



August 15, 2014

Via Electronic Mail

Ms. Melissa Jurgens  
Secretary  
Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21st Street, N.W.  
Washington, D.C. 20581

Re: CBOE Futures Exchange, LLC Rule Certification  
Submission Number CFE-2014-17

Dear Ms. Jurgens:

Pursuant to Section 5c(c)(1) of the Commodity Exchange Act, as amended (“Act”), and §40.6(a) of the regulations promulgated by the Commodity Futures Trading Commission (“CFTC” or “Commission”) under the Act, CBOE Futures Exchange, LLC (“CFE” or “Exchange”) hereby submits a CFE rule amendment (“Amendment”) relating to contract expirations and spread orders. The Amendment will become effective on or after September 2, 2014, on a date to be announced by the Exchange through the issuance of a circular.

The Amendment consists of five primary changes to CFE’s Rules.

First, the Amendment replaces various references in CFE’s Rules to the term “contract month” with the term “contract expiration.” The reason for this change is that CFE currently has a product with weekly expirations (CBOE Short-Term Volatility Index (“VXST”) futures) in addition to having other products with monthly expirations. The term “contract expiration” captures all of these products regardless of whether they expire monthly or weekly.

Second, the Amendment includes a strip within the definition of a spread order in CFE Rule 404(g) and makes related revisions to other references to strips and spread orders in CFE’s Rules. The Amendment defines a strip as a type of spread order that is exclusively for the purchase or exclusively for the sale of at least two contracts in a form accommodated by CFE’s trading system. Additionally, the Amendment now defines a spread order to be an order to simultaneously purchase, sell, or purchase and sell at least two contracts in a form accommodated by the CFE’s trading system. Previously, the definition of a spread order was limited to an order to simultaneously buy and sell at least two contracts. Accordingly, the revised definition of a spread order now encompasses and defines a strip. The effect of this change is that strips will now be able to be executed in CFE’s centralized market in a form accommodated by CFE’s trading system instead of solely as Block Trades.

Third, the Amendment permits Block Trades in CBOE Nasdaq-100 Volatility Index (“VXN”) futures to be strips, subject to a minimum size requirement. The minimum Block Trade

quantity for a VXX strip will be 150 contracts and each leg of the strip will be required to have a minimum size of 50 contracts. CFE currently permits strip Block Trades in VXST futures and CBOE Russell 2000 Volatility Index (“RVX”) futures with this same minimum size requirement.

Fourth, the Amendment includes additional information in CFE’s Rules regarding how spread orders are processed. CFE Rule 406(d) has been amended to make clear that the execution priorities that are applicable for a CFE product will apply to spread orders in that product unless otherwise specified in the contract specification rule chapter for that product. The Amendment also makes clear that CFE Policy and Procedure I (Market Order Processing) in the Policies and Procedures section of the CFE Rulebook does not apply to spread orders. Additionally, the Amendment supplements CFE Policy and Procedure II (Spread Order Processing) to include further information relating to how spread orders interact with individual orders and quotes in the legs of a spread and how spread orders interact with other spread orders.

Fifth, the Amendment amends CFE Policy and Procedure II to allow for spread orders to be submitted as immediate or cancel orders. CFE’s trading system previously did not accommodate immediate or cancel spread orders and now will be able to accommodate them.

CFE believes that the Amendment is consistent with Designated Contract Market Core 7 (Availability of General Information) and 9 (Execution of Transactions) under Section 5 of the Act because the Amendment (i) provides information to market participants and the public regarding the operation of CFE’s trading system in relation to spread orders and (ii) contributes to a more competitive and efficient market and mechanism for executing transactions in CFE’s centralized market by permitting strips and immediate or cancel spread orders to be executed in CFE’s centralized market.

CFE believes that the impact of the Amendment will be beneficial to the public and market participants. CFE is not aware of any substantive opposing views to the Amendment. CFE hereby certifies that the Amendment complies with the Act and the regulations thereunder. CFE further certifies that CFE has posted a notice of pending certification with the Commission and a copy of this submission on CFE’s Web site (<http://cfe.cboe.com/aboutcfe/rules.aspx>) concurrent with the filing of this submission with the Commission.

The Amendment, marked to show additions in underlined text and deletions in [bracketed] text, consists of the following:

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**CBOE Futures Exchange, LLC Rules**

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**CFE Rule 170A. Strip**

The term “strip” has the meaning set forth in Rule [415(a)(i)] 404(g).

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**CFE Rule 215. Conflicts of Interest – Na1702, 2102med Party in Interest or Financial Interest in Significant Action**

(a) No changes.

(b) *Financial Interest in a Significant Action Conflict.*

(i) No changes.

(ii) *Disclosure.* Prior to consideration of any significant action, each member of the deliberating body who does not choose to abstain from deliberations and voting shall disclose to the General Counsel, or his or her designee, position information that is known to such member with respect to any particular [month or months] contract expiration or expirations that are under consideration, and any other positions which the deliberating body reasonably expects could be affected by the significant action, as follows:

(A) - (E) No changes.

(iii) - (iv) No changes.

(c) No changes.

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**CFE Rule 403. Order Entry**

(a) All Orders shall be entered into the CBOE System by electronic transmission through a CBOE Workstation, and the Exchange shall maintain an electronic record of those entries. Each Trading Privilege Holder (including its Authorized Traders) shall be responsible in every respect for any and all Orders entered by it (including its Related Parties) and for compliance by its Related Parties with this Rule 403. Prior to entering any Order, the relevant Related Party shall sign onto the CBOE System by inputting the user identification assigned for such purpose by the Exchange. Each Order must contain the following information: (i) whether such Order is a buy or sell Order; (ii) Order type; (iii) commodity; (iv) contract [month] expiration; (v) price; (vi) quantity; (vii) account type; (viii) account designation (the number assigned by a Trading Privilege Holder to each of its accounts); (ix) in the case of Orders for Options, strike price, type of option (put or call) and expiration month; and (x) such additional information as may be prescribed from time to time by the Exchange.

(b) - (c) No changes.

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**CFE Rule 404. Acceptable Orders**

(a) - (f) No changes.

(g) *Spread Order.* A “Spread Order” is an order to simultaneously [buy and] purchase, sell or purchase and sell at least two Contracts in a form accommodated by the CBOE

System. A “strip” is a type of Spread Order that is exclusively for the purchase or exclusively for the sale of at least two Contracts in a form accommodated by the CBOE System.

(h) No changes.

#### **CFE Rule 404A. Trade at Settlement Transactions**

(a) - (d) No changes.

(e) If TAS spread transactions are permitted in a Contract, (i) the provisions of Exchange Policy and Procedure II relating to spread order processing shall be applicable to those transactions, except that (A) any TAS spreads are required to be two-legged spreads where the ratio of the number of contracts in one leg to the number of contracts in the other leg is 1:1 and (B) paragraphs (a), (d)(ii) and (e)(iii) of Exchange Policy and Procedure II shall not apply to TAS spread transactions and (ii) any TAS Block Trade spread transactions are required to be two-legged spreads where the ratio of the number of contracts in one leg to the number of contracts in the other leg is 1:1.

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#### **CFE Rule 406. Execution of Orders by CBOE System**

(a) General. At the discretion of the Exchange, any of the following base allocation methods shall apply to the execution of Orders [(other than Spread Orders)] for any Contract by the CBOE System:

(i) *Price-Time Priority.* Under this method, Orders for any Contract are prioritized according to price and time. If at any time there are two or more such Orders at the best price then available, such Orders are executed in the order in which they were received by the CBOE System.

(ii) *Pro Rata Priority.* Under this method, Orders for any Contract are prioritized according to price. If at any time there are two or more such Orders at the best price then available, the executable quantity of Contracts is allocated to such Orders on a pro rata basis, taking into account the relative sizes of such Orders; provided that if such pro rata method would result in a fraction of a Contract being allocated to any Order, such fraction shall be rounded up (if such fraction is equal to or greater than one-half) or down (if such fraction is less than one-half); provided, further, that if rounding in accordance with the immediately preceding proviso would result in a number of Contracts in excess of the executable quantity, the quantity allocated to the Order that was last received by the CBOE System shall be reduced accordingly.

(b) Priority Overlays. In addition to the base allocation methods set forth in paragraph (a) above, the Exchange may determine that any or all of the following priority overlays shall apply, in a sequence determined by the Exchange, to the execution of Orders [(other than Spread Orders)] for any Contract by the CBOE System:

(i) *Public Customer Priority.* If this priority overlay is in effect with respect to any Contract, the highest bid and lowest offer available at any time shall have priority, except that Orders placed by or on behalf of public Customers shall have priority over Orders at the same price placed by or on behalf of non-public Customers. If there are two

or more Orders placed by or on behalf of public Customers at the same price, such Orders shall be executed in the order in which they were received by the CBOE System, even if pro rata priority is the chosen base allocation method.

(ii) *Market Turner Priority.* If this priority overlay is in effect with respect to any Contract, each Market Turner shall have priority at the highest bid or lowest offer made by it. At any given price, such priority shall remain with the Market Turner for such price. For example, if the market first moves in the same direction as an Order previously placed by a Market Turner, and then moves back to the price previously bid or offered by such Market Turner, then such Market Turner retains its priority at such price.

The Exchange may determine to reduce the Market Turner priority to a percentage of each Order that is executable against the Market Turner. In such cases, the Market Turner may participate in the balance of an Order, pursuant to the base allocation method in effect under paragraph (a) of this Rule 406, after the Market Turner priority has been applied. To the extent the Market Turner Order bid or offer is not fully exhausted, it shall retain Market Turner priority for subsequent Orders until the conclusion of the trading session.

(iii) *Trade Participation Right Priority.* DPMs may be granted trade participation rights in accordance with any program adopted pursuant to Rule 515, which rights may provide for priority of Orders placed, or quotes made, by such market makers over other Orders or quotes, up to the applicable participation right percentage and/or up to a specified size. In granting trade participation rights to DPMs, the following principles shall be followed:

(A) The DPM's Order or quote must be at the best available price immediately prior to the execution of the relevant Order.

(B) A DPM may not be allocated a total quantity of Contracts that would be greater than the quantity for which such DPM placed Orders or made quotes at that price.

(C) If both the trade participation right priority and pro rata priority are in effect, the priorities shall interact in one of the following two ways, as specified by the Exchange:

1. the DPM shall receive the allocation resulting from the application of the trade participation right priority or the DPM shall receive the allocation resulting from the application of the pro rata priority, which is greater; or

2. the DPM shall receive the allocation resulting from the application of the trade participation right priority and any further allocation resulting from the subsequent application of the pro rata priority to the DPM's remaining quote/Order size at the best price.

(D) If both the trade participation right priority and the market turner priority are in effect and the DPM is the Market Turner for the relevant price, the market turner priority shall not be applicable.

(E) In determining the parties to a particular trade, a DPM's trade participation right shall be applied against such DPM's bids or offers in accordance with their relative priority.

(c) No changes.

(d) Spread Orders. The base allocation method and priority overlay applicable to a Contract shall apply to Spread Orders in the Contract unless otherwise specified in the rules governing such Contract. [Spread Orders are not subject to the procedures set forth in this Rule 406, but shall be executed in accordance with procedures adopted by the Exchange from time to time.]

(e) No changes.

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#### **CFE Rule 409. Requirements for Average Price System Transactions**

Trading Privilege Holder that is a registered futures commission merchant receiving multiple execution prices on an Order or series of Orders for any Contract may use an Average Price System to calculate and confirm to any Customer an average price for such Contract, provided all of the following requirements are satisfied:

(a) - (d) No changes.

(e) In the case of multiple execution prices on a series of Orders for any Contract, each such Order shall be for the same account or group of accounts and for the same commodity and expiration [month] (except in the case of a Spread Order, where each leg may be for a different expiration [month]);

(f) - (h) No changes.

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#### **CFE Rule 412. Position Limits**

(a) No changes.

(b) Position limits shall be as established by the Exchange from time to time as permitted by Commission Regulations 150 and 41.2 as applicable. Such position limits may be specific to a particular Contract or contract [month] expiration or may be established on an aggregate basis among Contracts or contract [months] expirations. Except as specified in paragraphs (c) and (d) below, Trading Privilege Holders shall not control, or trade in, any number of Contracts that exceed any position limits so established by the Exchange. Once established, any such position limits shall be deemed to constitute a part of each Trading Privilege Holder's account and clearing agreement. Except as specified in paragraphs (c) and (d) below, no Trading Privilege Holder shall be permitted to enter, or place an order to enter, into any transaction on the Exchange that would cause such Trading Privilege Holder to exceed any position limits.

(c) - (f) No changes.

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#### **CFE Rule 414. Exchange of Contract for Related Position**

(a) - (i) No changes.

(j) The notification to the Help Desk of an Exchange of Contract for Related Position transaction shall include (i) the identity, contract [month] expiration, price or premium, quantity, and time of execution of the relevant Contract leg (i.e., the time the parties agreed to the Exchange of Contract for Related Position transaction), (ii) the counterparty Clearing Member, (iii) the identity, quantity and price of the Related Position, and (iv) any other information required by the Exchange. After the notification of an Exchange of Contract for Related Position transaction has been provided to the Help Desk, the Exchange of Contract for Related Position transaction may not be changed and the Exchange of Contract for Related Position transaction may not be cancelled (provided, however, that corrections to any inaccuracies in the transaction summary of the Exchange of Contract for Related Position transaction provided by the Help Desk may be made as provided in paragraph (k) below).

(k) - (n) No changes.

#### **CFE Rule 415. Block Trading**

(a) If and to the extent permitted by the rules governing the applicable Contract, Trading Privilege Holders may enter into transactions outside the CBOE System, at prices mutually agreed, provided all of the following conditions are satisfied (such transactions, “Block Trades”):

(i) Each buy or sell order underlying a Block Trade must (A) state explicitly that it is to be, or may be, executed by means of a Block Trade and (B) be for at least such minimum number of Contracts as will from time to time be specified by the Exchange; *provided* that only (x) a commodity trading advisor registered under the CEA, (y) an investment adviser registered as such with the Securities and Exchange Commission that is exempt from regulation under the CEA and Commission Regulations thereunder and (z) any Person authorized to perform functions similar or equivalent to those of a commodity trading advisor in any jurisdiction outside the United States of America, in each case with total assets under management exceeding US\$25 million, may satisfy this requirement by aggregating orders for different accounts that are under management or control by such commodity trading advisor, investment adviser, or other Person. Other than as provided in the foregoing sentence, orders for different accounts may not be aggregated to satisfy Block Trade size requirements. For purposes of this Rule, if the Block Trade is executed as a spread order (as defined in Rule 404(g)) [or as a strip (*i.e.*, a transaction with legs in multiple contract months that are exclusively for the purchase or exclusively for the sale of a Contract)], the total quantity of the transaction and the quantity of each leg of the transaction must meet any designated minimum sizes applicable to those types of transactions that are set forth in the rules governing the relevant Contract.

(ii) Each party to a Block Trade must qualify as an “eligible contract participant” (as such term is defined in Section 1a(12) of the CEA); *provided* that, if the Block Trade is entered into on behalf of Customers by (A) a commodity trading advisor registered under the Act, (B) an investment adviser registered as such with the Securities

and Exchange Commission that is exempt from regulation under the Act and Commission Regulations thereunder or (C) any Person authorized to perform functions similar or equivalent to those of a commodity trading advisor in any jurisdiction outside the United States of America, in each case with total assets under management exceeding US\$25 million, then only such commodity trading advisor or investment adviser, as the case may be, but not the individual Customers, need to so qualify.

(b) The price at which a Block Trade is executed must be "fair and reasonable" in light of (i) the size of the Block Trade; (ii) the prices and sizes, at the relevant time, of orders in the order book for the same Contract, the same contract on other markets and similar or related contracts on the Exchange and other markets, including without limitation the underlying cash and futures markets; (iii) the prices and sizes, at the relevant time, of transactions in the same Contract, the same contract on other markets and similar or related contracts on the Exchange and other markets, including without limitation the underlying cash and futures markets; (iv) the circumstances of the parties to the Block Trade; and (v) whether the Block Trade is executed as a spread order [or as a strip].

The following guidelines shall apply in determining whether the execution price of a Block Trade that is not executed as a spread order [or as a strip] is "fair and reasonable." These guidelines are general and may not be applicable in each instance. Whether the execution price of a Block Trade is "fair and reasonable" depends upon the particular facts and circumstances.

In the event the quantity present in the order book is greater or equal to the quantity needed to fill an order of the size of the Block Trade, it would generally be expected that the Block Trade price would be better than the price present in the order book. In the event the quantity present in the order book is less than the quantity needed to fill an order of the size of the Block Trade, it would generally be expected that the Block Trade price would be relatively close to the price present in the order book and that the amount of the differential between the two prices would be smaller to the extent that the differential between the quantity present in the order book and the Block Trade quantity is smaller.

(c) No changes.

(d) Each Block Trade shall be designated as such, and cleared through the Clearing Corporation as if it were a transaction executed through the CBOE System. The Exchange will publicize information identifying the trade as a Block Trade and identifying the relevant Contract, contract [month] expiration, price or premium, quantity for each Block Trade and, if applicable, the underlying commodity, whether the transaction involved a put or a call and the strike price immediately after such information has been reported to the Exchange.

(e) Each Trading Privilege Holder that is party to a Block Trade shall record the following details on its order ticket: the Contract (including the [delivery or expiry month] expiration) to which such Block Trade relates; the number of Contracts traded; the price of execution or premium; the time of execution (i.e., the time the parties agreed to the Block Trade); the identity of the counterparty; that the transaction is a Block Trade; and, if applicable, details regarding the Customer for which the Block Trade was executed, the underlying commodity, whether the transaction involved a put or a call and the strike price. Every Trading Privilege Holder handling, executing, clearing or carrying Block Trades or positions shall identify and mark as such by appropriate symbol or designation all Block Trades or positions and all orders, records and memoranda pertaining thereto. Upon request by the Exchange and within the time frame designated by the Exchange, such Trading Privilege Holder shall produce satisfactory



evidence, including the order ticket referred to in the preceding sentence, that the Block Trade meets the requirements set forth in this Rule 415.

(f) - (g) No changes.

(h) The notification to the Help Desk with respect to a Block Trade shall include the relevant Contract, contract [month] expiration, price or premium, quantity, time of execution (i.e., the time the parties agreed to the Block Trade), counterparty Clearing Member and, if applicable, the underlying commodity, whether the transaction involved a put or a call and the strike price, and any other information that is required by the Exchange. After the notification of a Block Trade has been provided to the Help Desk, the terms of the Block Trade may not be changed and the Block Trade may not be cancelled (provided, however, that corrections to any inaccuracies in the transaction summary of the Block Trade provided by the Help Desk may be made as provided in paragraph (i) below).

(i) - (m) No changes.

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#### **CFE Rule 513A. Risk Controls**

(a) *Pre-Trade Order Size Limits.* Each Clearing Member shall have the ability, in a form and manner prescribed and provided by the Exchange, to set a maximum pre-trade order size limit by product in accordance with this Rule 513A(a). Each limit shall apply in a manner determined by the Exchange to all orders in an Exchange product that are received by the CBOE System for which the Clearing Member is identified in the order submission as the Clearing Member for the execution of the order, regardless of the Trading Privilege Holder that submits the order to the CBOE System. Each limit set for an Exchange product shall apply to all contract [months] expirations or series, as applicable, in that product. Each limit will apply to simple orders and will also apply to spread orders utilizing as the spread order size the number of times the applicable ratio is being submitted as part of the spread order. The CBOE System shall reject any order received by the CBOE System that exceeds the applicable limit. The Exchange shall set a default maximum pre-trade order size limit by product which shall be set forth in the rules governing the applicable Contract and which shall apply if a Clearing Member does not set a different limit in accordance with this Rule 513A(a).

(b) - (c) No changes.

(d) *Parameterized Risk Controls.* Each Clearing Member shall have the ability, in a form and manner prescribed and provided by the Exchange, to set the following parameterized risk control thresholds for a Trading Privilege Holder with respect to orders and quotes for which the Clearing Member is identified in the order or quote submission as the Clearing Member for the execution of the order or quote: (i) a limit on the quantity per order or quote; (ii) a limit on the number of contracts bought per trading day; and (iii) a limit on the number of contracts sold per trading day. Each threshold will apply in a manner determined by the Exchange and will apply separately to simple orders, spread orders and quotes. Clearing Members may set these thresholds at different levels by Trading Privilege Holder or by Trading Privilege Holder login or acronym group for each of these categories. Clearing Members may set a default value for each of these thresholds by Trading Privilege Holder, login or acronym group that will apply to all Exchange products or may set different values by Trading Privilege Holder, login or acronym group on a per-product basis.

With respect to settings of parameterized risk control thresholds by login or acronym group, settings may apply to an individual login only if the applicable login is not designated to an acronym group by the Trading Privilege Holder in a form and manner prescribed by the Exchange. If a login is included in an acronym group, that login may not have individual settings for these thresholds and any settings for the acronym group shall collectively apply to all of the logins in the acronym group.

Threshold values applicable to a product shall apply to all contract [months] expirations or series, as applicable, in that product. If TAS transactions are permitted in a product, threshold values shall apply separately to TAS orders, quotes, and transactions in that product. The quantity of a spread order for purposes of applying the spread order quantity limit shall be the contract quantity of the largest side of the spread order (buy or sell), and the quantity of a quote for purposes of applying the quote quantity limit shall be the quantity of the largest side (bid or ask) of the quote. Parameterized risk control thresholds shall not be applicable to or take into account Block Trades and Exchange of Contract for Related Position transactions. Any pre-trade order size limits that are applicable pursuant to Rule 513A(a) shall apply unless a different limit is applicable under this Rule 513A(d) in which case the limit applicable under this Rule 513A(d) shall apply.

When a Trading Privilege Holder, login or acronym group exceeds the threshold set by a Clearing Member for a parameterized risk control, the CBOE System shall cancel back to the sender any incoming orders and reject any incoming quotes from that Trading Privilege Holder, login or acronym group for which that Clearing Member is identified as the Clearing Member for the execution of the order or quote. If a quote in a contract month or series is rejected because the threshold for a parameterized risk control has been exceeded, any resting quote from the Trading Privilege Holder, login or acronym group, as applicable, in that contract month or series will be canceled. With respect to the limits on the number of contracts bought or sold per trading day, (i) the number of contracts already counted against the limit upon the receipt of an incoming order or quote shall include the quantity of previous buy or sell executions from that trading day and the quantity of buy or sell orders and quotes already residing in the CBOE System as if those orders and quotes have already been executed and (ii) the CBOE System shall cancel back to the sender any incoming order or reject any incoming quote that, if it were to be executed, would cause the limit to be exceeded when added to the number of contracts already counted against the limit.

(e) No changes.

(f) *Quote Risk Monitor Mechanism.* Each Trading Privilege Holder with Trading Privileges that enable the Trading Privilege Holder to submit quotes to the CBOE System may establish parameters by which the Exchange will activate the Quote Risk Monitor ("QRM") Mechanism. The QRM Mechanism shall function in a form and manner prescribed and provided by the Exchange. Trading Privilege Holders that use the QRM Mechanism shall specify by product a maximum number of contracts for that product ("Contract Limit") and a rolling time period in seconds within which that Contract Limit is to be measured ("Measurement Interval"). When the Exchange determines that the Trading Privilege Holder has traded more than the Contract Limit for that product (including all contract [months] expirations or series, as applicable, in that product) during any rolling Measurement Interval through trade executions involving quotes from the Trading Privilege Holder, the QRM Mechanism shall cancel all quotes that are being disseminated with respect to that Trading Privilege Holder in that product until the Trading Privilege Holder refreshes those quotes. If TAS transactions are permitted in a product, the QRM mechanism shall apply separately to TAS quotes in that product.

(g) *Off-Exchange Transaction Electronic Reporting Size Limits.* Each Clearing Member shall have the ability, in a form and manner prescribed and provided by the Exchange, to set a maximum transaction size limit for off-exchange transactions that are electronically reported to the CBOE System. A separate limit may be set for electronically reported Block Trades and for the Contract legs of electronically reported Exchange of Contract for Related Position transactions. Each limit may be set by an executing Trading Privilege Holder for all of that Trading Privilege Holder's logins or by individual executing Trading Privilege Holder login. Each limit shall apply in a manner determined by the Exchange to Block Trades or Exchange of Contract for Related Position transactions, as applicable, that are electronically reported for the applicable executing Trading Privilege Holder login(s) and for which the Clearing Member is identified as the Clearing Member for the execution of the transaction. With respect to off-exchange transactions with more than one Contract leg, the maximum transaction size limit shall apply with respect to the total number of Contracts of the transaction if all of the Contract legs are exclusively for the purchase or exclusively for the sale of the Contract legs and shall apply with respect to the largest Contract leg for all other spreads.

(h) No changes.

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#### **CFE Rule 611. Trading Against Customers' Orders**

No Trading Privilege Holder (including its Related Parties) shall enter into a transaction on behalf of a Customer in which such Trading Privilege Holder or Related Party or any Person trading for an account in which such Trading Privilege Holder or Related Party has a financial interest, intentionally assumes the opposite side of the transaction. The foregoing restriction shall not prohibit pre-execution discussions conducted in accordance with procedures established by the Exchange from time to time, and shall not apply to any Exchange of Contract for Related Position, any Block Trade or any facilitation crossing transaction meeting all of the following criteria (or such other criteria as may be established by the Exchange from time to time):

(a) - (c) No changes.

(d) the Trading Privilege Holder maintains a record that clearly identifies, by appropriate descriptive words, all such transactions, including the time of execution, commodity, date, price, quantity and [delivery month] expiration; and

(e) No changes.

Because the Orders entered into the CBOE System pursuant to this Rule 611 are exposed to the market, there is no assurance that the Orders of the Trading Privilege Holder will be matched against the Customer Order.

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#### **CFE Rule 616. Wash Trades**

No Trading Privilege Holder nor any of its Related Parties shall place or accept buy and sell orders in the same Contract and expiration [month], and, for a put or call option, the same strike price, where the Trading Privilege Holder or Related Party knows or reasonably should know that the purpose of the orders is to avoid taking a bona fide market position exposed to

market risk (transactions commonly known or referred to as wash trades). Buy and sell orders for different accounts with common beneficial ownership that are entered with the intent to negate market risk or price competition shall also be deemed to violate the prohibition on wash trades. Additionally, no Trading Privilege Holder nor any of its Related Parties shall knowingly execute or accommodate the execution of such orders by direct or indirect means.

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## **CFE Rule 1202. Contract Specifications**

(a) - (j) No changes.

(k) *Block Trades.* Pursuant to Rule 415(a)(i), the minimum Block Trade quantity for the VIX futures contract is 200 contracts if there is only one leg involved in the trade. [If the Block Trade is executed as a spread order, one leg must meet the minimum Block Trade quantity for the VIX futures contract and the other leg(s) must have a contract size that is reasonably related to the leg meeting the minimum Block Trade quantity.] If the Block Trade is executed as a transaction with legs in multiple contract months and all legs of the Block Trade are exclusively for the purchase or exclusively for the sale of VIX futures contracts (a “strip”), the minimum Block Trade quantity for the strip is 300 contracts and each leg of the strip is required to have a minimum size of 100 contracts. If the Block Trade is executed as a spread order that is not a strip, one leg must meet the minimum Block Trade quantity for the VIX futures contract and the other leg(s) must have a contract size that is reasonably related to the leg meeting the minimum Block Trade quantity.

The minimum price increment for a Block Trade in the VIX futures contract is 0.01 index points.

(l) - (p) No changes.

(q) *Trade at Settlement Transactions.* Trade at Settlement (“TAS”) transactions pursuant to Rule 404A are permitted in VIX futures and may be transacted on the CBOE System, as spread transactions, as Block Trades (including as spread transactions [but not as a strip]) and as Exchange of Contract for Related Position transactions. The trading hours for all types of TAS transactions in VIX futures are during extended trading hours and during regular trading hours until three minutes prior to the close of regular trading hours at the end of a Business Day. All Orders, quotes, cancellations and Order modifications for TAS transactions during trading hours must be received by the Exchange by no later than three minutes and one second prior to the close of trading hours at the end of a Business Day and will be automatically rejected if received by the Exchange during trading hours after this cutoff time. Any TAS Block Trade or TAS Exchange of Contract for Related Position transaction reported to the Exchange later than three minutes prior to the close of regular trading hours at the end of a Business Day may only be for the next Business Day.

The permissible price range for all types of TAS transactions in VIX futures is from \$100 (0.10 index points x \$1,000) below the daily settlement price to \$100 above the daily settlement price. The permissible minimum increment for TAS non-spread transactions in VIX futures that are transacted on the CBOE System is 0.01 index points, and the permissible minimum increment for TAS spread transactions, Block Trades and Exchange of Contract for Related Position transactions in VIX futures is 0.01 index points.

(r) - (s) No changes.

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**CFE Rule 1302. Contract Specifications**

(a) - (j) No changes.

(k) *Block Trades.* Pursuant to Rule 415(a)(i), the minimum Block Trade quantity for the VXST futures contract is 100 contracts if there is only one leg involved in the trade. [If the Block Trade is executed as a spread order, one leg must meet the minimum Block Trade quantity for the VXST futures contract and the other leg(s) must have a contract size that is reasonably related to the leg meeting the minimum Block Trade quantity.] If the Block Trade is executed as a transaction with legs in multiple expirations and all legs of the Block Trade are exclusively for the purchase or exclusively for the sale of VXST futures contracts (a “strip”), the minimum Block Trade quantity for the strip is 150 contracts and each leg of the strip is required to have a minimum size of 50 contracts. If the Block Trade is executed as a spread order that is not a strip, one leg must meet the minimum Block Trade quantity for the VXST futures contract and the other leg(s) must have a contract size that is reasonably related to the leg meeting the minimum Block Trade quantity.

The minimum price increment for a Block Trade in the VXST futures contract is 0.01 index points.

\* \* \* \* \*

**CFE Rule 1602. Contract Specifications**

(a) - (j) No changes.

(k) *Block Trades.* Pursuant to Rule 415(a)(i), the minimum Block Trade quantity for a Volatility Index futures contract is 1,000 contracts if there is only one leg involved in the trade. [If the Block Trade is executed as a spread order, one leg must meet the minimum Block Trade quantity for a Volatility Index futures contract and the other leg(s) must have a contract size that is reasonably related to the leg meeting the minimum Block Trade quantity.] If the Block Trade is executed as a transaction with legs in multiple contract months and all legs of the Block Trade are exclusively for the purchase or exclusively for the sale of a Volatility Index futures contract (a “strip”), the minimum Block Trade quantity for the strip is 1,500 contracts and each leg of the strip is required to have a minimum size of 500 contracts. If the Block Trade is executed as a spread order that is not a strip, one leg must meet the minimum Block Trade quantity for a Volatility Index futures contract and the other leg(s) must have a contract size that is reasonably related to the leg meeting the minimum Block Trade quantity.

The minimum price increment for a Block Trade in a Volatility Index futures contract is 0.01 index points.

(l) - (s) No changes.

\* \* \* \* \*

**CFE Rule 1702. Contract Specifications**

(a) - (j) No changes.

(k) *Block Trades.* Pursuant to Rule 415(a)(i), the minimum Block Trade quantity for the VXN futures contract is 100 contracts if there is only one leg involved in the trade. If the Block Trade is executed as a transaction with legs in multiple contract months and all legs of the Block Trade are exclusively for the purchase or exclusively for the sale of VXN futures contracts (a “strip”), the minimum Block Trade quantity for the strip is 150 contracts and each leg of the strip is required to have a minimum size of 50 contracts. If the Block Trade is executed as a spread order that is not a strip, one leg must meet the minimum Block Trade quantity for the VXN futures contract and the other leg(s) must have a contract size that is reasonably related to the leg meeting the minimum Block Trade quantity.

The minimum price increment for a Block Trade in the VXN futures contract is 0.01 index points.

(l) - (s) No changes.

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**CFE Rule 2102. Contract Specifications**

(a) - (j) No changes.

(k) *Block Trades.* Pursuant to Rule 415(a)(i), the minimum Block Trade quantity for the RVX futures contract is 100 contracts if there is only one leg involved in the trade. [If the Block Trade is executed as a spread order, one leg must meet the minimum Block Trade quantity for the RVX futures contract and the other leg(s) must have a contract size that is reasonably related to the leg meeting the minimum Block Trade quantity.] If the Block Trade is executed as a transaction with legs in multiple contract months and all legs of the Block Trade are exclusively for the purchase or exclusively for the sale of RVX futures contracts (a “strip”), the minimum Block Trade quantity for the strip is 150 contracts and each leg of the strip is required to have a minimum size of 50 contracts. If the Block Trade is executed as a spread order that is not a strip, one leg must meet the minimum Block Trade quantity for the RVX futures contract and the other leg(s) must have a contract size that is reasonably related to the leg meeting the minimum Block Trade quantity.

The minimum price increment for a Block Trade in the RVX futures contract is 0.01 index points.

(l) - (s) No changes.

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**CFE Rule 2302. Contract Specifications, 2302**

(a) - (j) No changes.

(k) *Block Trades.* Pursuant to Rule 415(a)(i), the minimum Block Trade quantity for the S&P 500 Variance futures contract is a contract amount equaling 200,000 vega notional if there is only one leg involved in the trade. If the Block Trade is executed as a spread order, one leg must meet the minimum Block Trade quantity for the S&P 500 Variance futures contract and

the other leg(s) must have a contract size that is reasonably related to the leg meeting the minimum Block Trade quantity. A Block Trade may not be executed in S&P 500 Variance futures as a strip.

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**CBOE Futures Exchange, LLC  
Policies and Procedures**

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**I. Market Order Processing**

(a) If a Threshold Width (as defined below) exists for a particular Contract, then the CBOE System will match any Market Order against resting Orders and quotes for such Contract at the best price then available, followed by Orders and quotes at the next best price, until such Market Order is fully executed or a Threshold Width no longer exists, whichever occurs first.

(b) (i) If a Threshold Width does not exist for a particular Contract (including if any portion of a Market Order is not executed because a Threshold Width for such Contract no longer exists), then the CBOE System will hold any Market Order (or such portion) for such Contract in queue and send a request for quote (“RFQ”) to liquidity providers then providing quotes for such Contract.

(ii) Any RFQ sent pursuant to clause (i) above will include the Contract quantity of the Market Order to which it relates, but will not specify whether such Order is a buy or sell Order. Any and all quotes received in response to such RFQ will first be held in queue, and will then be executed against the Market Order to which they relate, in accordance with the following principles:

(A) If, at any time during the RFQ response time (which the Exchange has specified as thirty seconds), the spread between the best available bid and offer for the relevant Contract narrows to or within the Threshold Width for such Contract, then the CBOE System will execute such Market Order against the quote or quotes entered in response to the RFQ and any other resting Orders, until such Market Order is fully executed or a Threshold Width no longer exists, whichever occurs first. If any portion of the Market Order is not executed because a Threshold Width no longer exists, then the CBOE System will hold such portion in queue again and send another RFQ to the liquidity providers then providing quotes for such Contract.

(B) (1) If the CBOE System receives a Limit Order on the same side of the market as such Market Order, such Limit Order could otherwise be executed against the best bid or offer then available and at least one quote within the Threshold Width for the relevant Contract has been received in response to such RFQ, then the CBOE System will execute such Market Order against such best bid or offer. If no such quote has been received, then the CBOE System will execute such Limit Order ahead of such Market Order.

(2) If one or more quotes received in response to such RFQ could be

executed against such Market Order as well as against one or more Limit Orders that are already resting in the CBOE System at a particular price, then:

(x) If the aggregate quantity of Contracts to which such quotes relate is equal to or greater than the aggregate quantity of such Market Order and Limit Orders, then all such Orders will be executed at the price of such Limit Orders.

(y) If the aggregate quantity of Contracts to which such quotes relate is smaller than the aggregate quantity of such Market Order and Limit Orders, then such Market Order will be executed ahead of such Limit Orders, at a price that differs from the price of such Limit Orders by the minimum price fluctuation for the relevant Contract.

(C) If fifty percent of the liquidity providers then providing quotes for the relevant Contract have responded to such RFQ with quotes within the Threshold Width for such Contract, or the RFQ response time has expired and at least one quote within such Threshold Width has been received, whichever occurs first, then the CBOE System will execute such Market Order against Orders resting in the CBOE System. For purposes of the percentage requirement set forth in the immediately preceding sentence, a quote received in response to an RFQ will count even if it is executed against an Order resting in the CBOE System before all quotes counting towards such percentage requirement have been received. If a portion of the Market Order is not executed because a Threshold Width no longer exists, then the CBOE System will hold such portion in queue again and send another RFQ to the liquidity providers then providing quotes for such Contract.

(iii) If a Market Order can be executed in accordance with the principles set forth in clause (ii) above and there are one or more Market Orders on the opposite side of the market, the CBOE System will execute such Orders at a price equal to the average of the prices of the best available bid and offer, provided such average price is a Threshold Width price.

For purposes of this clause (iii), "Threshold Width price" means a price within the Threshold Width.

(iv) If no quotes within the Threshold Width for the relevant Contract are received in response to an RFQ prior to the expiration of the RFQ response time, then the CBOE System will continue to hold the Market Order in queue and repeat the RFQ cycle.

(v) If a Market Order is held in queue in accordance with this paragraph (b), subsequent Market Orders on the same side of the market for the same Contract are queued as well, to ensure that all such Market Orders are processed in time sequence.

(vi) If trading in any Contract is halted while a Market Order for such Contract is held in queue in accordance with this paragraph (b), the CBOE System will hold such Order until, and execute it at, the next opening of trading in the relevant Contract; provided that any Day Order will be automatically purged if such opening does not occur on the same trading day.



(c) The term “Threshold Width” means, with respect to a particular Contract, a bid and offer for a minimum size set forth in the rules governing such Contract and within the maximum width set forth in such rules.

(d) This Policy and Procedure does not apply to spreads.

## II. **Spread Order Processing**

(a) The CBOE System will support the following types of Spread Orders: two-legged spreads where the ratio of the number of Contracts in one leg to the number of Contracts in the other leg is 1:1 and 1:2; three-legged spreads where the ratio is 1:1:1 or 1:2:1; four-legged spreads where the ratio is 1:1:1:1; and any other spread type from time to time approved by the Exchange.

(b) The CBOE System will treat each Spread Order as a unique product for all purposes and will assign each a unique product [name] identifier.

(c) Spread Orders may not be submitted with any of the contingencies set forth in Rule 404(h), except as an Immediate or Cancel Order.

(c) A Trading Privilege Holder or Authorized Trader may, at any time after submitting a Spread Order, change the net price, the multiplier or quantity of the spread, the time in force and any contingency; provided that any increase (but not a decrease) in the multiplier or quantity shall affect the priority position of such Spread Order.

(d) A Spread Order may be executed only if (i) each of its legs is within the Threshold Width for the relevant Contract and (ii) only one of its legs trades at a price ahead of Orders then resting in the CBOE System.]

(d) A Spread Order will be fully or partially executed against individual Orders or quotes in the legs of the spread that are residing in the CBOE System as long as (i) the Spread Order can be executed in full (or partially executed while maintaining the ratio of the Spread Order for the unexecuted portion) against the individual leg Orders and quotes residing in the CBOE System and (ii) the width of the prevailing market for each leg of the spread does not exceed the applicable Threshold Width for the relevant Contract.

(e) A Spread Order will be fully or partially executed against an opposite side spread order that is residing in the CBOE System as long as (i) the Spread Order is not able, or is no longer able, to execute against individual leg Orders and quotes residing in the CBOE System pursuant to paragraph (d) above and (ii) the width of the prevailing market for each leg of the spread does not exceed the applicable Threshold Width for the relevant Contract.

([e]f) Once a Spread Order is executed, the CBOE System will:

(i) Disseminate to the [Person] Trading Privilege Holder or Authorized Trader that placed such Spread Order a fill report for the spread in its entirety and the individual legs;

(ii) [Disseminate to the designated back office fill reports for the individual legs] Submit the transaction to clearing as separate trades in the individual legs of the spread; and

(iii) Disseminate last sale reports for the individual legs, with an indication that the last sale is part of a spread trade, to any information processor then employed by the Exchange.

([f]g) The provisions of this Policy and Procedure II shall only apply to TAS transactions to the extent set forth in Rule 404A(e).

\* \* \* \* \*

Questions regarding this submission may be directed to Arthur Reinstein at (312) 786-7570 or Eric Seinsheimer at (312) 786-8740. Please reference our submission number CFE-2014-17 in any related correspondence.

CBOE Futures Exchange, LLC

A handwritten signature in black ink, appearing to read "James F. Lubin". The signature is fluid and cursive, with a large initial "J" and "L".

By: James F. Lubin  
Senior Managing Director

cc: Nancy Markowitz (CFTC)