SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-63096; File No. SR-CBOE-2010-077)

October 13, 2010

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Order Granting Approval of Proposed Rule Change to List Series with Up to 12 Expiration Months for Broad-Based Security Index Options Upon Which the Exchange Calculates a Volatility Index

I. Introduction

On August 24, 2010, the Chicago Board Options Exchange, Incorporated ("CBOE" or "Exchange") filed with the Securities and Exchange Commission ("Commission"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")[1] and Rule 19b-4 thereunder,[2] a proposed rule change to allow the Exchange to list series with up to 12 expiration months for options that overlie broad-based security indexes for which options are used by the Exchange to calculate a volatility index. On September 2, 2010, the Exchange filed Amendment No. 1, which replaced the original filing in its entirety. The proposed rule change, as amended, was published for comment in the Federal Register on September 10, 2010.[3] The Commission received no comment letters on the proposal. This order approves the proposed rule change.

II. Description of the Proposal

CBOE has proposed to amend Rule 24.9(a)(2), Terms of Index Options, to allow the Exchange to list series with up to 12 expiration months for broad-based security index options upon which the Exchange calculates a volatility index. Currently, Rule 24.9(a)(2) permits the Exchange to list series with only seven expiration months in any index options upon which the Exchange calculates a constant three-month volatility index.

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1 15 U.S.C. 78s(b)(1).

2 17 CFR 240.19b-4.

3 Securities Exchange Act Release No. 62847 (September 3, 2010), 75 FR 55383 ("Notice").

In support of its proposal, CBOE stated that, since 2009, volatility trading has experienced significant growth in trading volume. In order to satisfy growing demand for a wider variety of volatility investment strategies, the Exchange is seeking to increase, from seven to 12, the number of expiration months for broad-based security index options upon which the Exchange calculates a volatility index. In doing so, the Exchange hopes to create flexibility that would enable it to create volatility indexes of varying lengths in response to demand for a wider variety of volatility investment strategies. Accordingly, the Exchange also proposes to delete language from the rule text restricting the volatility index options to indexes on which the Exchange calculates a constant three-month volatility index. The Exchange believes that the additional expirations, which will be listed in monthly intervals over a one-year time frame, will provide the Exchange with the flexibility to create indexes that represent unique volatility exposures, and enable the Exchange to respond quickly to investor demand for new volatility-based products.

CBOE further stated that it has analyzed its capacity and represents that it believes the Exchange and the Options Price Reporting Authority have the necessary systems capacity to handle the additional traffic associated with the ability to list series with up to 12 expiration months for broad-based security index options upon which the Exchange calculates a volatility index.

III. Discussion

The Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange.[4]

[4] In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

Specifically, the Commission finds that the proposal is consistent with Section 6(b)(5) of the Act,[5] which requires, among other things, that the rules of a national securities exchange be designed to promote just and equitable principles of trade, to prevent fraudulent and manipulative acts, 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.

The proposal will provide investors with added flexibility in the trading of volatility index options and allow investors to establish options positions that are more precisely tailored to meet their investment objectives. The Commission believes that the proposal strikes a reasonable balance between the Exchange's desire to accommodate market participants by offering a wider array of investment opportunities and the need to avoid unnecessary proliferation of options series and the corresponding increase in quotes. The Commission expects the Exchange to monitor the trading volume associated with the additional options series listed as a result of this proposal and the effect of these additional series on market fragmentation and on the capacity of the Exchange's, OPRA's, and vendors' automated systems.

In addition, the Commission notes that CBOE has represented that it believes the Exchange and the Options Price Reporting Authority have the necessary systems capacity to handle the additional traffic associated with the newly permitted listings.

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[5] 15 U.S.C. 78f(b)(5).

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,[6] that the proposed rule change (SR-CBOE-2010-077) be, and hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[7]

Florence E. Harmon
Deputy Secretary

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[6] 15 U.S.C. 78s(b)(2).

[7] 17 CFR 200.30-3(a)(12).