This document is scheduled to be published in the
Federal Register on 11/13/2012 and available online at
http://federalregister.gov/a/2012-27510, and on FDsys.gov

8011-01p
SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-68164; File No. SR-CBOE-2012-071)

November 6, 2012

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Order Granting Approval of Proposed Rule Change to Increase the Maximum Term for LEAPS to Fifteen Years

I. Introduction

On July 24, 2012, the Chicago Board Options Exchange, Incorporated ("Exchange" or "CBOE") 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 increase the maximum term for Long-Term Equity Options Series ("LEAPS") to fifteen years. The proposed rule change was published for comment in the Federal Register on August 10, 2012.[3] A designation of a longer period for Commission action was published in the Federal Register on September 25, 2012.[4] The Commission received one comment on the proposed rule change.[5] On September 6, 2012, CBOE responded to the comment letter.[6] This order approves the proposed rule change.

II. Description of the Proposal

Currently, the maximum term for equity and interest rate LEAPS is 36 months (three years) and the maximum term for index LEAPS is 60 months (five years). CBOE proposes to

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

2 17 CFR 240.19b-4.

3 See Securities Exchange Act Release No. 67600 (August 6, 2012), 77 FR 47890 ("Notice").

4 See Securities Exchange Act Release No. 67892 (September 19, 2012), 77 FR 59029.

5 See letter to Elizabeth M. Murphy, Secretary, Commission, from Christopher Nagy, President, KOR Trading LLC, dated August 17, 2012 ("KOR Letter").

6 See letter to Elizabeth M. Murphy, Secretary, Commission, from Jenny Klebes-Golding, Senior Attorney, CBOE, dated September 6, 2012 ("CBOE Letter").

amend CBOE Rules 5.8, 23.5(b) and 24.9(b) to increase the maximum term for all LEAPS to 180 months (fifteen years).[7] CBOE notes that similar fifteen year maximum terms exist for FLEX Options.[8]

CBOE states that expanding the eligible term for all LEAPS to fifteen years would allow the Exchange to offer products in an exchange-traded environment that could compete with comparable over-the counter ("OTC") products. According to CBOE, it has received numerous requests from market participants that currently enter into OTC positions that have longer-dated expirations than are currently available on CBOE to list LEAPS with longer dated expirations on the Exchange. CBOE represents that it has confirmed that the OCC can configure its systems to support LEAPS that have a maximum term of fifteen years.

III. Discussion and Commission Findings

After careful review, 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.[9] Specifically, the Commission finds that the proposal is consistent with Section 6(b)(5) of the Act,[10] 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 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.

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7 CBOE also proposes to make technical, non-substantive changes to CBOE Rules 5.8 and 24.9 to delete "®" symbols.

8 See Securities Exchange Act Release No. 58890 (October 30, 2008), 73 FR 66085 (November 6, 2008) and CBOE Rules 24A.4(a)(2)(iv) and 24B.4(a)(2)(iv).

9 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).

10 15 U.S.C. 78f(b)(5).

KOR suggests that CBOE's proposal lacks data evidencing actual interest in extended LEAPS terms.[11] With regard to interest in the proposed product, CBOE responds that its proposal is geared toward an unmet demand of institutional investors, and was prompted by numerous requests from market participants, such as insurance companies offering equity-linked variable annuities, that have typically turned to OTC dealers to trade options with longer-dated expirations.[12] CBOE also states that it believes that additional institutional demand for longer-dated LEAPS (such as, for example, S&P 500 Index options) would come from sell-side firms hedging longer-dated OTC instruments (such as, for example, S&P variance).[13] Further, CBOE states that virtually all of the firms it queried suggested that the ideal maturity for hedging trading activity exceeds the 10-year mark and that it seeks to offer various maturities (particularly in S&P 500 Index options) out to fifteen years in order to provide a more robust and flexible market for longer-dated options.

KOR also expresses concern that the proposal does not specify classes to which the proposal would apply and that the proposal could unduly burden the market through its potential impact on quote traffic and the costs associated with disseminating and maintaining the data for longer-termed LEAPS.[14] CBOE states that it does not currently know all of the specific classes for which there will be future market demand for longer-dated LEAPS, and thus it is unable to identify such classes at this time.[15] CBOE notes, however, that S&P 500 Index options are one

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11 See KOR Letter, supra note 5.

12 See CBOE Letter, supra note 6.

13 Id.

14 See KOR Letter, supra note 5.

15 See CBOE Letter, supra note 6.

of the classes that it anticipates would underlie longer-dated LEAPS.[16] CBOE also states that it does not expect there to be a significant increase to quote traffic because CBOE anticipates listing longer-dated LEAPS in response to specific market demand and does not expect to significantly populate expirations.[17] In addition, CBOE notes that certain liquidity providers are not subject to quoting obligations for LEAPS, which will assist with quote traffic mitigation.[18]

Given CBOE's representation that there is demand for options with longer-dated expirations from institutional investors who are currently trading such options in the OTC market,[19] the Commission believes that the proposal is reasonably designed to provide such investors with additional means of hedging equity portfolios from long-term market risk with an exchange-traded standardized security, thereby facilitating transactions in options and contributing to the protection of investors and the maintenance of fair and orderly markets. The Commission notes that fifteen-year expirations are already permitted for non-standardized FLEX Options.[20] In addition, the Commission notes the Exchange's representation that it does not anticipate a significant increase in quote traffic.[21] Accordingly, for the reasons discussed above, the Commission believes that the proposed rule change is consistent with the Act.

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16 Id.

17 Id.

18 Id.

19 See Notice; see also CBOE Letter, supra note 6.

20 See supra note 8.

21 See CBOE Letter, supra note 6.

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,[22] that the proposed rule change (SR-CBOE-2012-071) be, and it hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[23]

Kevin M. O'Neill
Deputy Secretary

[FR Doc. 2012-27510 Filed 11/09/2012 at 8:45 am; Publication Date: 11/13/2012]

22 15 U.S.C. 78s(b)(2).

23 17 CFR 200.30-3(a)(12).