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SECURITIES AND EXCHANGE COMMISSION
[Release No. 34-70524; File No. SR-CBOE-2013-079]

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Order Approving a Proposal to Amend Rule 24.7 to Add Factors for Determining Whether to Halt Volatility Index Options Trading

September 26, 2013.

I. Introduction

On July 29, 2013, 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 amend CBOE Rule 24.7 (Trading Halts, Suspensions, or Primary Market Closure) to add factors that may be considered when determining whether to halt trading in volatility index options. The proposed rule change was published for comment in the Federal Register on August 14, 2013.³ The Commission received no comment letters on the proposed rule change. This order approves the proposed rule change.

II. Description of the Proposed Rule Change

As described further below, CBOE Rule 24.7 sets forth several factors that CBOE may consider in determining whether to halt trading in an index option class. The Exchange proposes to amend CBOE Rule 24.7(a) to add additional factors that may be considered when determining whether to halt trading in volatility index options.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 34-70136 (August 8, 2013), 78 FR 49563 (“Notice”).

First, CBOE proposes to amend CBOE Rule 24.7(a)(i), which permits consideration to be given to “the extent to which trading is not occurring in the stocks underlying the index[.]” Since volatility indexes are comprised of options, not stocks, CBOE proposes to amend CBOE Rule 24.7(a)(i) to permit consideration to be given (in determining whether to halt trading in a volatility index option class) to whether the component options in a volatility index are not trading.⁴ Similarly, the Exchange proposes to amend CBOE Rule 24.7(b) which sets forth factors that may be considered in determining whether to resume trading of a halted options class or series. The Exchange proposes to amend the factor regarding the “extent to which trading is occurring in stocks underlying the index” to also include options.

Second, CBOE proposes to add a new factor (as subparagraph (iii) to CBOE Rule 24.7(a)) for consideration when determining whether to halt trading in volatility index options. Specifically, CBOE proposes to add a provision that would permit consideration to be given (in determining whether to halt trading in a volatility index option class) to whether the “current index level”⁵ for a volatility index option is not available or the spot (cash)⁶ value for a volatility index option is not available.

Third, the Exchange is proposing to make technical changes to CBOE Rule 24.7(a), CBOE Rule 24.7(d) and CBOE Rule 24.7.01 to make numbering changes.

⁴ As an example, consider the CBOE Volatility Index (“VIX”), which is comprised of S&P 500 Index (“SPX”) options. Under the proposal, the Exchange may consider whether to halt trading in VIX options if trading in SPX options were not occurring. See Notice, supra note 3, at 49563.

⁵ CBOE proposes to define the term “current index level” in new Interpretation and Policy .03 to Rule 24.7 to mean the implied forward level based on corresponding volatility index (security) futures prices. See Notice, supra note 3, at 49563.

⁶ In the Notice, CBOE stated that the spot (cash) value of a volatility index is an instantaneous measure of the expected volatility in 30 days. See Notice, supra note 3, at 49564.

III. Discussion and Commission's Findings

After careful review, the Commission finds that the proposed rule change is consistent with the requirements of Section 6 of the Act⁷ and the rules and regulations thereunder applicable to a national securities exchange.⁸ In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,⁹ which requires, among other things, that the Exchange's rules 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 Exchange proposes to amend CBOE Rule 24.7 to add additional factors that may be considered when determining whether to halt trading in volatility index options. CBOE Rule 24.7 is currently predicated on indexes being comprised of stocks and includes factors that may be considered by the Exchange when determining whether to halt trading based on the index components being comprised of stocks. The current proposal amends CBOE Rule 24.7(a) to account for indexes comprised of options and allows the Exchange to consider the following factors when determining whether to halt trading: (1) Whether the component options are not trading; (2) whether the "current index level" (as measured by the implied forward level based

⁷ 15 U.S.C. 78f.

⁸ 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).

⁹ 15 U.S.C. 78f(b)(5).

on volatility index (security) futures prices) is not available; or (3) whether the spot (cash) value for a volatility index is not available.

The Commission notes that the proposed change is designed to allow the Exchange to consider additional factors when determining whether to halt or resume trading in volatility index options. The Commission believes that the proposed change would grant discretion to the Exchange to halt trading in an index option class if component options are not trading and/or the current index level or spot (cash) value for a volatility index is not available. The Commission further believes that the proposal is designed to provide CBOE with discretion to protect the integrity of its marketplace by permitting it to consider additional factors that are specifically relevant to volatility index options when determining whether to halt or resume trading in those products.

Accordingly, the Commission finds that the Exchange'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, protect investors and the public interest.

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,¹⁰ that the proposed rule change (SR-CBOE-2013-079) be, and hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹¹

¹⁰ 15 U.S.C. 78s(b)(2).

¹¹ 17 CFR 200.30-3(a)(12).

Kevin M. O'Neill,
Deputy Secretary.

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