

OMB APPROVAL

OMB Number: 3235-0045
 Estimated average burden
 hours per response.....38

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 30

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

File No.* SR - 2016 - * 086

Amendment No. (req. for Amendments *)

Filing by Chicago Board Options Exchange

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

Initial * <input checked="" type="checkbox"/>	Amendment * <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input type="checkbox"/>	Section 19(b)(3)(A) * <input checked="" type="checkbox"/>	Section 19(b)(3)(B) * <input type="checkbox"/>
			Rule		
Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input checked="" type="checkbox"/> 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 *).

Proposed rule change to amend the debit/credit price reasonability check for 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 * Laura Last Name * Dickman
 Title * Lead Counsel
 E-mail * dickman@cboe.com
 Telephone * (312) 786-7572 Fax

Signature

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

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

(Title *)

Date 12/09/2016

By Nicholas Still

(Name *)

Counsel

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

still@cboe.com

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information *

Add Remove View

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 *

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, 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

Add Remove View

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

Add Remove View

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

Add Remove View

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. Text of the Proposed Rule Change

(a) Chicago Board Options Exchange, Incorporated (the “Exchange” or “CBOE”) proposes to amend the debit/credit price reasonability check for complex orders. The text of the proposed rule change is provided below and in Exhibit 1.

(additions are underlined; deletions are [bracketed])

* * * * *

**Chicago Board Options Exchange, Incorporated
Rules**

* * * * *

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) No change.

(2) The System defines a complex order as a debit or credit as follows:

(A) – (B) No change.

(C) an order for which all pairs and loners are debits (credits) is a debit (credit). For purposes of this check, a “pair” is a pair of legs in an order for which both legs are calls or both legs are puts, one leg is a buy and one leg is a sell, and [both]the legs have the same expiration date but different exercise prices or, for all options except European-style index options, [the same exercise price but]different expiration dates and the exercise price for the call (put) with the farther expiration date is the same as or lower (higher) than the exercise price for the nearer expiration date. A “loner” is any leg in an order that the System cannot pair with another leg in the order (including legs in orders for European-style index options that have the same exercise price but different expiration dates). The System treats the stock leg of a stock-option order as a loner.

(i) No change.

(ii) The System then, for options except European-style index options, pairs legs to the extent possible [with the same exercise prices]across expiration dates, pairing one [leg]call (put) with the [leg]call (put) that has the next nearest expiration date and the same or next lower (higher) exercise price.

(iii) A pair of calls is a credit (debit) if the exercise price of the buy (sell) leg is higher than the exercise price of the sell (buy) leg (if the pair has the same expiration date) or if the expiration date of the sell (buy) leg is farther than the expiration date of the buy (sell) leg (if the [pair has the same]exercise price of the sell (buy) leg is the same as or lower than the exercise price of the buy (sell) leg).

(iv) A pair of puts is a credit (debit) if the exercise price of the sell (buy) leg is higher than the exercise price of the buy (sell) leg (if the pair has the same expiration date) or if the expiration date of the sell (buy) leg is farther than the expiration date of the buy (sell) leg (if the [pair has the same]exercise price of the sell (buy) leg is the same as or higher than the exercise price of the buy (sell) leg).

(v) No change.

The System does not apply the check in subparagraph (1) to an order for which the System cannot define whether it is a debit or credit.

(3) – (6) No change.

(d) – (g) No change.

.09 – .12 No change.

* * * * *

(b) Not applicable.

(c) Not applicable.

Item 2. Procedures of the Self-Regulatory Organization

(a) The Exchange's President (or designee) pursuant to delegated authority approved the proposed rule change on November 22, 2016. The Exchange will issue a Regulatory Circular announcing the implementation date of the proposed rule change.

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

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

(a) Purpose

The proposed rule change amends the debit/credit price reasonability check for complex orders in Rule 6.53C, Interpretation and Policy .08(c) to expand its applicability. Pursuant to the debit/credit price reasonability check, the System rejects back to the Trading Permit Holder any limit order for a debit strategy with a net credit price or any limit order for a credit strategy with a net debit price, and cancels any market order (or any remaining size after partial execution of the order) for a credit strategy that would be executed at a net

debit price. The System defines a complex order as a debit (credit) if all pairs and loners are debits (credits).¹ For purposes of this check, a “pair” is a pair of legs in an order for which both legs are calls or both legs are puts, one leg is a buy and one leg is a sell, and both legs have the same expiration date but different exercise prices or, for all options except European-style index options, the same exercise price but different expiration dates. A “loner” is any leg in an order that the System cannot pair with another leg in the order (including legs in orders for European-style index options that have the same exercise price but different expiration dates).²

- (1) The System first pairs legs to the extent possible within each expiration date, pairing one leg with the leg that has the next highest exercise price.
- (2) The System then, for options except European-style index options, pairs legs to the extent possible with the same exercise prices across expiration dates, pairing one leg with the leg that has the next nearest expiration date.
- (3) A pair of calls is a credit (debit) if the exercise price of the buy (sell) leg is higher than the exercise price of the sell (buy) leg (if the pair has the same expiration date) or if the expiration date of the sell (buy) leg is farther than the expiration date of the buy (sell) leg (if the pair has the same exercise price).
- (4) A pair of puts is a credit (debit) if the exercise price of the sell (buy) leg is higher than the exercise price of the buy (sell) leg (if the pair has the same expiration date) or if the expiration date of the sell (buy) leg is farther than the expiration date of the buy (sell) leg (if the pair has the same exercise price).

¹ Rule 6.53C, Interpretation and Policy .08(c)(2)(C). The System also determines certain call and put butterfly spreads as debits and credits. See Rule 6.53C, Interpretation and Policy .08(c)(2)(A) and (B).

² The System treats the stock leg of a stock-option order as a loner.

(5) A loner to buy is a debit, and a loner to sell is a credit.

The System does not apply the check in subparagraph (1) to an order for which the System cannot define whether it is a debit or credit.

As discussed in the rule filing proposing the current check, the System determines whether an order is a debit or credit based on general options volatility and pricing principles, which the Exchange understands are used by market participants in their option pricing models.³ With respect to options with the same underlying:

- if two calls have the same expiration date, the price of the call with the lower exercise price is more than the price of the call with the higher exercise price;
- if two puts have the same expiration date, the price of the put with the higher exercise price is more than the price of the put with the lower exercise price; and
- if two calls (puts) have the same exercise price, the price of the call (put) with the nearer expiration is less than the price of the call (put) with the farther expiration.

In other words, a call (put) with a lower (higher) exercise price is more expensive than a call (put) with a higher (lower) exercise price, because the ability to buy stock at a lower price is more valuable than the ability to buy stock at a higher price, and the ability to sell stock at a higher price is more valuable than the ability to sell stock at a lower price. A call (put) with a farther expiration is more expensive than the price of a call (put) with a nearer expiration, because locking in a price further into the future involves more risk for the buyer and seller

³ Securities Exchange Act Release No. 34-76960 (January 21, 2016), 81 FR 4728 (January 27, 2016) (SR-CBOE-2015-107) (Notice of Filing of Amendment No. 2 and Order Granting Accelerated Approval of Proposed Rule Change, as Modified by Amendment Nos. 1 and 2 Thereto, Relating to Price Protection Mechanisms for Quotes and Orders).

and thus is more valuable, making an option (call or put) with a farther expiration more expensive than an option with a nearer expiration.

Under the current check, the System only pairs calls (puts) if they have the same expiration date but different exercise prices or the same exercise price but different expiration dates. With respect to pairs with different expiration dates but the same exercise price,⁴ a pair of calls is a credit (debit) strategy if the expiration date of the sell (buy) leg is farther than the expiration date of the buy (sell) leg), and a pair of puts is a credit (debit) strategy if the expiration date of the sell (buy) leg is farther than the expiration date of the buy (sell) leg). However, based on the principles described above, if the sell (buy) leg of a pair of calls has a farther expiration date (and thus is more expensive) than the expiration date of the buy (sell) leg as well as a lower exercise price (and thus is more expensive) than the exercise price of the sell (buy) leg, then the pair is a credit (debit) (as is the case if the exercise prices of each call were the same under the current rule). Similarly, if the sell (buy) leg of a pair of puts has a farther expiration date (and thus is more expensive) than the expiration date of the buy (sell) leg as well as a higher exercise price (and thus is more expensive) than the exercise price of the buy (sell) leg, then the pair of puts is a credit (as is the case if the exercise prices of each put were the same under the current rule).

Therefore, the proposed rule change expands this check to pair calls (puts) with different expiration dates if the exercise price for the call (put) with the farther expiration date is lower (higher) than the exercise price for the nearer expiration date in addition to those with different expiration dates and the same exercise price. Specifically, the proposed rule change amends subparagraph (c)(2)(C) to state, for purposes of this check, a “pair” is a

⁴ A complex order consisting of a buy leg and a sell leg with different expiration dates are commonly referred to in the industry as “calendar spreads.”

pair of legs in an order for which both legs are calls or both legs are puts, one leg is a buy and one leg is a sell, and the legs have different expiration dates and the exercise price for the call (put) with the farther expiration date is the same as or lower (higher) than the exercise price for the nearer expiration date. The proposed rule change also amends subparagraphs (c)(2)(C)(ii) through (iv) to incorporate these additional pairs of calls (puts). When pairing legs across expiration dates, the System will pair one call (put) with the call (put) that has the next nearest expiration date and the same or next lower (higher) exercise price. Based on the pricing principles described above, a pair of calls is a credit (debit) strategy if the expiration date of the sell (buy) leg is farther than the expiration date of the buy (sell) leg (if the exercise price of the sell (buy) leg is the same as or lower than the exercise price of the buy (sell) leg). A pair of puts is a credit (debit) strategy if the expiration date of the sell (buy) leg is farther than the expiration date of the buy (sell) leg (if the exercise price of the sell (buy) leg is the same as or higher than the exercise price of the buy (sell) leg).⁵ Entering a calendar spread with a credit (debit) strategy at a debit (credit) price (or that would execute at a debit (credit) price), which price is inconsistent with the strategy, may result in executions at prices that are extreme and potentially erroneous.

Below are examples demonstrating how the System determines whether a complex order with two legs, which have different expiration dates and exercise prices, is a debit or

⁵ The proposed rule change makes no changes to this check with respect to pairs of orders with the same expiration date but different exercise prices. Therefore, the rule filing omits references to the portions of the current rule related to those pairs to focus on the changes made to pairs with different expiration dates.

credit, and whether the System will reject the order pursuant to the debit/credit price reasonability check.⁶

Example #1 – Limit Call Spread

A Trading Permit Holder enters a spread to buy 10 Sept 30 XYZ calls and sell 10 Oct 20 XYZ calls at a net debit price of -\$10.00. The System defines this order as a credit, because the buy leg is for the call with the nearer expiration date and higher exercise price (and is thus the less expensive leg). The System rejects the order back to the Trading Permit Holder because it is a limit order for a credit strategy that contains a net debit price.

Example #2 – Limit Put Spread

A Trading Permit Holder enters a spread to buy 20 Oct 30 XYZ puts and sell 20 Sept 20 XYZ puts at a net credit price of \$9.00. The System defines this order as a debit, because the buy leg is for the put with the farther expiration date and the higher exercise price (and thus the more expensive leg). The System rejects the order back to the Trading Permit Holder because it is a limit order for a debit strategy that contains a net credit price.

(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.⁷ Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)⁸ requirements that the rules of an exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles

⁶ The same principles would apply to complex orders with more than two legs, which include two legs that can be paired in this way.

⁷ 15 U.S.C. 78f(b).

⁸ 15 U.S.C. 78f(b)(5).

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)⁹ requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

In particular, the proposed rule change expands the applicability of the current debit/credit price reasonability check to additional complex orders for which the Exchange can determine whether the order is a debit or credit. By expanding the orders to which these checks apply, the Exchange can further assist with the maintenance of a fair and orderly market by mitigating the potential risks associated with additional complex orders trading at prices that are inconsistent with their strategies (which may result in executions at prices that are extreme and potentially erroneous), which ultimately protects investors. This proposed expansion of the debit/credit price reasonability check promotes just and equitable principles of trade, as it is based on the same general option and volatility pricing principles the System currently uses to pair calls and puts, which principles the Exchange understands are used by market participants in their option pricing models.

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

CBOE does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The proposed rule change will not impose any burden on intramarket competition,

⁹ Id.

because the debit/credit price reasonability check will continue to apply to all incoming complex orders of all Trading Permit Holders in the same manner. The proposed rule change expands the applicability of the current check to additional complex orders for which the Exchange can determine whether the order is a debit or credit, which will help further prevent potentially erroneous executions and benefits all market participants. The proposed rule change does not impose any burden on intercompany competition, as it is intended to prevent potentially erroneously priced orders from entering CBOE's system and executing on CBOE's market. The Exchange believes the proposed rule change would ultimately provide all market participants with additional protection from anomalous or erroneous executions.

The individual firm benefits of enhanced risk protections flow downstream to counterparties both at the Exchange and at other options exchanges, which increases systemic protections as well. The Exchange believes enhancing risk protections will allow Trading Permit Holders to enter orders and quotes with further reduced fear of inadvertent exposure to excessive risk, which will benefit investors through increased liquidity for the execution of their orders. Without adequate risk management tools, such as the one proposed to be enhanced in this filing, Trading Permit Holders could reduce the amount of order flow and liquidity they provide. Such actions may undermine the quality of the markets available to customers and other market participants. Accordingly, the proposed rule change is designed to encourage Trading Permit Holders to submit additional order flow and liquidity to the Exchange, which may ultimately promote competition. In addition, providing Trading Permit Holders with more tools for managing risk will facilitate transactions in securities because, as noted above, Trading

Permit Holders will have more confidence protections are in place that reduce the risks from potential system errors and market events.

Item 5. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

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

Item 6. Extension of Time Period for Commission Action

Not applicable.

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

(a) The proposed rule change is filed for immediate effectiveness pursuant to Section 19(b)(3)(A) of Act¹⁰ and Rule 19b-4(f)(6)¹¹ 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.

¹⁰ 15 U.S.C. 78s(b)(3)(A).

¹¹ 17 CFR 240.19b-4(f)(6).

The Exchange believes the proposed rule change to expand the applicability of the debit/credit price reasonability check to additional orders raises no novel issues and only enhances current the debit/credit price reasonability check. The debit/credit price reasonability check will function in a substantially similar manner as it does today, consistent with its primary purpose of rejecting debit strategy orders with credit prices and credit strategy orders with debit prices, and will continue to apply to all incoming complex orders of all Trading Permit Holders in the same manner. The only change the Exchange proposes to this check is to pair calls (puts) with different expiration dates and different exercise prices (as long as the exercise price for the farther expiration is lower (higher) than the exercise price for the nearer expiration), in addition to pairing calls (puts) with different expiration dates and the same exercise price (as the System does today). In other words, the proposed rule change merely expands the applicability of the current check to additional complex orders for which the System can definitively determine whether they are debits or credits.

This proposed expansion of the debit/credit price reasonability check is based on the same general option and volatility pricing principles upon which this check was initially adopted and currently pairs calls and puts, which principles the Exchange understands are used by market participants in their option pricing models. According to these principles, as discussed above:

- a call calendar spread is a credit (debit) strategy if the expiration date of the sell (buy) leg is farther than the expiration date of the buy (sell) leg (and thus more expensive than the buy (sell) leg) and the exercise price of

the sell (buy) leg is the lower than the exercise price of the buy (sell) leg (and thus more expensive than the buy (sell) leg); and

- a put calendar spread is a credit (debit) strategy if the expiration date of the sell (buy) leg is farther than the expiration date of the buy (sell) leg (and thus more expensive than the buy (sell) leg) and if the exercise price of the sell (buy) leg is higher than the exercise price of the buy (sell) leg (and thus more expensive than the buy (sell) leg).

Entering a calendar spread with a credit (debit) strategy at a debit (credit) price (or that would execute at a debit (credit) price), which price is inconsistent with the strategy, may result in executions at prices that are extreme and potentially erroneous. The purpose of the proposed rule change is to further prevent executions at extreme and potentially erroneous prices, which will protect investors and the public interest and help the Exchange maintain a fair and orderly market. As the Exchange believes the proposed rule change will mitigate potential risks for more orders, the Exchange believes it would be beneficial to be able to implement these mechanisms as soon as possible.

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. 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 1

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34- ; File No. SR-CBOE-2016-086]

[Insert date]

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to the Debit/Credit Price Reasonability Checks for 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 Act³ 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 proposes to amend the debit/credit price reasonability check for complex orders. The text of the proposed rule change is provided below.

(additions are underlined; deletions are [bracketed])

* * * * *

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).

**Chicago Board Options Exchange, Incorporated
Rules**

* * * * *

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) No change.

(2) The System defines a complex order as a debit or credit as follows:

(A) – (B) No change.

(C) an order for which all pairs and loners are debits (credits) is a debit (credit). For purposes of this check, a “pair” is a pair of legs in an order for which both legs are calls or both legs are puts, one leg is a buy and one leg is a sell, and [both]the legs have the same expiration date but different exercise prices or, for all options except European-style index options, [the same exercise price but]different expiration dates and the exercise price for the call (put) with the farther expiration date is the same as or lower (higher) than the exercise price for the nearer expiration date. A “loner” is any leg in an order that the System cannot pair with another leg in the order (including legs in orders for European-style index options that have the same exercise price but different expiration dates). The System treats the stock leg of a stock-option order as a loner.

(i) No change.

(ii) The System then, for options except European-style index options, pairs legs to the extent possible [with the same exercise prices]across expiration dates, pairing one [leg]call (put) with the [leg]call (put) that has the next nearest expiration date and the same or next lower (higher) exercise price.

(iii) A pair of calls is a credit (debit) if the exercise price of the buy (sell) leg is higher than the exercise price of the sell (buy) leg (if the pair has the same expiration date) or if the expiration date of the sell (buy) leg is farther than the expiration date of the buy (sell) leg (if the [pair has the same]exercise price of the sell (buy) leg is the same as or lower than the exercise price of the buy (sell) leg).

(iv) A pair of puts is a credit (debit) if the exercise price of the sell (buy) leg is higher than the exercise price of the buy (sell) leg (if the pair has the same expiration date) or if the expiration date of the sell (buy) leg is farther than the expiration date of the buy (sell) leg (if the [pair has the same]exercise price of the sell (buy) leg is the same as or higher than the exercise price of the buy (sell) leg).

(v) No change.

The System does not apply the check in subparagraph (1) to an order for which the System cannot define whether it is a debit or credit.

(3) – (6) No change.

(d) – (g) No change.

.09 – .12 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

The proposed rule change amends the debit/credit price reasonability check for complex orders in Rule 6.53C, Interpretation and Policy .08(c) to expand its applicability. Pursuant to the debit/credit price reasonability check, the System rejects back to the Trading Permit Holder any limit order for a debit strategy with a net credit price or any limit order for a credit strategy with a net debit price, and cancels any market order (or any remaining size after partial execution of the order) for a credit strategy that would be executed at a net debit price. The System defines a complex order as a debit (credit) if all pairs and loners are debits (credits).⁵ For purposes of this check, a "pair" is a pair of legs in an order for which both legs are calls or both legs are puts, one leg is a buy and one leg is a sell, and both legs have the same expiration date but different exercise prices or, for

⁵ Rule 6.53C, Interpretation and Policy .08(c)(2)(C). The System also determines certain call and put butterfly spreads as debits and credits. See Rule 6.53C, Interpretation and Policy .08(c)(2)(A) and (B).

all options except European-style index options, the same exercise price but different expiration dates. A “loner” is any leg in an order that the System cannot pair with another leg in the order (including legs in orders for European-style index options that have the same exercise price but different expiration dates).⁶

(1) The System first pairs legs to the extent possible within each expiration date, pairing one leg with the leg that has the next highest exercise price.

(2) The System then, for options except European-style index options, pairs legs to the extent possible with the same exercise prices across expiration dates, pairing one leg with the leg that has the next nearest expiration date.

(3) A pair of calls is a credit (debit) if the exercise price of the buy (sell) leg is higher than the exercise price of the sell (buy) leg (if the pair has the same expiration date) or if the expiration date of the sell (buy) leg is farther than the expiration date of the buy (sell) leg (if the pair has the same exercise price).

(4) A pair of puts is a credit (debit) if the exercise price of the sell (buy) leg is higher than the exercise price of the buy (sell) leg (if the pair has the same expiration date) or if the expiration date of the sell (buy) leg is farther than the expiration date of the buy (sell) leg (if the pair has the same exercise price).

(5) A loner to buy is a debit, and a loner to sell is a credit.

The System does not apply the check in subparagraph (1) to an order for which the System cannot define whether it is a debit or credit.

As discussed in the rule filing proposing the current check, the System determines whether an order is a debit or credit based on general options volatility and pricing

⁶ The System treats the stock leg of a stock-option order as a loner.

principles, which the Exchange understands are used by market participants in their option pricing models.⁷ With respect to options with the same underlying:

- if two calls have the same expiration date, the price of the call with the lower exercise price is more than the price of the call with the higher exercise price;
- if two puts have the same expiration date, the price of the put with the higher exercise price is more than the price of the put with the lower exercise price; and
- if two calls (puts) have the same exercise price, the price of the call (put) with the nearer expiration is less than the price of the call (put) with the farther expiration.

In other words, a call (put) with a lower (higher) exercise price is more expensive than a call (put) with a higher (lower) exercise price, because the ability to buy stock at a lower price is more valuable than the ability to buy stock at a higher price, and the ability to sell stock at a higher price is more valuable than the ability to sell stock at a lower price. A call (put) with a farther expiration is more expensive than the price of a call (put) with a nearer expiration, because locking in a price further into the future involves more risk for the buyer and seller and thus is more valuable, making an option (call or put) with a farther expiration more expensive than an option with a nearer expiration.

⁷ Securities Exchange Act Release No. 34-76960 (January 21, 2016), 81 FR 4728 (January 27, 2016) (SR-CBOE-2015-107) (Notice of Filing of Amendment No. 2 and Order Granting Accelerated Approval of Proposed Rule Change, as Modified by Amendment Nos. 1 and 2 Thereto, Relating to Price Protection Mechanisms for Quotes and Orders).

Under the current check, the System only pairs calls (puts) if they have the same expiration date but different exercise prices or the same exercise price but different expiration dates. With respect to pairs with different expiration dates but the same exercise price,⁸ a pair of calls is a credit (debit) strategy if the expiration date of the sell (buy) leg is farther than the expiration date of the buy (sell) leg), and a pair of puts is a credit (debit) strategy if the expiration date of the sell (buy) leg is farther than the expiration date of the buy (sell) leg). However, based on the principles described above, if the sell (buy) leg of a pair of calls has a farther expiration date (and thus is more expensive) than the expiration date of the buy (sell) leg as well as a lower exercise price (and thus is more expensive) than the exercise price of the sell (buy) leg, then the pair is a credit (debit) (as is the case if the exercise prices of each call were the same under the current rule). Similarly, if the sell (buy) leg of a pair of puts has a farther expiration date (and thus is more expensive) than the expiration date of the buy (sell) leg as well as a higher exercise price (and thus is more expensive) than the exercise price of the buy (sell) leg, then the pair of puts is a credit (as is the case if the exercise prices of each put were the same under the current rule).

Therefore, the proposed rule change expands this check to pair calls (puts) with different expiration dates if the exercise price for the call (put) with the farther expiration date is lower (higher) than the exercise price for the nearer expiration date in addition to those with different expiration dates and the same exercise price. Specifically, the proposed rule change amends subparagraph (c)(2)(C) to state, for purposes of this check, a “pair” is a pair of legs in an order for which both legs are calls or both legs are puts, one

⁸ A complex order consisting of a buy leg and a sell leg with different expiration dates are commonly referred to in the industry as “calendar spreads.”

leg is a buy and one leg is a sell, and the legs have different expiration dates and the exercise price for the call (put) with the farther expiration date is the same as or lower (higher) than the exercise price for the nearer expiration date. The proposed rule change also amends subparagraphs (c)(2)(C)(ii) through (iv) to incorporate these additional pairs of calls (puts). When pairing legs across expiration dates, the System will pair one call (put) with the call (put) that has the next nearest expiration date and the same or next lower (higher) exercise price. Based on the pricing principles described above, a pair of calls is a credit (debit) strategy if the expiration date of the sell (buy) leg is farther than the expiration date of the buy (sell) leg (if the exercise price of the sell (buy) leg is the same as or lower than the exercise price of the buy (sell) leg). A pair of puts is a credit (debit) strategy if the expiration date of the sell (buy) leg is farther than the expiration date of the buy (sell) leg (if the exercise price of the sell (buy) leg is the same as or higher than the exercise price of the buy (sell) leg).⁹ Entering a calendar spread with a credit (debit) strategy at a debit (credit) price (or that would execute at a debit (credit) price), which price is inconsistent with the strategy, may result in executions at prices that are extreme and potentially erroneous.

Below are examples demonstrating how the System determines whether a complex order with two legs, which have different expiration dates and exercise prices, is a debit or credit, and whether the System will reject the order pursuant to the debit/credit price reasonability check.¹⁰

⁹ The proposed rule change makes no changes to this check with respect to pairs of orders with the same expiration date but different exercise prices. Therefore, the rule filing omits references to the portions of the current rule related to those pairs to focus on the changes made to pairs with different expiration dates.

¹⁰ The same principles would apply to complex orders with more than two legs,

Example #1 – Limit Call Spread

A Trading Permit Holder enters a spread to buy 10 Sept 30 XYZ calls and sell 10 Oct 20 XYZ calls at a net debit price of -\$10.00. The System defines this order as a credit, because the buy leg is for the call with the nearer expiration date and higher exercise price (and is thus the less expensive leg). The System rejects the order back to the Trading Permit Holder because it is a limit order for a credit strategy that contains a net debit price.

Example #2 – Limit Put Spread

A Trading Permit Holder enters a spread to buy 20 Oct 30 XYZ puts and sell 20 Sept 20 XYZ puts at a net credit price of \$9.00. The System defines this order as a debit, because the buy leg is for the put with the farther expiration date and the higher exercise price (and thus the more expensive leg). The System rejects the order back to the Trading Permit Holder because it is a limit order for a debit strategy that contains a net credit price.

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.¹¹ Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)¹² 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

which include two legs that can be paired in this way.

¹¹ 15 U.S.C. 78f(b).

¹² 15 U.S.C. 78f(b)(5).

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)¹³ requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

In particular, the proposed rule change expands the applicability of the current debit/credit price reasonability check to additional complex orders for which the Exchange can determine whether the order is a debit or credit. By expanding the orders to which these checks apply, the Exchange can further assist with the maintenance of a fair and orderly market by mitigating the potential risks associated with additional complex orders trading at prices that are inconsistent with their strategies (which may result in executions at prices that are extreme and potentially erroneous), which ultimately protects investors. This proposed expansion of the debit/credit price reasonability check promotes just and equitable principles of trade, as it is based on the same general option and volatility pricing principles the System currently uses to pair calls and puts, which principles the Exchange understands are used by market participants in their option pricing models.

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

CBOE does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

¹³ Id.

The proposed rule change will not impose any burden on intramarket competition, because the debit/credit price reasonability check will continue to apply to all incoming complex orders of all Trading Permit Holders in the same manner. The proposed rule change expands the applicability of the current check to additional complex orders for which the Exchange can determine whether the order is a debit or credit, which will help further prevent potentially erroneous executions and benefits all market participants. The proposed rule change does not impose any burden on intercompany competition, as it is intended to prevent potentially erroneously priced orders from entering CBOE's system and executing on CBOE's market. The Exchange believes the proposed rule change would ultimately provide all market participants with additional protection from anomalous or erroneous executions.

The individual firm benefits of enhanced risk protections flow downstream to counterparties both at the Exchange and at other options exchanges, which increases systemic protections as well. The Exchange believes enhancing risk protections will allow Trading Permit Holders to enter orders and quotes with further reduced fear of inadvertent exposure to excessive risk, which will benefit investors through increased liquidity for the execution of their orders. Without adequate risk management tools, such as the one proposed to be enhanced in this filing, Trading Permit Holders could reduce the amount of order flow and liquidity they provide. Such actions may undermine the quality of the markets available to customers and other market participants. Accordingly, the proposed rule change is designed to encourage Trading Permit Holders to submit additional order flow and liquidity to the Exchange, which may ultimately promote competition. In addition, providing Trading Permit Holders with more tools for

managing risk will facilitate transactions in securities because, as noted above, Trading Permit Holders will have more confidence protections are in place that reduce the risks from potential system errors and market events.

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

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

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

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 Act¹⁴ and Rule 19b-4(f)(6)¹⁵ 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.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments

¹⁴ 15 U.S.C. 78s(b)(3)(A).

¹⁵ 17 CFR 240.19b-4(f)(6).

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-2016-086 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-2016-086. 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-2016-086 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.¹⁶

Secretary

¹⁶ 17 CFR 200.30-3(a)(12).