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For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>23</sup>

**Eduardo A. Aleman,**

*Assistant Secretary.*

[FR Doc. 2017-05853 Filed 3-23-17; 8:45 am]

**BILLING CODE 8011-01-P**

## SECURITIES AND EXCHANGE COMMISSION

### Submission for OMB Review; Comment Request

*Upon Written Request Copies Available From:* Securities and Exchange Commission, Office of FOIA Services, 100 F Street NE., Washington, DC 20549-2736

#### Extension:

Regulation 14N and Schedule 14N, SEC File No. 270-598, OMB Control No. 3235-0655

Notice is hereby given that, pursuant to the Paperwork Reduction Act of 1995 (44 U.S.C. 3501 *et seq.*), the Securities and Exchange Commission ("Commission") has submitted to the Office of Management and Budget this request for extension of the previously approved collection of information discussed below.

Schedule 14N (17 CFR 240.14n-101) requires the filing of certain information with the Commission by shareholders who submit a nominee or nominees for director pursuant to applicable state law, or a company's governing documents. Schedule 14N provides notice to the company of the shareholder's or shareholder group's intent to have the company include the shareholder's or shareholder group's nominee or nominees for director in the company's proxy materials. This information is intended to assist shareholders in making an informed voting decision with regards to any nominee or nominees put forth by a nominating shareholder or group, by allowing shareholders to gauge the nominating shareholder's interest in the company, longevity of ownership, and

intent with regard to continued ownership in the company. We estimate that Schedule 14N takes approximately 40 hours per response and will be filed by approximately 10 issuers annually. In addition, we estimate that 75% of the 40 hours per response (30 hours per response) is prepared by the issuer for an annual reporting burden of 300 hours (30 hours per response × 10 responses).

An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a currently valid control number.

The public may view the background documentation for this information collection at the following Web site, [www.reginfo.gov](http://www.reginfo.gov). Comments should be directed to: (i) Desk Officer for the Securities and Exchange Commission, Office of Information and Regulatory Affairs, Office of Management and Budget, Room 10102, New Executive Office Building, Washington, DC 20503, or by sending an email to: [Shagufta.Ahmed@omb.eop.gov](mailto:Shagufta.Ahmed@omb.eop.gov); and (ii) Pamela Dyson, Director/Chief Information Officer, Securities and Exchange Commission, c/o Remi Pavlik-Simon, 100 F Street NE., Washington, DC 20549 or send an email to: [PRA\\_Mailbox@sec.gov](mailto:PRA_Mailbox@sec.gov). Comments must be submitted to OMB within 30 days of this notice.

Dated: March 21, 2017.

**Eduardo A. Aleman,**

*Assistant Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-80279; File No. SR-CBOE-2017-019]

### Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing of a Proposed Rule Change Related to Complex Orders

March 20, 2017.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on March 7, 2017, 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, II, and III 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 its rules related to complex orders. The text of the proposed rule change is 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 its rules related to complex orders to: (i) Simplify the definitions of the complex order types that may be made available on a class-by-class basis and remove references to certain specific complex order types that will no longer be defined; (ii) with respect to complex orders in open outcry, set forth applicable ratios for an order to be eligible for complex order priority within applicable priority rules; (iii) with respect to complex orders in open outcry, make explicit the priority applicable when there are other complex orders or quotes represented at the same net price, whether such other orders or quotes are in the complex order book ("COB") or being represented in open outcry; and (iv) with respect to complex orders in open outcry, clarify the applicable minimum increment.

First, with respect to definitions, the Exchange proposes to amend Rule 6.53 to remove the definitions of spread order, combination order, straddle order and ratio order and replace them with a more general definition of a complex

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

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

<sup>23</sup> 17 CFR 200.30-3(a)(12).

order (which includes a stock-option order and a security future-option order) to simplify the descriptions of the complex order types that may be made available on a class-by-class basis. The proposed definition of a “complex order” is any order for the same account as defined below:

- A “complex order” is any order involving the execution of two or more different options series in the same underlying security occurring at or near the same time for the purpose of executing a particular investment strategy.

- A “stock-option order” is an order to buy or sell a stated number of units of an underlying stock or a security convertible into the underlying stock (“convertible security”) coupled with either (i) the purchase or sale of options contract(s) on the opposite side of the market representing either (A) the same number of units of the underlying stock or convertible security, or (B) the number of units of the underlying stock or convertible security necessary to create a delta neutral position, or (ii) the purchase or sale of an equal number of put and call option contracts, each having the same exercise price, expiration date and each representing the same number of units of stock as, and on the opposite side of the market from, the underlying stock or convertible security portion of the order.<sup>3</sup>

- A “security future-option order” is an order to buy or sell a stated number of units of a security future or a related security convertible into a security future (“convertible security future”) coupled with either (i) the purchase or sale of option contract(s) on the opposite side of the market representing either the same number of the underlying for the security future or convertible security future or the number of units of the underlying for the security future or convertible security future necessary to create a delta neutral position or (ii) the purchase or sale of an equal number of put and call option contracts, each having the same exercise price, expiration date and each representing

the same number of the underlying for the security future or convertible security future, as and on the opposite side of the market from, the underlying for the security future or convertible security future portion of the order.<sup>4</sup>

The proposed rule change moves the definitions of a “stock-option order” from Rule 1.1(ii) and “security future-option order” from Rule 1.1(zz) to Rule 6.53 (and replaces them in Rule 1.1 with cross-references to the new location of the definitions) so that all definitions of the various types of complex orders are located in the same place within the rules. The current and proposed definitions of stock-option order are substantially similar. However, the Exchange believes the language in the proposed definition of stock-option order is more consistent with the language in other rules, including Rules 6.53C (related to electronic handling of complex orders) and 6.80 (related to order protection, which relates to the Options Order Protection and Locked/Crossed Markets Plan, also commonly referred to as the Options Distributive Linkage Plan). The current and proposed definitions of security future-option order have no substantive differences. The proposed complex order definition is in part modeled after the definition of a complex order (including a stock-option order) already contained in Rule 6.53C(a).

The Exchange proposes conforming changes to Rules 6.9 (including Interpretation and Policy .03), 6.42(4) (including Interpretation and Policy .01), 6.45(b)(ii), 6.48(b), 6.73(c), 6.74(d)(iii) and 8.51 to harmonize these rules with the proposed changes in Rule 6.53 to consistently reference the proposed new definition of a complex

order.<sup>5</sup> As a result of the proposed changes to Rule 6.53, the Exchange proposes to update related cross-references in Rules 6.53C.08, 6.74(d)(iii), 7.12(b)(i)(E), 24A.5 and 24B.5. The Exchange notes that, while Trading Permit Holders (“TPHs”) may represent in open outcry a complex order with any number of legs, and in any ratio, only complex orders in the proposed applicable ratios are eligible for complex order priority (subject to certain exceptions, including multi-class spreads and SPX Combo Orders (see Rules 24.19 and 24.20, respectively) set forth in Rule 6.45 and minimum increment relief set forth in Rule 6.42(4).

Second, with respect to complex orders represented and executed in open outcry, the Exchange is proposing to amend Rule 6.45 (pertaining to order and quote priority and allocation). Specifically, the proposed changes amend Rule 6.45(b)(ii) to set forth the following applicable ratio requirements for complex orders to be eligible for complex order priority and minimum increment relief when represented and executed in open outcry:<sup>6</sup>

- For a complex order, the order is in a ratio that is less than or equal to three-

<sup>5</sup> The proposed rule change also deletes the paragraph lettering from the order type definitions and puts the order types in alphabetical order, which the Exchange believes will allow investors to more easily locate the order type definitions within the rules. Other than proposed changes to the definition of complex orders as described above, the proposed rule change makes no substantive changes to the order type definitions.

<sup>6</sup> To be eligible for electronic processing via the CBOE Hybrid System’s COB and complex order RFR auction (“COA”), the system requires that a complex order be entered on a single order ticket to be electronically processed. Under existing Rule 6.53C(a)(1) and (2), the Exchange may determine on a class-by-class basis the applicable number of legs of a complex order or stock-option order that is eligible for processing via COB and COA. Under the same provisions, the Exchange may determine on a class-by-class basis within certain parameters the applicable ratio of a complex order or stock-option order that is eligible for processing via COB and COA. Currently, the Exchange has limited COB and COA to orders of no more than four (4) legs and ratios equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.00) (and, for stock-option orders, ratios no greater than eight-to-one (8.00)). Under this current structure, orders with more than four (4) legs or that do not satisfy the ratio requirements are not eligible for electronic processing via COB or COA, but would instead be routed for handling in open outcry. The proposed rule change adds language to the introductory paragraph of Rule 6.53C(a) to explicitly state that the definitions of complex orders contained in that rule apply only for purposes of the electronic handling of complex orders pursuant to that rule, notwithstanding the proposed broader definition of complex order contained in Rule 6.53. Because there are two separate definitions of complex orders, the Exchange believes this additional language will bring clarity to the rules about when the definition of complex orders in Rule 6.53C(a) applies, which is in the context of electronic trading.

<sup>3</sup> Rule 1.1(ii) currently defines a “stock-option order” as an order to buy or sell a stated number of units of an underlying or a related security coupled with either (i) the purchase or sale of option contract(s) on the opposite side of the market representing either the same number of units of the underlying or related security or the number of units of the underlying security necessary to create a delta neutral position or (ii) the purchase or sale of an equal number of put and call option contracts, each having the same exercise price, expiration date and each representing the same number of units of stock as, and on the opposite side of the market from, the underlying or related security portion of the order.

<sup>4</sup> Rule 1.1(zz) defines a “security future-option order,” which is deemed a type of Inter-regulatory Spread Order as that term is defined in Rule 1.1(ll), as an order to buy or sell a stated number of units of a security future or a related security convertible into a security future (“convertible security future”) coupled with either (i) the purchase or sale of option contract(s) on the opposite side of the market representing either the same number of the underlying for the security future or convertible security future or the number of units of the underlying for the security future or convertible security future necessary to create a delta neutral position or (ii) the purchase or sale of an equal number of put and call option contracts, each having the same exercise price, expiration date and each representing the same number of the underlying for the security future or convertible security future, as and on the opposite side of the market from, the underlying for the security future or convertible security future portion of the order. Rule 1.1(ll) defines an “Inter-regulatory Spread Order” as an order involving the simultaneous purchase and/or sale of at least one unit in contracts each of which is subject to different regulatory jurisdictions at stated limits, or at a stated differential, or at market prices on the floor of the Exchange.

to-one (3.00) or the order is in a ratio that is larger than three-to-one (3.00) but the order is fully hedged (without regard to any prior existing position). An order will be considered fully hedged if the order is delta neutral  $\pm 10\%$  or if the party representing the order can demonstrate that the complex order is fully hedged using reasonable risk-valuation methodologies;

- for a stock-option order, the options leg(s) must (A) represent the same number of units of the underlying stock or convertible security in the stock leg or (B) represent the number of units of the underlying stock or convertible security necessary to create a delta neutral position, but in no case in a ratio greater than eight-to-one (8.00), where the ratio represents the total number of units of the underlying stock or convertible security in the options leg to the total number of units of stock or convertible security in the stock leg; and
- for a security futures-option order, the options leg(s) must (A) represent the same number of units of the underlying stock in the security future leg or (B) represent the number of units of the underlying stock necessary to create a delta neutral position, but in no case in a ratio greater than eight-to-one (8.00), where the ratio represents the total number of units of the underlying stock in the options leg to the total number of units of stock or convertible security in the security-futures leg.

The proposed rule change also adds to the respective rules that, for the purpose of applying the aforementioned ratios to complex orders comprised of both mini-option contracts and standard option contracts, ten (10) mini-option contracts will represent one (1) standard option contract.

As discussed above, proposed Rule 6.45(b)(ii)(A) sets forth the ratio that determines whether a complex order executed in open outcry is eligible for priority; however, proposed Rule 6.45(b)(ii)(B) sets forth the terms of the priority for complex orders. The Exchange proposes to add the following language to Rule 6.45(b)(ii)(B):

- A complex order may be executed without consideration to prices of the same complex order that might be available on other exchanges. A complex order with a ratio greater than three-to-one (3.00) may not trade through prices in the individual option series that are available on other exchanges.<sup>7</sup>

<sup>7</sup> This is consistent with Rule 6.53C(c)(ii), which states that “[c]omplex orders that are submitted to the COB may be executed without consideration to prices of the same complex orders that might be available on other exchanges[.]”

The above language is consistent with the order protection rules implemented by all options exchanges.<sup>8</sup> The Exchange is simply proposing to add the language to proposed Rule 6.45(b)(ii)(B) in order to avoid confusion with regards to the ability of a complex order to trade-through away markets.

Third, with respect to complex orders in classes where the COB is available, the Exchange also proposes to make explicit the open outcry priority applicable when there are other complex orders or quotes represented at the same net price, whether such other orders or quotes are in the COB or being represented in open outcry. Specifically, the Exchange proposes to amend Rule 6.45(b)(ii) to provide that if a complex order would trade in open outcry at the same net debit or credit price as another complex order, priority would go first to public customer orders in COB (with multiple public customer orders ranked based on time), then to complex order bids and offers represented in the trading crowd (with multiple bids and offers ranked in accordance with the allocation principles applicable to in-crowd market participants contained in Rule 6.45(b)(i)(B) and (D), respectively), and then to all other orders and quotes in the COB (with multiple bids and offers ranked in accordance with the allocation algorithm in effect pursuant to Rule 6.53C).<sup>9</sup> This methodology for

<sup>8</sup> Rule 6.81(b)(7) indicates that Trading Permit Holders need not prevent Trade-Throughs where the “transaction that constituted the Trade-Through was effected as a portion of a Complex Trade[.]” Additionally, a “Complex Trade” is defined as “(i) the execution of an order in an option series in conjunction with the execution of one or more related order(s) in different option series in the same underlying security occurring at or near the same time in a ratio that is equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.0) and for the purpose of executing a particular investment strategy (for the purpose of applying the aforementioned ratios to complex trades comprised of both mini-option contracts and standard option contracts, ten (10) mini-option contracts will represent one (1) standard option contract); or (ii) the execution of a stock-option order to buy or sell a stated number of units of an underlying stock or a security convertible into the underlying stock (“convertible security”) coupled with the purchase or sale of option contract(s) on the opposite side of the market representing either (A) the same number of units of the underlying stock or convertible security, or (B) the number of units of the underlying stock or convertible security necessary to create a delta neutral position, but in no case in a ratio greater than eight-to-one (8.00), where the ratio represents the total number of units of the underlying stock or convertible security in the option leg to the total number of units of the underlying stock or convertible security in the stock leg.” See Rule 6.80.

<sup>9</sup> The Exchange notes that, for purposes of this provision, Voluntary Professionals and Professionals, as defined in Rules 1.1(ff) and (ggg), respectively, are treated in the same manner as broker-dealers in classes where the Voluntary Professional and Professional designations are available.

prioritizing multiple complex orders for open outcry trading is consistent with the methodology applicable for prioritizing multiple simple orders for open outcry trading and how the Exchange has interpreted and applied complex order priority.<sup>10</sup> The Exchange is merely proposing to reflect this existing interpretation within its rule text for added clarity. The Exchange is proposing no changes to the existing prioritization methodology.

Fourth, with respect to minimum increments for bids and offers on complex orders, the Exchange proposes to clarify in Rule 6.42(4) which complex orders are eligible for the relief in Rule 6.42(4). Specifically, as discussed above, the Exchange proposes to add the below language to Rule 6.42(4):

- Complex orders that do not meet the requirements of Rule 6.45(b)(ii)(A) are not eligible for the minimum increment relief in this paragraph (4) (including the penny increment relief of subparagraph (a) below).

In short, if a complex order is in a ratio that is larger than the 3 to 1 and the order is not fully hedged, the order would not be eligible for the minimum increment relief.<sup>11</sup> Instead, each leg would have to satisfy the minimum increment applicable to simple orders generally.<sup>12</sup>

Finally, the proposed rule change makes other non-substantive, technical changes to Rules 6.45, 6.53C(a), 6.73, 24A.5 and 24B.5, including deleting extra spaces, adding spaces where necessary, correction of typos and revising rule headings to be consistent with other headings.

## Discussion

Table 1 below summarizes this proposal as it relates to complex orders executed in open outcry and whether

<sup>10</sup> The Exchange notes that the provision of Rule 6.45(b)(i)(D), applicable to TPHs relying on Section 11(a)(1)(D) of the Securities Exchange Act of 1934 (the “Act”) and Rule 11a1–1(T) thereunder (commonly known as the “G” exemption rule”) would apply to complex orders in the same manner as it applies to simple orders. Those rule provisions provide that in open outcry, any TPH relying on the G exemption rule as an exemption must yield priority to any bid (offer) at the same price of public customer orders and broker-dealer orders resting in the electronic book, as well as any other bids and offers that have priority over such broker-dealer orders under those rules. Under these provisions, a TPH relying on the G exemption rule would yield priority to simple public customer orders and broker-dealer orders resting in the book and complex public customer orders and broker-dealer orders resting in the COB, as well as any other simple and complex bids and offers that have priority over such broker-dealer orders under those rules.

<sup>11</sup> As previously noted, the order would also not be eligible for complex order priority set forth in Rule 6.45(b)(ii)(B).

<sup>12</sup> See Rules 6.42(1)–(3).

those orders (based on their ratio)  
qualify for complex order minimum

increment relief, complex order priority,  
and trade-through relief.

TABLE 1

Ratio	Eligible for complex order minimum increment relief—Rule 6.42(4)	Eligible for complex order priority—Rule 6.45(b)(ii)(B)	Eligible to trade-through complex order book prices on other exchanges—Rules 6.45(b)(ii)(B)	Eligible to trade-through leg prices on other exchanges (Rule 6.81)
≤3 to 1 .....	Yes .....	Yes .....	Yes .....	Yes.
>3 to 1 But Fully Hedged .....	Yes .....	Yes .....	Yes .....	No.
>3 to 1 But Not Fully Hedged .....	No .....	No .....	Yes <sup>13</sup> .....	No.

When the definition of “ratio order” was first instituted in 2003 (which generally defined a permissible ratio as one that is less than or equal to 3 to 1), multi-leg strategies were in their infancy. Regardless, the Commission held that “ratio orders within certain permissible ratios may provide market participants with greater flexibility and precision in effectuating trading and hedging strategies.”<sup>14</sup> Today, multi-leg strategies are crucial pieces of market participants’ overall trading strategies, and the permissible ratio has not been updated to reflect the reality of today’s marketplace, which is valid, risk-reducing multi-leg orders may have ratios larger than 3 to 1. The Exchange believes having a mechanism by which a complex order in a ratio larger than 3 to 1 may receive the complex order benefits listed in Table 1 will allow market participants to execute more sophisticated multi-leg strategies, which will also allow market participants to more efficiently and effectively craft finely tuned risk profiles.

The Exchange understands that the Commission is concerned that the simple order market may be somehow disadvantaged by allowing certain multi-legged orders that have ratios larger than 3 to 1 to receive the complex order benefits listed in Table 1. The chief concern appears to be that if the

ratios are too greatly expanded market participants will, for example, enter multi-legged strategies designed primarily to gain priority over orders on the limit order book or in the trading crowd, rather than to effectuate a bona fide trading or hedging strategy. Although the marketplace may in fact be better served by a structure that does not require multi-legged orders to, among other things, yield priority to a simple order (which cannot on its own satisfy the terms of a multi-leg order), this proposal does not require the Commission to pass judgment on the issue. Instead, this proposal strikes a balance between the Commission’s concerns and the overall benefit of giving market participants the ability to efficiently execute bona-fide, multi-leg trading or hedging strategies. To ensure complex orders in ratios larger than 3 to 1 are receiving the complex order benefits listed in Table 1 only when the complex orders represent bona-fide multi-legged trading or hedging strategies, the Exchange is proposing that any complex order in a ratio larger than 3 to 1 must be fully hedged in order to receive the complex order benefits listed in Table 1.<sup>15</sup>

The “fully hedged” concept of this proposal is based, in part, on SEC Rules related to qualified contingent trades (“QCTs”).<sup>16</sup> Specifically, the

Commission granted an exemption from Rule 611(a) for any trade-throughs of quotations in NMS stocks caused by the execution of an order involving one or more NMS stocks that are components of a QCT. More specifically, in order for a transaction to qualify as a QCT, the Commission requires, among other things, that the exempted NMS Stock Transaction be “fully hedged (without regard to any prior existing position) as a result of the other components of the contingent trade.”<sup>17</sup> The Exchange is simply proposing that the fully hedged concept be used to determine whether a multi-legged order in a ratio larger than 3 to 1 qualifies to receive the complex order benefits described in Table 1. Consistent with the QCT exemption, for the purposes of the complex order benefits a multi-legged order must be evaluated without regard to any prior existing position. In addition, in order to have a reasonable basis to conclude that an order is fully hedged market participants must use reasonable risk-valuation methodologies.<sup>18</sup>

In addition to allowing market participants to devise their own reasonable risk-valuation methodologies to determine if an order is fully hedged, the Exchange believes it’s important to specify in the Rules a method for market participants to determine whether a complex order in a ratio larger than 3 to 1 is fully hedged. Thus, the Exchange is also proposing that a multi-legged order

<sup>13</sup> Exchanges are not required to honor the prices of a complex order on other exchanges.

<sup>14</sup> See Securities Exchange Act Release 48858 (December 1, 2003), 68 FR 68128 (December 5, 2003) (SR-CBOE-2003-007) (“Approval Order”). In approving ratio orders, the Commission stated that “[t]he Commission believes that ratio orders within certain permissible ratios may provide market participants with greater flexibility and precision in effectuating trading and hedging strategies. In addition, the Commission believes that including such ratio orders in the exception to the priority rules provided in CBOE Rule 6.45(e) will facilitate the execution of ratio orders. In this regard, the Commission believes that the procedures governing the execution of complex orders, such as ratio orders, serve to reduce the risk of incomplete or inadequate executions while increasing efficiency and competitive pricing by requiring price improvement before the order can receive priority over other orders.” *Id.* Pursuant to SR-CBOE-2017-009, Rule 6.45(e) was replaced with Rule 6.45(b)(ii).

<sup>15</sup> A Complex order in a ratio of 3 to 1 or less already receive the benefits listed in Table 1. The Exchange is not proposing to change the benefits as they relate to a complex order in a ratio of 3 to 1 or less.

<sup>16</sup> The Commission granted an exemption from Rule 611(a) for any trade-throughs of quotations in NMS stocks caused by the execution of an order involving one or more NMS stocks that are components of a QCT. See Securities Exchange Act Release 54389 (August 31, 2006), 71 FR 52829 (September 7, 2006) and Securities Exchange Act Release 57620 (April 4, 2008), 73 FR 19271 (April 9, 2008). The Commission defines a QCT as a transaction consisting of two or more component orders, executed as agent or principal, where: (1) At least one component order is in an NMS stock; (2) all components are effected with a product or price contingency that either has been agreed to by the respective counterparties or arranged for by a broker-dealer as principal or agent; (3) the execution of one component is contingent upon the

execution of all other components at or near the same time; (4) the specific relationship between the component orders (e.g., the spread between the prices of the component orders) is determined at the time the contingent order is placed; (5) the component orders bear a derivative relationship to one another, represent different classes of shares of the same issuer, or involve the securities of participants in mergers or with intentions to merge that have been announced or since cancelled; and (6) the Exempted NMS Stock Transaction is fully hedged (without regard to any prior existing position) as a result of the other components of the contingent trade. *Id.*

<sup>17</sup> *Id.*

<sup>18</sup> See QCT Exemptive Order, FN 16 (providing that a trading center may demonstrate that an Exempted NMS Stock Transaction is fully hedged based on the use of reasonable risk-valuation methodologies).

in a ratio larger than 3 to 1 that is delta neutral plus or minus 10% will be considered fully hedged for the purposes of the complex order benefits listed in Table 1. The Exchange believes delta hedging is one example of a proven, longstanding risk-valuation methodology, and a transaction that is nearly 100% delta neutral represents a bona-fide multi-legged strategy that deserves the complex order benefits listed in Table 1. For example, a complex order consisting of one leg to buy 30 VIX calls and another leg to sell 30 VIX puts—both in the same series—combined with a third leg to purchase 100 VIX calls in a separate series that have a delta of “30” (30% or .30) creates a delta neutral position, and there is no reason such a transaction should not receive the complex order benefits listed in Table 1. Additionally, because reasonable minds may disagree as to a particular options delta, the plus or minus 10% standard gives market participants a reasonable margin for error when determining whether the order should receive the complex order benefits listed in Table 1. For example, in the above transaction, the Exchange may determine that the delta for the 100 VIX calls is 29, which would mean the transaction is not 100% delta neutral because the transaction represents a position that is long 29 deltas and short 30 deltas. The difference in delta calculations should not affect the ability of the order to qualify for the complex order benefits listed in Table 1 because whether the transaction is 100% delta neutral, or nearly 100% delta neutral, such orders represent bona-fide multi-legged strategies that do not disadvantage the simple order market because the simple order market cannot satisfy the terms of the complex order.

In short, the Exchange believes this proposal is consistent with the Act and SR-CBOE-2003-007 because in the same way that the Commission held that “ratio orders within certain permissible ratios may provide market participants with greater flexibility and precision in effectuating trading and hedging strategies[.]”<sup>19</sup> complex orders that are fully hedged may provide market participants with greater flexibility and precision in effectuating trading and hedging strategies. The Exchange also believe this proposal is consistent with the Act and SR-CBOE-2003-007 because in the same way that the Commission held that “including such ratio orders in the exception to the priority rules provided in CBOE Rule

6.45(e)<sup>20</sup> will facilitate the execution of ratio orders[.]”<sup>21</sup> including fully hedged complex orders in the exception to the priority rules provided in CBOE Rule 6.45(b)(ii) will facilitate the execution of fully hedged complex orders. Finally, in the same way that the Commission held that “the procedures governing the execution of complex orders, such as ratio orders, serve to reduce the risk of incomplete or inadequate executions while increasing efficiency and competitive pricing by requiring price improvement before the order can receive priority over other orders[.]”<sup>22</sup> the Exchange believes the procedures governing the execution of fully hedged complex orders serve to reduce the risk of incomplete or inadequate executions while increasing efficiency and competitive pricing by requiring price improvement before the order can receive priority over other orders.

Upon approval of this rule change filing, the Exchange will announce the implementation date of the proposed rule change in a Regulatory Circular to be published no later than 90 days following the approval date. The implementation date will be no later than 180 days following the approval date.

## 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.<sup>23</sup> Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>24</sup> 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)<sup>25</sup> requirement that the rules of an exchange not be designed

to permit unfair discrimination between customers, issuers, brokers, or dealers.

In particular, the Exchange believes that (1) removing the definitions of spread order, combination order, straddle order and ratio order from Rule 6.53 and incorporating the more general definition of a complex order (including a stock-option order (and the elimination of a redundant definition of stock-option order) and a security future-option order) into the Rule and (2) harmonizing rules that reference such definitions simplifies and provides more clarity and uniformity to the rules, which ultimately benefits investors. The Exchange believes the proposed nonsubstantive changes to the rules, include the alphabetization of the order type definitions, further benefits investors, as they improve the readability of and further simplify the rules.

Additionally, the Exchange believes the proposed rule change to limit complex order priority, complex order increments, and complex order trade-through principals to complex orders that satisfy the proposed ratio requirements will, in general, help protect investors by ensuring that market participants receiving complex order benefits are executing bona-fide multi-legged trading or hedging strategies. Furthermore, the Exchange believes this proposal is consistent with the Act and SR-CBOE-2003-007 because in the same way that the Commission held that “ratio orders within certain permissible ratios may provide market participants with greater flexibility and precision in effectuating trading and hedging strategies[.]”<sup>26</sup> complex orders that are fully hedged may provide market participants with greater flexibility and precision in effectuating trading and hedging strategies. The Exchange also believe this proposal is consistent with the Act and SR-CBOE-2003-007 because in the same way that the Commission held that “including such ratio orders in the exception to the priority rules provided in CBOE Rule 6.45(e) will facilitate the execution of ratio orders[.]”<sup>27</sup> including fully hedged complex orders in the exception to the priority rules provided in CBOE Rule 6.45(b)(ii) will facilitate the execution of fully hedged complex orders. Finally, in the same way that the Commission held that “the procedures governing the execution of complex orders, such as ratio orders, serve to reduce the risk of incomplete or inadequate executions while increasing efficiency and competitive pricing by

<sup>20</sup> As previously noted, pursuant to SR-CBOE-2017-009, Rule 6.45(e) was replaced by Rule 6.45(b)(ii).

<sup>21</sup> See *Id.*

<sup>22</sup> See *Id.*

<sup>23</sup> 15 U.S.C. 78f(b).

<sup>24</sup> 15 U.S.C. 78f(b)(5).

<sup>25</sup> *Id.*

<sup>26</sup> See Approval Order at 68128.

<sup>27</sup> See *Id.*

<sup>19</sup> See Approval Order at 68128.

requiring price improvement before the order can receive priority over other orders[.]”<sup>28</sup> the Exchange believes the procedures governing the execution of fully hedged complex orders serve to reduce the risk of incomplete or inadequate executions while increasing efficiency and competitive pricing by requiring price improvement before the order can receive priority over other orders.

In addition, making explicit the open outcry priority applicable when there are other complex orders or quotes represented at the same net price, whether such other orders or quotes are in the COB or being represented in open outcry, provides added clarity to the rule text in a manner that is consistent with the existing methodology applicable for prioritizing multiple simple orders for open outcry trading and how the Exchange has interpreted and applied complex order priority. The Exchange notes that it is not proposing to amend how complex orders are allocated or the priority afforded to complex orders in open outcry; it is merely modifying the requirements for a complex order to be eligible for the existing open outcry complex order priority.

The Exchange notes that TPHs may continue to represent and execute in open outcry a complex order with any number of legs and in any ratio. However, if a complex order does not satisfy the applicable ratio requirements as set forth above, then it will not be eligible for the complex order benefits listed in Table 1. Additionally, even if a complex order is fully hedged market participants do not have to utilize the complex order benefits listed in Table 1 if they choose not to. The Exchange believes the proposed changes will increase opportunities for execution of complex orders and lead to tighter spreads on CBOE, which will benefit investors. The Exchange also believes that the proposed rule change is designed to not permit unfair discrimination among market participants, as all market participants may trade complex orders, and the priority eligibility requirements apply to complex orders of all market participants.

#### *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. The Exchange believes that simplifying and

expanding its rules related to complex orders helps provide clarity with regards to the execution of complex orders and increases the likelihood that market participants will execute bona-fide complex orders on CBOE. This proposal promotes fair and orderly markets as well as assists the Exchange in its ability to effectively attract order flow and liquidity to its market, which ultimately benefits all TPHs and all investors. Complex orders are available to all TPHs (and all non-TPH market participants through TPHs), and the Exchange believes any perceived burden on customers is outweighed by customers' ability to execute complex orders as proposed.

#### *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**

Within 45 days of the date of publication of this notice in the **Federal Register** or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the Exchange consents, the Commission will:

- A. By order approve or disapprove such proposed rule change, or
- B. institute proceedings to determine whether the proposed rule change should be disapproved.

#### **IV. Solicitation of Comments**

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

##### *Electronic Comments*

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-CBOE-2017-019 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-2017-019. 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-2017-019 and should be submitted on or before April 14, 2017.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>29</sup>

**Eduardo A. Aleman,**  
Assistant Secretary.

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**BILLING CODE 8011-01-P**

## **SECURITIES AND EXCHANGE COMMISSION**

**[Investment Company Act Release No. 32536; 812-14710]**

### **Investment Managers Series Trust II and Vivaldi Asset Management, LLC**

March 20, 2017.

**AGENCY:** Securities and Exchange Commission (“Commission”).

**ACTION:** Notice.

Notice of an application under Section 6(c) of the Investment Company Act of 1940 (“Act”) for an exemption from Section 15(a) of the Act and Rule 18f-2 under the Act, as well as from certain disclosure requirements in Rule 20a-1 under the Act, Item 19(a)(3) of Form N-1A, Items 22(c)(1)(ii),

<sup>29</sup> 17 CFR 200.30-3(a)(12).

<sup>28</sup> See *Id.*