Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 25	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - 2016 - * 024 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

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 *).

Proposal to Adopt Interpretation and Policy .09 to Rule 6.74A Relating to AIM Retained 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 * William   Last Name * Wallenstein

Title *   Senior Counsel

E-mail *   wallenstein@cboe.com

Telephone * (312) 786-8716   Fax (312) 786-7919

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   03/22/2016   Senior Counsel / Assistant Secretary

By   William P. Wallenstein

(Name *)

Persona Not Validated - 1431530525801,

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 *

Add   Remove   View

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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Exhibit Sent As Paper Document
☐

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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Exhibit Sent As Paper Document
☐

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

Add   Remove   View

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

Add   Remove   View

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.   <u>Text of the Proposed Rule Change</u>

(a)   Chicago Board Options Exchange, Incorporated (the "Exchange" or "CBOE") proposes to amend Rule 6.74A (Automated Improvement Mechanism ("AIM")) relating to AIM Retained Order functionality and make minor related edits to Interpretation and Policy .08 to Rule 6.53C (Price Check Parameters). The text of the proposed rules changes is provided in Exhibit 5.

(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 March 18, 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 William P. Wallenstein, (312) 786-8716, 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>

The Exchange proposes to amend Rule 6.74A (Automated Improvement Mechanism ("AIM")) to clarify how orders submitted for electronic crossing into the AIM auction are treated if an auction cannot occur, to adopt Interpretation and Policy .09 to Rule 6.74A (AIM Retained Order Functionality) to describe the Exchange's AIM Retained Order ("A:AIR") functionality in the Rules, and make minor edits to

Interpretation and Policy .08 to Rule 6.53C (Price Check Parameters) relating to the treatment of complex AIM orders marked A:AIR and correct certain typographical errors.

Under Rule 6.74A (Automated Improvement Mechanism ("AIM")), a Trading Permit Holder ("TPH") that represents agency orders may electronically execute an order it represents as agent ("Agency Order") against principal interest or against a solicited order provided it submits the Agency Order for electronic execution into the AIM auction ("Auction") for processing. Matched Agency Orders may be processed via AIM subject to certain eligibility requirements contained in Rule 6.74A(a). Specifically, to be eligible for processing via AIM, the Agency Order must be: (1) in a class designated as eligible for Auctions and within the designated eligibility size parameters as determined by the Exchange; (2) stopped with a principal or solicited order priced at the national best bid or offer ("NBBO") (if 50 standard option contracts or 500 mini-option contracts or greater) or one cent/one minimum increment better than the NBBO (if less than 50 standard option contracts or 500 mini-option contracts); and (3) submitted in a series in which at least three Market-Makers are quoting if submitted during regular trading hours.[1] Orders submitted for crossing into AIM, which are ineligible for Auction processing will result in both the Agency Order and the matching contra order(s) being cancelled.

A:AIR functionality is an enhancement to AIM that allows TPHs the flexibility to choose, on an order-by-order basis, whether an Agency Order should continue into the Hybrid Trading System[2] for processing rather than cancel in the event that an Auction

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[1]   See Rule 6.74A(a).

[2]   The Hybrid Trading System refers to the Exchange's trading platform as defined in Rule 1.1(aaa) (Hybrid Trading System).

cannot occur.[3] A:AIR functionality essentially allows for the entry of Agency Orders

into AIM with contingency processing instructions for handling in the event that the

order cannot be processed via Auction. For example, using the A:AIR functionality, a

TPH might submit a matched Agency Order for 50 standard contracts that is stopped with

a principal interest or solicited order priced outside of the NBBO and into AIM. In such

a case, the order would not initiate an auction (as the eligibility requirement in Rule

6.74A(a)(2) would not be met),[4] but would continue into the Hybrid Trading System and

be booked at the Agency Order limit price (rather than cancelled if A:AIR functionality

were not used) and the contra order would be cancelled.

The Exchange notes that A:AIR functionality is currently available for use on the

Exchange and is referred to in the Rules (although not using that term)[5] and explained in

various Information and Regulatory Circulars.[6] A:AIR functionality, however, is not

explicitly defined in the Rules. Accordingly, this filing is intended to further codify,

clarify, and describe A:AIR functionality in the Rules. Specifically, the Exchange

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[3]   There are a variety of circumstances in which an AIM order may be submitted to
        the Exchange for processing, but an auction may not occur. For example, TPH
        may submit an order for AIM processing, which is not AIM eligible because one
        or more of the conditions required for an AIM auction to occur pursuant to Rule
        6.74A(a) is not present. In addition, an order that is otherwise AIM eligible may
        not be able to process for a variety of reasons, including, but not limited to
        circumstances in which AIM functionality is suspended. In either of such cases,
        A:AIR functionality may allow the Agency Order to process despite the overall
        order not being AIM eligible.
[4]   See Rule 6.74A(a).
[5]   See Interpretation and Policy .08 to Rule 6.53C (Price Check Parameters) at
        paragraphs (c)(5), (d), (f)(2), and (g)(4) referring to orders that instruct the System
        to process the Agency Order as an unpaired order if an AIM Auction cannot be
        initiated.
[6]   See, e.g., Regulatory Circular RG13-053 (Limit Up-Limit Down Order
        Handling); Regulatory Circular RG13-009 (AIM Primary Order Allowed in
        Penny Increments); Information Circular IC07-62 (Automated Improvement
        Mechanism (AIM)).

proposes to adopt Interpretation and Policy .09 to Rule 6.74A (AIM Retained Order Functionality), under which the Exchange would define an AIM Retained Order as the transmission of two or more orders for crossing pursuant to Rule 6.74A, with the Agency Order priced at the market or a limit price in the standard increment for the option series and marked with a contingency instruction to route the Agency Order for processing and cancel any contra orders if an Auction cannot occur (including if the conditions described in Rule 6.74A(a) are not met).

Furthermore, to ensure that A:AIR orders are properly priced to allow the Exchange to book the Agency Order in the event an Auction cannot occur, proposed Interpretation and Policy .09 to Rule 6.74A would provide that orders marked "A:AIR" with Agency Orders that are not priced at the market or that are priced with a limit price not in the standard increment for the option series in which they are entered would be cancelled. For example, if a TPH were to submit a matched Agency Order into AIM for processing in a class with a minimum increment of a nickel, which was stopped with a contra order at $0.07, both the Agency Order and the contra order would be cancelled because the order, which is not priced in the minimum increment for the class, would not eligible for AIM processing and because the System would not be able to book an order at $0.07 in a class with a minimum increment of a nickel. Notably, this provision of proposed Interpretation and Policy .09 to Rule 6.74A is consistent with previous descriptions of A:AIR functionality by the Exchange and Exchange rules that only permit orders at the standard increment to enter the book.[7] Finally, proposed Interpretation and Policy .09 to Rule 6.74A would provide that A:AIR order functionality will be made

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[7]   See Regulatory Circular RG13-009 (AIM Primary Order Allowed in Penny Increments); see also Rule 6.42.

available on those order management platforms as determined by the Exchange and announced via Regulatory Circular. This provision is intended to make clear that A:AIR functionality may not be available on all trading platforms in use on the Exchange.[8]

The Exchange also notes that although orders submitted into AIM, which are not marked A:AIR and are ineligible for Auction processing will result in both the Agency Order and the matching contra order(s) being cancelled, the Rules do not explicitly provide as much. Accordingly, the Exchange proposes to add language to Rule 6.74A(a) to provide that in the event that a Trading Permit Holder submits a matched Agency Order for electronic execution into the Auction that is ineligible for processing because it does not meet the conditions described in paragraph (a), both the Agency Order and any solicited contra orders will be cancelled unless marked as an AIM Retained order pursuant to proposed Interpretation and Policy .09 to Rule 6.74A.[9]

The Exchange also proposes to make minor changes to Interpretation and Policy .08 to Rule 6.53C regarding price reasonability checks on complex orders to harmonize references to A:AIR functionality in Rule 6.53C with the language in proposed

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[8]   A:AIR functionality is not currently supported on Floor Broker Workstation ("FBW"), FBW2, or the PULSe trader workstation. FBW, FBW2, and PULSe are order handling tools used for manual handling of orders. Thus, when ineligible AIM orders are rejected back to FBW, FBW2, and PULSe users, a person is present to decide how best to handle such orders. FBW, FBW2, and PULSe users can either re-route such orders to be booked or for alternative electronic processing on the Exchange or to their broker on the floor of the Exchange.

[9]   Notably, the A:AIR functionality is used primarily by smart router technology to ensure that ineligible AIM orders are submitted into the Hybrid Trading System for processing and not cancelled. Whereas traditional brokers and dealers are equipped to manually handle cancelled orders that are returned to them and may revise the cancelled orders' terms or contact their customers for further instructions, smart routers are generally all electronic algorithmic systems that may not allow for manual handling of cancelled orders.

Interpretation and Policy .09 to Rule 6.74A. Specifically, the Exchange proposes to modify Interpretation and Policy .08(c)(5), (d), (f)(2), and (g)(4) to Rule 6.53C (Price Check Parameters) to change references to AIM orders that instruct the System to process the Agency Order as an unpaired order if an AIM auction cannot be initiated, to instead refer to AIM Retained ("A:AIR") orders as defined in proposed Interpretation and Policy .09 to Rule 6.74A. These changes are non-substantive and intended only to harmonize existing references to A:AIR functionality currently in the Rules with the definition of A:AIR orders set forth in proposed Interpretation and Policy .09 to Rule 6.74A. The proposed rule change also makes non-substantive changes in these paragraphs to capitalize the defined term Agency Order, consistent with Rule 6.74A.

(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

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

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.

The proposed rule change seeks to provide additional clarity and completeness in

the Rules regarding functionalities in use at the Exchange. The Exchange is continuously

updating the Rules to provide additional detail, clarity, and transparency regarding its

operations and trading systems. The Exchange believes that the adoption of detailed,

clear, and transparent rules reduces burdens on competition and promotes just and

equitable principles of trade. The Exchange also believes that A:AIR functionality is

valuable enhancement to AIM, which provides the opportunity for execution of customer

orders that a TPH submitted for crossing via AIM but cannot be executed via AIM and

helps prevent inadvertent mishandling of Agency Orders (i.e. customer orders) submitted

for Auction. The Exchange believes that these outcomes serve to protect investors'

interests by helping to ensure that ineligible AIM Agency Orders are processed rather

than cancelled. In addition, the Exchange believes that price improvement mechanisms

promote competition amongst market participants and that enhancements to such price

improvement mechanisms promote competition between exchanges. A;AIR functionality

makes such mechanisms easier to use and minimizes the risk of order submitted into AIM

being mishandled. Thus, the Exchange believes that the A:AIR functionality is an

enhancement consistent with the purposes of the Act.

Item 4. **Self-Regulatory Organization's Statement on Burden on Competition**

The Exchange 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. The Exchange notes that price improvement mechanisms are widely used

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[12] Id.

across the national options exchanges. The exchanges have developed these mechanisms in order to provide market participants diverse opportunities to seek valuable price improvement and as a means to compete with one another for order flow. Such price improvement mechanisms not only promote intermarket competition for order flow between the exchanges, but also intramarket competition between market participants competing for orders directly through the auction process. Accordingly, the exchanges are continuously making enhancements and adding functionalities to their price improvement mechanisms in order to provide more competitive marketplaces for market participants and better compete with one another. A:AIR functionality is simply one of many enhancements that the Exchange has made to AIM for this purpose.

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 written comments on the proposed rule change.

Item 6. **Extension of Time Period for Commission Action**

The Exchange does not consent to an extension of the time period for Securities and Exchange Commission (the "Commission") action on the proposed rule change specified in Section 19(b)(2) of the Act.[13]

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.

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[13]   15 U.S.C. 78s(b)(2).

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-2016-024

[Insert date]

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

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 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.

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

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[1]   15 U.S.C. 78s(b)(1).

[2]   17 CFR 240.19b-4.

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 amend Rule 6.74A (Automated Improvement

Mechanism ("AIM")) to clarify how orders submitted for electronic crossing into the

AIM auction are treated if an auction cannot occur, to adopt Interpretation and Policy .09

to Rule 6.74A (AIM Retained Order Functionality) to describe the Exchange's AIM

Retained Order ("A:AIR") functionality in the Rules, and make minor edits to

Interpretation and Policy .08 to Rule 6.53C (Price Check Parameters) relating to the

treatment of complex AIM orders marked A:AIR and correct certain typographical errors.

Under Rule 6.74A (Automated Improvement Mechanism ("AIM")), a Trading

Permit Holder ("TPH") that represents agency orders may electronically execute an order

it represents as agent ("Agency Order") against principal interest or against a solicited

order provided it submits the Agency Order for electronic execution into the AIM auction

("Auction") for processing. Matched Agency Orders may be processed via AIM subject

to certain eligibility requirements contained in Rule 6.74A(a). Specifically, to be eligible

for processing via AIM, the Agency Order must be: (1) in a class designated as eligible

for Auctions and within the designated eligibility size parameters as determined by the

Exchange; (2) stopped with a principal or solicited order priced at the national best bid or

offer ("NBBO") (if 50 standard option contracts or 500 mini-option contracts or greater)

or one cent/one minimum increment better than the NBBO (if less than 50 standard

option contracts or 500 mini-option contracts); and (3) submitted in a series in which at

least three Market-Makers are quoting if submitted during regular trading hours.[3] Orders submitted for crossing into AIM, which are ineligible for Auction processing will result in both the Agency Order and the matching contra order(s) being cancelled.

A:AIR functionality is an enhancement to AIM that allows TPHs the flexibility to choose, on an order-by-order basis, whether an Agency Order should continue into the Hybrid Trading System[4] for processing rather than cancel in the event that an Auction cannot occur.[5] A:AIR functionality essentially allows for the entry of Agency Orders into AIM with contingency processing instructions for handling in the event that the order cannot be processed via Auction. For example, using the A:AIR functionality, a TPH might submit a matched Agency Order for 50 standard contracts that is stopped with a principal interest or solicited order priced outside of the NBBO and into AIM. In such a case, the order would not initiate an auction (as the eligibility requirement in Rule 6.74A(a)(2) would not be met),[6] but would continue into the Hybrid Trading System and be booked at the Agency Order limit price (rather than cancelled if A:AIR functionality were not used) and the contra order would be cancelled.

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[3]   See Rule 6.74A(a).

[4]   The Hybrid Trading System refers to the Exchange's trading platform as defined in Rule 1.1(aaa) (Hybrid Trading System).

[5]   There are a variety of circumstances in which an AIM order may be submitted to the Exchange for processing, but an auction may not occur. For example, TPH may submit an order for AIM processing, which is not AIM eligible because one or more of the conditions required for an AIM auction to occur pursuant to Rule 6.74A(a) is not present. In addition, an order that is otherwise AIM eligible may not be able to process for a variety of reasons, including, but not limited to circumstances in which AIM functionality is suspended. In either of such cases, A:AIR functionality may allow the Agency Order to process despite the overall order not being AIM eligible.

[6]   See Rule 6.74A(a).

The Exchange notes that A:AIR functionality is currently available for use on the Exchange and is referred to in the Rules (although not using that term)[7] and explained in various Information and Regulatory Circulars.[8]   A:AIR functionality, however, is not explicitly defined in the Rules. Accordingly, this filing is intended to further codify, clarify, and describe A:AIR functionality in the Rules. Specifically, the Exchange proposes to adopt Interpretation and Policy .09 to Rule 6.74A (AIM Retained Order Functionality), under which the Exchange would define an AIM Retained Order as the transmission of two or more orders for crossing pursuant to Rule 6.74A, with the Agency Order priced at the market or a limit price in the standard increment for the option series and marked with a contingency instruction to route the Agency Order for processing and cancel any contra orders if an Auction cannot occur (including if the conditions described in Rule 6.74A(a) are not met).

Furthermore, to ensure that A:AIR orders are properly priced to allow the Exchange to book the Agency Order in the event an Auction cannot occur, proposed Interpretation and Policy .09 to Rule 6.74A would provide that orders marked "A:AIR" with Agency Orders that are not priced at the market or that are priced with a limit price not in the standard increment for the option series in which they are entered would be cancelled. For example, if a TPH were to submit a matched Agency Order into AIM for processing in a class with a minimum increment of a nickel, which was stopped with a

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[7]   See Interpretation and Policy .08 to Rule 6.53C (Price Check Parameters) at paragraphs (c)(5), (d), (f)(2), and (g)(4) referring to orders that instruct the System to process the Agency Order as an unpaired order if an AIM Auction cannot be initiated.

[8]   See, e.g., Regulatory Circular RG13-053 (Limit Up-Limit Down Order Handling); Regulatory Circular RG13-009 (AIM Primary Order Allowed in Penny Increments); Information Circular IC07-62 (Automated Improvement Mechanism (AIM)).

contra order at $0.07, both the Agency Order and the contra order would be cancelled because the order, which is not priced in the minimum increment for the class, would not eligible for AIM processing and because the System would not be able to book an order at $0.07 in a class with a minimum increment of a nickel. Notably, this provision of proposed Interpretation and Policy .09 to Rule 6.74A is consistent with previous descriptions of A:AIR functionality by the Exchange and Exchange rules that only permit orders at the standard increment to enter the book.[9] Finally, proposed Interpretation and Policy .09 to Rule 6.74A would provide that A:AIR order functionality will be made available on those order management platforms as determined by the Exchange and announced via Regulatory Circular. This provision is intended to make clear that A:AIR functionality may not be available on all trading platforms in use on the Exchange.[10]

The Exchange also notes that although orders submitted into AIM, which are not marked A:AIR and are ineligible for Auction processing will result in both the Agency Order and the matching contra order(s) being cancelled, the Rules do not explicitly provide as much. Accordingly, the Exchange proposes to add language to Rule 6.74A(a) to provide that in the event that a Trading Permit Holder submits a matched Agency Order for electronic execution into the Auction that is ineligible for processing because it does not meet the conditions described in paragraph (a), both the Agency Order and any

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[9]   See Regulatory Circular RG13-009 (AIM Primary Order Allowed in Penny Increments); see also Rule 6.42.

[10]   A:AIR functionality is not currently supported on Floor Broker Workstation ("FBW"), FBW2, or the PULSe trader workstation. FBW, FBW2, and PULSe are order handling tools used for manual handling of orders. Thus, when ineligible AIM orders are rejected back to FBW, FBW2, and PULSe users, a person is present to decide how best to handle such orders. FBW, FBW2, and PULSe users can either re-route such orders to be booked or for alternative electronic processing on the Exchange or to their broker on the floor of the Exchange.

solicited contra orders will be cancelled unless marked as an AIM Retained order pursuant to proposed Interpretation and Policy .09 to Rule 6.74A.[11]

The Exchange also proposes to make minor changes to Interpretation and Policy .08 to Rule 6.53C regarding price reasonability checks on complex orders to harmonize references to A:AIR functionality in Rule 6.53C with the language in proposed Interpretation and Policy .09 to Rule 6.74A. Specifically, the Exchange proposes to modify Interpretation and Policy .08(c)(5), (d), (f)(2), and (g)(4) to Rule 6.53C (Price Check Parameters) to change references to AIM orders that instruct the System to process the Agency Order as an unpaired order if an AIM auction cannot be initiated, to instead refer to AIM Retained ("A:AIR") orders as defined in proposed Interpretation and Policy .09 to Rule 6.74A. These changes are non-substantive and intended only to harmonize existing references to A:AIR functionality currently in the Rules with the definition of A:AIR orders set forth in proposed Interpretation and Policy .09 to Rule 6.74A. The proposed rule change also makes non-substantive changes in these paragraphs to capitalize the defined term Agency Order, consistent with Rule 6.74A.

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.[12] Specifically, the Exchange believes the

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[11] Notably, the A:AIR functionality is used primarily by smart router technology to ensure that ineligible AIM orders are submitted into the Hybrid Trading System for processing and not cancelled. Whereas traditional brokers and dealers are equipped to manually handle cancelled orders that are returned to them and may revise the cancelled orders' terms or contact their customers for further instructions, smart routers are generally all electronic algorithmic systems that may not allow for manual handling of cancelled orders.

[12] 15 U.S.C. 78f(b).

proposed rule change is consistent with the Section 6(b)(5)[13] 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)[14] requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The proposed rule change seeks to provide additional clarity and completeness in the Rules regarding functionalities in use at the Exchange. The Exchange is continuously updating the Rules to provide additional detail, clarity, and transparency regarding its operations and trading systems. The Exchange believes that the adoption of detailed, clear, and transparent rules reduces burdens on competition and promotes just and equitable principles of trade. The Exchange also believes that A:AIR functionality is valuable enhancement to AIM, which provides the opportunity for execution of customer orders that a TPH submitted for crossing via AIM but cannot be executed via AIM and helps prevent inadvertent mishandling of Agency Orders (i.e. customer orders) submitted for Auction. The Exchange believes that these outcomes serve to protect investors' interests by helping to ensure that ineligible AIM Agency Orders are processed rather than cancelled. In addition, the Exchange believes that price improvement mechanisms

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[13]   15 U.S.C. 78f(b)(5).
[14]   Id.

promote competition amongst market participants and that enhancements to such price improvement mechanisms promote competition between exchanges. A;AIR functionality makes such mechanisms easier to use and minimizes the risk of order submitted into AIM being mishandled. Thus, the Exchange believes that the A:AIR functionality is an enhancement consistent with the purposes of the Act.

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

The Exchange 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. The Exchange notes that price improvement mechanisms are widely used across the national options exchanges. The exchanges have developed these mechanisms in order to provide market participants diverse opportunities to seek valuable price improvement and as a means to compete with one another for order flow. Such price improvement mechanisms not only promote intermarket competition for order flow between the exchanges, but also intramarket competition between market participants competing for orders directly through the auction process. Accordingly, the exchanges are continuously making enhancements and adding functionalities to their price improvement mechanisms in order to provide more competitive marketplaces for market participants and better compete with one another. A:AIR functionality is simply one of many enhancements that the Exchange has made to AIM for this purpose.

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 written 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-2016-024 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-2016-024. 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-2016-024 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.[15]

Secretary

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[15]   17 CFR 200.30-3(a)(12).

EXHIBIT 5

(additions are underlined; deletions are [bracketed])

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**Chicago Board Options Exchange, Incorporated
Rules**

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Rule 6.53C. Complex Orders on the Hybrid System

(a) – (d) No change.

. . . Interpretations and Policies:

.01 - .07 No change.

.08 Price Check Parameters: On a class-by-class basis, the Exchange may determine (and announce to the Trading Permit Holders via Regulatory Circular) which of the following price check parameters will apply to eligible complex orders. Paragraphs (b) and (e) will not be applicable to stock-option orders.

For purposes of this Interpretation and Policy .08:

Vertical Spread. A "vertical" spread is a two-legged complex order with one leg to buy a number of calls (puts) and one leg to sell the same number of calls (puts) with the same expiration date but different exercise prices.

Butterfly Spread. A "butterfly" spread is a three-legged complex order with two legs to buy (sell) the same number of calls (puts) and one leg to sell (buy) twice as many calls (puts), all with the same expiration date but different exercise prices, and the exercise price of the middle leg is between the exercise prices of the other legs. If the exercise price of the middle leg is halfway between the exercise prices of the other legs, it is a "true" butterfly; otherwise, it is a "skewed" butterfly.

Box Spread. A "box" spread is a four-legged complex order with one leg to buy calls and one leg to sell puts with one strike price, and one leg to sell calls and one leg to buy puts with another strike price, all of which have the same expiration date and are for the same number of contracts.

To the extent a price check parameter is applicable, the Exchange will not automatically execute an eligible complex order that is:

(a) – (b) No change.

(c) Debit/Credit Price Reasonability Checks:

   (1) – (4) No change.

   (5) This check applies to pairs of orders submitted to AIM, SAM or as a QCC order. If the System rejects either order in the pair pursuant to this check, then the System also cancels the paired order. Notwithstanding the foregoing, with respect to an AIM Retained ("A:AIR") order as defined in Interpretation and Policy .09 to

Rule 6.74A [that instructs the System to process the agency order as an unpaired order if an AIM auction cannot be initiated], if the System rejects the [a]Agency [o]Order pursuant to this check, then the System also rejects the contra-side order; however, if the System rejects the contra-side order pursuant to this check, the System still accepts the [a]Agency [o]Order if it satisfies the check.

(6) No change.

(d) Buy-Buy (Sell-Sell) Strategy Parameters: A limit order where (1) all the components of the strategy are to buy and the order is priced at zero, any net credit price, or a net debit price that is less than the number of individual option series legs in the strategy (or applicable ratio) multiplied by the applicable minimum net price increment for the complex order; or (2) all the components of the strategy are to sell and the order is priced at zero, any net debit price, or a net credit price that is less than the number of individual option series legs in the strategy (or applicable ratio) multiplied by the applicable minimum net price increment for the complex order. Such complex orders under this paragraph (d) will not be accepted. In classes where this price check parameter is available, it will also be available for stock-option orders (and the minimum net price increment calculation above will only apply to the individual option series legs). In addition, in classes where this price check parameter is available, it will also be available for COA responses under Rule 6.53C(d), AIM and Solicitation Auction Mechanism complex orders and responses under Rule 6.74A and 6.74B, customer-to-customer immediate cross complex orders under Rule 6.74A.08, and qualified contingent cross orders under Rule 6.53(u). Such paired complex orders and responses under these provisions will not be accepted except that, to the extent that only a paired contra-side order subject to an auction under Rule 6.74A or 6.74B exceeds this price check parameter, the contra-side order will not be accepted and the paired original Agency Order will not be accepted or, at the order entry firm's discretion (i.e. an AIM Retained ("A:AIR") order, as defined in Interpretation and Policy .09), continue processing as an unpaired complex order.

(e) No change.

(f) Stock-Option Derived Net Market Parameters: A stock-option order that is marketable if, following COA, the execution would not be within the acceptable derived net market for the strategy that existed at the start of COA.

(1) An "acceptable derived net market" for a strategy will be calculated using the Exchange's best bid or offer in the individual option series leg(s) and the NBBO in the stock leg plus/minus an acceptable tick distance. An "acceptable tick distance" will be determined by the Exchange on a class-by-class and premium basis.

(2) Such a stock-option order will route via the order handling system pursuant to Rule 6.12.

In classes where this price check parameter is available, it will also be available for COA responses under Rule 6.53C(d), AIM and Solicitation Auction Mechanism stock-option orders and responses under Rule 6.74A and 6.74B, and customer-to-customer immediate cross stock-option orders under Rule 6.74A.08. Under these provisions, such paired stock-option orders and responses will not be accepted except

that, to the extent that only a paired contra-side order subject to an auction under Rule 6.74A or 6.74B exceeds this price check parameter, the contra-side order will not be accepted and the paired original Agency Order will not be accepted or, at the order entry firm's discretion (i.e. an AIM Retained ("A:AIR") order, as defined in Interpretation and Policy .09), continue processing as an unpaired stock-option order. To the extent that a contra-side order or response is marketable, its price will be capped at the price inside the acceptable derived net market.

(g) Maximum Value Acceptable Price Range: If an order is a vertical, true butterfly or box spread, a limit order for a net credit or debit price, or a market order for a debit strategy if it would execute at a net debit price, that is outside of an acceptable price range.

  (1) – (3) No change.

  (4) This check applies to pairs of orders submitted to AIM, SAM or as a QCC order. If the System rejects either order in the pair pursuant to this check, then the System also cancels the paired order. Notwithstanding the foregoing, with respect to an AIM Retained ("A:AIR") order as defined in Interpretation and Policy .09 to Rule 6.74A [that instructs the System to process the agency order as an unpaired order if an AIM auction cannot be initiated], if the System rejects the [a]Agency [o]Order pursuant to this check, then the System also rejects the contra-side order; however, if the System rejects the contra-side order pursuant to this check, the System still accepts the [a]Agency [o]Order if it satisfies the check.

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Rule 6.74A. Automated Improvement Mechanism ("AIM")

Notwithstanding the provisions of Rule 6.74, a Trading Permit Holder that represents agency orders may electronically execute an order it represents as agent ("Agency Order") against principal interest or against a solicited order provided it submits the Agency Order for electronic execution into the AIM auction ("Auction") pursuant to this Rule.

(a) Auction Eligibility Requirements. A Trading Permit Holder (the "Initiating Trading Permit Holder") may initiate an Auction provided all of the following are met:

  (1) the Agency Order is in a class designated as eligible for AIM Auctions as determined by the Exchange and within the designated Auction order eligibility size parameters as such size parameters are determined by the Exchange;

  (2) if the Agency Order is for 50 standard option contracts or 500 mini-option contracts or more, the Initiating Trading Permit Holder must stop the entire Agency Order as principal or with a solicited order at the better of the NBBO or the Agency Order's limit price (if the order is a limit order);

  (3) if the Agency Order is for less than 50 standard option contracts or 500 mini-option contracts, the Initiating Trading Permit Holder must stop the entire Agency Order as principal or with a solicited order at the better of (A) the NBBO price improved by one minimum price improvement increment, which increment shall

be determined by the Exchange but may not be smaller than one cent; or (B) the Agency Order's limit price (if the order is a limit order); and

(4) during Regular Trading Hours, at least three (3) Market-Makers are quoting in the relevant series.

In the event that a Trading Permit Holder submits a matched Agency Order for electronic execution into the Auction that is ineligible for processing because it does not meet the conditions described in paragraph (a), both the Agency Order and any solicited contra orders will be cancelled unless marked as an AIM Retained order pursuant to Interpretation and Policy .09 of this Rule.

(b) No change.

. . . Interpretations and Policies:

.01 – **.08** No change.

 .09 *AIM Retained Order Functionality.* An AIM Retained ("A:AIR") order is the transmission of two or more orders for crossing pursuant to Rule 6.74A, with the Agency Order priced at the market or a limit price that is in the standard increment for the option series and marked with a contingency instruction to route the Agency Order for processing and cancel any contra orders if an Auction cannot occur (including if the conditions described in Rule 6.74A(a) are not met). Orders marked "A:AIR" with Agency Orders that are not priced at the market or that are priced with a limit price not in the standard increment for the option series in which they are entered will be cancelled. A:AIR order functionality will be made available on those order management platforms as determined by the Exchange and announced via Regulatory Circular.

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