

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-56287; File No. SR-CBOE-2007-41)

August 20, 2007

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Order Approving Proposed Rule Change as Modified by Amendment No. 1 Thereto to Codify Pre-Existing Practices and to Amend and Supplement Rule 24.9

On May 1, 2007, the Chicago Board Options Exchange, Incorporated (“CBOE”) filed with the Securities and Exchange Commission (“SEC” or “Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² a proposal to amend Rule 24.9, Terms of Index Options, to codify the pre-existing methodology used for determining the day on which the exercise settlement value of CBOE Volatility Index options and CBOE Increased-Value Volatility Index options (collectively, “Volatility Index options”) is calculated and to supplement the manner for determining the day on which the exercise settlement value of Volatility Index options is calculated in the event of an Exchange holiday.

The Exchange submitted Amendment No. 1 to the proposed rule change on June 7, 2007. The proposed rule change was published for comment in the Federal Register on July 16, 2007.³ The Commission received no comments on the proposal. This order approves the proposed rule change as modified by Amendment No. 1.

In this proposal, CBOE proposed to amend Rule 24.9, Terms of Index Options, to codify the pre-existing methodology used for determining the day on which the exercise

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Securities Exchange Act Release No. 56036 (July 10, 2007), 72 FR 38850 (July 16, 2007).

settlement value of Volatility Index options is calculated.⁴ This day is also the expiration date for Volatility Index options and the business day immediately before the expiration date is the last trading day for Volatility Index options. The Exchange also proposed to supplement the manner for determining the day on which the exercise settlement value of Volatility Index options is calculated in the event of an Exchange holiday.

In general, each Volatility Index is calculated using the quotes of certain index option series (e.g., S&P 500 Index (“SPX”) options) to derive a measure of volatility of the U.S. equity market. Under CBOE's current methodology, the day on which the exercise settlement value of a Volatility Index option is calculated and the expiration date of a Volatility Index option is the Wednesday that is thirty days prior to the third Friday of the calendar month immediately following the expiring month of the Volatility Index option.⁵ Additionally, the Tuesday immediately before that Wednesday is the last trading day for Volatility Index options.

According to the CBOE, this methodology was chosen because it provides consistency by ensuring that Volatility Index options expire exactly thirty days before the expiration date of the options that are used to calculate the Volatility Indexes and reflects CBOE’s belief that the settlement process works best if underlying option series with a single expiration month are used to calculate a Volatility Index. According to CBOE, if underlying options series in two expiration months are used, the number of options series

⁴ See Securities Exchange Act Release No. 53342 (February 21, 2006), 71 FR 10086 (February 28, 2006) (SR-CBOE-2006-008); See also CBOE Regulatory Circular 2006-23 (describing methodology for determining date of calculation of exercise settlement value and expiration date).

⁵ The options used to calculate the Volatility Indexes are traded on CBOE and generally expire on the third Friday of any given calendar month.

used in the settlement process is markedly increased and the settlement process becomes more complex and cumbersome. Consequently, in this filing the Exchange proposed to amend the existing text of Rule 24.9, relating to the current methodology, to codify its pre-existing practice.

The Exchange further proposed to supplement the current methodology by providing a framework for determining the day on which the exercise settlement value for Volatility Index options will be calculated and the expiration date for Volatility Index options when the Exchange is closed on the third Friday of any given calendar month. Specifically, the Exchange proposed to amend Rule 24.9 to provide that if the third Friday of the month subsequent to the expiration of a Volatility Index option is an Exchange holiday, the exercise settlement value of the Volatility Index option will be calculated on the business day that is thirty days prior to the Exchange business day immediately preceding that Friday.⁶ This would also be the expiration date for that Volatility Index option.

After carefully considering 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.⁷ In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,⁸ which requires that an exchange have rules designed, among other things, to promote just and

⁶ The Exchange represented that it also proposing a similar change relating to the final settlement date for futures contracts on volatility indexes.

⁷ In approving this rule change, the Commission notes that it has considered the proposal's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

⁸ 15 U.S.C. 78f(b)(5).

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.

The Commission believes that codifying CBOE's pre-existing methodology used for determining the day on which the exercise settlement value of Volatility Index options is calculated in Rule 24.9 will provide certainty and predictability for CBOE members and other market participants engaged in the trading of Volatility Index options. The Commission further believes that the Exchange's new procedure for determining the day on which the exercise settlement value for Volatility Index options will be calculated and the expiration date for Volatility Index options when the Exchange is closed due to an Exchange holiday is an appropriate supplement to the existing methodology.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,⁹ that the proposed rule change (File No. SR-CBOE-2007-41) be, and hereby is, approved.

For the Commission, by the Division of Market Regulation, pursuant delegated authority.¹⁰

Florence E. Harmon
Deputy Secretary

⁹ 15 U.S.C. 78s(b)(2).

¹⁰ 17 CFR 200.30-3(a)(12).