-CBOE-2015-081) ("Notice").

[2]   See Securities Exchange Act Release No. 72986 (September 4, 2014), 79 FR 53798 (September 10, 2014) (SR-CBOE-2014-017) ("Approval Order").

[3]   The System is a trading platform that allows automatic executions to occur electronically and open outcry trades to occur on the floor of the Exchange. To operate in this "hybrid" environment, the Exchange has a dynamic order handling system that has the capability to route orders to the trade engine for automatic execution and book entry, to Trading Permit Holder and PAR Official workstations located in the trading crowds for manual handling, and/or to other order management terminals generally located in booths on the trading floor for manual handling. Where an order is routed for processing by the Exchange order handling system depends on various parameters configured by the Exchange and the order entry firm itself.

[4]   See Rules 8.7(d)(ii)(iv) (Market-Makers), 8.13(d) (Preferred Market-Makers), 8.15A(b)(i) (Lead Market-Makers) and 8.85(a)(i) (Designated Primary Market-Makers).

A Market-Maker's risk in a class is not limited to the risk in a single series of that class. Rather, a Market-Maker is generally actively quoting in multiple classes, and each class may comprise hundreds or thousands of individual series. The System automatically executes orders against a Market-Maker's quotes in accordance with the Exchange's priority and allocation rules.[5] As a result, a Market-Maker has exposure and risk in all series in which it is quoting in each of its appointed classes. QRM is an optional functionality that helps Market-Makers, and TPH organizations with which a Market-Maker is associated, limit this overall exposure and risk.

Specifically, if a Market-Maker elects to use QRM, the System will cancel a Market-Maker's quotes in all series in an appointed class if certain parameters the Market-Maker establishes are triggered. Market-Makers may set the following QRM parameters (Market-Makers may set none, some or all of these parameters):

- a maximum number of contracts for that class (the "contract limit") and a specified rolling time period in seconds within which such contract limit is to be measured (the "measurement interval");

- a maximum cumulative percentage (which is the sum of the percentages of the original quoted size of each side of each series that trade) (the "cumulative percentage limit") that the Market-Maker is willing to trade within a specified measurement interval; or

- a maximum number of series for which either side of the quote is fully traded (the "number of series fully traded") within a specified measurement interval.

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[5] See Rules 6.45A, 6.45B and 6.53C.

If the Exchange determines the Market-Maker has traded more than the contract limit or cumulative percentage limit, or has traded at least the number of series fully traded, of a class during the specified measurement interval, the System will cancel all of the Market-Maker's electronic quotes in that class (and any other cases with the same underlying security) until the Market-Maker refreshes those quotes (a "QRM Incident"). A Market-Maker, or TPH organization with which the Market-Maker is associated, may also specify a maximum number of QRM Incidents that may occur on an Exchange-wide basis during a specified measurement interval. If the Exchange determines that a Market-Maker or TPH Organization, as applicable, has reached its QRM Incident limit during the specified measurement interval, the System will cancel all of the Market-Maker's or TPH Organization's quotes, as applicable, and the Market-Maker's orders resting in the book in all classes and prevent the Market-Maker and TPH organization from sending additional quotes or orders to the Exchange until the earlier to occur of (1) the Market-Maker or TPH organization reactivates this ability or (2) the next trading day.

The purpose of the QRM functionality is to allow Market-Makers to provide liquidity across most series in their appointed classes without being at risk of executing the full cumulative size of all their quotes before being given adequate opportunity to adjust their quotes. For example, if a Market-Maker can enter quotes with a size of 25 contracts in 100 series of class ABC, its potential exposure is 2,500 contracts in ABC. To mitigate the risk of having all 2,500 contracts in ABC execute without the opportunity to evaluate its positions, the Market-Maker may elect to use QRM. If the Market-Maker elects to use the contract limit functionality and sets the contract limit at 100 and the measurement interval at five seconds for ABC, the System will automatically cancel the

Market-Maker's quotes in all series of ABC if 100 or more contracts in series of ABC execute during any five-second period.

To assure that all quotations are firm for their full size, the System performs the parameter calculations after an execution against a Market-Maker's quote occurs. For example, using the same parameters in class ABC as above, if a Market-Maker has executed a total of 95 contracts in ABC within the previous three seconds, a quote in a series of ABC with a size of 25 contracts continues to be firm for all 25 contracts. An incoming order in that series could execute all 25 contracts of that quote, and, following the execution, the total size parameter would add 25 contracts to the previous total of 95 for a total of 120 contracts executed in ABC. Because the total size executed within the previous five seconds now exceeds the 100 contract limit for ABC, the System would, following the execution, immediately cancel all of the Market-Maker's quotes in series of ABC. The Market-Maker would then enter new quotes for series in ABC. Thus, QRM limits the amount by which a Market-Maker's executions in a class may exceed its contract limit to the largest size of its quote in a single series of the class (or 25 in this example).

The Exchange proposes to amend Rule 6.53C regarding complex orders to limit a potential source of unintended Market-Maker risk related to how the System calculates risk parameters under Rule 8.18 when complex orders leg into the market.[6] As discussed

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[6]   Rule 6.53C(c)(ii)(1) provides that complex orders in the complex order book ("COB") may execute against individual orders or quotes in the book provided the complex order can be executed in full (or a permissible ratio) by the orders and quotes in the book. Rule 6.53C(d)(v)(1) provides that orders that are eligible for the complex order auction ("COA") may trade with individual orders and quotes in the book provided the COA-eligible order can be executed in full (or a permissible ratio) by the orders and quotes in the book. COA is an automated

above, by checking the risk parameters following each execution in a series, the risk parameters allow a Market-Maker to provide liquidity across multiple series of a class without being at risk of executing the full cumulative size of all its quotes. This is not the case, however, when a complex order legs into the regular market (i.e. the market for individual, or simple, orders). Because the execution of each leg of a complex order is contingent on the execution of the other legs, the execution of all the legs in the regular market is processed as a single transaction, not as a series of individual transactions.

For example, if market participants enter into the System individual orders to buy 25 contracts for the Jan 30 call, Jan 35 call, Jan 40 call and Jan 45 call in class ABC, the System processes each order as it is received and calculates the Market-Makers parameters in class ABC following the execution of each 25-contract call. However, if a market participant enters into the System a complex order to buy all four of these strikes in class ABC 25 times, which complex order executes against bids and offers for the individual series (i.e. legs into the market), the System will calculate the Market-Maker's parameters in class ABC following the execution of all 100 contracts. If the Market-Maker had set the same parameters in class ABC as discussed above (100-contract limit with five-second measurement interval) and had executed 95 contracts in class ABC within the previous three seconds, the amount by which the next transaction might exceed 100 is limited to the largest size of its quote in a single series of the class. In that

request for responses ("RFR") auction process. Upon initiation of a COA, the Exchange sends an RFR message to all Trading Permit Holders who have elected to receive RFR messages, which RFR message identifies the series, size and side of the market of the COA-eligible order and any contingencies. Eligible market participants may submit responses during a response time interval. At the conclusion of the response time interval, COA-eligible orders are allocated in accordance with Rule 6.53C(d)(v), including against individual orders and quotes in the book.

example, since the largest size of the Market-Maker's quotes in any series was 25 contracts, the Market-Maker could not have exceeded the 100-contract limit by more than 20 contracts (95 + 25 = 120). However, with respect to the complex order with four legs 25 times, the next transaction against the Market-Maker's quotes potentially could be as large as 100 contracts (depending upon whether there are other market participants at the same price), creating the potential in this example for the Market-Maker to exceed the 100-contract limit by 95 contracts (95 + 100 = 195) instead of 20 contracts.

As this example demonstrates, legging of complex orders into the regular market presents higher risk to Market-Makers than executing their quotes against individual orders entered in multiple series of a class in the regular market, because it may result in Market-Makers exceeding their risk parameters by a greater number of contracts. This risk is directly proportional to the number of legs associated with a complex order. Market-Makers have expressed concerns to the Exchange regarding this risk.

In order to alleviate this potential risk to Market-Makers, the Exchange, in SR-CBOE-2015-081, amended Rule 6.53C(d) to, among other things, provide that a COA will be initiated when a complex order with three or more legs is designated as IOC and meets the class, marketability, and size parameters of subparagraph (d)(i)(2).[7] The Exchange observed IOC orders causing the risk to Market-Makers described above and believed the previous amendment proposed in SR-CBOE-2015-081 would reduce that risk by initiating a COA in those circumstances. The Exchange is now proposing to fine tune this requirement by amending Rule 6.53C(d)(ii)(A)(2)(B) to provide that a COA will be initiated when a complex order with three or more legs that is marketable against the derived net market is

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[7]   See Rule 6.53C(d)(ii)(A)(2)(B). The Exchange has not yet implemented the changes described in SR-CBOE-2015-081 in anticipation of this proposal.

designated as immediate or cancel and the order meets the class and size parameters of subparagraph (d)(i)(2).[8]

As noted above, it is the legging of complex orders into the regular market that presents the potential risk to Market-Makers. Generally, a complex order has the potential to leg into the market when the complex order is marketable against leg quotes. For example, if the derived net market of a complex order strategy is 1.00 – 1.20 and a complex order to buy or sell at $1.10 is entered, the complex order would not execute against the legs of the regular market because the leg markets (which make-up the derived net market) cannot satisfy the order. A complex order to buy at $1.20 or higher or to sell at $1.00 or lower (i.e., an order that is marketable against the derived net market) would potentially be executable against the leg quotes. However, the current rule requires the Exchange to initiate a COA for a complex order with three or more legs that is designated IOC and meets the class, marketability, and size parameters of subparagraph (d)(i)(2), even if the complex order is not marketable against the derived net market. Complex orders that are not marketable against the derived net market do not pose the same risk to Market-Makers as complex orders that <u>are marketable against the derived net market</u> because, as noted above, it is marketable complex orders that can leg into the market and execute against individual quotes causing the risk to Market-Makers. Thus, the Exchange is proposing to amend Rule 6.53C(d)(ii)(A)(2)(B) as described above. Additionally, IOC orders that are not marketable against the derived net market in accordance with subparagraph (ii)(A)(2)(B) will be

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[8]   This proposed change applies to Hybrid classes only, and not Hybrid 3.0 classes. The Exchange does not believe the risk discussed in this rule filing is present in Hybrid 3.0 classes because in Hybrid 3.0 classes complex orders are not legged into the regular market. <u>See</u> Rule 6.53C.10 (providing flexibility for the Exchange to determine to not allow marketable complex orders entered into COB and/or COA to automatically execute against individual quotes residing in the EBook).

cancelled, which allows order entry firms to use their own sophisticated technology to manage their orders helping to remove impediments to and perfect the mechanism of a free and open market.

Currently, the marketability parameter in Rule 6.53C(d)(i)(2), defined as a number of ticks away from the current market, sets the price at which a complex order will initiate a COA. To avoid confusion, the Exchange proposes to remove the marketability parameter from the definition of "COA-eligible order," which will remove the Exchange's flexibility to set the price at which a complex order will initiate a COA. The Exchange does not foresee any issues with removing the flexibility to determine the price at which a COA will be initiated because the Exchange does not foresee a future need to modify the price at which auctions are initiated. If unforeseen circumstances arise where the Exchange believes it is necessary to modify the price at which auctions are initiated then the Exchange will submit a subsequent rule filing. Additionally, removing such flexibility may provide increased certainty to market participants about the price at which a complex order will initiate a COA, helping to remove impediments to and perfect the mechanism of a free and open market.

The Exchange proposes to hardcode the price at which a complex order may initiate a COA in Rule 6.53C(d)(ii)(A). For example, assuming all of the non-price specific requirements are met, a complex order with two legs under subparagraph (d)(ii)(A)(1) and a complex order with three legs under subparagraph (d)(ii)(A)(2)(A) will initiate a COA if the derived net market is 1 – 1.20 and the complex order is to buy at $1.01 or higher or to sell at

1.19 or lower.[9] As described above, assuming the non-price specific requirements are met, a complex order with three legs under subparagraph (d)(ii)(A)(2)(B) will initiate a COA if the derived net market is 1 – 1.20 and the complex order is to buy at $1.20 or higher or to sell at $1.00 or lower. Initiating a COA in these situations will relieve the risk to Market-Makers noted above, which helps promote just and equitable principles of trade by relieving risk to Market-Makers allowing them to more efficiently and effectively provide important liquidity.

In short, SR-CBOE-2015-081, among other things, identified certain orders that potentially cause the risk to Market-Makers described above (i.e., complex orders with three or more legs that are designated as IOC and meet the class, marketability, and size parameters of subparagraph (d)(i)(2)). This proposal goes a step further and focuses on the above orders that are marketable against the derived net market. This is consistent with the purpose of SR-CBOE-2015-081, which was to alleviate the potential risk to Market-Makers. Additionally, this proposal helps to further balance the protection of Market-Makers with the desire of market participants entering IOC orders to have those orders cancel if not immediately executed. The Exchange also notes that the Exchange is removing its flexibility with regards to the marketability parameter.

The Exchange will announce the implementation date of the proposed rule change in a Regulatory Circular to be published no later than 90 days following the effective date of this filing. The implementation date will be no later than 180 days following the effective date of this filing.

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[9]   The Exchange notes that the prices at which a complex order will initiate a COA under subparagraphs (d)(ii)(A)(1) or (d)(ii)(A)(2)(A) are consistent with the current settings for the marketability parameter. This portion of the proposal simply hardcodes existing settings.

(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.[10]

Specifically, the Exchange believes the proposed rule change is consistent with the

Section 6(b)(5)[11] 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)[12] 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 the proposed rule change is consistent with the

purpose of SR-CBOE-2015-081, which was to alleviate a potential risk to Market-Makers

that arises through the use of QRM. Complex orders with three or more legs that are

designated as IOC and meet the class and size parameters of subparagraph (d)(i)(2) and that

are marketable against the derived net market (which the Exchange has identified as

potentially causing risk to Market-Makers) will COA, which helps promote just and

equitable principles of trade by relieving risk to Market-Makers allowing them to more

efficiently and effectively provide important liquidity. Orders that are designated as IOC

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[10]   15 U.S.C. 78f(b).
[11]   15 U.S.C. 78f(b)(5).
[12]   Id.

and meet the class and size parameters of subparagraph (d)(i)(2), but that are not marketable against the derived net market, will be cancelled, which allows order entry firms to use their own sophisticated technology to manage their orders helping to remove impediments to and perfect the mechanism of a free and open market. The Exchange is also removing flexibility with regards to the marketability parameter. Although the Exchange prefers flexibility, the Exchange does not foresee the need to retain flexibility with regards to the marketability parameter and hardcoding the parameter may help avoid confusion with regards to the price at which a complex order will initiate a COA, which also helps to remove impediments to and perfect the mechanism of a free and open market.

The Exchange also believes the proposed rule change to initiate a COA upon receipt of complex orders with three or more legs that are designated as IOC and meet the class and size parameters of subparagraph (d)(i)(2) and that are marketable against the derived net market is consistent with the requirement that Market-Makers' quotes be firm under Rule 602 of Regulation NMS.[13] The proposed rule change does not relieve

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[13]   Rule 602(b)(2) obligates a Market-Maker to execute any order to buy or sell a subject security presented to it by another broker or dealer or any other person belonging to a category of persons with whom the Market-Maker customarily deals, at a price at least as favorable to the buyer or sell as the Market-Maker's published bid or offer in any amount up to its published quotation size. Rule 602(b)(3) provides that no Market-Maker is obligated to execute a transaction for any subject security to purchase or sell that subject security in an amount greater than its revised quotation size if, prior to the presentation of an order for the purchase or sale of a subject security, the Market-Maker communicated to the Exchange a revised quotation size. Similarly, no Market-Maker is obligated to execute a transaction for any subject security if, before the order sought to be executed is presented, the Market-Maker has communicated to the Exchange a revised bid or offer. CBOE Rule 8.51 imposes a similar obligation (Market-Maker must sell (buy) at least the established number of contracts at the offer (bid) which is displayed when the Market-Maker receives a buy (sell) order at the trading station where the reported security is located for trading; however, no Market-Maker is obligated to execute a transaction for a listed option when, prior

Market-Makers of their obligation to provide "firm" quotes. If a complex order in a Hybrid class with three or more legs goes through COA and then legs into the market for execution upon completion of the COA, at which point the complex order would execute against a Market-Maker's quotes based on priority rules, the Market-Maker must execute its quotes against the order at its then-published bid or offer up to its published quote size, even if such execution would cause the Market-Maker to significantly exceed its risk parameters. However, prior to the end of COA (and thus prior to a complex order legging into the market), a Market-Maker may adjust its published quotes to manage its risk in a class as it deems necessary, including to prevent executions that would exceed its risk parameters. In this case, the firm quote rule does not obligate the Market-Maker to execute its quotes against the complex order at the quote price and size that was published when the order entered the System and initiated the COA. Rather, the Market-Maker's firm quote obligation applies only to its disseminated quote at the time an order is presented to the Market-Maker for execution, which presentation does not occur until the System processes the order against the leg markets after completion of the COA.[14] Thus, the proposed rule change is consistent with the firm quote rule.

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to the presentation of an order to sell (buy) to the Market-Maker, the Market-Maker has communicated to the Exchange a revised quote).

[14] See Staff Legal Bulletin No. 16, *Transaction in Listed Options Under Exchange Act Rule 11Ac1-1*, U.S. Securities and Exchange Commission, Division of Market Regulation, January 20, 2004 ("Scenario 3: When an Order is "Presented" . . . If an individual market maker generates its own quotations . . . and exchange systems route incoming orders to the responsible broker-dealer with priority, when is an order presented to a responsible broker-dealer? **Response:** . . . . When each market maker is the responsible broker-dealer with respect to its own quote, an order is presented to it when received by the market maker from the exchange system."). When a complex order is processing through COA, the order is still in the System and has not yet been presented to a broker or dealer (including a Market-Maker) for execution. Only after completion of the COA,

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 intramarket or intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange does not believe the proposed rule change will impose any burden on intramarket competition because all IOC orders will be treated equally by the Exchange. The proposed rule change is intended to reduce risk to Market-Makers that are quoting in the regular market. CBOE believes that the proposed rule change will promote competition by encouraging Market-Makers to increase the size of and to more aggressively price their quotes, which will increase liquidity on the Exchange. To the extent that the rule change makes CBOE a more attractive marketplace, market participants are free to become Trading Permit Holders on CBOE and other exchanges are free to amend their rules in a similar manner. Furthermore, the Exchange does not believe the proposed rule change will impose any burden on intermarket competition because the rule change does not materially affect the outcome or purpose of SR-CBOE-2015-081, which was to alleviate potential risk to Market-Makers using QRM. The Exchange also does not believe hardcoding the price at which a complex order may initiate a COA will impose a burden on competition.

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.

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when the System allocates the complex order for execution in accordance with priority rules, will that order be "presented" to the Market-Maker for firm quote purposes.

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)**

(a)   The proposed rule change is filed for immediate effectiveness pursuant to Section 19(b)(3)(A) of Act[15] and Rule 19b-4(f)(6)[16] thereunder.

(b)   The Exchange designates that the proposed rule change effects a change that (i) does not significantly affect the protection of investors or the public interest; (ii) does not impose any significant burden on competition; and (iii) by its terms, does not become operative for 30 days after the date of the filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest.   Additionally, the Exchange has given the Commission written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission.

As previously noted, the Exchange believes the proposed rule change is consistent with the purpose of SR-CBOE-2015-081, which was to alleviate a potential risk to Market-Makers that arises through the use of QRM. In addition, under the Exchange's current rules the Exchange is required to initiate a COA upon receipt of a complex order with three or more legs that is designated as IOC and meets the class, marketability, and size parameters of subparagraph (d)(i)(2). In an effort to fine tune this requirement, this proposal simply narrows the scope of the current rule by requiring a COA be initiated in this circumstance

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[15]   15 U.S.C. 78s(b)(3)(A).
[16]   17 CFR 240.19b-4(f)(6).

only if the IOC order with three or more legs that meets the class and size parameters of subparagraph (d)(i)(2) is marketable against the derived net market (which the Exchange has identified as potentially causing risk to Market-Makers). Orders that are designated as IOC and meet the class and size parameters of subparagraph (d)(i)(2), but that are not marketable against the derived net market, will be cancelled. Finally, hardcoding the price at which a complex order may initiate a COA actually narrows the Exchange's current flexibility with regards to modifying the marketability parameter and will potentially prevent confusion regarding the price at which a complex order may initiate a COA.

For the foregoing reasons, this rule filing qualifies as a "non-controversial" rule change under Rule 19b-4(f)(6), which renders the proposed rule change effective upon filing with the Commission. At any time within 60 days of the filing of this proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission will institute proceedings to determine whether the proposed rule change should be approved or disapproved.

(c)   Not applicable.

(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.   <u>**Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act**</u>

Not applicable.

Item 11.   <u>**Exhibits**</u>

<u>Exhibit 1</u>.   Completed Notice of Proposed Rule Change for publication in the <u>Federal Register</u>.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-   ; File No. SR-CBOE-2016-014]

[Insert date]

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Related to Complex Orders

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 Exchange filed the proposal as a "non-controversial" proposed rule change pursuant to Section 19(b)(3)(A)(iii) of the Act[3] and Rule 19b-4(f)(6) thereunder.[4] The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Exchange seeks to amend its rules related to complex orders. The text of the proposed rule change is provided below.

(additions are <u>underlined</u>; deletions are [bracketed])

* * * * *

Chicago Board Options Exchange, Incorporated
Rules

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[1]   15 U.S.C. 78s(b)(1).
[2]   17 CFR 240.19b-4.
[3]   15 U.S.C. 78s(b)(3)(A)(iii).
[4]   17 CFR 240.19b-4(f)(6).

* * * * *

Rule 6.53C. Complex Orders on the Hybrid System
(a) Definition: No change.

(b) Types of Complex Orders: No change.

(c) Complex Order Book

No change.

(d) Process for Complex Order RFR Auction: Prior to routing to the COB or once on PAR, eligible complex orders may be subject to an automated request for responses ("RFR") auction process.

(i) For purposes of paragraph (d):

(1) "COA" is the automated complex order RFR auction process.

(2) A "COA-eligible order" means a complex order that, as determined by the Exchange on a class-by-class basis, is eligible for a COA considering the order's [marketability (defined as a number of ticks away from the current market),] size, complex order type (as defined in paragraphs (a) and (b) above) and complex order origin types (as defined in subparagraph (c)(i) above). Complex orders processed through a COA may be executed without consideration to prices of the same complex orders that might be available on other exchanges.

(ii) Initiation of a COA:

(A) The System will send an RFR message to all Trading Permit Holders who have elected to receive RFR messages on receipt of (1) a COA-eligible order with two legs (including orders submitted for electronic processing from PAR) that is better than the same side of the derived net market or (2) a complex order with three or more legs that (A) meets the class[, marketability], size, and complex order type parameters of subparagraph (d)(i)(2) and is better than the same side of the derived net market or (B) is marketable against the derived net market, designated as immediate or cancel, and meets the class[, marketability,] and size parameters of subparagraph (d)(i)(2).[, in both cases] Complex orders as described in subparagraph (ii)(A)(2) will initiate a COA regardless of the order's routing parameters or handling instructions (except for orders routed for manual handling). Immediate or cancel orders that are not marketable against the derived net market in accordance with subparagraph (ii)(A)(2)(B) will be cancelled. The RFR message will identify the component series, the size and side of the market of the COA-eligible order and any contingencies, if applicable.

(B) No change.

(iii) – (ix) No change.

* * * * *

The text of the proposed rule change is also available on the Exchange's website

(http://www.cboe.com/AboutCBOE/CBOELegalRegulatoryHome.aspx), at the Exchange's

Office of the Secretary, and at the Commission's Public Reference Room.

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

In its filing with the Commission, the Exchange included statements concerning the

purpose of and basis for the proposed rule change and discussed any comments it received

on the proposed rule change. The text of these statements may be examined at the places

specified in Item IV below. The Exchange has prepared summaries, set forth in sections A,

B, and C below, of the most significant aspects of such statements.

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

1. Purpose

On October 2, 2015, the Exchange submitted immediately effective filing SR-

CBOE-2015-081, which amended Exchange rules related to the initiation of a complex

order auction ("COA").[5] The purpose of SR-CBOE-2015-081 (as well as predecessor filing

SR-CBOE-2014-017)[6] was to limit a potential source of unintended Market-Maker risk

(fully described below) related to how the Exchange's Hybrid Trading System (the

"System")[7] calculates risk parameters under Rule 8.18 when complex orders leg into the

market.

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[5]   See Securities Exchange Act Release No. 76106 (October 8, 2015), 80 FR 62125 (October 15, 2015) (SR-CBOE-2015-081) ("Notice").

[6]   See Securities Exchange Act Release No. 72986 (September 4, 2014), 79 FR 53798 (September 10, 2014) (SR-CBOE-2014-017) ("Approval Order").

[7]   The System is a trading platform that allows automatic executions to occur electronically and open outcry trades to occur on the floor of the Exchange. To operate

Under Rule 8.18, CBOE offers Market-Makers that are obligated to provide and maintain continuous electronic quotes in an option class the Quote Risk Monitor Mechanism ("QRM"), which is functionality to help Market-Makers manage their quotes and related risk. Market-Makers with appointments in classes that trade on the System must, among other things, provide and maintain continuous electronic quotes in a specified percentage of series in each class for a specified percentage of time.[8] To comply with this requirement, each Market-Maker may use its own proprietary quotation and risk management system to determine the prices and sizes at which it quotes. In addition, each Market-Maker may use QRM.

A Market-Maker's risk in a class is not limited to the risk in a single series of that class. Rather, a Market-Maker is generally actively quoting in multiple classes, and each class may comprise hundreds or thousands of individual series. The System automatically executes orders against a Market-Maker's quotes in accordance with the Exchange's priority and allocation rules.[9] As a result, a Market-Maker has exposure and risk in all series in which it is quoting in each of its appointed classes. QRM is an optional functionality that helps Market-Makers, and TPH organizations with which a Market-Maker is associated, limit this overall exposure and risk.

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in this "hybrid" environment, the Exchange has a dynamic order handling system that has the capability to route orders to the trade engine for automatic execution and book entry, to Trading Permit Holder and PAR Official workstations located in the trading crowds for manual handling, and/or to other order management terminals generally located in booths on the trading floor for manual handling. Where an order is routed for processing by the Exchange order handling system depends on various parameters configured by the Exchange and the order entry firm itself.

[8]   See Rules 8.7(d)(ii)(iv) (Market-Makers), 8.13(d) (Preferred Market-Makers), 8.15A(b)(i) (Lead Market-Makers) and 8.85(a)(i) (Designated Primary Market-Makers).

[9]   See Rules 6.45A, 6.45B and 6.53C.

Specifically, if a Market-Maker elects to use QRM, the System will cancel a Market-Maker's quotes in all series in an appointed class if certain parameters the Market-Maker establishes are triggered. Market-Makers may set the following QRM parameters (Market-Makers may set none, some or all of these parameters):

- a maximum number of contracts for that class (the "contract limit") and a specified rolling time period in seconds within which such contract limit is to be measured (the "measurement interval");

- a maximum cumulative percentage (which is the sum of the percentages of the original quoted size of each side of each series that trade) (the "cumulative percentage limit") that the Market-Maker is willing to trade within a specified measurement interval; or

- a maximum number of series for which either side of the quote is fully traded (the "number of series fully traded") within a specified measurement interval.

If the Exchange determines the Market-Maker has traded more than the contract limit or cumulative percentage limit, or has traded at least the number of series fully traded, of a class during the specified measurement interval, the System will cancel all of the Market-Maker's electronic quotes in that class (and any other cases with the same underlying security) until the Market-Maker refreshes those quotes (a "QRM Incident"). A Market-Maker, or TPH organization with which the Market-Maker is associated, may also specify a maximum number of QRM Incidents that may occur on an Exchange-wide basis during a specified measurement interval. If the Exchange determines that a Market-Maker or TPH Organization, as applicable, has reached its QRM Incident limit during the specified measurement interval, the System will cancel all of the Market-Maker's or TPH

Organization's quotes, as applicable, and the Market-Maker's orders resting in the book in all classes and prevent the Market-Maker and TPH organization from sending additional quotes or orders to the Exchange until the earlier to occur of (1) the Market-Maker or TPH organization reactivates this ability or (2) the next trading day.

The purpose of the QRM functionality is to allow Market-Makers to provide liquidity across most series in their appointed classes without being at risk of executing the full cumulative size of all their quotes before being given adequate opportunity to adjust their quotes. For example, if a Market-Maker can enter quotes with a size of 25 contracts in 100 series of class ABC, its potential exposure is 2,500 contracts in ABC. To mitigate the risk of having all 2,500 contracts in ABC execute without the opportunity to evaluate its positions, the Market-Maker may elect to use QRM. If the Market-Maker elects to use the contract limit functionality and sets the contract limit at 100 and the measurement interval at five seconds for ABC, the System will automatically cancel the Market-Maker's quotes in all series of ABC if 100 or more contracts in series of ABC execute during any five-second period.

To assure that all quotations are firm for their full size, the System performs the parameter calculations after an execution against a Market-Maker's quote occurs. For example, using the same parameters in class ABC as above, if a Market-Maker has executed a total of 95 contracts in ABC within the previous three seconds, a quote in a series of ABC with a size of 25 contracts continues to be firm for all 25 contracts. An incoming order in that series could execute all 25 contracts of that quote, and, following the execution, the total size parameter would add 25 contracts to the previous total of 95 for a total of 120 contracts executed in ABC. Because the total size executed within the

previous five seconds now exceeds the 100 contract limit for ABC, the System would, following the execution, immediately cancel all of the Market-Maker's quotes in series of ABC. The Market-Maker would then enter new quotes for series in ABC. Thus, QRM limits the amount by which a Market-Maker's executions in a class may exceed its contract limit to the largest size of its quote in a single series of the class (or 25 in this example).

The Exchange proposes to amend Rule 6.53C regarding complex orders to limit a potential source of unintended Market-Maker risk related to how the System calculates risk parameters under Rule 8.18 when complex orders leg into the market.[10] As discussed above, by checking the risk parameters following each execution in a series, the risk parameters allow a Market-Maker to provide liquidity across multiple series of a class without being at risk of executing the full cumulative size of all its quotes. This is not the case, however, when a complex order legs into the regular market (i.e. the market for individual, or simple, orders). Because the execution of each leg of a complex order is contingent on the execution of the other legs, the execution of all the legs in the regular market is processed as a single transaction, not as a series of individual transactions.

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[10]   Rule 6.53C(c)(ii)(1) provides that complex orders in the complex order book ("COB") may execute against individual orders or quotes in the book provided the complex order can be executed in full (or a permissible ratio) by the orders and quotes in the book. Rule 6.53C(d)(v)(1) provides that orders that are eligible for the complex order auction ("COA") may trade with individual orders and quotes in the book provided the COA-eligible order can be executed in full (or a permissible ratio) by the orders and quotes in the book. COA is an automated request for responses ("RFR") auction process. Upon initiation of a COA, the Exchange sends an RFR message to all Trading Permit Holders who have elected to receive RFR messages, which RFR message identifies the series, size and side of the market of the COA-eligible order and any contingencies. Eligible market participants may submit responses during a response time interval. At the conclusion of the response time interval, COA-eligible orders are allocated in accordance with Rule 6.53C(d)(v), including against individual orders and quotes in the book.

For example, if market participants enter into the System individual orders to buy 25 contracts for the Jan 30 call, Jan 35 call, Jan 40 call and Jan 45 call in class ABC, the System processes each order as it is received and calculates the Market-Makers parameters in class ABC following the execution of each 25-contract call. However, if a market participant enters into the System a complex order to buy all four of these strikes in class ABC 25 times, which complex order executes against bids and offers for the individual series (i.e. legs into the market), the System will calculate the Market-Maker's parameters in class ABC following the execution of all 100 contracts. If the Market-Maker had set the same parameters in class ABC as discussed above (100-contract limit with five-second measurement interval) and had executed 95 contracts in class ABC within the previous three seconds, the amount by which the next transaction might exceed 100 is limited to the largest size of its quote in a single series of the class. In that example, since the largest size of the Market-Maker's quotes in any series was 25 contracts, the Market-Maker could not have exceeded the 100-contract limit by more than 20 contracts (95 + 25 = 120). However, with respect to the complex order with four legs 25 times, the next transaction against the Market-Maker's quotes potentially could be as large as 100 contracts (depending upon whether there are other market participants at the same price), creating the potential in this example for the Market-Maker to exceed the 100-contract limit by 95 contracts (95 + 100 = 195) instead of 20 contracts.

As this example demonstrates, legging of complex orders into the regular market presents higher risk to Market-Makers than executing their quotes against individual orders entered in multiple series of a class in the regular market, because it may result in Market-Makers exceeding their risk parameters by a greater number of contracts. This

risk is directly proportional to the number of legs associated with a complex order. Market-Makers have expressed concerns to the Exchange regarding this risk.

In order to alleviate this potential risk to Market-Makers, the Exchange, in SR-CBOE-2015-081, amended Rule 6.53C(d) to, among other things, provide that a COA will be initiated when a complex order with three or more legs is designated as IOC and meets the class, marketability, and size parameters of subparagraph (d)(i)(2).[11] The Exchange observed IOC orders causing the risk to Market-Makers described above and believed the previous amendment proposed in SR-CBOE-2015-081 would reduce that risk by initiating a COA in those circumstances. The Exchange is now proposing to fine tune this requirement by amending Rule 6.53C(d)(ii)(A)(2)(B) to provide that a COA will be initiated when a complex order with three or more legs that is marketable against the derived net market is designated as immediate or cancel and the order meets the class and size parameters of subparagraph (d)(i)(2).[12]

As noted above, it is the legging of complex orders into the regular market that presents the potential risk to Market-Makers. Generally, a complex order has the potential to leg into the market when the complex order is marketable against leg quotes. For example, if the derived net market of a complex order strategy is 1.00 – 1.20 and a complex order to buy or sell at $1.10 is entered, the complex order would not execute against the legs of the regular market because the leg markets (which make-up the derived net market)

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[11] See Rule 6.53C(d)(ii)(A)(2)(B). The Exchange has not yet implemented the changes described in SR-CBOE-2015-081 in anticipation of this proposal.

[12] This proposed change applies to Hybrid classes only, and not Hybrid 3.0 classes. The Exchange does not believe the risk discussed in this rule filing is present in Hybrid 3.0 classes because in Hybrid 3.0 classes complex orders are not legged into the regular market. See Rule 6.53C.10 (providing flexibility for the Exchange to determine to not allow marketable complex orders entered into COB and/or COA to automatically execute against individual quotes residing in the EBook).

cannot satisfy the order. A complex order to buy at $1.20 or higher or to sell at $1.00 or lower (i.e., an order that is marketable against the derived net market) would potentially be executable against the leg quotes. However, the current rule requires the Exchange to initiate a COA for a complex order with three or more legs that is designated IOC and meets the class, marketability, and size parameters of subparagraph (d)(i)(2), even if the complex order is not marketable against the derived net market. Complex orders that are not marketable against the derived net market do not pose the same risk to Market-Makers as complex orders that are marketable against the derived net market because, as noted above, it is marketable complex orders that can leg into the market and execute against individual quotes causing the risk to Market-Makers. Thus, the Exchange is proposing to amend Rule 6.53C(d)(ii)(A)(2)(B) as described above. Additionally, IOC orders that are not marketable against the derived net market in accordance with subparagraph (ii)(A)(2)(B) will be cancelled, which allows order entry firms to use their own sophisticated technology to manage their orders helping to remove impediments to and perfect the mechanism of a free and open market.

Currently, the marketability parameter in Rule 6.53C(d)(i)(2), defined as a number of ticks away from the current market, sets the price at which a complex order will initiate a COA. To avoid confusion, the Exchange proposes to remove the marketability parameter from the definition of "COA-eligible order," which will remove the Exchange's flexibility to set the price at which a complex order will initiate a COA. The Exchange does not foresee any issues with removing the flexibility to determine the price at which a COA will be initiated because the Exchange does not foresee a future need to modify the price at which auctions are initiated. If unforeseen circumstances arise where the Exchange believes

it is necessary to modify the price at which auctions are initiated then the Exchange will submit a subsequent rule filing. Additionally, removing such flexibility may provide increased certainty to market participants about the price at which a complex order will initiate a COA, helping to remove impediments to and perfect the mechanism of a free and open market.

The Exchange proposes to hardcode the price at which a complex order may initiate a COA in Rule 6.53C(d)(ii)(A). For example, assuming all of the non-price specific requirements are met, a complex order with two legs under subparagraph (d)(ii)(A)(1) and a complex order with three legs under subparagraph (d)(ii)(A)(2)(A) will initiate a COA if the derived net market is 1 – 1.20 and the complex order is to buy at $1.01 or higher or to sell at 1.19 or lower.[13] As described above, assuming the non-price specific requirements are met, a complex order with three legs under subparagraph (d)(ii)(A)(2)(B) will initiate a COA if the derived net market is 1 – 1.20 and the complex order is to buy at $1.20 or higher or to sell at $1.00 or lower. Initiating a COA in these situations will relieve the risk to Market-Makers noted above, which helps promote just and equitable principles of trade by relieving risk to Market-Makers allowing them to more efficiently and effectively provide important liquidity.

In short, SR-CBOE-2015-081, among other things, identified certain orders that potentially cause the risk to Market-Makers described above (i.e., complex orders with three or more legs that are designated as IOC and meet the class, marketability, and size parameters of subparagraph (d)(i)(2)). This proposal goes a step further and focuses on the

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[13] The Exchange notes that the prices at which a complex order will initiate a COA under subparagraphs (d)(ii)(A)(1) or (d)(ii)(A)(2)(A) are consistent with the current settings for the marketability parameter. This portion of the proposal simply hardcodes existing settings.

above orders that are marketable against the derived net market. This is consistent with the

purpose of SR-CBOE-2015-081, which was to alleviate the potential risk to Market-Makers.

Additionally, this proposal helps to further balance the protection of Market-Makers with

the desire of market participants entering IOC orders to have those orders cancel if not

immediately executed. The Exchange also notes that the Exchange is removing its

flexibility with regards to the marketability parameter.

The Exchange will announce the implementation date of the proposed rule change in

a Regulatory Circular to be published no later than 90 days following the effective date of

this filing. The implementation date will be no later than 180 days following the effective

date of this filing.

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the Securities

Exchange Act of 1934 (the "Act") and the rules and regulations thereunder applicable to

the Exchange and, in particular, the requirements of Section 6(b) of the Act.[14]

Specifically, the Exchange believes the proposed rule change is consistent with the

Section 6(b)(5)[15] 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

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[14]   15 U.S.C. 78f(b).
[15]   15 U.S.C. 78f(b)(5).

the Section 6(b)(5)[16] 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 the proposed rule change is consistent with the

purpose of SR-CBOE-2015-081, which was to alleviate a potential risk to Market-Makers

that arises through the use of QRM. Complex orders with three or more legs that are

designated as IOC and meet the class and size parameters of subparagraph (d)(i)(2) and that

are marketable against the derived net market (which the Exchange has identified as

potentially causing risk to Market-Makers) will COA, which helps promote just and

equitable principles of trade by relieving risk to Market-Makers allowing them to more

efficiently and effectively provide important liquidity. Orders that are designated as IOC

and meet the class and size parameters of subparagraph (d)(i)(2), but that are not marketable

against the derived net market, will be cancelled, which allows order entry firms to use their

own sophisticated technology to manage their orders helping to remove impediments to and

perfect the mechanism of a free and open market. The Exchange is also removing flexibility

with regards to the marketability parameter. Although the Exchange prefers flexibility, the

Exchange does not foresee the need to retain flexibility with regards to the marketability

parameter and hardcoding the parameter may help avoid confusion with regards to the price

at which a complex order will initiate a COA, which also helps to remove impediments to

and perfect the mechanism of a free and open market.

The Exchange also believes the proposed rule change to initiate a COA upon

receipt of complex orders with three or more legs that are designated as IOC and meet the

class and size parameters of subparagraph (d)(i)(2) and that are marketable against the

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[16]   Id.

derived net market is consistent with the requirement that Market-Makers' quotes be firm

under Rule 602 of Regulation NMS.[17] The proposed rule change does not relieve

Market-Makers of their obligation to provide "firm" quotes. If a complex order in a

Hybrid class with three or more legs goes through COA and then legs into the market for

execution upon completion of the COA, at which point the complex order would execute

against a Market-Maker's quotes based on priority rules, the Market-Maker must execute

its quotes against the order at its then-published bid or offer up to its published quote

size, even if such execution would cause the Market-Maker to significantly exceed its

risk parameters. However, prior to the end of COA (and thus prior to a complex order

legging into the market), a Market-Maker may adjust its published quotes to manage its

risk in a class as it deems necessary, including to prevent executions that would exceed

its risk parameters. In this case, the firm quote rule does not obligate the Market-Maker

to execute its quotes against the complex order at the quote price and size that was

published when the order entered the System and initiated the COA. Rather, the Market-

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[17]   Rule 602(b)(2) obligates a Market-Maker to execute any order to buy or sell a subject security presented to it by another broker or dealer or any other person belonging to a category of persons with whom the Market-Maker customarily deals, at a price at least as favorable to the buyer or sell as the Market-Maker's published bid or offer in any amount up to its published quotation size. Rule 602(b)(3) provides that no Market-Maker is obligated to execute a transaction for any subject security to purchase or sell that subject security in an amount greater than its revised quotation size if, prior to the presentation of an order for the purchase or sale of a subject security, the Market-Maker communicated to the Exchange a revised quotation size. Similarly, no Market-Maker is obligated to execute a transaction for any subject security if, before the order sought to be executed is presented, the Market-Maker has communicated to the Exchange a revised bid or offer. CBOE Rule 8.51 imposes a similar obligation (Market-Maker must sell (buy) at least the established number of contracts at the offer (bid) which is displayed when the Market-Maker receives a buy (sell) order at the trading station where the reported security is located for trading; however, no Market-Maker is obligated to execute a transaction for a listed option when, prior to the presentation of an order to sell (buy) to the Market-Maker, the Market-Maker has communicated to the Exchange a revised quote).

Maker's firm quote obligation applies only to its disseminated quote at the time an order is presented to the Market-Maker for execution, which presentation does not occur until the System processes the order against the leg markets after completion of the COA.[18] Thus, the proposed rule change is consistent with the firm quote rule.

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

      CBOE does not believe that the proposed rule change will impose any burden on intramarket or intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange does not believe the proposed rule change will impose any burden on intramarket competition because all IOC orders will be treated equally by the Exchange. The proposed rule change is intended to reduce risk to Market-Makers that are quoting in the regular market. CBOE believes that the proposed rule change will promote competition by encouraging Market-Makers to increase the size of and to more aggressively price their quotes, which will increase liquidity on the Exchange. To the extent that the rule change makes CBOE a more attractive marketplace, market participants are free to become Trading Permit Holders on CBOE and other exchanges are free to amend their rules in a similar manner. Furthermore, the Exchange does not believe the proposed rule change will impose any burden on

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[18]   See Staff Legal Bulletin No. 16, *Transaction in Listed Options Under Exchange Act Rule 11Ac1-1*, U.S. Securities and Exchange Commission, Division of Market Regulation, January 20, 2004 ("Scenario 3: When an Order is "Presented" . . . If an individual market maker generates its own quotations . . . and exchange systems route incoming orders to the responsible broker-dealer with priority, when is an order presented to a responsible broker-dealer? **Response:** . . . . When each market maker is the responsible broker-dealer with respect to its own quote, an order is presented to it when received by the market maker from the exchange system."). When a complex order is processing through COA, the order is still in the System and has not yet been presented to a broker or dealer (including a Market-Maker) for execution. Only after completion of the COA, when the System allocates the complex order for execution in accordance with priority rules, will that order be "presented" to the Market-Maker for firm quote purposes.

intermarket competition because the rule change does not materially affect the outcome or purpose of SR-CBOE-2015-081, which was to alleviate potential risk to Market-Makers using QRM. The Exchange also does not believe hardcoding the price at which a complex order may initiate a COA will impose a burden on competition.

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

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

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

Because the foregoing proposed rule change does not:

    A.   significantly affect the protection of investors or the public interest;

    B.   impose any significant burden on competition; and

    C.   become operative for 30 days from the date on which it was filed, or such

shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act[19] and Rule 19b-4(f)(6)[20] thereunder. At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission will institute proceedings to determine whether the proposed rule change should be approved or disapproved.

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[19]   15 U.S.C. 78s(b)(3)(A).
[20]   17 CFR 240.19b-4(f)(6).

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-2016-014 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-2016-014. 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-2016-014 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.[21]

<div align="center">Secretary</div>

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[21]   17 CFR 200.30-3(a)(12).