

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-61859; File No. SR-CBOE-2010-018)

April 7, 2010

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Proposed Rule Change, as Modified by Amendment No. 1 Thereto, to List and Trade CBOE Gold ETF Volatility Index Options

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on March 18, 2010, the Chicago Board Options Exchange, Incorporated (“Exchange” or “CBOE”) filed with the Securities and Exchange Commission (the “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. On March 22, 2010, CBOE filed Amendment No. 1 to the proposed rule change.³ The Commission is publishing this notice, as amended, to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

CBOE proposes to amend certain of its rules to provide for the listing and trading of options that overlie the CBOE Gold ETF Volatility Index (“GVZ”), which will be cash-settled and will have European-style exercise. The text of the rule proposal is available on the Exchange’s website (<http://www.cboe.org/legal>), at the Exchange’s Office of the Secretary and at the Commission.

II. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the self-regulatory organization included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ In Amendment No. 1, CBOE made technical, non-substantive corrections to the rule text.

received on the proposed rule change. The text of those statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant parts of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and the Statutory Basis for, the Proposed Rule Change

1. Purpose

The purpose of this proposed rule change is to permit the Exchange to list and trade cash-settled, European-style options on the CBOE Gold ETF Volatility Index (“GVZ”).

Index Design and Calculation

The calculation of GVZ is based on the VIX methodology applied to options on the SPDR Gold Trust (“GLD”). The index was introduced by CBOE on August 1, 2008 and has been disseminated in real-time on every trading day since that time.⁴

GVZ is an up-to-the-minute market estimate of the expected volatility of GLD calculated by using real-time bid/ask quotes of CBOE listed GLD options. GVZ uses nearby and second nearby options with at least 8 days left to expiration and then weights them to yield a constant, 30-day measure of the expected (implied) volatility.

For each contract month, CBOE will determine the at-the-money strike price. The Exchange will then select the at-the-money and out-of-the money series with non-zero bid prices and determine the midpoint of the bid-ask quote for each of these series. The midpoint quote of each series is then weighted so that the further away that series is from the at-the-money strike, the less weight that is accorded to the quote. Then, to compute the index level, CBOE will calculate a volatility measure for the nearby options and then for the second nearby options.

⁴ CBOE maintains a micro-site for GVZ options at: <http://www.cboe.com/gvz>. See proposed amendment to Rule 24.9(a)(3).

This is done using the weighted mid-point of the prevailing bid-ask quotes for all included option series with the same expiration date. These volatility measures are then interpolated to arrive at a single, constant 30-day measure of volatility.⁵

CBOE will compute values for GVZ underlying option series on a real-time basis throughout each trading day, from 8:30 a.m. until 3:00 p.m. (CT). GVZ levels will be calculated by CBOE and disseminated at 15-second intervals to major market data vendors.

Options Trading

GVZ options will be quoted in index points and fractions and one point will equal \$100. The minimum tick size for series trading below \$3 will be 0.05 (\$5.00) and above \$3 will be 0.10 (\$10.00). Exhibit 3 presents contract specifications for GVZ options.

The Exchange is proposing to permit 1 point or greater strike price intervals on GVZ options.⁶ The Exchange believes that 1 point strike price intervals will provide investors with greater flexibility by allowing them to establish positions that are better tailored to meet their investment objectives.

Initially, the Exchange will list in-, at- and out-of-the-money strike prices and may open for trading up to five series above and five series below the price of the calculated forward value of GVZ, and LEAPS series. As for additional series, either in response to customer demand or as the calculated forward value of GVZ moves from the initial exercise prices of option series that have been open for trading, the Exchange may open for trading up to five series above and five series below the calculated forward value of GVZ, and LEAPs series. The Exchange will

⁵ See proposed amendment to Interpretation and Policy .01 to Rule 24.1 (designating the Exchange as the reporting authority for GVZ).

⁶ See proposed addition to Interpretation and Policy .01(a) of GVZ to the existing list of options for which \$2.50 strike price intervals are permitted and proposed Interpretation and Policy .01(i) to Rule 24.9 permitting \$1 strike price intervals for GVZ options.

not be permitted to open for trading series with 1 point strike price intervals within 0.50 point of an existing 2.5 point strike price with the same expiration month. The Exchange will not be permitted to list LEAPS on GVZ options at strike price intervals less than 1 point.

The Exchange is proposing to add new Interpretation and Policy .14 to Rule 5.5, Series of Option Contracts Open for Trading, which will be an internal cross reference stating that the intervals between strike prices for GVZ option series will be determined in accordance with proposed new Interpretation and Policy .01(i) to Rule 24.9.

Exercise and Settlement

The proposed options will typically expire on the Wednesday that is 30 days prior to the third Friday of the calendar month immediately following the expiration month (the expiration date of the options used in the calculation of the index).⁷ If the third Friday of the calendar month immediately following the expiring month is a CBOE holiday, the expiration date will be 30 days prior to the CBOE business day immediately preceding that Friday. For example, June 2010 GVZ options would expire on Wednesday, June 16, 2010, exactly 30 days prior to the third Friday of the calendar month immediately following the expiring month. Trading in the expiring contract month will normally cease at 3:00 pm (CT) on the business day immediately preceding the expiration date.⁸ Exercise will result in delivery of cash on the business day following expiration. GVZ options will be A.M.-settled.⁹ The exercise settlement value will be determined by a Special Opening Quotations (“SOQ”) of GVZ calculated from the sequence of opening prices of a single strip of options expiring 30 days after the settlement date. The

⁷ See proposed amendment to Rule 24.9(a)(3) (adding GVZ to list of European-style index options approved for trading on the Exchange).

⁸ See proposed amendment to Rule 24.6, Days and Hours of Business.

⁹ See proposed amendment to Rule 24.9(a)(4) (adding GVZ to the list of A.M.-settled index options approved for trading on the Exchange).

opening price for any series in which there are no trades shall be the average of that option's bid price and ask price as determined at the opening of trading.¹⁰

The exercise-settlement amount will be equal to the difference between the exercise-settlement value and the exercise price of the option, multiplied by \$100. When the last trading day is moved because of a CBOE holiday, the last trading day for expiring options will be the day immediately preceding the last regularly-scheduled trading day.

Position and Exercise Limits

For regular options trading, the Exchange is proposing to establish position limits for GVZ options at 50,000 contracts on either side of the market and no more than 30,000 contracts in the nearest expiration month.¹¹ CBOE believes that a 50,000 contract position limit is appropriate due to the fact that GLD options, which are the underlying components for GVZ, are among the most actively traded option classes currently listed. Industry-wide, GLD ranked as the 13th most active options class in 2009, averaging 136,000 contracts per day. On CBOE, GLD was the 12th most active options trading class in 2009, averaging over 50,000 contracts per day.

In determining compliance with these proposed position limits, GVZ options will not be aggregated with GLD options. Positions in Short Term Option Series, Quarterly Options Series, and Delayed Start Option Series will be aggregated with positions in options contracts in the same GVZ class. Exercise limits will be the equivalent to the proposed position limits.¹² GVZ options

¹⁰ See proposed amendment to Rule 24.9(a)(5) (adding GVZ to the provision setting forth the method of determining the day that the exercise settlement value is calculated and of determining the expiration date and the last trading day for CBOE Volatility Index Options). The Exchange is also proposing to make technical changes to this rule provision as well.

¹¹ See proposed amendment to Rule 24.4, Position Limits for Broad-Based Index Options.

¹² See Rule 24.5, Exercise Limits, which provides that exercise limits are equivalent to position limits.

will be subject to the same reporting requirements triggered for other options dealt in on the Exchange.¹³

For FLEX options trading, the Exchange is proposing that the position limits for FLEX GVZ Options will be equal to the position limits for Non-FLEX GVZ Options established pursuant to Rule 24.4.¹⁴ Similarly, the Exchange is proposing that the exercise limits for FLEX GVZ Options will be equivalent to the position limits established pursuant to Rule 24.4.¹⁵ The proposed position and exercise limits for FLEX GVZ Options are consistent with the treatment of position and exercise limits for other Flex Index Options. The Exchange is also proposing to add new subparagraph (4) to Rules 24A.7(d) and 24B.7(d) to provide that as long as the options positions remain open, positions in FLEX GVZ Options that expire on the same day as Non-FLEX GVZ Options, as determined pursuant to Rule 24.9(a)(5), shall be aggregated with positions in Non-FLEX GVZ Options and shall be subject to the position limits set forth in Rules 4.11, 24.4, 24.4A and 24.4B, and the exercise limits set forth in Rules 4.12 and 24.5.

Exchange Rules Applicable

Except as modified herein, the rules in Chapters I through XIX, XXIV, XXIVA, and XXIVB will equally apply to GVZ options.

The Exchange is proposing that the margin requirements for GVZ options be set at the same levels that apply to equity options under Exchange Rule 12.3. Margin of up to 100% of the current market value of the option, plus 20% of the underlying volatility index value must be deposited and maintained. The pertinent provisions of Rule 12.3, Margin Requirements, have

¹³ See Rule 4.13, Reports Related to Position Limits.

¹⁴ See proposed amendments to Rules 24A.7 and 24B.7, Position Limits and Reporting Requirements.

¹⁵ See proposed amendments to Rules 24A.8 and 24B.8, Exercise Limits.

been amended to reflect these proposed revisions. Additional margin may be required pursuant to Exchange Rule 12.10.

The Exchange hereby designates GVZ options as eligible for trading as Flexible Exchange Options as provided for in Chapters XXIVA (Flexible Exchange Options) and XXIVB (FLEX Hybrid Trading System). The Exchange notes that GVZ FLEX Options will only expire on business days that non-FLEX options on Volatility Indexes expire. This is because the term “exercise settlement value” in Rules 24A.4(b)(3) and 24B.4(b)(3), Special Terms for FLEX Index Options, has the same meaning set forth in Rule 24.9(5) [sic]. As is described earlier, the Exchange is proposing to amend Rule 24.9(a)(5) to provide that the exercise settlement value of GVZ options for all purposes under CBOE Rules will be calculated as the Wednesday that is thirty days prior to the third Friday of the calendar month immediately following the month in which GVZ options expire.

Capacity

CBOE has analyzed its capacity and represents that it believes the Exchange and the Options Price Reporting Authority have the necessary systems capacity to handle the additional traffic associated with the listing of new series that would result from the introduction of GVZ options.

Surveillance

The Exchange will use the same surveillance procedures currently utilized for each of the Exchange's other index options to monitor trading in GVZ options. The Exchange further represents that these surveillance procedures shall be adequate to monitor trading in options on these volatility indexes. For surveillance purposes, the Exchange will have complete access to information regarding trading activity in the pertinent underlying securities.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b)¹⁶ of the Act, in general, and furthers the objectives of Section 6(b)(5)¹⁷ in particular in that it is 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, and to remove impediments to and perfect the mechanism of a free and open market and a national market system, and thereby will provide investors with the ability to invest in options based on an additional volatility index.

B. Self-Regulatory Organization's Statement on Burden on Competition

CBOE does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

The Exchange neither solicited nor received comments on the proposal.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 35 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

- (A) By order approve such proposed rule change, or
- (B) Institute proceedings to determine whether the proposed rule change should be disapproved.

¹⁶ 15 U.S.C. 78f(b).

¹⁷ 15 U.S.C. 78f(b)(5).

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change 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 No. SR-CBOE-2010-018 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 No. SR-CBOE-2010-018. 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 Web site (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission,¹⁸ 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 Web site viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m.

¹⁸ The text of the proposed rule change is available on the Commission's Web site at <http://www.sec.gov>.

and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the principal office of CBOE. 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 No. SR-CBOE-2010-018 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁹

Florence E. Harmon
Deputy Secretary

¹⁹ 17 CFR 200.30-3(a)(12).