



May 9, 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-2013-21

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 CFE risk controls. The Amendment will become effective on June 1, 2013.

CFE is amending CFE Rule 513A (Risk Controls) to codify various risk controls which augment the risk controls already set forth in Rule 513A. The risk controls that CFE is adding to Rule 513A include a kill button function, parameterized risk controls, a cancel on disconnect setting, and a quote risk monitor mechanism.

The kill button function is described in Rule 513A(c) and enables a CFE Clearing Member to cancel all orders and quotes residing in CFE's trading system from a CFE Trading Privilege Holder ("TPH") for which the Clearing Member is identified as the Clearing Member for the execution of the order or quote. The Exchange is also amending CFE Rule 513 to make clear that the Exchange may activate the kill button function under Rule 513A(c) in imposing restrictions on the use of any individual access to CFE's trading system that it believes are necessary to ensure the proper performance of the system or to protect the integrity of the market.

The parameterized risk controls are described in Rule 513A(d) and enable a CFE Clearing Member to set the following thresholds for TPHs with respect to orders and quotes for which the Clearing Member is identified 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. These thresholds apply separately to simple orders, spread orders, and quotes and may be set by TPH or TPH login and for all products or on a per-product basis.

The cancel on disconnect setting is described in Rule 513A(e) and enables a TPH or Authorized Trader to indicate on a per-login basis whether or not existing Day Orders will be canceled when the login becomes disconnected from CFE's trading system through log-off.

The quote risk monitor mechanism is described in Rule 513A(f) and enables a TPH with quoting capability to establish contract limit and time interval parameters on a per product basis pursuant to which all of the TPH's quotes will be canceled if the TPH trades more than the specified contract limit in that product over the applicable time interval.

Additionally, Rule 513A(g) provides that CFE Clearing Members are required to obtain access to and utilize the risk control mechanisms that the Exchange makes available for use by Clearing Members.

CFE believes that the Amendment is consistent with Designated Contract Market ("DCM") Core Principle 4 (Prevention of Market Disruption) under Section 5 of the Act in that it provides for risk control mechanisms that are intended to reduce the potential risk of price distortions and market disruptions.

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:

CBOE Futures Exchange, LLC Rules

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Rule 513. System Security

(a) - (c) No changes.

(d) The Exchange may limit the number of messages sent by Trading Privilege Holders to the CBOE System in order to protect the integrity of the CBOE System. In addition, the Exchange may impose restrictions on the use of any individual access to the CBOE System, including temporary termination of an individual access and activation by the Exchange of the kill button function under Rule 513A(c), if it believes such restrictions are necessary to ensure the proper performance of the CBOE System or to protect the integrity of the market. Any limitations or restrictions under this paragraph (d) shall be applied in a fair and non-discriminatory manner.

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 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) *Price Reasonability Checks.* The CBOE System shall in a manner determined by the Exchange reject (i) any buy order with a limit price if the limit price upon receipt of the order by the CBOE System is more than a designated amount above the prevailing best offer in the applicable Contract and (ii) any sell order with a limit price if the limit price upon receipt of the order by the CBOE System is more than a designated amount below the prevailing best bid in the applicable Contract. The designated amounts for the price reasonability checks referenced in the preceding sentence shall be set forth in the rules governing the applicable Contract. The price reasonability checks will apply during Trading Hours and will not apply prior to the opening of trading in a Contract. Except as provided in the following sentence, the price reasonability checks will apply to simple orders and will also apply to spread orders utilizing a derived spread market that is calculated from the disseminated market of each leg of the spread. No price reasonability checks will apply to (i) stop limit orders, (ii) Trade at Settlement orders and (iii) simple buy orders when the prevailing offer is zero.

(c) *Kill Button.* Each Clearing Member shall have access, in a form and manner prescribed and provided by the Exchange, to a kill button function that will enable the Clearing Member to cancel all orders and quotes residing in the CBOE System from a Trading Privilege Holder with respect to which the Clearing Member is identified in the order or quote submission as the Clearing Member for the execution of the order or quote. In the event that a Clearing Member activates the kill button function for a Trading Privilege Holder, the CBOE System will reject any new such orders and quotes from the Trading Privilege Holder until the Clearing Member has reset the Trading Privilege Holder's ability to submit such orders and quotes.

(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 for each of these categories. Clearing Members may set a default value for each of these thresholds by Trading Privilege Holder or login that will apply to all Exchange products or may set different values by Trading Privilege Holder or login on a per-product basis.

Threshold values applicable to a product shall apply to all contract months 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 or Trading Privilege Holder login 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 or login 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 or login, as applicable, in the 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) *Cancel on Disconnect.* The CBOE System shall include a setting that will enable a Trading Privilege Holder or Authorized Trader on a per-login basis, in a form and manner prescribed and provided by the Exchange, to provide for any Day Orders residing in the CBOE System that were submitted through that login to be canceled when that login becomes disconnected from the CBOE System through log off. If this setting is activated for a login, the setting will not cause Good-'til-Canceled Orders residing in the CBOE System that were submitted through that login to be canceled when that login becomes disconnected from the CBOE System. Regardless of whether or not this setting is activated for a login, all quotes residing in the CBOE System that were submitted through that login will be canceled when that login becomes disconnected from the CBOE System through log off.

Log off from the CBOE System of a login shall occur if a log out request is received by the CBOE System through that login.

Log off from the CBOE System of a login shall also occur in relation to quotes and if the cancel on disconnect setting is activated with respect to Day Orders if there is a loss of heartbeat from the login as determined by the Exchange and as further described in this paragraph. In relation to quotes or if the cancel on disconnect setting is activated with respect to Day Orders: The CBOE System generates a heartbeat request if there is no inbound message traffic through a login for a heartbeat interval. The Exchange may specify the length of the heartbeat interval or may permit a Trading Privilege Holder or Authorized Trader to specify the length of the heartbeat interval. If there is no response received by the CBOE System through a login to a heartbeat request within a time interval determined by the Exchange, the CBOE System will log off the login from the CBOE System.

(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 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) Clearing Members are required to obtain access to and utilize the risk control mechanisms that the Exchange makes available for use by Clearing Members.

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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-2013-21 in any related correspondence.

CBOE Futures Exchange, LLC

A handwritten signature in black ink, appearing to read "James F. Lubin". The signature is written in a cursive style with a large initial "J" and a long horizontal stroke at the end.

By: James F. Lubin
Senior Managing Director

cc: Nancy Markowitz (CFTC)
National Futures Association
The Options Clearing Corporation