

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-69129; File No. SR-CBOE-2013-033)

March 13, 2013

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

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 March 7, 2013, 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 and II 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 the Substance of the Proposed Rule Change

The Exchange proposes to amend its rules related to complex orders. The text of the proposed rule change is also available on the Exchange’s website (<http://www.cboe.org/legal>) 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.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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

1. Purpose

CBOE recently amended its rules to allow for the listing of mini-options on SPDR S&P 500 ("SPY"), Apple, Inc. ("AAPL"), SPDR Gold Trust ("GLD"), Google Inc. ("GOOG") and Amazon.com Inc. ("AMZN").³ Mini-option trading is expected to commence in March 2013. Whereas standard option contracts represent a deliverable of 100 shares of an underlying security, mini-options contracts represent a deliverable of 10 shares. Except for the difference in the number of deliverable shares, mini-options have the same terms and contract characteristics as regular-sized equity and ETF options, including exercise style. Accordingly, the Exchange noted in its original mini-option filing that Exchange rules that apply to the trading of standard option contracts would apply to mini-option contracts as well.⁴

Prior to the commencement of trading mini-options, the Exchange proposes to amend Rule 6.53C (Complex Orders on the Hybrid System) and Rule 6.80 (Definitions) to provide that Exchange rules regarding complex orders shall apply to mini-options and that consequently, Trading Permit Holders may execute complex and stock-option orders involving mini-options. Moreover, the Exchange seeks to amend these rules to provide that all permissible ratios referenced in the definitions of stock-option orders represent the total number of shares of the underlying stock in the option leg to the total number of shares of the underlying stock in the stock leg.

By way of background, CBOE Rule 6.53C governs Complex Orders on the Hybrid

³ See Securities Exchange Act Release No. 68656 (January 15, 2013), 78 FR 4526 (January 22, 2013) (Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to List and Trade Option Contracts Overlying 10 Shares of Certain Securities) (SR-CBOE-2013-001).

⁴ Id.

System and CBOE Rule 6.80 lists definitions applicable to intermarket linkage. Currently, stock-option orders are defined in Rule 6.53C(a)(2) and 6.80(4)(ii)(A)-(B) as trades where the options leg of the trade is coupled with the purchase or sale of either (1) the same number of units of the underlying stock or convertible security, or (2) the number of units of the underlying stock or convertible security necessary to create a “delta neutral” position, but in no case in a ratio greater than 8 option contracts per unit of trading of the underlying stock or convertible security established for that series by the Clearing Corporation. Therefore, under this definition it would be permissible to execute, for example, a trade where the options leg consists of one (1) standard option contract (i.e., 100 shares) and the stock leg consists of 100 shares of the underlying stock. Additionally, it would be permissible to execute a trade where the options leg consists of eight (8) standard option contracts (i.e., 800 shares) and the stock leg consists of 100 shares of the underlying stock.

Next, “complex order” in Rule 6.53C(a)(1) and “complex trade” in Rule 6.80(4)(i) (collectively referred to as “complex orders”)⁵ is defined as any order involving the execution of two or more different options series in the same underlying security occurring at or near the same time in a ratio that is equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.00).

The Exchange notes that the abovementioned permissible ratios were established to ensure that only complex and stock-option orders that seek to achieve legitimate investment strategies are afforded certain benefits. Particularly, since compliance with trade-through rules may impede a market participant’s ability to achieve the legitimate investment strategies that complex and stock-option orders facilitate, an exception from the prohibition on trade-throughs

⁵ The definitions of “complex order” in Rule 6.53C(a)(1) and “complex trade” in Rule 6.80(4)(i) are substantially identical.

is provided for any transaction that was effected as a portion of a legitimate complex or stock-option order. Requiring a meaningful relationship between the different legs of a complex or stock-option order prevents market participants from taking advantage of these orders to circumvent the otherwise applicable trade-through rules (e.g., preventing the execution of a stock-option order where the option leg consists of 100 options (i.e., 10,000 shares) and the stock leg consists of only 100 shares).

The Exchange first proposes to amend the definition of “stock-option orders” in Rule 6.53C(a)(2) and Rule 6.80(4)(ii)(A)-(B). As discussed above, the stock-option order definition in both Rule 6.53C and Rule 6.80 clearly permits that an option leg may be coupled with a stock leg representing the same number of units of the underlying stock (i.e., one-to-one ratio). The Exchange seeks to provide that mini-options may also be coupled with a stock leg if the stock leg represents the same number of units of the underlying stock. For example, pursuant to the definition, it would be permissible to execute a trade where leg one consists of one (1) mini-option contract (i.e., 10 shares) and leg two consists of 10 shares of the underlying stock.

Next, the Exchange seeks to amend the stock-option order definition in Rule 6.53C and Rule 6.80 to provide that in addition to standard options, mini-options may be coupled with a stock leg consisting of however many units of the underlying stock is necessary to create a delta neutral position, provided that the total number of shares of the underlying stock in the option leg to the total number of shares of the underlying stock in the stock leg does not exceed an eight-to-one ratio. The Exchange notes the definition of a stock-option order in Rule 6.53C and Rule 6.80 was drafted at a time in which only option contracts with a deliverable of 100 shares was contemplated. Therefore, the rules do not address how the eight-to-one ratio would be scaled in the event an option with a non-standard deliverable becomes available for trading. The language

of the rules needs to be amended so that it is clear how Rule 6.53C and 6.80 would apply to mini-options, as well as standard options. Accordingly, the proposed change specifies that the permissible ratios should be calculated and scaled based upon the total number of shares of the underlying stock in the option leg to the total number of shares of the underlying stock in the stock leg, instead of by the total number of option contracts in the option leg to the total number of shares of the underlying stock in the stock leg. An example of a permitted stock-option order involving mini-options would be an order in which leg one consists of eighty (80) mini-options (i.e., 800 shares) and leg two consists of 100 shares of the underlying stock (i.e., eight-to-one ratio). Similarly, an order where leg one consists of eight (8) mini-options (i.e. 80 shares) and leg two consists of 10 shares of the underlying stock would be permitted.

The proposed rule change provides that market participants may execute stock-option orders involving mini-options. The proposed change also ensures that the principle behind the permissible ratios (i.e., to provide a meaningful relationship between the legs of complex and stock-option orders) is maintained for mini-options. Finally, the Exchange notes that reference to the Clearing Corporation in Rule 6.53C(a)(2) and 6.80(4)(ii)(A)-(B) was superfluous and unnecessary and therefore deleted.

Next the Exchange seeks to make clear that it interprets its current definition of a “complex order” in Rule 6.53C(a)(1) and “complex trade” in Rule 6.80(4)(i)-(ii) to apply to both standard options and mini-options. The Exchange seeks to provide that in accordance to the provisions of Rule 6.53C and Rule 6.80, one leg of a complex order may consist of mini-option contract(s) and the other leg of the order may consist of standard option(s), so long as the underlying security is the same and the transaction does not violate the permissible ratios set forth in the rules (i.e., ratio greater or equal to one-to-three or less or equal to three-to-one).

Moreover, the Exchange seeks to clarify that these permissible ratios represent the total number of shares of the underlying stock in the mini-option leg to the total number of shares of the underlying stock in the standard option leg. An example of a permissible complex order involving mini-options and standard options would be an order in which leg one consists of thirty (30) mini-options (i.e., 300 shares) and leg two consists of one (1) standard option (i.e., 100 shares) in the same underlying security (i.e., a ratio equal to 3.0). Another example of a permissible complex order would be an order in which leg one consists of ten (10) mini-options (i.e., 100 shares) and leg two consists of one (1) standard option (i.e., 100 shares) in the same underlying security (i.e., a ratio equal to one-to-one). The proposed clarification will reduce potential confusion for investors when trading of mini-options becomes effective.

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the Act and the rules and regulations thereunder, including the requirements of Section 6(b) of the Act.⁶ In particular, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)⁷ requirements that the rules of an exchange be designed to promote just and equitable principles of trade, to prevent fraudulent and manipulative acts, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, 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.

Specifically, the Exchange believes that investors and other market participants would benefit from the current rule proposal because it would allow market participants to take advantage of legitimate investment strategies and execute complex orders and stock-option

⁶ 15 U.S.C. 78f(b).

⁷ 15 U.S.C. 78f(b)(5).

orders in mini-options. Additionally, the Exchange believes the proposed rule change will avoid investor confusion if both standard options and mini-options on the same underlying security are permitted to trade as complex orders and stock-option orders. Also, the proposal to maintain the permissible ratios that are applicable to standard options in proportion for mini-options ensures that the principle behind the permissible ratios (i.e., to provide a meaningful relationship between the legs of complex and stock-option orders) is maintained for mini-options, which promotes just and equitable principles of trade. The Exchange believes that describing prior to the commencement of trading how the permissible ratios in the complex order and stock-option order rules will be scaled for mini-options would lessen investor and marketplace confusion.

Finally, the Exchange believes that the proposed rule change is designed to not permit unfair discrimination among market participants as all market participants may participate in complex or stock-option orders involving mini-options.

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

This proposed rule change does not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. Specifically, since mini-options are permitted on multiply-listed classes, other exchanges that have received approval to trade mini-options will have the opportunity to similarly amend their complex order rules to clarify and accommodate complex orders and stock-option orders in mini-option classes. Moreover, because all Trading Permit Holders may participate in complex and stock-options orders involving mini-options, the rule change does not permit unfair discrimination and does not impose a burden on Trading Permit Holders.

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:

- (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 Commission may designate, it has become effective pursuant to Section 19(b)(3)(A)⁸ of the Act and Rule 19b-4(f)(6)⁹ thereunder.

A proposed rule change filed under Rule 19b-4(f)(6) of the Act¹⁰ normally does not become operative prior to 30 days after the date of the filing. However, pursuant to Rule 19b-4(f)(6)(iii) of the Act,¹¹ the Commission may designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange has requested the Commission to waive the 30-day operative delay so that the proposal may become operative immediately upon filing. In January 2013, the Exchange filed a proposed rule change to amend its rules to list and trade certain mini-options contracts on the Exchange, and represented in that filing that the Exchange's rules that apply to the trading of standard options contracts would apply to mini-options contracts.¹² The Exchange has represented that it intends to launch trading

⁸ 15 U.S.C. 78s(b)(3)(A).

⁹ 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 the filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

¹⁰ 17 CFR 240.19b-4(f)(6).

¹¹ 17 CFR 240.19b-4(f)(6)(iii).

¹² See supra note 3.

in mini-options contracts on March 18, 2013.¹³ The Exchange believes that waiver of the 30-day operative delay is consistent with the protection of investors and the public interest because such waiver would minimize confusion among market participants about how complex orders and stock-options orders involving mini-options contracts will trade.¹⁴

The Commission believes that waiving the 30-day operative delay is consistent with the protection of investors and the public interest. Such waiver would allow the Exchange to implement the proposed rule change prior to its launch of mini-options contracts trading on March 18, 2013, thereby mitigating potential investor confusion as to how complex orders and stock options orders involving mini-options contracts will trade. For this reason, the Commission hereby waives the 30-day operative delay and designates the proposed rule change to be operative upon filing with the Commission.¹⁵

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. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule change should be approved or disapproved.

¹³ See SR-CBOE-2013-033, Item 7.

¹⁴ See id.

¹⁵ For purposes only of waiving the 30-day operative delay, the Commission has also considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

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-2013-033 on the subject line.

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-2013-033. 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. 20549-1090 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the

principal offices 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-2013-033, 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

Kevin M. O'Neill
Deputy Secretary

¹⁶ 17 CFR 200.30-3(a)(12).