

*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**

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](mailto:rule-comments@sec.gov). Please include File Number SR-CBOE-2011-010 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-2011-010. 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 Web site (<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 Web site 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 a.m. and 3 p.m. Copies of such 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 No. SR-CBOE-2011-010 and should be submitted on or before March 3, 2011.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>11</sup>

**Cathy H. Ahn,**  
*Deputy Secretary.*

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**SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34-63842; File No. SR-CBOE-2011-009]

**Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Related to Stock-Option Orders**

February 4, 2011.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on January 27, 2011, the Chicago Board Options Exchange, Incorporated ("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. CBOE has submitted the proposed rule change under Section 19(b)(3)(A) of the Act<sup>3</sup> and Rule 19b-4(f)(6) thereunder,<sup>4</sup> which renders the proposal effective upon filing with the Commission. 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 is proposing to amend its complex order request for response ("RFR") auction ("COA") as it applies to stock-option orders to incorporate certain order eligibility parameters. The text of the proposed rule change is available on the Exchange's Web site (<http://www.cboe.org/Legal>), 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 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

Prior to routing to the complex order book or once on PAR, eligible complex orders may be subjected to an automated COA process where orders are exposed for price improvement under Rule 6.53C(d), *Process for Complex Order RFR Auction*. Generally, if a market order cannot be filled in whole or in a permissible ratio at the conclusion of COA, then the order (or any remaining balance) will route to PAR for manual handling. However, the Exchange has the ability to vary this process for market stock-option orders that contain one or more option leg(s) under Rule 6.53C.06(d). Specifically, instead of routing to PAR for manual handling, the Exchange may determine on a class-by-class basis that any remaining balance of the option leg(s) of a market stock-option order will automatically route to CBOE's Hybrid System for processing as a simple market order(s) consistent with CBOE's order execution rules and any remaining balance of the stock leg will automatically route to the CBOE Stock Exchange ("CBSX"), CBOE's stock facility, for processing as a simple

<sup>11</sup> 17 CFR 200.30-3(a)(12).

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>4</sup> 17 CFR 240.19b-4(f)(6).

market order consistent with CBSX order execution rules.<sup>5</sup> This alternate legging functionality is intended to assist in the automatic execution and processing of stock-option orders that are market orders. The Exchange notes that when a stock-option order is legged in this manner, it is possible for CBOE to route the option leg(s) to another options exchange and/or for CBSX to route the stock leg to another stock exchange, consistent with their respective rules.<sup>6</sup>

The Exchange is preparing to activate this legging functionality for market stock-option orders. However, before activating the functionality, the Exchange is proposing to codify certain order eligibility parameters that would be applicable to such market stock-option orders. Specifically, the Exchange is proposing to provide that for each class in which the legging functionality is activated, an “eligible market order” means a stock-option order that is within designated size and order type<sup>7</sup> parameters, determined by the Exchange on a class-by-class basis, and for which the national best bid or offer (“NBBO”) is within designated size and price parameters, as determined by the Exchange for the individual leg. The designated NBBO price parameters will be determined based on a minimum bid price for sell orders and a maximum offer price for buy orders. The Exchange may also determine on a class-by-class basis to limit the trading times within regular trading hours that the legging functionality will be available.<sup>8</sup>

The Exchange notes that the inclusion of an order eligibility provision will provide the Exchange with more flexibility to administer the legging functionality in a manner that is consistent with other CBOE rules that contain order eligibility provisions based on order size, order type and other factors, e.g., Rules 6.13, *CBOE Hybrid System Automatic Execution Feature*, 6.14, *Hybrid Agency Liaison (HAL)*, 6.14A, 6.53, *Certain Types of*

*Orders Defined*, and 6.53C(d).<sup>9</sup> The Exchange also notes that the designated NBBO size and NBBO price parameters and the eligible trading time parameter are specific to the COA legging functionality (although the Exchange notes that there are other price reasonability check parameters within various other CBOE Rules, e.g., Rule 6.13 and Interpretation and Policy .08 to Rule 6.53C, *Complex Orders on the Hybrid System*).

Under these new order eligibility parameters, for example, the Exchange might determine that for a given option class the COA legging functionality would only be available for stock-option orders involving one option leg where the maximum eligible order size is 1,000 shares for the stock leg and 10 contracts for the option leg. Under the NBBO size parameter, the Exchange might also determine that the legging functionality would only be available in instances where the minimum NBBO size is at least 1,000 shares for the stock leg and the minimum NBBO size for the options leg(s) is a size that is at least sufficient to satisfy the entire option leg(s). Under the NBBO price parameter, the Exchange might also determine that the legging functionality would only be available in instances where the NBBO bid for a component leg is at least \$0.25 or higher for a sell option leg. As for the eligible trading times, the Exchange might determine to designate a time within regular trading hours when the legging functionality would be available, such as, for example, saying the legging functionality would not be available within 3 minutes of the 3 p.m. (Central Time) close of trading.<sup>10</sup>

As indicated above, the legging functionality is intended to assist in the automatic execution and processing of stock-option orders that are market orders. The Exchange believes the addition of the above described order eligibility parameters will provide the Exchange more flexibility in

administering the legging functionality in a manner that is consistent with other Exchange rules that contain order eligibility provisions. The Exchange also believes that these eligibility parameters will enhance the functionality and assist with the maintenance of orderly markets by helping to mitigate the potential risks associated with legging stock option orders, e.g., the risk of an order drilling through multiple price points on another exchange (thereby resulting in execution at prices that are away from the NBBO and potentially erroneous), and/or the risk of one leg of the stock-option order going unexecuted (thereby not achieving a complete stock-option order execution and having a partial position that is unhedged).

## 2. Statutory Basis

The proposed rule change is consistent with Section 6(b) of the Act<sup>11</sup> in general and furthers the objectives of Section 6(b)(5) of the Act<sup>12</sup> in particular in that it should promote just and equitable principles of trade, serve to remove impediments to and perfect the mechanism of a free and open market and a national market system, and protect investors and the public interest. The Exchange believes the proposed rule change will assist in the automatic execution and processing of stock-option orders that are market orders. The Exchange also believes the addition of the order eligibility parameters will provide the Exchange with more flexibility in administering the legging functionality in a manner that is consistent with other Exchange rules that contain order eligibility provisions. In addition, the Exchange believes that these eligibility requirements will enhance the functionality and assist with the maintenance of orderly markets by helping to mitigate the potential risks associated with legging stock option orders, e.g., the risk of an order drilling through multiple price points on another exchange (thereby resulting in execution at prices that are away from the NBBO and potentially erroneous), and/or the risk of one leg of the stock-option order going unexecuted (thereby not achieving a complete stock-option order execution and having a partial position that is unhedged).

### 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.

<sup>5</sup> Pursuant to Rule 6.53C.01, any determination by the Exchange to route stock-option market orders in this manner will be announced to Trading Permit Holders via Regulatory Circular.

<sup>6</sup> See, e.g., CBOE's Rules 6.14A, *Hybrid Agency Liaison 2 (HAL2)*, and 6.14B, *Order Routing to Other Exchanges*, and CBSX's Rule 52.6, *Processing of Round-lot Orders*.

<sup>7</sup> The legging functionality is currently only available for stock-option orders that are market orders. The market stock-option “order types” are those with only one option leg and those with more than one option leg (e.g., a conversion or reversal).

<sup>8</sup> Pursuant to Rule 6.53C.01, any determination by the Exchange regarding these legging functionality parameters will be announced to Trading Permit Holders via Regulatory Circular.

<sup>9</sup> Indeed, to be eligible for the COA process itself, an order must be a COA-eligible order. A “COA-eligible order” is a complex order (including a stock-option order) that, as determined by the Exchange on a class-by-class basis, is eligible for 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 types (i.e., 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). See Rule 6.53C(d)(i)(2) and Interpretation and Policy .06(d) to Rule 6.53C.

<sup>10</sup> In the example above, the Exchange would issue a Regulatory Circular to Trading Permit Holders before the legging functionality parameters go into effect for the given option class that announces the particular parameters that the Exchange determined to establish. See note 8, *supra*.

<sup>11</sup> 15 U.S.C. 78f(b).

<sup>12</sup> 15 U.S.C. 78f(b)(5).

*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 proposal.

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

CBOE has designated the proposed rule change as one that 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 if consistent with the protection of investors and the public interest. Therefore, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>13</sup> and Rule 19b-4(f)(6) thereunder.<sup>14</sup>

The Exchange has asked the Commission to waive the 30-day operative delay. CBOE believes that the proposed order eligibility parameters for the legging functionality will provide the Exchange with flexibility in administering the legging functionality and assist in the maintenance of fair and orderly markets by helping to mitigate potential risks associated with the legging of stock-option orders, including the risk of executions at multiple price points that are away from the NBBO and potentially erroneous, and the risk that one leg of the order will go unexecuted, resulting in an incomplete execution of the stock-option order and a partial position that is unhedged.

The Commission grants the CBOE's request.<sup>15</sup> The Commission believes that waiving the 30-day operative delay is consistent with the protection of investors and the public interest because the order eligibility parameters could help to mitigate some of the risks associated with the legging of stock-option orders, including the risk of an incomplete execution of one leg of the order that results in a position that is not fully hedged, and the risk that a

component of the order could be executed at multiple prices that are away from the NBBO and potentially erroneous. The Commission notes, in addition, that CBOE will notify Trading Permit Holders through a Regulatory Circular of the legging functionality parameters for an option class before the parameters go into effect.<sup>16</sup>

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.

**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](mailto:rule-comments@sec.gov). Please include File Number SR-CBOE-2011-009 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-2011-009. 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 Web site (<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 a.m. and 3 p.m. Copies of such 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-2011-009 and should be submitted on or before March 3, 2011.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>17</sup>

**Cathy H. Ahn,**

*Deputy Secretary.*

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**SECURITIES AND EXCHANGE COMMISSION**

**[Release No. 34-63839; File No. SR-EDGA-2011-03]**

**Self-Regulatory Organizations; EDGA Exchange, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Amendments to the EDGA Exchange, Inc. Fee Schedule**

February 3, 2011.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on February 1, 2011, the EDGA Exchange, Inc. (the "Exchange" or the "EDGA") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II, and III below, which items have been prepared by the self-regulatory organization. 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 fees and rebates applicable to Members<sup>3</sup> of the Exchange pursuant to EDGA Rule 15.1(a) and (c). All of the changes

<sup>17</sup> 17 CFR 200.30-3(a)(12).

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> A Member is any registered broker or dealer, or any person associated with a registered broker or dealer, that has been admitted to membership in the Exchange.

<sup>13</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>14</sup> 17 CFR 240.19b-4(f)(6). Rule 19b-4(f)(6)(iii) also requires an exchange to provide the Commission with 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. The Exchange satisfied this requirement.

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

<sup>16</sup> See notes 8 and 10, *supra*. See also CBOE Rule 6.53C, Interpretation and Policy .01.