not as a series of individual transactions, because each leg of the complex order is contingent on the other leg.[19] Thus, the System performs the QRM parameter calculations after the entire complex order executes against interest in the regular market. In contrast, if the legs of the complex order had been submitted to the regular market separately and without any complex order contingency, the System would perform the QRM parameter calculations after each leg executed against interest in the regular market. According to the Exchange, this differential treatment may result in market makers exceeding their risk parameters by a greater number of contracts when complex orders leg into the regular market.[20]

The Exchange believes that the potential risk to market makers of complex orders legging into the regular market limits the amount of liquidity that market makers are willing to provide in the regular market.[21] In particular, according to the Exchange, market makers may reduce the size of their quotations in the regular market because of the presence of these complex orders that are designed to circumvent QRM and risk the execution of the cumulative size of market makers' quotations across multiple series without market makers' being aware of these complex orders or having an opportunity to adjust their quotes.[22] Accordingly, the Exchange believes that reducing market maker risk in the regular market by requiring complex orders in Hybrid classes with three or more legs to be subject to a COA—which will allow market makers to react accordingly, including adjusting their quotes to avoid the circumvention of their QRM parameter settings—will benefit investors by encouraging market makers to provide additional liquidity in the regular market and enhance competition in those classes.[23] According to the Exchange, this potential benefit to investors far exceeds any ''perceived detriment'' to requiring certain complex orders to be subject to a COA prior to potential interaction with the leg markets.[24] The Exchange notes that complex orders with three or more legs will still have opportunities for execution through a COA, in the COB or in the leg markets if they do not execute at the end of the COA.[25]

[19] *See id.*

[20] *See id.*

[21] *See* Notice, *supra* note 3, at 13362.

[22] *See id.*

[23] *See id.*

[24] *See id.*

[25] *See id.*

In the Notice, the Exchange states that it will announce the implementation date of the proposed rule change in a Regulatory Circular to be published no later than 90 days following the effective date of this proposed rule change.[26] The Exchange also states that the implementation date will be no later than 180 days following the effective date of this proposed rule change.[27]

III. Summary of Comment Letters

As noted above, the Commission received two comments, both expressing support for the proposed rule change.[28] One commenter stated that it believes CBOE's proposal is a reasonable response to the problem of complex orders circumventing market makers QRM parameters.[29] The other commenter stated that it believes that the proposal will allow market makers to better rely on the Exchange's QRM to remove quotes when a market makers risk tolerance is exceed, which, according to the commenter, will allow market makers to provide quotations with large sizes and tight spreads.[30]

IV. Discussion and Commission Findings

After careful review, 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.[31] In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,[32] which requires, among other things, that the rules of a national securities exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest. The Commission notes that participating in a COA will provide complex orders with three or more legs an opportunity for price improvement through the auction mechanism. The Commission also notes that both commenters expressed support for the proposal.

[26] *See* Notice, *supra* note 3, at 13363.

[27] *See id.*

[28] *See supra* note 6.

[29] *See* NYSE Letter, *supra* note 6, at 2.

[30] *See* Group One Letter, *supra* note 6, at 2.

[31] In approving this proposal, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. *See* 15 U.S.C. 78c(f).

[32] 15 U.S.C. 78f(b)(5).

V. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,[33] that the proposed rule change (SR–CBOE–2014–017) is approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[34]

Kevin M. O'Neill,

Deputy Secretary.

[FR Doc. 2014–21519 Filed 9–9–14; 8:45 am]

BILLING CODE 8011–01–P

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–72990; File No. SR–CBOE–2014–068]

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to the Strike Setting Regimes for SPY and DIA Options

September 4, 2014.

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 August 28, 2014, 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 Substance of the Proposed Rule Change

The Exchange proposes to amend Interpretation .08 to Rule 5.5 (Series of Option Contracts Open for Trading) to modify the strike setting regimes for options on The Standard & Poor's Depository Receipts Trust (''SPY'') and The DIAMONDS Trust (''DIA''). The text of the proposed rule change is provided below. (additions are *italicized;* deletions are [bracketed])

* * * * *

Chicago Board Options Exchange, Incorporated Rules

* * * * *

[33] 15 U.S.C. 78s(b)(2).

[34] 17 CFR 200.30–3(a)(12).

[1] 15 U.S.C. 78s(b)(1).

[2] 17 CFR 240.19b–4.

Rule 5.5.—Series of Option Contracts Open for Trading

RULE 5.5. (a)–(e) No change.

. . . Interpretations and Policies:

.01–.07 No change.

.08

(a) Notwithstanding Interpretation and Policy .01 above, and except for options on Units covered under Interpretation and Policies .06 and .07 above, the interval between strike prices of series of options on Units, as defined under Interpretation and Policy .06 to Rule 5.3, will be $1 or greater where the strike price is $200 or less and $5.00 or greater where the strike price is greater than $200. For options on Units that are used to calculate a volatility index, the Exchange may open for trading $0.50 strike price intervals as provided for in Interpretation and Policy .19 to this Rule 5.5.

(b) Notwithstanding Interpretation and Policy .01 and Interpretation and Policy .08(a) above, the interval between strike prices of series of options on Units of the Standard & Poor's Depository Receipts Trust (''SPY'') and The DIAMONDS Trust (''DIA'') will be $1 or greater.

.09–.23 No change.

* * * * *

The text of the proposed rule change is also 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'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.

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

1. Purpose

The Exchange proposes to amend Interpretation and Policy .08 to Rule 5.5 to modify the strike setting regimes for SPY and DIA options. Specifically, the Exchange proposes to modify the interval setting regimes for SPY and DIA options to allow $1 strike price intervals above $200. The Exchange believes that the proposed rule change would make SPY and DIA options easier for investors and traders to use and more tailored to their investment needs. The Exchange's filing is substantially similar in all material respects to similar changes to Commentary .05 to NASDAQ OMX PHLX LLC Rule 1012 (Series of Options Open for Traded) that were recently proposed.[3]

The SPY and DIA exchange-traded funds (''ETFs'') are designed to roughly track the performance of the S&P 500 Index and Dow Jones Industrial Average (''DJIA'') with the price of SPY designed to roughly approximate 1/10th of the price of the S&P 500 Index and the price of DIA designed to roughly approximate 1/100th of the price of the DJIA. Accordingly, SPY strike prices reflect a value roughly equal to 1/10th of the value of the S&P 500 Index and DIA strike prices reflect a value roughly equal to 1/100th of the value of the DJIA with each having a multiplier of $100. For example, if the S&P 500 Index is at 1972.56, SPY options might have a value of approximately 197.26 with a notional value of $19,726. If the DJIA is at 16,569.98, DIA options may have a value of 165.70 with a notional value of $16,570. In general, SPY and DIA options provide retail investors and traders with the benefit of trading the broad market in a manageably sized contract. As options with an ETP underlying, SPY and DIA options are listed in the same manner as equity options under the Rules.

Under current Interpretation and Policy .08 to Rule 5.5, the interval between strike prices in series of options on ETPs, including SPY and DIA options will be $1 or greater where the strike price is $200 or less and $5.00 or greater where the strike price is greater than $200.'' In addition, under Rule 5.5(d)(5),

> The interval between strike prices on Short Term Option Series may be: (i) $0.50 or greater where the strike price is less than $75, and $1 or greater where the strike price is between $75 and $150 for all classes that participate in the Short Term Option Series Program; (ii) $0.50 for classes that trade in one dollar increments in non-Short Term Options and that participate in the Short Term Option Series Program; or (iii) $2.50 or greater where the strike price is above $150.

The Exchange's proposal seeks to narrow the strike price intervals to $1 for SPY and DIA options above $200, in effect matching the strike setting regime for strike intervals in these products below $200.

Currently, the S&P 500 Index is hovering close to 2000. The DJIA is hovering near 17000. As the option strike prices for SPY and DIA options have continued to appreciate, the Exchange has received Trading Permit Holder (''TPH'') requests to list additional strike prices in SPY and DIA options above $200. The S&P 500 Index is widely regarded as the best single gauge of large cap U.S. equities and the DJIA is the most popular, and is widely quoted as an indicator of stock prices and investor confidence in the securities market. As a result, individual investors often use S&P 500 Index- and DJIA-related products to diversify their portfolios and benefit from market trends—options on the SPY and DIA ETFs account for nearly 25% of all U.S. options trading volume. Moreover, the popularity of SPY and DIA options is reflected in the fact that they have options contracts reflecting monthly, quarterly, and weekly expiration cycles.[4] Accordingly, the Exchange believes that offering a wide range of S&P 500 Index- and DJIA-based options affords traders and investors important hedging and trading opportunities. The Exchange believes that not having the proposed $1 strike price intervals above $200 in SPY and DIA significantly constricts investors' hedging and trading possibilities.

The Exchange proposes to amend Interpretation and Policy .08 to Rule 5.5 to allow SPY and DIA options to trade in $1 increments above a strike price of $200. Specifically, the Exchange proposes to amend Interpretation and Policy .08 to Rule 5.5 to state that notwithstanding other provisions limiting the ability of the Exchange to list $1 increment strike prices on equity and ETF options above $200, the interval between strike prices of series of options on Units of SPY and DIA will be $1 or greater.[5] The Exchange believes

[3] *See* Securities and Exchange Act Release 34–72664 (July 24, 2014), 79 FR 44231 (July 30, 2014) (Notice of Filing of Proposed Rule Change, as Modified by Amendment No. 1, Relating to SPY and DIA Options) (SR–Phlx–2014–046).

[4] *See* Rule 5.5.

[5] The Exchange notes that the proposed rule change would also affect the strike setting regime of these products under the Short Term Option Series Program and permit the Exchange to list SPY and DIA Short Term Options in $0.50 increments above $200. Both SPY and DIA participate in the Short Term Option Series Program under Rule 5.5(d). Under Rule 5.5(d)(5), ''[t]he interval between strike prices on Short Term Option Series may be: (i) $0.50 or greater where the strike price is less than $75, and $1 or greater where the strike price is between $75 and $150 for all classes that participate in the Short Term Option Series Program; (ii) $0.50 for classes that trade in one dollar increments in non-Short Term Options and that participate in the Short Term Option Series Program; or (iii) $2.50 or greater where the strike price is above $150.'' Accordingly, if the Exchange were to adopt the

that by having smaller strike intervals in SPY and DIA, investors would have more efficient hedging and trading opportunities due to the higher $1 interval ascension. The proposed $1 intervals, particularly above the $200 strike price, will result in having at-the-money series based upon the underlying SPY or DIA moving less than 1%. The Exchange believes that the proposed strike setting regime is in line with the slower movements of broad-based indices. Furthermore, the proposed $1 intervals would allow currently employed option trading strategies (such as, for example, risk reduction/hedging strategies using SPY weekly options), to remain viable. Considering the fact that $1 intervals already exist below the $200 price point and that SPY and DIA are approaching the $200 level, the Exchange believes that continuing to maintain the artificial $200 level (above which intervals increase 500% to $5), would have a negative effect on investing, trading and hedging opportunities, and volume. The Exchange believes that the continued demand for highly liquid options such as options on SPY and DIA, and the investing, trading, and hedging opportunities they represent, far outweighs any potential negative impact of allowing SPY and DIA options to trade in more finely tailored intervals above the $200 price point.

The proposed strike setting regime would permit strikes to be set to more closely reflect values in the underlying S&P 500 Index and DJIA and allow investors and traders to roll open positions from a lower strike to a higher strike in conjunction with the price movement of the underlying. Under the current rule, where the next higher available series would be $5 away above a $200 strike price, the ability to roll such positions is effectively negated. Accordingly, to move a position from a $200 strike to a $205 strike under the current rule, an investor would need for the underlying product to move 2.5%, and would not be able to execute a roll up until such a large movement occurred. With the proposed rule change, however, the investor would be in a significantly safer position of being able to roll his open options position from a $200 to a $201 strike price, which is only a 0.5% move for the underlying. The proposed rule change will allow the Exchange to better respond to customer demand for SPY strike prices more precisely aligned with current S&P 500 Index values and allow the Exchange to respond similarly with additional $1 interval strike prices above $200 in DIA should the DJIA approach corresponding levels. The Exchange believes that the proposed rule change, like the other strike price programs currently offered by the Exchange, will benefit investors by providing investors the flexibility to more closely tailor their investment and hedging decisions using SPY and DIA options.

By allowing series of SPY and DIA options to be listed in $1 intervals between strike prices over $200, the proposal will moderately augment the potential total number of options series available on the Exchange. However, the Exchange has analyzed its capacity and represents that it and the Options Price Reporting Authority (''OPRA'') have the necessary systems capacity to handle any potential additional traffic associated with this proposed rule change. The Exchange also believes that Trading Permit Holders will not have a capacity issue due to the proposed rule change. In addition, the Exchange represents that it does not believe that this expansion with cause fragmentation of liquidity.

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.[6] Specifically, 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 prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest. Additionally, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)[8] requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

In particular, the proposed rule change would add consistency to the options markets and allow investors to more easily use SPY and DIA options. Moreover, the proposed rule change would allow investors to better trade and hedge positions in SPY and DIA options where the strike price is greater than $200, and ensure that SPY and DIA options investors are not at a disadvantage simply because of the strike price.

The Exchange also believes the proposed rule change is consistent with Section 6(b)(1) of the Act, which provides that the Exchange be organized and have the capacity to be able to carry out the purposes of the Act and the rules and regulations thereunder, and the rules of the Exchange. The rule change proposal allows the Exchange to respond to customer demand to allow SPY and DIA options to trade in $1 intervals above a $200 strike price. The Exchange does not believe that the proposed rule would create additional capacity issues or affect market functionality.

As noted above, ETF options trade in wider $5 intervals above a $200 strike price, whereby options at or below a $200 strike price trade in $1 intervals. This creates a situation where contracts on the same option class effectively may not be able to execute certain strategies such as, for example, rolling to a higher strike price, simply because of the arbitrary $200 strike price above which options intervals increase by 500%. This proposal remedies the situation by establishing an exception to the current ETF interval regime, for SPY and DIA options only, to allow such options to trade in $1 or greater intervals at all strike prices.

The Exchange believes that the proposed rule change, like other strike price programs currently offered by the Exchange, will benefit investors by giving them increased flexibility to more closely tailor their investment and hedging decisions. Moreover, the proposed rule change is consistent with changes proposed by other exchanges.[9]

With regard to the impact of this proposal on system capacity, the Exchange has analyzed its capacity and represents that it and OPRA have the necessary systems capacity to handle any potential additional traffic associated with this proposed rule change. The Exchange believes that its members will not have a capacity issue as a result of this proposal.

proposed rule change, SPY and DIA options would trade in $1 strike price increments above $200 increments and thus, be subject to the parameters described in Rule 5.5(d)(5)(ii), which permit the listing of $0.50 strike prices above $200 under the Short Term Options Program.

[6] 15 U.S.C. 78f(b).

[7] 15 U.S.C. 78f(b)(5).

[8] *Id.*

[9] *See* Securities and Exchange Act Release 34–72664 (July 24, 2014), 79 FR 44231 (July 30, 2014) (Notice of Filing of Proposed Rule Change, as Modified by Amendment No. 1, Relating to SPY and DIA Options) (SR–Phlx–2014–046).

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

The Exchange 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. Rather, the Exchange believes that the proposed rule change will result in additional investment options and opportunities to achieve the investment and trading objectives of market participants seeking efficient trading and hedging vehicles, to the benefit of investors, market participants, and the marketplace in general. Specifically, the Exchange believes that SPY and DIA option investors and traders will significantly benefit from the availability of finer strike price intervals above a $200 price point. Furthermore, the Exchange's filing is substantially similar in all material respects to, and consistent with, similar changes to Commentary .05 to NASDAQ OMX PHLX LLC Rule 1012 (Series of Options Open for Traded) that were recently proposed.[10] As such, the Exchange believes that the proposed rule change is essential for intermarket competitive purposes and to promote a free and open market for the benefit of investors and traders.

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 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, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act[11] and Rule 19b–4(f)(6) thereunder.[12]

The Exchange has asked the Commission to waive the 30-day operative delay so that the proposal may become operative immediately upon filing. The Exchange stated that waiver of this requirement would allow the Exchange to respond to current customer demand for strike prices in SPY options and more effectively tailor their investing, trading, and hedging decisions in respect of SPY and DIA options by using finer $1 increments. The Exchange also stated that, given the current level of the S&P 500 Index, the Exchange believes that it is important to be able to list the requested strikes as soon as possible so that investors have the hedging tools they need given the current market conditions. For these reasons, the Commission believes that the proposed rule change presents no novel issues and that waiver of the 30-day operative delay is consistent with the protection of investors and the public interest; and will allow the Exchange to remain competitive with other exchanges. Therefore, the Commission designates the proposed rule change to be operative upon filing.[13]

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. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or 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 email to *rule-comments@sec.gov.* Please include File Number SR–CBOE–2014–068 on the subject line.

Paper Comments

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

All submissions should refer to File Number SR–CBOE–2014–068. This file number should be included on the subject line if email 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 10:00 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–2014–068 and should be submitted on or before October 1, 2014.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[14]

Kevin M. O'Neill,

Deputy Secretary.

[FR Doc. 2014–21524 Filed 9–9–14; 8:45 am]

BILLING CODE 8011–01–P

[10] *Id.*

[11] 15 U.S.C. 78s(b)(3)(A).

[12] 17 CFR 240.19b–4(f)(6). As required under Rule 19b–4(f)(6)(iii), the Exchange provided the Commission with written notice of its intent to file the proposed rule change, along with a brief description and the 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.

[13] 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).

[14] 17 CFR 200.30–3(a)(12).