



February 5, 2013

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-2013-07

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 (“Commission”) under the Act, CBOE Futures Exchange, LLC (“CFE” or “Exchange”) hereby submits a CFE rule amendment (“Amendment”) to amend several CFE Rules and CFE Policy and Procedure IV in order to increase the order exposure period and to eliminate the request for quote requirement for crossed trades and trades resulting from pre-execution discussions. The Amendment will become effective on February 21, 2013.

Currently, CFE Rule 407 sets forth a request for quote (“RFQ”) requirement and RFQ response period and an order exposure time period for crossed trades. The specific time periods are prescribed in each contract specification chapter governing the relevant CFE futures contract. Currently, the RFQ response period is five seconds for all CFE contracts and the order exposure time period is three second for all CFE contracts. Similarly, CFE Policy and Procedure IV and each contract specification chapter governing the relevant CFE futures contract require an RFQ (with a five second RFQ response time) if there is no bid or offer at the time an order resulting from a pre-execution discussion is submitted. After any required RFQ response time has expired, an order exposure time period of three seconds is required.

This Amendment: (1) increases the order exposure time period from three seconds to five seconds; (2) eliminates the RFQ requirement and RFQ response time for each of these types of trades; and (3) makes clear that the requirement under CFE Rule 512 that CFE Trading Privilege Holders exercise due diligence in the handling and execution of Customer orders is applicable in the context of crossing and pre-execution discussions. The Exchange believes that increasing the order exposure time period and clarifying the applicability of CFE Rule 512 will maintain consistent market protection and that eliminating the RFQ requirement will result in a more streamlined approach for these types of trades.

CFE believes that the Amendment is consistent with Designated Contract Market Core Principle 9 (Execution of Transactions) under Section 5 of the Act because the Amendment requires an increased exposure time period before an order can be matched and executed in the Exchange’s central marketplace. By requiring order exposure, the Exchange is fostering a

competitive, open and efficient marketplace that may result in price improvement to the order.

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 it 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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Rule 407. Crossing Trades

(a) A Trading Privilege Holder or Authorized Trader that wishes to cross two or more original Orders, including without limitation a solicited Order, must, [first send a request for quote that includes the size of the Orders to be crossed. The request for quote response period and the eligible size for an Order that may be entered pursuant to this Rule 407 shall be determined on a Contract-by-Contract basis and shall be as set forth in the rules governing the relevant Contract.

(b) Within] for the time period prescribed by the rules governing the relevant Contract, [the Trading Privilege Holder or Authorized Trader, as applicable, must] expose to the market at least one of the Orders that it intends to cross. The required time period for such exposure and the eligible size of an Order that may be entered pursuant to this Rule 407 shall be as set forth in the rules governing such Contract.

[(c)] (b) If the exposed Order has not been completely filled by the end of the exposure period, then the Trading Privilege Holder or Authorized Trader, as applicable, may enter the opposite Order(s) to cross the balance of the exposed Order.

(c) A Trading Privilege Holder or Authorized Trader that wishes to cross an Order for a Customer shall exercise due diligence in the handling and execution of the Order in accordance with Rule 512.

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Chapter 12 CBOE Volatility Index Futures Contract Specifications

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Rule 1202. Contract Specifications

(a) – (g) No change.

(h) *Crossing Two or More Original Orders.* The eligible size for an original Order that may be entered for a cross trade with one or more other original Orders pursuant to Rule 407 is one Contract. [The request for quote response period under Rule 407(a) for the request for quote

required to be sent before the initiation of a cross trade under Rule 407 is five seconds. Following the request for quote response period, the] The Trading Privilege Holder or Authorized Trader, as applicable, must expose to the market for at least [three] five seconds under Rule 407[(b)] (a) at least one of the original Orders that it intends to cross.

(i) – (l) No change.

(m) *Pre-execution Discussions.* The Order Exposure Period under Policy and Procedure IV before an Order may be entered to take the other side of another Order with respect to which there has been pre-execution discussions is [three] five seconds after the first Order was entered into the CBOE System. [If no bid or offer price exist in the relevant VIX futures contract, the RFQ Response Period under Policy and Procedure IV that must elapse following the request for quote that is required to be sent prior to the entry of the first Order is five seconds.]

(n) – (s) No change.

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Chapter 14

Mini CBOE Volatility Index Futures Contract Specifications

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Rule 1402. Contract Specifications

(a) – (g) No change.

(h) *Crossing Two or More Original Orders.* The eligible size for an original Order that may be entered for a cross trade with one or more other original Orders pursuant to Rule 407 is one Contract. [The request for quote response period under Rule 407(a) for the request for quote required to be sent before the initiation of a cross trade under Rule 407 is five seconds. Following the request for quote response period, the] The Trading Privilege Holder or Authorized Trader, as applicable, must expose to the market for at least [three] five seconds under Rule 407[(b)] (a) at least one of the original Orders that it intends to cross.

(i) – (l) No change.

(m) *Pre-execution Discussions.* The Order Exposure Period under Policy and Procedure IV before an Order may be entered to take the other side of another Order with respect to which there has been pre-execution discussions is [three] five seconds after the first Order was entered into the CBOE System. [If no bid or offer price exist in the relevant Mini VIX futures contract, the RFQ Response Period under Policy and Procedure IV that must elapse following the request for quote that is required to be sent prior to the entry of the first Order is five seconds.]

(n) – (s) No change.

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Chapter 16
Individual Stock Based and Exchange-Traded Fund Based
Volatility Index Security Futures Contract Specifications

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Rule 1602. Contract Specifications

(a) – (g) No change.

(h) *Crossing Two or More Original Orders.* The eligible size for an original Order that may be entered for a cross trade with one or more other original Orders pursuant to Rule 407 is one Contract. [The request for quote response period under Rule 407(a) for the request for quote required to be sent before the initiation of a cross trade under Rule 407 is five seconds. Following the request for quote response period, the] The Trading Privilege Holder or Authorized Trader, as applicable, must expose to the market for at least [three] three seconds under Rule 407[(b)] (a) at least one of the original Orders that it intends to cross.

(i) – (l) No change.

(m) *Pre-execution Discussions.* The Order Exposure Period under Policy and Procedure IV before an Order may be entered to take the other side of another Order with respect to which there has been pre-execution discussions is [three] five seconds after the first Order was entered into the CBOE System. [If no bid or offer price exist in the relevant Volatility Index futures contract, the RFQ Response Period under Policy and Procedure IV that must elapse following the request for quote that is required to be sent prior to the entry of the first Order is five seconds.]

(n) – (s) No change.

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Chapter 17
CBOE Nasdaq-100 Futures Contract Specifications

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Rule 1702. Contract Specifications

(a) – (g) No change.

(h) *Crossing Two Original Orders.* The eligible size for an original Order that may be entered for a cross trade with one or more other original Orders pursuant to Rule 407 is one Contract. [The request for quote response period under Rule 407(a) for the request for quote required to be sent before the initiation of a cross trade under Rule 407 is five seconds. Following the request for quote response period, the] The Trading Privilege Holder or Authorized Trader, as applicable, must expose to the market for at least [three] five seconds under Rule 407[(b)] (a) at least one of the original Orders that it intends to cross.

(i) – (l) No change.

(m) *Pre-execution Discussions.* The Order Exposure Period under Policy and Procedure IV before an Order may be entered to take the other side of another Order with respect to which there has been pre-execution discussions is [three] five seconds after the first Order was entered into the CBOE System. [If no bid or offer price exist in the relevant VXN futures contract, the RFQ Response Period under Policy and Procedure IV that must elapse following the request for quote that is required to be sent prior to the entry of the first Order is five seconds.]

(n) – (s) No change.

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Chapter 18 Single Stock Futures

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Rule 1802. Contract Specifications

(a) – (l) No change.

(m) *Crossing Two Original Orders.* The eligible size for an original Order that may be entered for a cross trade with one or more other original Orders pursuant to Rule 407 is one Contract. [The request for quote response period under Rule 407(a) for the request for quote required to be sent before the initiation of a cross trade under Rule 407 is five seconds. Following the request for quote response period, the] The Trading Privilege Holder or Authorized Trader, as applicable, must expose to the market for at least [three] five seconds under Rule 407[(b)] (a) at least one of the original Orders that it intends to cross.

(n) – (p) No change.

(q) *Pre-execution Discussions.* The Order Exposure Period under Policy and Procedure IV before an Order may be entered to take the other side of another Order with respect to which there has been pre-execution discussions is [three] five seconds after the first Order was entered into the CBOE System. [If no bid or offer price exist in the relevant Single Stock Futures contract, the RFQ Response Period under Policy and Procedure IV that must elapse following the request for quote that is required to be sent prior to the entry of the first Order is five seconds.]

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Chapter 19 Narrow-Based Stock Index Futures

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Rule 1902. Contract Specifications for Narrow-Based Stock Index futures

(a) – (j) No change.

(k) *Crossing Two Original Orders.* The eligible size for an original Order that may be entered for a cross trade with one or more other original Orders pursuant to Rule 407 is one Contract. [The request for quote response period under Rule 407(a) for the request for quote

required to be sent before the initiation of a cross trade under Rule 407 is five seconds. Following the request for quote response period, the] The Trading Privilege Holder or Authorized Trader, as applicable, must expose to the market for at least [three] five seconds under Rule 407[(b)] (a) at least one of the original Orders that it intends to cross.

(l) – (n) No change.

(q) *Pre-execution Discussions.* The Order Exposure Period under Policy and Procedure IV before an Order may be entered to take the other side of another Order with respect to which there has been pre-execution discussions is [three] five seconds after the first Order was entered into the CBOE System. [If no bid or offer price exist in the relevant Narrow-Based Stock Index Futures contract, the RFQ Response Period under Policy and Procedure IV that must elapse following the request for quote that is required to be sent prior to the entry of the first Order is five seconds.]

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Chapter 20
Radar Logic 28-Day Real Estate Index Futures
Contract Specifications

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Rule 2002. Contract Specifications

(a) – (g) No change.

(h) *Crossing Two Original Orders.* The eligible size for an original Order that may be entered for a cross trade with one or more other original Orders pursuant to Rule 407 is one Contract. [The request for quote response period under Rule 407(a) for the request for quote required to be sent before the initiation of a cross trade under Rule 407 is five seconds. Following the request for quote response period, the] The Trading Privilege Holder or Authorized Trader, as applicable, must expose to the market for at least [three] five seconds under Rule 407[(b)] (a) at least one of the original Orders that it intends to cross.

(i) – (l) No change.

(m) *Pre-execution Discussions.* The Order Exposure Period under Policy and Procedure IV before an Order may be entered to take the other side of another Order with respect to which there has been pre-execution discussions is [three] five seconds after the first Order was entered into the CBOE System. [If no bid or offer price exist in the relevant RPX Futures, the RFQ Response Period under Policy and Procedure IV that must elapse following the request for quote that is required to be sent prior to the entry of the first Order is five seconds.]

(n) – (s) No change.

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Chapter 23
S&P 500 Variance Futures Contract Specifications

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Rule 2302. Contract Specifications

(a) – (g) No change.

(h) *Crossing Two Original Orders.* The eligible size for an original Order that may be entered for a cross trade with one or more other original Orders pursuant to Rule 407 is one Contract. [The request for quote response period under Rule 407(a) for the request for quote required to be sent before the initiation of a cross trade under Rule 407 is five seconds. Following the request for quote response period, the] The Trading Privilege Holder or Authorized Trader, as applicable, must expose to the market for at least [three] five seconds under Rule 407[(b)] (a) at least one of the original Orders that it intends to cross.

(i) – (l) No change.

(m) *Pre-execution Discussions.* The Order Exposure Period under Policy and Procedure IV before an Order may be entered to take the other side of another Order with respect to which there has been pre-execution discussions is [three] five seconds after the first Order was entered into the CBOE System. [If no bid or offer price exist in the relevant S&P 500 Variance futures contract, the RFQ Response Period under Policy and Procedure IV that must elapse following the request for quote that is required to be sent prior to the entry of the first Order is five seconds.]

(n) – (s) No change.

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Policy and Procedure IV. Pre-Execution Discussions (Rule 613)

Any Trading Privilege Holder or Authorized Trader may engage in pre-execution discussions with respect to any Contract, in accordance with the principles set forth below, with any other Trading Privilege Holder or Authorized Trader, in order to discuss the possible execution of an Order for such Contract with one or more potential counterparties and thereby obtain some assurance that there will be a counterparty ready and willing to take the other side of such Order.

It is permissible for any Trading Privilege Holder or Authorized Trader, prior to entering any Order into the CBOE System, to agree with another Trading Privilege Holder or Authorized Trader that such other Person will take the other side of such Order after waiting a designated period of time after such Order is entered into the CBOE System by the first Person ("Order Exposure Period"); provided that [

(i) (A) a bid and offer price exist in the relevant Contract at the time of entry of the first Order, or

(B) if no bid or offer price exist in the relevant Contract, a request for quote ("RFQ") must first be sent that includes the size of the Orders, and the first Order may not be entered until a designated period of time has elapsed following the time that the RFQ is sent ("RFQ Response Period"); and

(ii)] if one of the Orders is a Customer Order and the other Order is not a Customer Order, the Customer Order must be entered first.

The Order Exposure Period [and RFQ Response Period] shall be prescribed by the rules governing the relevant Contract.

If an Order is placed by a Trading Privilege Holder on behalf of a Customer in accordance with the foregoing paragraphs, such Customer must consent in advance to such Trading Privilege Holder engaging in pre-execution discussions with respect to such Order and the Trading Privilege Holder shall exercise due diligence in the handling and execution of the Order in accordance with Rule 512. Proceeding in this manner does not violate Rule 613 because advance consent is obtained from the Customer and is consistent with ensuring that the CBOE System remains an open and competitive trading system because the Order is exposed to other market participants. For purposes of this policy, pre-execution discussions shall not be deemed to include discussions between a Trading Privilege Holder or Authorized Trader and the Customer that placed the Order with such Trading Privilege Holder or Authorized Trader.

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Questions regarding this submission may be directed to Arthur Reinstein at (312) 786-7570 or Jenny Golding at (312) 786-7466. Please reference our submission number CFE-2012-07 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: Lois Gregory (CFTC)
Nancy Markowitz (CFTC)
National Futures Association
The Options Clearing Corporation