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Via Electronic Delivery

December 10, 2013

Ms. Elizabeth M. Murphy
Secretary
U. S. Securities and Exchange Commission
100 F Street, NE,
Washington, DC 20549-1090

Re: Release No. 34-70857; File No. SR-CBOE-2013-107 - Chicago Board Options Exchange, Incorporated; Notice of Filing of a Proposed Rule Change to Amend Its Rules Regarding Option Orders That Are Tied to Stock Orders

Dear Ms. Murphy,

The Financial Information Forum (FIF)[1] is submitting this comment letter with respect to, SR-CBOE-2013-107, Chicago Board Options Exchange, Incorporated; Notice of Filing of a Proposed Rule Change to Amend Its Rules Regarding Option Orders That Are Tied to Stock Orders ("CBOE Proposal"). FIF believes there are opportunities to reduce the ambiguity associated with the filing that should be addressed in the form of an amendment to the filing that is subject to a public comment period. With additional clarity on the scope and nature of the requirements, FIF could offer more fulsome feedback.

The CBOE proposal includes changes to both CBOE Rule 6.53(y) and CBOE Rule 15.2A. FIF comments regarding each of these rules are discussed below.

Marking Requirement – CBOR Rule 6.53(y)

The CBOE Proposal offers the following definition of a tied to stock order:

> The proposed rule change adds Rule 6.53(y), which defines a "tied to stock order" as an option order that is tied to a stock order at the time of order entry. A "tied to stock" order is an option order that, at the time it is entered into the System, is part of a trading strategy consisting of two or more orders, at least one of which is an order for the underlying stock, even though the component orders were submitted separately). Tied to stock orders do not include standard hedging strategies that include stock orders, as further discussed below. The proposed rule requires that each tied to stock order submitted to the Exchange be marked as "tied to stock" upon entry into the system. A tied to stock order can be a simple or complex order.

[1] FIF (www.fif.com) was formed in 1996 to provide a centralized source of information on the implementation issues that impact the securities industry across the order lifecycle. Our participants include trading and back office service bureaus, broker-dealers, market data vendors and exchanges. Through topic-oriented working groups, FIF participants focus on critical issues and productive solutions to technology developments, regulatory initiatives, and other industry changes.

FIF recommends that the current definition of a "tied to stock order" be modified to include only those options orders that are contingent on stock orders[2] ("contingent on stock" orders), e.g., buy-writes[3], married puts[4] or delta neutral orders[5]. These "contingent on stock" orders receive trading benefits in that customers generally have a better chance of getting better pricing when they trade versus stock as the CBOE market maker/facilitation firm generally takes on less risk initially by being hedged immediately at a fair price.

Modifying the definition of "tied to stock" as suggested above would address the following issues with the current proposal:

- Ambiguity regarding the current "time of order entry" standard in the current definition which does not address situations where there may be an intent to trade stock but no actual stock order at the time of order. The FIF definition of tied to stock would make it clear that options orders contingent on stock orders need to be marked.
- Ability for the trade permit holder (TPH) to know that an order should be marked as "tied to stock." Under the CBOE Proposal definition of "tied to stock" there can be instances where the TPH firm representing the order on CBOE does not know about stock orders associated with the option that they are trading because their client has not communicated its trading strategy. With the FIF definition, options that are contingent on stock orders would be communicated to the TPH representing the order at CBOE in order to receive the benefits of trading the option with the stock.
- Ambiguity regarding the definition of "standard hedging strategies" where marking is not required. Under the current CBOE proposal, it is not clear what standard hedging strategies fall outside the scope of the rule. Using the FIF definition, it would be clear that options orders that are not contingent on stock orders are out of scope. Alternately, CBOE could consider defining "standard hedging strategies" as all strategies where the option order is not contingent on stock.

We appreciate that CBOE published specification information regarding the "tied to stock order" marking in Regulatory Circular RG13-105[6] but request clarity regarding the statement that "Qualified

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[2] Based on the FIF definition, only those orders where the option and stock are completely dependent on each other would qualify for marking. Therefore, an algorithmic type order to buy an option at a specific 'vol' or other variable without a definitive stock execution tied to the option order, would be exempt from the marking requirement.

[3] A "buy-write" trade is a simultaneous sale of calls and purchase of the equivalent amount of shares in the underlying stock.

[4] A "married put" is the simultaneous purchase of a put and a purchase of the equivalent amount of shares in the underlying stock.

[5] The term "delta neutral" is defined in CBOE Rule 4.11.04(c)(A) as referring to an equity option position that is hedged, in accordance with a permitted pricing model, by a position in the underlying security or one or more instruments relating to the underlying security, for the purpose of offsetting the risk that the value of the option position will change with incremental changes in the price of the security underlying the option position.

[6] See July 29, 2013 CBOE Regulatory Circular RG13-105 which states: "Tied to Stock" Order - An indicator will be added for required use upon the entry of option orders that are tied to stock. This designation may be applicable to simple and complex orders tied to stock and must be included on any option order that is part of a strategy that

Contingent Cross (QCC) orders should be modified to always include the indicator," given the CBOE proposal text which states that, "tied to stock orders do not include qualified contingent cross ("QCC") orders."

Reporting Requirement - Rule 15.2A

While we understand that the scope of the reporting requirement is broader than the marking requirement, FIF recommends modifying the scope of reporting using the definition presented above such that options contingent on stock orders (including QCCs) be reported in the manner described. We question the value of a broader reporting requirement given existing market maker reports (MMET and MMSTK) and potential difficulties in identifying other stock-option orders for reporting purposes. Additional information regarding CBOE's regulatory goals and benefits of this proposal should be weighed against the costs of establishing this reporting.

In addition to current MMET and MMSTK reporting required under CBOE Rule 8.9, it is our understanding that market makers will have a new reporting obligation under the CBOE proposal. In order to minimize the burden of compliance, FIF recommends the following:

- Modify existing MMET and MMSTK reports so that additional information can be included on these existing reports as opposed to creating new reports.
- Include a provision in the CBOE proposal that allows non-clearing market makers to leverage their clearing firm for this reporting obligation in a manner similar to CBOE Rule 8.9(b)[7]

We also request additional clarification indicating who has responsibility for fulfilling the reporting and marking obligations. It is our understanding that the reporting requirement extends to all trading permit holders. Consideration with respect to implementation time and format should be given with respect to non-CBOE market making entities.

Additional Implementation Considerations

Given approved SEC Rule 613's mandate that SROs "shall develop and implement a surveillance system, or enhance existing surveillance systems, reasonably designed to make use of the

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includes an underlying component that may have been represented separately. Qualified Contingent Cross (QCC) orders should be modified to always include the indicator. FIX tag 21080 (OrdEntryType) will be used to designate this order type. A value of "1" will indicate "Tied to Stock".In CMi2, this new order type will be designated in the Extensions field as "ORDTYPE=1".

[7] CBOE Rule 8.9(b) is as follows (b) *Reports of Executed Orders.* In a manner prescribed by the Exchange, with respect to transactions to be cleared into all accounts carried for Market-Makers who are the subject of a clearing firm Letter of Guarantee issued pursuant to Rule 8.5, each clearing firm shall, on the business day following order entry date, report to the Exchange every executed order entered by the Market-Maker for the purchase or sale of (i) a security underlying options traded on the Exchange or (ii) a security convertible into or exchangeable for such underlying security or (iii) a security traded on the Exchange (including, with respect to multiply listed securities, orders sent to another exchange), as well as opening and closing positions in all such securities held in each such account. If the clearing firm does not report any executed order, upon the request of the Exchange the Market-Maker who entered the order will be responsible for reporting the order information.

consolidated information contained in the consolidated audit trail [CAT],[8]" FIF questions the need for significant changes to trade reporting requirements for audit trail purposes that will ultimately be eliminated as the result of the CAT implementation.[9]

Implementation Timing

We request that reporting specifications be provided in order to allow firms to accurately assess implementation time required. Given the technical implications of the CBOE proposal, it is not possible to provide an accurate estimate of implementation time without specifications. We are concerned that a three month timeframe from the issuance of the Regulatory Circular to the implementation date may not be sufficient, especially as we anticipate additional questions as new information is published. It is important to recognize that the CBOE Proposal represents an entirely new reporting regime for some firms that do not trade QCCs given that the scope of this requirement extends to all TPH firms not just market makers. FIF requests another opportunity to comment on implementation timeframe after the release of an amended filing that addresses our concerns.

We look forward to further discussions on the CBOE Proposal and would welcome the opportunity to discuss our concerns further.

Regards,

Manisha Kimmel

Manisha Kimmel
Executive Director
Financial Information Forum

cc: The Honorable Mary Jo White, Chair
The Honorable Luis A. Aguilar, Commissioner
The Honorable Daniel J. Gallagher, Commissioner
The Honorable Kara M. Stein, Commissioner
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[8] § 242.613(f) Consolidated Audit Trail
[9] § 242.613 (a)(1)(ix)