SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-65383; File No. SR-CBOE-2011-040)

September 22, 2011

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Order Granting Approval of Proposed Rule to Simplify the $1 Strike Price Interval Program

I. Introduction

On July 26, 2011, 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 regarding opening index option months and series. The proposed rule change was published for comment in the Federal Register on August 9, 2011.[3] The Commission received no comment letters on the proposal. This order approves the proposed rule change.

II. Description of the Proposal

The proposal seeks to amend Interpretation and Policy .01 to Rule 5.5 to simplify the $1 Strike Price Interval Program (the "Program"). The Exchange established the Program in 2003, and has subsequently modified it on several occasions.[4] The most recent expansion of the Program, in early 2011, increased the number of $1 strike price intervals permitted within the $1

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

2 17 CFR 240.19b-4.

3 Securities Exchange Act Release No. 65031 (August 4, 2011), 76 FR 48935 ("Notice").

4 See Securities Exchange Act Release No. 47991 (June 5, 2003), 68 FR 35243 (June 12, 2003) (SR-CBOE-2001-60); Release No. 57049 (December 27, 2007), 73 FR 528 (January 3, 2008) (SR-CBOE-2007-125); Release No. 59587 (March 17, 2009), 74 FR 12414 (March 24, 2009) (SR-CBOE-2009-001); Release No. 62443 (July 2, 2010), 75 FR 39608 (July 9, 2010) (SR-CBOE-2010-064).

to $50 range.[5] This expansion, however, resulted in complex and lengthy rule text. In its filing, CBOE stated that the proposed changes to simplify the rule text of the Program will benefit market participants since the Program will be easier to understand and will maintain the expansions made to the Program in early 2011.

To simply the rules of the Program and as a proactive attempt to mitigate any unintentional listing of improper strikes, CBOE proposed the following amendments:

- When the price of the underlying stock is equal to or less than $20, permit $1 strike price intervals with an exercise price up to 100% above and 100% below the price of the underlying stock.[6]
    - However, the above restriction would not prohibit the listing of at least five strike prices above and below the price of the underlying stock per expiration month in an option class.[7]
    - For example, if the price of the underlying stock is $2, the Exchange would be permitted to list the following series: $1, $2, $3, $4, $5, $6 and $7.[8]
- When the price of the underlying stock is greater than $20, permit $1 strike price intervals with an exercise price up to 50% above and 50% below the price of the underlying security up to $50.[9]
- For the purpose of adding strikes under the Program, the "price of the underlying stock" shall be measured in the same way as "the price of the underlying security" is as set forth in Rule 5.5A(b)(i).[10]

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5 See Securities Exchange Act Release No. 63772 (January 25, 2011), 76 FR 5644 (February 1, 2011) (SR-CBOE-2011-006).

6 See proposed Rule 5.5.01(a)(2)(i).

7 Id.

8 Id.

9 See proposed Rule 5.5.01(a)(2)(ii).

10 See proposed Rule 5.5.01(a)(2)(iii). Rule 5.5A(b)(i) provides, "[t]he price of a security is measured by: (1) for intra-day add-on series and next-day series additions, the daily high and low of all prices reported by all national securities exchanges; (2) for new expiration months, the daily high and low of all prices reported by all national securities exchanges on the day the Exchange determines it preliminary notification of new series; and (3) for option series to be added as a result of pre-market trading, the most recent share price

- Prohibit the listing of additional series in $1 strike price intervals if the underlying stock closes at or above $50 in its primary market and provide that additional series in $1 strike price intervals may not be added until the underlying stock closes again below $50.[11]

The early 2011 expansion of the Program permitted for some limited listing of LEAPS in $1 strike price intervals for classes that participate in the Program. The Exchange is proposing to simplify the language and provide clearer examples. These changes are set forth in proposed Rule 5.5.01(b)(2)(v).

For stocks in the Program, the Proposal permits the Exchange to list one $1 strike price interval **between** each standard $5 strike interval, with the $1 strike price interval being $2 above the standard strike for each interval **above** the price of the underlying stock, and $2 **below** the standard strike for each interval below the price of the underlying stock. The proposed rule text defines these strikes as “$2 wings.” For example, if the price of the underlying stock is $24.50, the Exchange may list the following standard strikes in $5 intervals: $15, $20, $25, $30 and $35. Between these standard $5 strikes, the Exchange may list the following $2 wings: $18, $27 and $32.[12]

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reported by all national securities exchanges between 7:45 a.m. and 8:30 a.m. (Chicago time)."

11 See proposed Rule 5.5.01(a)(2)(iv). The Exchange believes that it is important to codify this additional series criterion because there have been conflicting interpretations among the exchanges that have adopted similar programs. The $50 price criterion for additional series was intended when the Program was originally established (as a pilot) in 2003. See Securities Exchange Act Release No. 47991 (June 5, 2003), 68 FR 35243 (June 12, 2003) (SR-CBOE-2001-60) ("CBOE may list an additional expiration month provide that the underlying stock closes below $20 on its primary market on expiration Friday. If the underlying stock closes at or above $20 on expiration Friday, CBOE will not list an additional month for a $1 strike series until the stock again closes below $20.")

12 The Exchange notes that a $2 wing is not permitted between the standard $20 and $25 strikes in the above example. This is because the $2 wings are added based on reference to the price of the underlying and as being **between** the standard strikes **above and below** the price of the underlying stock. Since the price of the underlying stock ($24.50) straddles the standard strikes of $20 and $25, this provision does not permit a $2 wing to

In addition, the proposal permits the Exchange to list the $1 strike price interval that is $2 above the standard strike just below the underlying price at the time of listing. In the above example, since the standard strike just below the underlying price ($24.50) is $20, the Exchange may list a $22 strike.

The proposal also contains certain non-substantive amendments to rule text.

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.[13] Specifically, the Commission finds that the proposal is consistent with Section 6(b)(5) of the Act,[14] which requires, among other things, that the rules of a national securities 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 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.

The proposed rule change seeks to simplify the Program, and thereby to reduce the possibility of confusion among investors and market participants. At the same time, the Commission notes that the changes proposed by CBOE would allow a relatively modest increase to the total number of series that may be listed under the $1 Strike Interval Program, and would

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be listed between these standard strikes. Instead, a separate provision, discussed in the next paragraph, permits listing of a strike price between the standard strikes that bracket the current underlying price.

13 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).

14 15 U.S.C. 78f(b)(5).

not alter the range for which $1 interval strikes are permitted to be listed. The Commission also notes that CBOE has represented that it has the necessary systems capacity to support the increase in new options series that will result from the proposed streamlining changes to the Program.

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,[15] that the proposed rule change (SR-CBOE-2011-040) be, and it hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[16]

Elizabeth M. Murphy
Secretary

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15 15 U.S.C. 78s(b)(2).

16 17 CFR 200.30-3(a)(12).