

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-57556; File No. SR-CBOE-2008-03)

March 26, 2008

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Order
Approving Proposed Rule Change Relating to Complex Orders

I. Introduction

On January 14, 2008, the Chicago Board Options Exchange, Incorporated (“CBOE” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² a proposed rule change regarding complex orders. The proposed rule change was published for comment in the Federal Register on February 21, 2008.³ The Commission received no comments regarding the proposal.

II. Description of the Proposal

The Exchange is proposing to amend its priority provisions contained in CBOE Rules 6.45, 6.45A and 6.45B to provide that a complex order may be executed at a net debit or credit price with another member without giving priority to equivalent bids (offers) in the individual series legs that are represented in the public customer limit order book, provided that one leg of the complex order betters the corresponding bid (offer) in the public customer limit order book by at least the amount determined by the Exchange on a class-by-class basis. The amount shall be either (i) one minimum trading increment (i.e., \$0.10, \$0.05 or \$0.01, as applicable) or (ii) a \$0.01 increment. Currently, the rules provide that one leg of a complex order must better the

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 57326 (February 13, 2008), 73 FR 9609.

corresponding bid (offer) in the public customer limit order book by at least one minimum trading increment.⁴

III. Discussion

The Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange.⁵ In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,⁶ which requires, among other things, that the rules of a national securities exchange be designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market, and, in general, to protect investors and the public interest.

The Commission believes that it is beneficial for orders in the same securities directed to an exchange to interact with each other, as such interaction promotes efficient exchange trading and protects investors by assuring that orders are executed pursuant to a single set of priority rules that are consistently and fairly applied. The Commission notes that CBOE maintains a complex order book (“COB”) to facilitate more automated handling of complex orders traded on the Hybrid System by permitting market participants to place complex orders at net debit/credit

⁴ Currently, for example, if a complex order spread market is quoted on a net debit/credit basis at \$0.90 to \$1.10 and there are orders represented in the public customer limit order book in the individual series at each of the respective prices, the complex order may only be executed with another member at a net price of \$0.95 to \$1.05. Under the proposed revisions, a complex order may be executed at a net price of \$0.91 to \$1.09, permitting price improvement at net prices ranging from \$0.91 - \$0.94 and \$1.06 - \$1.09.

⁵ In approving this proposal, the Commission has considered the proposed rule’s impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

⁶ 15 U.S.C. 78f(b)(5).

prices on a central limit order book.⁷ In addition, market participants may choose to enter complex orders into the complex order auction (“COA”) for potential price improvement via the automated request for responses process.⁸ The Commission believes that the proposed rule change to modify the Exchange’s priority provisions for complex orders is appropriate in this circumstance in light of the price competition for complex orders driven by the COB and the availability of the COA. The Commission believes that the proposal could enhance the orderly execution of complex orders on the CBOE and could provide new opportunities for price improvement. The Commission believes that these benefits outweigh the minimal impact on the efficient interaction of public customer orders in individual series. Finally, the Commission believes the proposed modification of the priority rules for complex orders is consistent with the Act.

⁷ See Securities Exchange Act Release No. 51271 (February 28, 2005), 70 FR 10712 (March 4, 2005).

⁸ See Securities Exchange Act Release No. 54135 (July 12, 2006), 71 FR 41287 (July 20, 2006). In addition, the Commission notes that the legs of a COA-eligible order may be executed in \$0.01 increments, regardless of the minimum quoting increments that otherwise would apply to the individual legs of the order. See CBOE Rule 6.53C(d)(v). CBOE rules also allow complex orders routed to or resting in the COB to be expressed and executed in \$0.01 increments, thereby providing additional price points at which complex orders could be executed. See CBOE Rule 6.53C(c)(ii).

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,⁹ that the proposed rule change (SR-CBOE-2008-03) be, and it hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁰

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Deputy Secretary

⁹ 15 U.S.C. 78s(b)(2).

¹⁰ 17 CFR 200.30-3(a)(12).