SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-67209; File No. SR-CBOE-2012-048)

June 18, 2012

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

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 June 6, 2012, 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 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 rules regarding the distribution of certain auction messages. The text of the proposed rule change is available on the Exchange's Web site (http://www.cboe.com/AboutCBOE/CBOELegalRegulatoryHome.aspx), at the Exchange's Office of the Secretary, and at the Commission.

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.

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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

The purpose of this proposed rule change is: (i) to amend Rule 6.13A relating to the Simple Auction Liaison ("SAL"); (ii) to delete Rule 6.14 relating to the Hybrid Agency Liaison system ("HAL"); (iii) to amend Rule 6.14A relating to the Hybrid Agency Liaison 2 system ("HAL2") and rename HAL2 as HAL; and (iv) to amend Rule 6.53C relating to Complex Orders on the Hybrid System. The proposed rule change modifies the provisions in each of these rules regarding who is eligible to respond to auction messages on a class-by-class basis to be more consistent. The proposed rule change provides that all Trading Permit Holders[3] may respond to SAL, HAL2 and COA auction messages in certain classes designated by the Exchange and that Trading Permit Holders may redistribute auction messages in these classes.

SAL

Rule 6.13A governs the operation of SAL, a feature within the Hybrid System that auctions marketable orders for price improvement over the national best bid or offer ("NBBO"). The Exchange determines the eligible order size, eligible order types, eligible origin code (i.e., public customer orders, non-Market-Maker broker-dealer orders and Market-Maker broker-dealer orders), and classes in which SAL is activated.[4] For these classes, SAL automatically initiates an auction process for any order that is eligible for automatic execution by the Hybrid System ("Agency Order").[5] Prior to commencing an auction, SAL stops the Agency Order at the

3 By definition, all Market-Makers are Trading Permit Holders; therefore, references to "Trading Permit Holders" include all Market-Makers. See Rule 8.1.

4 Rule 6.13A(a).

5 Id. SAL will not initiate an auction process if the Exchange's disseminated quotation on the opposite side of the market from the Agency Order does not contain sufficient Market-Maker quotation size to satisfy the entire Agency Order.

NBBO against Market-Maker quotations displayed at the NBBO on the opposite side of the Market as the Agency Order.[6]

Rule 6.13A(b) provides that auction responses may be submitted by Market-Makers with an appointment in the relevant option class and Trading Permit Holders acting as agent for orders resting at the top of the Exchange's book opposite the Agency Order. Interpretation and Policy .05 provides that in lieu of permitting auction responses by Market-Makers with an appointment in the relevant option class and Trading Permit Holders acting as agent for orders resting at the top of the Exchange's book opposite the Agency Order ("Qualifying Trading Permit Holders"), the Exchange may determine on a class-by-class basis to permit SAL responses by all CBOE Market-Makers and Qualifying Trading Permit Holders.

The proposed rule change allows the Exchange to determine on a class-by-class basis to permit all Trading Permit Holders to respond to auction messages and eliminates the concept of Qualifying Trading Permit Holders under this provision. Additionally, the proposed rule change moves this language from Interpretation and Policy .05 to paragraph (b), which relates to Auction responses. The Exchange also proposes to amend Rule 6.13A, Interpretation and Policy .02 to allow Trading Permit Holders to redistribute Auction messages in classes in which the Exchange allows all Trading Permit Holders to submit Auction responses. The purpose of this proposed change is to increase the opportunities for all types of market participants (e.g., public customers, broker-dealers and market-makers) to participate in SAL auctions in certain classes. This broader participation could lead to more robust competition in these auctions because more

6 Rule 6.13A(b). These quotations may not be cancelled or moved to an inferior price or size throughout the duration of the auction. The auction may last no longer than two seconds, as determined by the Exchange on a class-by-class basis. Id. Rule 6.13A(c) describes the manner in which an Agency Order is allocated under SAL, and Rule 6.13A(d) lists the circumstances in which an auction would terminate early.

market participants will be able to submit responses in these auctions, which responses may result in better prices for customers.

The proposed rule change also adds a new Interpretation and Policy .05 to provide that all pronouncements regarding determinations by the Exchange pursuant to Rule 6.13A and the Interpretations and Policies thereunder will be announced to Trading Permit Holders via Regulatory Circular. This method of notification will allow the Exchange to promptly inform Trading Permit Holders of any new or modification to any determinations made by the Exchange, such as in which classes all Trading Permit Holders will be allowed to respond to auction messages.

HAL

Rule 6.14 governs the operation of HAL, a feature within the Hybrid System that provides automated order handling in designated classes trading on the Hybrid System for qualifying electronic orders that are not automatically executed by the Hybrid System. The Exchange proposes to delete Rule 6.14, as it is outdated and no longer applicable. In connection with the Exchange's adoption of updated linkage rules in 2009, the Exchange created HAL2, which created an opportunity for price improvement, similar to HAL but with advanced functionality.[7] After enabling HAL2 (which was gradually rolled out so that for a period of time some classes traded pursuant to HAL while others traded pursuant to HAL2), the Exchange phased out the use of HAL, which is now no longer used for any classes. Rule 6.14A currently governs automated order handling on the Hybrid System through HAL2 for all designated classes. This proposal also amends Rules 6.2B, 6.13, 6.14A, 6.25 and 6.53 to delete cross-references to Rule 6.14 and HAL and

[7] See Securities Exchange Act Release No. 34-60551 (August 20, 2009), 74 FR 43196 (August 26, 2009) (SR-CBOE-2009-040) (approval of proposed rule change to amend and adopt new CBOE rules to implement the Options Order Protection and Locked/Crossed Market Plan).

correct other cross-references to conform to numbering changes in this proposal throughout the Rules.

HAL2[8]

Rule 6.14A governs the operation of HAL 2, a feature within the Hybrid System that provides automated order handling in designated classes trading on Hybrid for qualifying electronic orders that are not automatically executed by the Hybrid System. The Exchange determines the eligible order size, eligible order types, eligible origin code (i.e., public customer orders, non-Market-Maker broker-dealer orders and Market-Maker broker-dealer orders), and classes in which HAL2 is activated.[9] When the Exchange receives a qualifying order that is marketable against the NBBO and/or the Exchange's best bid or offer ("BBO")[10], HAL2 electronically exposes the order[11] at the NBBO price to allow Market-Makers appointed in that class as well as all Trading Permit Holders acting as agent for orders at the top of the Exchange's book in the relevant series (or all Trading Permit Holders if allowed by the Exchange)[12] to step-up to the NBBO price.

8 The Exchange notes that this proposed rule change renames "HAL2" as "HAL" in the CBOE Rules since the initial HAL is no longer in use and is being deleted. The Exchange believes this will eliminate any potential confusion that investors may have if there was a HAL2 but no HAL. However, for purposes of this filing, this filing uses the current terms "HAL" and "HAL2" to distinguish between the two separate mechanisms and avoid any confusion.

9 Rule 6.14A(a).

10 HAL2 will not electronically expose the order if the Exchange's quotation contains resting orders and does not contain sufficient Market-Maker quotation interest to satisfy the entire order.

11 The duration of the exposure period may not exceed one second. Rule 6.14A(c) describes the manner in which an exposed order is allocated under HAL2, and Rule 6.14A(d) lists the circumstances in which an exposure period would terminate early.

12 The Exchange notes that, pursuant to this authority under Rule 6.14A(b), it currently permits all Trading Permit Holders to respond to HAL2 exposure messages, effective August 23, 2010. See CBOE Regulatory Circular RG10-91.

Rule 6.14A(b) provides that the exposure message will be made available to all Market-Makers appointed to the relevant option class and all Trading Permit Holders acting as agent for orders at the top of the Exchange's book in the relevant option series, or to all Market-Makers or all Trading Permit Holders on a class-by-class basis, as determined by the Exchange. The proposed rule change revises the language to be more consistent with similar provisions in other rules discussed in this filing and provides that all Market-Makers with an appointment in the relevant option class and all Trading Permit Holders acting as agent for orders at the top of the Exchange's book in the relevant option series, or all Trading Permit holders if determined by the Exchange on a class-by-class basis, may submit responses to exposure messages. The proposed rule change also clarifies that only Trading Permit Holders acting as agent for orders at the top of the Exchange's book in the relevant option series may respond to exposure messages if they represent orders on the opposite side of the order submitted to HAL. The System currently only accepts responses that are on the opposite side of the exposed order; this proposed change amends the Rule to more clearly reflect this current practice. The Exchange also proposes to amend Rule 6.14A, Interpretation and Policy .01 to allow Trading Permit Holders to redistribute HAL2 exposure messages in classes in which the Exchange allows all Trading Permit Holders to submit HAL2 Auction responses. The purpose of this proposed change is to increase the opportunities for all types of market participants (e.g., public customers, broker-dealers and market-makers) to participate in HAL2 auctions in certain classes. This broader participation could lead to more robust competition in these auctions because more market participants will be able to submit responses in these auctions, which responses may result in better prices for customers.

The Exchange also proposes to amend paragraph (b) in Rule 6.14A to change the word "flashed" to "exposed." The Rule contains variations of the word "expose" throughout to describe the exposure of orders in HAL2, except in two instances in paragraph (b). The Exchange proposes to amend these two instances to create consistency of terminology in this Rule.

The proposed rule change also adds a new Interpretation and Policy .03 to provide that all pronouncements regarding determinations by the Exchange pursuant to Rule 6.14A and the Interpretations and Policies thereunder will be announced to Trading Permit Holders via Regulatory Circular. This method of notification will allow the Exchange to promptly inform Trading Permit Holders of any new or modification to any determinations made by the Exchange, such as in which classes all Trading Permit Holders will be allowed to respond to exposure messages.

<u>COA</u>

On a class-by-class basis, the Exchange may activate the electronic complex order request for responses ("RFR") auction ("COA"), which is a process by which eligible complex orders[13] are given an opportunity for price improvement before being booked in the electronic complex order book ("COB") or once on a PAR workstation. Rule 6.53C(d) provides that prior to routing a complex order to the COB or once on PAR, eligible complex orders may be subject to a COA. On receipt of a COA-eligible order and request from a Trading Permit Holder

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[13] An eligible complex order, referred to in Rule 6.53C as a "COA-eligible order," means a complex order that, as determined by the Exchange on a class-by-class basis, is eligible for a COA considering the order's marketability (defined as a number of ticks away from the current market), size, complex order type and complex order origin type (<u>i.e.</u>, non-broker-dealer public customer, broker-dealers that are not Market-Makers or specialists on an options exchange, and/or Market-Makers or specialists on an options exchange). All determinations by the Exchange on COA-eligible order parameters are announced to Trading Permit Holders by Regulatory Circular. <u>See</u> Rule 6.53C(d)(i)(2) and Interpretation and Policy .01 to Rule 6.53C.

representing the order that it be COA'd, the Exchange will send an RFR message to all Trading Permit Holders who have elected to receive RFR messages.[14] Each Market-Maker with an appointment in the relevant option class and each Trading Permit Holder acting as agent for orders resting at the top of the COB in the relevant options series may then submit responses to the RFR message during the Response Time Interval.[15]

Rule 6.53(C)(d)(iii) provides that Market-Makers with an appointment in the relevant option class and Trading Permit Holders acting as agent for orders resting at the top of the COB in the relevant option series may submit responses to the RFR messages during the Response Time Interval. Interpretation and Policy .07 provides that in lieu of permitting auction responses by Market-Makers with an appointment in the relevant option class and Trading Permit Holders acting as agent for orders resting at the top of the Exchange's book opposite the Agency Order ("Qualifying Trading Permit Holders"), the Exchange may determine on a class-by-class basis to permit COA responses by all CBOE Market-Makers and Qualifying Trading Permit Holders.

The proposed rule change allows the Exchange to determine on a class-by-class basis to permit all Trading Permit Holders to respond to auction messages and eliminates the concept of Qualifying Trading Permit Holders under this provision. Additionally, the proposed rule change

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14 See Rule 6.53C(d)(ii). The RFR message will identify the component series, the size of the COA-eligible order and any contingencies, but will not identify the side of the market.

15 See Rule 6.53C(d)(iii). A "Response Time Interval" means the period of time during which responses to the RFR may be entered, the length of which is determined by the Exchange on a class-by-class basis but may not exceed three seconds. See Rule 6.53C(d)(iii)(2). RFR response sizes will be limited to the size of the COA-eligible order for allocation purposes and may be expressed on a net price basis in a multiple of the minimum increment or in a small [sic] increment that may not be less than $0.01, as determined by the Exchange on a class-by-class basis. RFR responses are not visible other than by the COA system. See Rule 6.53C(d)(iii)(1). Paragraphs (d)(iv) – (viii) of Rule 6.53C describe the processing, execution and routing of COA-eligible orders, firm quote requirements for COA-eligible orders and handling of unrelated complex orders.

moves this language from Interpretation and Policy .07 to paragraph (d)(iii), which relates to RFR responses. The proposed rule change also clarifies that only Trading Permit Holders acting as agent for orders at the top of the Exchange's book in the relevant option series may respond to exposure messages if they represent orders on the opposite side of the order submitted to COA. The System currently only accepts responses that are on the opposite side of the Agency Order; this proposed change amends the Rule to more clearly reflect this current practice. The Exchange also proposes to amend Interpretation and Policy .05 to Rule 6.53C to allow Trading Permit Holders to redistribute RFR messages in classes in which the Exchange allows all Trading Permit Holders to submit RFR responses. The purpose of this proposed change is to increase the opportunities for all types of market participants (e.g., public customers, broker-dealers and market-makers) to participate in COAs in certain classes. This broader participation could lead to more robust competition in these auctions because more market participants will be able to submit responses in these auctions, which responses may result in better prices for customers.

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.[16] 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.

16 15 U.S.C. 78f(b).

17 15 U.S.C. 78f(b)(5).

In particular, the Exchange believes the proposed rule change to allow the Exchange to open up auctions in certain classes to all Trading Permit Holders and allow redistribution of the auction messages in these classes protects investors and is in the public interest because it will increase the opportunities for all types of market participants (e.g., public customers, broker-dealers and market-makers) to participate in SAL auctions, HAL2 auctions and COAs in these classes. This broader participation could lead to more robust competition in these auctions because more market participants will be able to submit responses in these auctions, which responses may result in better prices for customers. Ultimately, this proposal will provide additional opportunities for price improvement over the NBBO for its customers, because responses to exposure or RFR messages, as applicable, may be better than the NBBO. Additionally, the Exchange believes that deleting Rule 6.14 regarding HAL, which is no longer in use, and renaming HAL2 as HAL protects investors and is in the public interest because the deletion of the obsolete language will alleviate any potential confusion by investors.

The Exchange also believes that having consistent language among these rules regarding which Trading Permit Holders are eligible to respond to auction messages will provide more clarify [sic] and uniformity to these auction rules. These changes simplify and reorganize these provisions so that the requirements related to auction responses for each auction type are included in a single paragraph, making it easier to read and understand. Additionally, allowing this information to be more widely available to market participants rather than only Trading Permit Holders also helps 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 that is not necessary or appropriate in furtherance of the purposes of the Act.

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

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

A. by order approve or disapprove such proposed rule change, or

B. institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission's Internet comment form (http://www.sec.gov/rules/sro.shtml); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-CBOE-2012-048 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-2012-048. 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 FINRA. 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-2012-048, 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.[18]

Kevin M. O'Neill
Deputy Secretary

[18] 17 CFR 200.30-3(a)(12).