

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-65835; File No. SR-CBOE-2011-105)

November 28, 2011

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to Market-Makers' Continuous Electronic Quoting Obligations and Adjusted Option Series

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 November 18, 2011, the 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)⁴ thereunder. 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 its rules to indicate that Market-Makers will not be obligated to maintain continuous electronic quotes in adjusted option series and to define the term adjusted option series. The text of the proposed rule change is available on the Exchange's website (<http://www.cboe.com/AboutCBOE/CBOELegalRegulatoryHome.aspx>), at the Exchange's Office of the Secretary, and at the Commission's Public Reference Room.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A)(iii).

⁴ 17 CFR 240.19b-4(f)(6).

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 those 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 parts of such statements.

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

1. Purpose

CBOE proposes to amend its rules to indicate that Market-Makers will not be obligated to maintain continuous electronic quotes in adjusted option series and to define the term adjusted option series. The proposal is based on recent rule changes of NYSE Amex LLC (“NYSE Amex”), NYSE Arca, Inc. (“NYSE Arca”) and NASDAQ OMX PHLX, Inc. (“PHLX”).⁵

Rules 8.7, 8.13, 8.15A, 8.85, and 8.93 impose certain obligations on Market-Makers, Preferred Market-Makers, Lead Market-Makers (“LMMs”), Designated Primary Market-Makers (“DPMs”), and electronic-DPMs (“e-DPMs”), respectively (collectively, “Market-Makers”).

⁵ See Securities Exchange Act Release Nos. 65572 (October 14, 2011), 76 FR 65310 (October 20, 2011) (SR-NYSEAmex-2011-61) (order granting approval of proposed rule change concerning market maker continuous quoting obligations and adjusted option series); 65573 (October 14, 2011), 76 FR 65305 (October 20, 2011) (SR-NYSEArca-2011-59) (order granting approval of proposed rule change concerning market maker continuous quoting obligations and adjusted option series); and 61095 (December 2, 2009), 74 FR 64786 (December 8, 2009) (SR-PHLX-2009-99).

These rules require that Market-Makers maintain continuous electronic quotes⁶ as follows:

- Rule 8.7(d)(ii)(B) requires that Market-Makers maintain continuous electronic quotes in 60% of the series of the Market-Maker's appointed class that have a time to expiration of less than nine months;
- Rule 8.13(d) requires that Preferred Market-Makers, among other things, provide continuous electronic quotes in at least 90% of the series of each class for which it receives Preferred Market-Maker orders;
- Rule 8.15A(b)(i) requires that LMMs provide continuous electronic quotes that comply with the bid/ask differential requirements determined by the Exchange on a class-by-class basis in 90% of the option series within their assigned classes⁷;
- Rule 8.85(a)(i) requires DPMs to provide continuous electronic quotes in at least 90% of the series of each multiply listed option class allocated to it and in 100% of the series of each singly listed option class allocated to it; and
- Rule 8.93 requires that e-DPMs provide continuous electronic quotes in at least 90%

⁶ Rule 1.1(ccc) provides that a Market-Maker who is obligated to provide continuous electronic quotes on CBOE's Hybrid Trading System will be deemed to have provided "continuous electronic quotes" if the Market-Maker provides electronic two-sided quotes for 99% of the time that the Market-Maker is required to provide electronic quotes in an appointed option class on a given trading day. The rule also provides that if a technical failure or limitation of a system of the Exchange prevents the Market-Maker from maintaining, or prevents the Market-Maker from communicating to the Exchange, timely and accurate electronic quotes in a class, the duration of such failure will not be considered in determining whether the Market-Maker has satisfied the 99% quoting standard with respect to that option class. The Exchange may consider other exceptions to this continuous electronic quote obligation based on demonstrated legal or regulatory requirements or other mitigating circumstances.

⁷ This rule also provides that in option classes in which both an on-floor LMM and an off-floor LMM have been appointed, the on-floor LMM will only be obligated to comply with obligations of Market-Makers in hybrid classes set forth in Rule 8.7(d).

of the series of each allocated class⁸.

The Exchange proposes to relieve Market-Makers of the obligation to maintain continuous electronic quotes in adjusted option series. The proposal adds Rule 1.1(III) to define “adjusted option series” as an option series for which, as a result of a corporate action by the issuer of the security underlying such option series, one option contract in the series represents the delivery of other than 100 shares of underlying stock or Units⁹. The proposal also amends the rules discussed above that impose continuous electronic quoting obligations on Market-Makers to provide that such quoting obligations only apply to non-adjusted option series.

After a corporate action and a subsequent adjustment to the existing options, the series in question are identified by the Options Price Reporting Authority and at the Options Clearing Corporation with a separate symbol consisting of the underlying symbol and a numerical appendage. As a standard procedure, exchanges listing options on an underlying security that undergoes a corporate action resulting in adjusted series will list new standard option series across all appropriate expiration months the day after the existing series are adjusted. The adjusted series are generally actively traded for a short period of time following adjustment, but orders to open options positions in the underlying security are almost exclusively placed in the new standard option series contracts. Although the adjusted series may not expire for a long period of time, in a short time the adjusted series are no longer actively traded. Thus, the burden of quoting these series generally outweighs the benefit of being appointed in the class because of the lack of interest in the series by various market participants.

⁸ Alternatively, an e-DPM must provide continuous electronic quotes in at least 98% of requests for quotes if such functionality is enabled as determined by the Exchange.

⁹ “Units” are securities other than shares that are traded on a national securities exchange and are defined as an “NMS stock” under Rule 600 of Regulation NMS and that meet the other requirements set forth in Rule 5.3, Interpretation and Policy .06.

The Exchange notes that other options exchanges have indicated that market-makers have recently withdrawn from assignments in classes that include adjusted series, resulting in a reduction in liquidity in these classes. These market-makers informed the exchanges that the withdrawals were based in part on their obligation to continuously quote adjusted option series, and the quoting obligations on these often less frequently traded option series impacted the risk parameters acceptable to the market-makers. These options exchanges also noted that market-makers also expressed concern that the adjusted nature of these series complicates the calculation of an appropriate quote. As a result of withdrawals from such assignments by market-makers, these options exchanges stated that liquidity, as well as volume, had been negatively impacted in the affected options classes listed on the exchanges.¹⁰ The Exchange believes that this proposal will prevent any similar withdrawals by CBOE Market-Makers from assignments in classes that include adjusted option series on the Exchange, and thus any potential reduction in liquidity and volume related to the withdrawals, and encourage Market-Makers to continue their appointments in these option classes.

In support of this proposal, the Exchange notes that this proposed rule change is similar to recent rule changes of NYSE Amex, NYSE Arca and PHLX.¹¹ The Exchange is merely proposing to exclude adjusted option series from Market-Makers' continuous electronic quoting obligations, but not from other obligations imposed on Market-Makers pursuant to Rules 8.7, 8.13, 8.15A, 8.85, and 8.93. In particular, the proposed rule change would not excuse a Market-Maker from its obligation to provide a two-sided market complying with the bid/ask differential requirements in response to any request for quote by a floor broker, Trading Permit Holder or

¹⁰ See supra note 5.

¹¹ Id.

PAR Official.¹² The proposed rule change would also not excuse a Market-Maker from its obligation to provide an open outcry two-sided market complying with the bid/ask differential requirements in response to a request for a quote by a Trading Permit Holder or PAR Official directed at that Market-Maker or when, in response to a general request for a quote by a Trading Permit Holder or PAR Official, a market is not then being vocalized by a reasonable number of Market-Makers.¹³ Further, the proposed rule change would not excuse a Market-Maker from its obligation to submit a single quote or maintain continuous quotes in one or more series of a class to which the Market-Maker is appointed when called upon by an Exchange official if, in the judgment of such official, it is necessary to do so in the interest of maintaining a fair and orderly market.¹⁴

The current quoting obligation in these illiquid adjusted option series is a minor part of a Market-Maker's overall obligation, and the proposed relief is mitigated by a Market-Maker's obligation to respond to a request for quote by a floor broker, Trading Permit Holder or PAR Official. Because of the lack of interest in these adjusted option series, there is little demonstrable benefit to being a Market-Maker in them other than the ability to maintain Market-Maker margins for what little activity may occur. In addition, the burden of continuous electronic quoting in these series is counter to the Exchange's efforts to mitigate the number of quotes collected and disseminated.

The Exchange believes that the proposed rule change should incent Market-Makers to continue appointments, and as a result expand liquidity, in options classes listed on the Exchange

¹² See Rule 8.7(d)(i)(C) (relating to a request for quote by a floor broker) and (ii)(C) (relating to a request for a quote by a Trading Permit Holder or PAR Official).

¹³ See Rule 8.7(d)(iv).

¹⁴ Id.

to the benefit of the Exchange and its Trading Permit Holders and public customers. The Exchange believes that its Market-Makers would be disadvantaged if they are required to continuously electronically quote in these illiquid adjusted option series, and the Exchange's Trading Permit Holders and public customers would also be disadvantaged if Market-Makers withdrew from appointments in options classes that include adjusted option series, resulting in reduced liquidity and volume in these classes.

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with Section 6 of the Act¹⁵ and the rules and regulations thereunder and, in particular, the requirements of Section 6(b) of the Act¹⁶. Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)¹⁷ requirements that the rules of an exchange be designed to promote just and equitable principles of trade, to prevent fraudulent and manipulative acts, to remove impediments to and to perfect the mechanism for a free and open market and a national market system, and, in general, to protect investors and the public interest.

In particular, the Exchange believes this proposed rule change is consistent with the Act because, on balance, the elimination of the continuous electronic quoting obligations in adjusted option series is a minor change and should not impact the quality of CBOE's trading markets. Among other things, adjusted option series are not common, and trading interest is often very low after the corporate event has passed. Consequently, continuous electronic quotes in these series increase quote traffic and burdens systems without a corresponding benefit. By not requiring Market-Makers to provide continuous electronic quotes in these series, the Exchange's

¹⁵ 15 U.S.C. 78f.

¹⁶ 15 U.S.C. 78f(b).

¹⁷ 15 U.S.C. 78f(b)(5).

proposal would further its goal of measured quote mitigation. Further, while they will not be tasked with providing continuous electronic quotes in these series, Market-Makers must still quote these series when requested by a floor broker, Trading Permit Holder or PAR Official. Accordingly, the proposal supports the quality of CBOE's trading markets by helping to ensure that Market-Makers will continue to be obligated to quote in adjusted option series if and when the need arises.

These changes are consistent with the rules of competing options exchanges, and they serve to remove impediments to and to perfect the mechanism for a free and open market and a national market system.

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 not necessary or appropriate in furtherance of the purposes of the Act. In this regard, and as indicated above, the Exchange notes that the rule change is being proposed as a competitive response to recent rule changes of NYSE Amex, NYSE Arca and PHLX.¹⁸ CBOE believes this proposed rule change is necessary to permit fair competition among the options exchanges with respect to Market-Makers' continuous electronic quoting obligations.

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

No written comments were solicited or received with respect to the proposed rule change.

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

Because the proposed rule change does not (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the

¹⁸ See supra note 5.

Commission may designate if consistent with the protection of investors and the public interest, provided that the self-regulatory organization has given the Commission written notice of its intent to file 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, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act¹⁹ and Rule 19b-4(f)(6)²⁰ thereunder.

At any time within 60 days of the filing of such 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.

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-2011-105 on the subject line.

¹⁹ 15 U.S.C. 78s(b)(3)(A).

²⁰ 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file 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. The Exchange has satisfied this requirement.

Paper comments:

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-CBOE-2011-105. 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, DC 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-2011-105 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

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

Kevin M. O'Neill
Deputy Secretary

²¹ 17 CFR 200.30-3(a)(12).