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SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-70087; File No. SR-CBOE-2013-055)

July 31, 2013

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing of Amendment No. 1 and Order Granting Accelerated Approval of a Proposed Rule Change, as Modified by Amendment No. 1, to List and Trade a P.M.-settled Mini-SPX Index Option Product

I. Introduction

On May 14, 2013, Chicago Board Options Exchange, Incorporated (the "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 permit the listing and trading of P.M.-settled, cash-settled options on the Mini-SPX Index ("XSP").[3] The proposed rule change was published for comment in the Federal Register on May 30, 2013.[4] The Commission received no comment letters on the proposal. On July 31, 2013, the Exchange filed Amendment No. 1 to the proposed rule change.[5] The

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

2 17 CFR 240.19b-4.

3 XSP options have 1/10th the value of S&P 500 Index options.

4 See Securities Exchange Act Release No. 69638 (May 24, 2013), 78 FR 32524 (May 30, 2013) ("Notice").

5 In Amendment No. 1, the Exchange provided more details regarding the volume, open interest, and trading patterns data that the Exchange proposes to include in the report that it will submit to the Commission at least two months before the expiration of the pilot program. The Exchange noted that the analysis would examine trading in the proposed option product as well as trading in the securities that comprise the underlying index. The Exchange also described the interim reports that would be submitted to the Commission pursuant to the pilot program. In addition, the Exchange clarified its proposed amendment to Rule 6.42, Interpretation and Policy .03 to state that for so long as SPY options participate in the Penny Pilot program, the minimum increments for XSP options shall be the same as SPY for all option series (including LEAPS). Further, the Exchange proposed to amend its originally proposed change to Rule 24.9, Interpretation and Policy .11, to lower from $300 to $200 the maximum strike price for which the strike

Commission is publishing this notice to solicit comments on Amendment No. 1 from interested persons and is approving the proposed rule change, as modified by Amendment No. 1, on an accelerated basis.

II. Description of the Proposal

The Exchange is proposing to amend its rules to permit it to list and trade, on a pilot basis, cash-settled XSP options with third-Friday-of-the-month ("Expiration Friday") expiration dates, for which the exercise settlement value will be based on the index value derived from the closing prices of the component securities ("P.M.-settled").

CBOE proposes to add P.M.-settled XSP options to the existing SPXPM pilot program on CBOE. SPXPM options, which are P.M.-settled options on the S&P 500 Index,[6] are currently listed and traded on CBOE on a 12-month pilot set to end on February 8, 2014. CBOE has proposed to add P.M.-settled XSP options to that pilot so that the end of the pilot period for P.M.-settled XSP options will also be February 8, 2014.

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price interval for series of XSP options may be $1. The Exchange also proposed to lower from $5 to $1 the minimum strike price interval for LEAPS and reduced-value LEAPS on XSP options. In addition, the Exchange represented that it has enhanced surveillance and reporting procedures in place that are intended to allow the Exchange to detect and deter possible trading abuses that could otherwise occur in the absence of position limits, and described the Exchange's requirements for opening for trading additional series of P.M.-settled XSP options. The Exchange further represented that it and the Options Price Reporting Authority have the necessary systems capacity to handle any potential additional traffic associated with trading of P.M.-settled XSP options. Finally, the Exchange provided a more detailed description of its procedures relating to the changeover from A.M.-settled XSP options.

6 SPXPM options were initially traded on a 14-month pilot basis on C2 Options Exchange, Incorporated ("C2"), an exchange that is wholly owned by CBOE Holdings, Inc., the same corporation that owns CBOE. See Securities Exchange Act Release No. 65256 (September 2, 2011), 76 FR 55969 (September 9, 2011) ("C2 SPXPM Approval Order"). The pilot to list and trade SPXPM was subsequently transferred from C2 to CBOE and reset to a new 12-month pilot period. See Securities Exchange Act Release No. 68888 (February 8, 2013), 78 FR 10668 (February 14, 2013) ("CBOE SPXPM Approval Order").

CBOE proposes to abide by the same reporting requirements for the trading of P.M.-settled XSP options that it does for the trading of SPXPM options.[7] The Exchange proposes to include data regarding P.M.-settled XSP options in a pilot program report that it will submit to the Commission at least two months prior to the expiration date of the pilot program (the "annual report"). The annual report will contain an analysis of volume, open interest, and trading patterns; and will examine trading in the proposed option product as well as trading in the securities that comprise the underlying index. In addition, for series that exceed certain minimum open interest parameters, the annual report will provide analysis of index price volatility and share trading activity. In addition to the annual report, the Exchange will provide the Commission with periodic interim reports while the pilot is in effect that contain some, but not all, of the information contained in the annual report ("interim reports").

Further, the Exchange proposes to make a number of corresponding amendments to its rules in conjunction with the proposed trading of XSP options on a P.M.-settled basis. Interpretation and Policy .04 to CBOE Rule 24.6 states that on the last trading day, transactions in expiring P.M.-settled SPXPM options may be effected on the Exchange between 8:30 a.m. and 3:00 p.m. (Chicago time) (as opposed to the normal trading hours for non-expiring SPXPM options, which are from 8:30 a.m. until 3:15 p.m. (Chicago time)). CBOE proposes to amend this Interpretation and Policy to include P.M.-settled XSP options.[8]

CBOE proposes to amend Interpretation and Policy .03 to CBOE Rule 6.42 regarding minimum increments for bids and offers for XSP options. Currently, the minimum increments for bids and offers for XSP options are $0.01 for all option series quoted below $3 (including

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7 For the details of SPXPM's reporting requirements, see Securities Exchange Act Release No. 68457 (December 18, 2012), 77 FR 76135 (December 26, 2012).

8 See Notice, supra note 4, at 32525.

LEAPS) and $0.05 for all option series $3 and above (including LEAPS). However, the minimum increments for bids and offers for SPDR options ("SPY"), an exchange-traded fund that also tracks the performance of 1/10th the value of the S&P 500 Index, is $0.01, regardless of whether the options series is quoted above, at, or below $3. Since the prices of both XSP options and SPY options are based, in a similar manner, on 1/10th the size of the S&P 500 Index, CBOE proposes to amend Interpretation and Policy .03 to Rule 6.42 to state that for so long as SPY options participate in the Penny Pilot program, the minimum increments for XSP options shall be the same as SPY for all options series (including LEAPS).

CBOE also proposes to amend Interpretation and Policy .11 to CBOE Rule 24.9 regarding strike price intervals for XSP options. Currently, Interpretation and Policy .11 to Rule 24.9 states that "[n]otwithstanding Interpretation and Policy .01(a) to Rule 24.9, the interval between strike prices of series of Mini-SPX options will be $1 or greater," subject to a number of conditions. In Amendment No. 1, the Exchange proposes to simplify this provision by deleting conditions (a) through (c) of Interpretation and Policy .11 to CBOE Rule 24.9 and providing instead that the interval between strike prices of series of XSP options will be $1 or greater where the strike price is $200 or less and $5.00 or greater where the strike price is greater than $200.[9] The Exchange proposes to keep in Interpretation and Policy .11 to CBOE Rule 24.9 the language currently in condition (d), which states that the Exchange shall not list LEAPS or

9 Under CBOE's current rules, minimum strike price intervals on XSP options depend on the percentage by which strike prices vary from one-tenth of the current value of the S&P 500 Index. CBOE may list series at $1 or greater strike price intervals on XSP options with strike prices that are no more than 20% away from one-tenth of the current value of the S&P 500 Index. CBOE may list series at $3 or greater strike price intervals on XSP options with strike prices that are no more than 25% away from one-tenth of the current value of the S&P 500 Index. CBOE may list series at $5 or greater strike price intervals on XSP options with strike prices that are more than 25% away from one-tenth of the current value of the S&P 500 Index. See Notice, supra note 4, at 32526.

reduced-value LEAPS on Mini-SPX options at intervals less than \$5. However, CBOE proposes to reduce the threshold from \$5 to \$1. Because the minimum strike price interval for standard XSP options is proposed to be at least \$1 (up to a strike price of \$200), the Exchange proposes to reduce the LEAPS minimum strike price interval to be \$1 as well in order to correspond to the regular, non-LEAPS minimum strike price interval.

Other than the changes described above, trading in P.M.-settled XSP options will operate in the same manner as trading currently operates in A.M.-settled XSP options. XSP options will continue to use a \$100 multiplier. P.M.-settled XSP options will have European-style exercise, will not be subject to position or exercise limits, and the same position reporting and margin requirements that apply to A.M.-settled XSP options will apply to P.M.-settled XSP options.[10] As with A.M.-settled XSP options, the Exchange may list up to six expiration months of P.M.-settled XSP options at one time[11] and the Exchange may open for trading additional series of P.M.-settled XSP options whose exercise price is within 30% of the current XSP value. The Exchange also may open for trading additional series of P.M.-settled XSP options that are more than 30% away from the current index value, provided that demonstrated customer interest exists for such series, as expressed by institutional, corporate, or individual customers or their brokers.[12]

With regard to the impact of this proposal on system capacity, the Exchange has analyzed its capacity and represents that it and the Options Price Reporting Authority have the necessary

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[10] See Notice, supra note 4, at 32526. The Exchange represents that it has enhanced surveillance and reporting procedures in place that are intended to allow CBOE to detect and deter possible trading abuses that could otherwise occur in the absence of position limits. See Amendment No. 1, supra note 5.

[11] See CBOE Rule 24.9(a)(2).

[12] See CBOE Rule 24.9, Interpretation and Policy .04.

systems capacity to handle any potential additional traffic associated with trading of P.M.-settled XSP options.[13] The Exchange believes that its Trading Permit Holders ("TPHs") will not experience a capacity issue as a result of this proposal.[14] CBOE represents that it will monitor the trading volume associated with any possible additional options series listed as a result of this proposal and the effect (if any) of these additional series on market fragmentation and on the capacity of the Exchange's automated systems.[15]

CBOE will notify TPHs in advance via Regulatory Circular of all plans associated with the adoption of P.M.-settled XSP options, and will set a date for the changeover from A.M.-settled XSP options. On that date, P.M.-settled XSP options series will be introduced using the trading symbol XSP, and all remaining A.M.-settled XSP options series will be moved to the trading symbol XSPAM. Beginning with that date, the Exchange will cease issuing new A.M.-settled XSP options series, and on that date, the Exchange will de-list any open A.M.-settled XSP options series that do not have any open interest. From that date going forward, the only new XSP options series that will be opened will be P.M.-settled. Regarding any remaining A.M.-settled XSP options series, the Exchange will wait and allow the series to trade until expiration, or if, due to trading, any XSPAM series cease to have open interest, such series will be de-listed. Once all remaining XSPAM series have either expired or been de-listed due to a lack of open interest, the Exchange will have no more A.M.-settled XSP options series, and going forward, all XSP options series will be P.M.-settled for the duration of the pilot.

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13 See Amendment No. 1, supra note 5.

14 See id.

15 See id.

III. Discussion and Commission Findings

After careful consideration of the proposal, 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,[16] and, in particular, the requirements of Section 6 of the Act.[17] Specifically, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,[18] which provides that an exchange have rules designed to remove impediments to and perfect the mechanism of a free and open market to protect investors and the public interest.

As the Commission noted in its orders approving the listing and trading of SPXPM on C2 and on CBOE, the Commission has historically had concerns about the potential impact on the market at expiration for the underlying component stocks for P.M.-settled, cash-settled index options.[19] The Commission recognizes that these risks may be mitigated today by the enhanced closing procedures that are now in use at the primary equity markets. However, the extent of that mitigation is unclear.

To assist the Commission in assessing any potential impact of a P.M.-settled XSP option product on the options markets as well as the underlying cash equities markets, CBOE has obligated itself to submit data to the Commission in connection with the pilot program in the same scope and format as CBOE is required to submit as a condition of the SPXPM pilot.[20] The

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16 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).

17 15 U.S.C. 78f.

18 15 U.S.C. 78f(b)(5).

19 See C2 SPXPM Approval Order, supra note 6, at 55972, 55974-75; see also CBOE SPXPM Approval Order, supra note 6, at 10669.

20 See CBOE SPXPM Approval Order, supra note 6, at 10669.

Commission believes that the data and analysis that CBOE will provide to the Commission in connection with adding XSP options to the SPXPM twelve-month pilot, will allow CBOE and the Commission to monitor for and assess any potential for adverse market effects. Specifically, the data and analysis will assist the Commission in evaluating the effect of allowing P.M. settlement for XSP options on the underlying component stocks.

The data collected from the pilot program will help inform the Commission's consideration of whether the pilot program, which will include P.M.-settled XSP options, should be modified, discontinued, extended, or permanently approved. The P.M. settlement pilot information should help the Commission assess the impact on the markets and determine whether other changes are necessary. Furthermore, the Exchange's ongoing analysis of the pilot should help it monitor any potential risks from large P.M.-settled positions and take appropriate action on a timely basis if warranted.[21]

As the Commission noted when it approved C2's and CBOE's proposals to list and trade SPXPM, approval of CBOE's proposal to add XSP options to the SPXPM pilot program could benefit investors and the public interest to the extent it attracts trading in P.M.-settled XSP options from the opaque OTC market to the more transparent exchange-listed markets, where trading in the product will be subject to exchange trading rules and surveillance.[22]

CBOE has represented that it has adequate surveillance and reporting procedures to monitor trading in these options, thereby helping to ensure the maintenance of a fair and orderly market, and has represented that it has sufficient capacity to handle additional traffic associated

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[21] See C2 SPXPM Approval Order, supra note 6, at 55975-76; CBOE SPXPM Approval Order, supra note 6, at 10669.

[22] See C2 SPXPM Approval Order, supra note 6, at 55976; CBOE SPXPM Approval Order, supra note 6, at 10669.

with this new listing.[23] In addition, CBOE has represented that it will give its TPHs advance notice of the changeover from A.M. settlement to P.M. settlement for XSP options through a Regulatory Circular and will utilize a clear and unambiguous process to phase out all remaining A.M.-settled XSP options series.[24]

The Commission believes that CBOE's proposal to amend Interpretation and Policy .04 to Rule 24.6 to close trading in expiring P.M.-settled XSP options at 3:00 p.m. (Chicago time) (as opposed to the normal closing time of 3:15 p.m. for non-expiring options) is designed to reduce potential investor confusion. The primary listing markets for the component securities that comprise the S&P 500 Index close trading in those securities at 3:00 p.m. (Chicago time). If trading in expiring P.M.-settled XSP options was allowed to continue until 3:15 p.m., a potential pricing divergence could occur between 3:00 p.m. and 3:15 p.m. on the final trading day in expiring P.M.-settled XSP options. The Commission therefore believes that CBOE's proposal to close trading in expiring P.M.-settled options at 3:00 p.m. (Chicago time) is designed to protect investors by avoid the potential disparities in pricing that could result past 3:00 p.m.

In addition, the Commission believes that CBOE's proposal to amend Interpretation and Policy .03 to Rule 6.42 to provide that minimum increments for bids and offers for XSP options be the same as those for SPY, regardless of the value at which the option series is quoted, may promote competition and benefit investors. The Commission believes that the proposal to align the minimum increments for XSP options with those for SPY options in order to allow market participants in options series quoted at or above \$3 to quote in minimum increments of \$0.01 rather than \$0.05 is consistent with the Act because allowing participants to quote in smaller increments may provide the opportunity for reduced spreads, thereby lowering costs to

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23 See Amendment No. 1, supra note 5.

24 See id.

investors.[25] In addition, because both XSP options and SPY options are based on 1/10th the price of the S&P 500 Index, it may be reasonable for the minimum increments of bids and offers to be the same for both types of options.

CBOE's proposal to simplify Interpretation and Policy .11 to Rule 24.9 to allow strike price intervals of as little as $1 for series of XSP options where the strike price is $200 or less and $5 where the strike price is greater than $200 may help protect investors by providing an easily understandable bright line threshold under which CBOE will offer an increased number of more granular price points. In addition, this proposed provision would harmonize the strike price intervals of XSP to match that of SPY, which may facilitate competition between the two products by allowing investors to trade XSP with the same level of granularity afforded to options on SPY. Further, CBOE's proposal to reduce the minimum strike price intervals of LEAPS on P.M.-settled XSP options from $5 to $1 allows the strike price intervals of LEAPS on P.M.-settled XSP options to match the non-LEAPS strike price intervals where the strike price is $200 or less. Together, these changes will simplify CBOE's XSP option strike price intervals rules and thereby reduce the potential for investor confusion.

Under CBOE's proposal, position limits would not apply to XSP options. In 2001, the Commission permanently approved a CBOE rule (which had been in place for a two-year pilot period) to eliminate position limits on SPX (as well as options on the Dow Jones Industrial Average and the S&P 100 Index).[26] The Commission found that because the S&P 500 Index is a broad-based index with considerable capitalization, manipulation of the 500 component stocks underlying the index would require extraordinarily large positions that would be readily

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25 See Securities Exchange Act Release No. 34-61061 (November 24, 2009), 74 FR 62857, 62859 (December 1, 2009).

26 See Securities Exchange Act Release No. 44994 (October 26, 2001), 66 FR 55722 (November 2, 2001).

detectable by enhanced surveillance procedures. In its approval order, the Commission relied in part on CBOE's enhanced surveillance and reporting procedures that are intended to allow CBOE to detect and deter trading abuses in the absence of position limits.

The Exchange has represented in this filing that it has enhanced surveillance and reporting procedures in place that are intended to allow CBOE to detect and deter possible trading abuses that could otherwise occur in the absence of position limits.[27] Accordingly, the Commission believes that position limits would not be necessary for XSP options as long as CBOE has in place and enforces effective enhanced surveillance and reporting requirements. These enhanced procedures will allow the Exchange to see, with considerable advance notice, the accumulation of large positions, which it can then monitor more closely as necessary and take additional action if appropriate.[28]

For the reasons discussed above, the Commission finds that CBOE's proposal is consistent with the Act, including Section 6(b)(5) thereof, in that it is designed to remove impediments to and perfect the mechanism of a free and open market, and, in general, to protect investors and the public interest. In light of the enhanced closing procedures at the underlying markets and the potential benefits to investors discussed above, the Commission finds that it is appropriate and consistent with the Act to add XSP options to the SPXPM pilot program. The collection of data during the pilot and CBOE's active monitoring of any effects of P.M.-settled

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27 See Amendment No. 1, supra note 5.

28 In addition, the Commission notes that CBOE would have access to information through its membership in the Intermarket Surveillance Group with respect to the trading of the securities underlying the S&P 500 index, as well as tools such as large options positions reports to assist its surveillance of XSP options.

In approving the proposed rule change, the Commission also has relied upon the Exchange's representation that it has the necessary systems capacity to support new options series that will result from this proposal.

XSP options on the markets should help CBOE and the Commission assess any impact of P.M. settlement for XSP options during the pilot program.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether Amendment No. 1 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 e-mail to rule-comments@sec.gov. Please include File Number SR-CBOE-2013-055 on the subject line.

Paper comments:

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-CBOE-2013-055. This file number should be included on the subject line if e-mail 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 website (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 website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, D.C. 20549 on official business days between the hours of 10:00 a.m.

and 3:00 p.m. Copies of such 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-2013-055, and should be submitted on or before [insert date 21 days from publication in the Federal Register].

V. Accelerated Approval of a Proposed Rule Change As Modified by Amendment No.1

As discussed above, the Exchange submitted Amendment No. 1 to make additional representations regarding: data to include in the pilot program report and interim reports to the Commission; minimum increments for XSP bids and offers; XSP strike price intervals; strike price intervals for LEAPS and reduced-value LEAPS on XSP options; the Exchange's enhanced surveillance and reporting procedures in place to detect and deter possible trading abuses; systems capacity to handle potential additional traffic associated with trading of P.M.-settled XSP options; and the Exchange's procedures relating to the changeover from A.M.-settled XSP options.[29] The Commission believes these additional representations are useful to, among other things: (1) provide greater transparency with respect to the data that the Exchange must submit to the Commission regarding the pilot program; (2) clarify the Exchange's proposal by providing: that minimum increments for bids and offers on XSP options will be the same as those for SPY options, further detail on the minimum strike price intervals for XSP options, and the minimum strike price interval for LEAPS and reduced-value LEAPS on XSP options; (3) assure investors and the public of the Exchange's ability to detect and deter trading abuses; (4) provide assurance that the Exchange has sufficient capacity to handle the additional traffic resulting from the

29 See Amendment No. 1, supra note 5.

trading of P.M.-settled XSP options; and (5) provide greater detail regarding how the changeover from A.M.-settled XSP options will proceed. The content of Amendment No. 1, which does not raise any novel issues, provides additional clarifying information to support CBOE's analysis of how its proposal is consistent with the Act and thus facilitates the Commission's ability to herein approve the proposal on a pilot basis. Accordingly, the Commission finds good cause, pursuant to Section 19(b)(2) of the Act,[30] for approving the proposed rule change, as modified by Amendment No. 1, prior to the 30th day after the date of publication of notice in the Federal Register.

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[30] 15 U.S.C. 78s(b)(2).

VI. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,[31] that the proposed rule change (SR-CBOE-2013-055), as modified by Amendment No. 1, be, and hereby is, approved on an accelerated basis for a pilot period that is set to expire on February 8, 2014.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[32]

Kevin M. O'Neill
Deputy Secretary

[FR Doc. 2013-18900 Filed 08/05/2013 at 8:45 am; Publication Date: 08/06/2013]

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31 15 U.S.C. 78s(b)(2).

32 17 CFR 200.30-3(a)(12).