

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-67084; File No. SR-CBOE-2012-042)

May 31, 2012

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing of Proposed Rule Change to List and Trade CBOE S&P 500 AM/PM Basis 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 May 23, 2012, 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 and II below, which Items have been prepared by the Exchange. The Commission is publishing this notice 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

Chicago Board Options Exchange, Incorporated (“CBOE” or “Exchange”) proposes to amend certain of its rules to provide for the listing and trading of cash-settled CBOE S&P 500 AM/PM Basis (“SPBAS”) options that will be P.M.-settled and 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 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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

C below, of the most significant parts of such statements.

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

1. Purpose

The purpose of the proposed rule change is to permit the Exchange to list and trade cash-settled CBOE S&P 500 AM/PM Basis (“SPBAS”) options, that will be P.M.-settled and will have European-style exercise.³

Design of the Product

SPBAS options reflect the difference between the Special Opening Quotation (“SOQ”) of the S&P 500 Index⁴ and the closing level of the S&P 500 Index on the last trading day (which is typically the third Friday of the month) for SPBAS options. The options will allow investors to gain exposure to or hedge the basis risk between A.M.-Settled S&P 500 Index (“SPX”) options traded on CBOE and P.M.-Settled S&P 500 Index (“SPXPM”) options traded on the C2 Options Exchange, Incorporated (“C2”).⁵

At expiration, SPBAS options will settle against the following index calculation:

$$\text{SPBAS} = \text{MAX} (100 + (\text{SOQ of S\&P 500}) - (\text{Closing Value of S\&P 500}), 0)$$

³ See proposed addition of SPBAS options to the list of European-style index options approved for trading on the Exchange contained in Rule 24.9(a)(3) (Terms of Index Options Contracts).

⁴ The SOQ is calculated per normal index calculation procedures and uses the opening (first) reported sales price in the primary market of each component stock in the index on the last business day (usually a Friday) before the expiration date. If a stock in the index does not open on the day on which the exercise-settlement value is determined, the last reported sales price in the primary market is used to calculate the exercise-settlement value.

⁵ See Securities Exchange Act Release No. 65256 (September 2, 2011), 76 FR 55969 (September 9, 2011) (SR-C2-2011-008) (order approving listing and trading of SPXPM options on C2 on a pilot basis).

In other words, SPBAS is the greater of 1) the SOQ of SPX minus the closing value of SPX plus 100 and 2) zero. This formulation ensures that the settlement value for SPBAS options can never be less than zero.

Due to the nature of SPBAS options (e.g., settlement to the difference between the SOQ of the S&P 500 Index and the closing level of the S&P 500 Index on the third Friday of each month) an intraday value will not be disseminated. Rather, prior to the open on all trading days, other than the last trading day (which is typically the third Friday of the month) CBOE will disseminate a single value of 100 for SPBAS options through the Options Price Reporting Authority (“OPRA”), the Consolidated Tape Association (“CTA”) tape and/or the Market Data Index (“MDI”) feed. After the close of trading on the last trading day (e.g., third Friday of the month), CBOE will disseminate the exercise settlement value (calculated as described above) for the expiring contract.

Options Trading

SPBAS options will be quoted in points and fractions and one point will equal \$100. The contract multiplier will be \$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 SPBAS options.

The Exchange is proposing to list series at \$1 or greater where the strike price is \$200 or less and \$5 or greater where the strike price is greater than \$200.⁶ The Exchange believes that a

⁶ See proposed amendment to Rule 24.9.01(e) (Terms of Index Options Contracts). The Exchange also proposes to add new Interpretation and Policy .21 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 SPBAS option series will be determined in accordance with Interpretation and Policy .01(e) to Rule 24.9.

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

granular strike price increment will provide investors with greater flexibility by allowing them to establish positions that are better tailored to meet their investment objectives.

As noted previously, the underlying interest for SPBAS options reflects the difference between the SOQ of the S&P 500 Index and the closing level of the S&P 500 Index on the last trading day for SPBAS options. As such, the Exchange believes that the exercise settlement value for SPBAS options will be constrained to a relatively narrow band of possible values. In fact, from January 1993 though [sic] February 2012, there have been 230 third-Friday expiration dates on which Standard & Poor's has reported a SOQ of the S&P 500 Index. The Exchange notes that on 131 of those dates (57%) the exercise settlement values for SPBAS options would have ranged between 95 and 105. On 187 of those dates (82%) the exercise settlement values for SPBAS options would have ranged between 90 and 110. The highest value during the sample period would have been 139.19, and the lowest value would have been 62.46. Accordingly, the Exchange believes that the proposed strike setting parameters (and demand for strikes) will be naturally bounded because of the limited range of settlement values.

Initially, the Exchange will list in-, at- and out-of-the-money strike prices (where the "at-the-money" strike price is 100) and may open for trading up to twelve near term expiration months.⁷ New series will be added in accordance with Rule 29.4.01(d), which requires exercise prices to be reasonably related to the current value of the underlying index at the time new series are first opened for trading.

additional traffic associated with the listing and trading of \$1 strikes (where the strike price is less than \$200) for SPBAS options.

Similar \$1 strike price setting provisions currently exist for options on: Units (exchange-traded notes) (Rule 5.5.08), Index Linked Securities (exchange-traded notes) (Rule 5.5.09), HOLDRS (Rule 5.5.17) and Volatility Indexes (Rule 24.9.01(l)).

⁷ See proposed amendment to Rule 24.9(a)(2) (Terms of Index Options Contracts).

As to additional series, Rules 24.9.01(d) and 24.9.04 shall apply to the listing of additional series for SPBAS options; however, for purposes of those provisions the “current index value” shall be 100, since that is the single value for SPBAS option that CBOE will disseminate during the life of an option. Generally, Rule 24.9.04 bounds the listing of additional series to within 30% of the current index value. At this time, CBOE believes that this strike setting parameter will be sufficient to meet demand since the difference between the opening value of the S&P 500 and the closing value of the S&P 500 on third Fridays has typically fluctuated around 10 index points. Larger spreads between the opening and closing S&P 500 values have occurred in the past, for example in February 2000 (39 points), November 2008 (36.5 points) and May 2010 (37.5 points). In the event customer demand exists for strikes below 70 and above 130 exists [sic], Rule 24.9.04 provides CBOE with the flexibility to add strikes that would be more than 30% away from the current index value of 100 for SPBAS options. LEAPS may also be listed.⁸

As of the date of this filing, the Exchange intends to trade SPBAS options electronically on the Hybrid Platform with a Designated Market Maker appointed to the class. After receipt of Commission approval and prior to the product launch, the Exchange will issue a circular announcing the specific trading platform and other relevant trading information concerning SPBAS options.

Trading Hours, Exercise and Settlement

The proposed options will expire on the Saturday following the third Friday of the expiring month. The trading hours for SPBAS options will be from 8:30 a.m. (Chicago time) to

⁸ While the Exchange does not anticipate listing LEAPS routinely, the Exchange believes that permitting LEAPS creates flexibility in the event the Exchange receives a customer request to list a LEAP. See Rule 24.9(b) (Long-Term Index Options Series (“LEAPS”)).

3:15 pm. (Chicago time), except that trading in expiring SPBAS options will close at 3:00 p.m. (Chicago time) on their last trading day.⁹ When the last trading day is moved because of an Exchange holiday (such as when CBOE is closed on the Friday before expiration), the last trading day for expiring options will be Thursday.

Exercise will result in delivery of cash on the business day following expiration. The exercise-settlement amount will be equal to the difference between the exercise-settlement value and the exercise price of the option, multiplied by the contract multiplier (\$100). SPBAS options will be P.M.-settled. The Exchange is proposing P.M.-settlement for SPBAS options because the exercise settlement value is based on the difference between the SOQ of the S&P 500 Index on the third Friday of the month and the closing value of the S&P 500 Index on the third Friday of the month. Since, one of the values needed to determine the exercise settlement value for SPBAS options will not be determined until the close of trading on the third Friday of the month, SPBAS options necessarily must be P.M.-settled.

If the exercise settlement value is not available or the normal settlement procedure cannot be utilized due to a trading disruption or other unusual circumstance, the settlement value will be determined in accordance with the rules and bylaws of the OCC.

Surveillance

The Exchange will use the same surveillance procedures currently utilized for each of the Exchange's other index options to monitor trading in SPBAS options. The Exchange further

⁹ See proposed Interpretation and Policy .03 to Rule 24.6 (Days and Hours of Business). Trading in expiring SPXPM options closes at 3:00 p.m. (Chicago time) on their last day of trading. The Exchange is proposing to match the trading hours of SPBAS options with SPXPM options. See Securities and Exchange Act Release No. 65630 (October 26, 2011), 76 FR 67510 (November 1, 2011) (SR-C2-2011-030) (notice of filing and immediate effectiveness of proposed rule change to close trading at 3 p.m. Chicago time on the last day of trading of expiring SPXPM options).

represents that these surveillance procedures shall be adequate to monitor trading in options on these option products. For surveillance purposes, the Exchange will have access to information regarding trading activity in the pertinent underlying securities (i.e., S&P 500 Index component securities). The Exchange accomplishes regulatory information sharing under the auspices of the Intermarket Surveillance Group Agreement.

Position Limits

The Exchange is not proposing to establish any position or exercise limits for SPBAS options.¹⁰ Because the SPBAS value measures the difference between the opening and closing values of the S&P 500 Index on the third Friday of the month, the Exchange believes that the position and exercise limits for this new product (which is based on the S&P 500 Index) should be the same as those for SPX and SPXPM options, for which there are no position limits. SPBAS options will be subject to the same reporting and other requirements triggered for other options dealt in on the Exchange.¹¹

Exchange Rules Applicable

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

SPBAS options will be margined as “broad-based index” options, and under CBOE rules, especially, Rule 12.3(c)(5)(A), the margin requirement for a short put or call shall be 100% of the current market value of the contract plus up to 15% of the aggregate contract value.

Additional margin may be required pursuant to Exchange Rule 12.10.

The Exchange hereby designates SPBAS options as eligible for trading as Flexible

¹⁰ See proposed amendments to Rules 24.4 (Position Limits for Broad-Based Index Options) and 24.5 (Exercise Limits).

¹¹ See Rule 4.13 (Reports Related to Position Limits).

Exchange Options as provided for in Chapters XXIVA (Flexible Exchange Options) and XXIVB (FLEX Hybrid Trading System).¹²

Capacity

CBOE has analyzed its capacity and represents that it believes the Exchange and OPRA have the necessary systems capacity to handle the additional traffic associated with the listing of new series that will result from the introduction of SPBAS options.

Technical Change

CBOE proposes to correct an erroneous cross-reference in Rule 24.9.01(d) that was unintentionally created. In SR-CBOE-2006-41, among other things, obsolete Interpretations and Policies to Rule 24.9 were deleted and renumbering changes were made.¹³ Specifically, current Interpretation and Policy .04 to Rule 24.9 was formerly Interpretation and Policy .05 to Rule 24.9. A cross-reference in Rule 24.9.01(d) to former Interpretation and Policy .05 in Rule 24.9.01(d) should have been similarly renumbered (from .05 to .04) in SR-CBOE-2006-41; however, it was not. CBOE now proposes to update Rule 24.9.01(d) with the correct cross-reference to Interpretation and Policy .04 to Rule 24.9.

2. Statutory Basis

The proposed rule change is consistent with Section 6(b) of the Act in general and furthers the objectives of Section 6(b)(5) in particular in that it will permit trading in options based on the index pursuant to rules designed to prevent fraudulent and manipulative acts and

¹² See proposed amendments to Rules 24A.7 (Position Limits and Reporting Requirements), 24A.8 (Exercise Limits), 24B.7 (Position Limits and Reporting Requirements) and 24B.8 (Exercise Limits).

¹³ See Securities Exchange Act Release No. 54000 (June 15, 2006), 71 FR 35961 (June 22, 2006) (Notice of Filing and Immediate Effectiveness of a Proposed Rule Change and Amendment No. 1 Thereto to Amend Obsolete, Outdated and/or Unnecessary Rules) (SR-CBOE-2006-41).

practices and to promote just and equitable principles of trade, and thereby will provide investors with the ability to gain exposure to or hedge the basis risk between SPX options traded on CBOE and SPXPM options traded on C2.

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

No written comments were solicited or received with respect to the proposed rule change.

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

Within 45 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 or disapprove such proposed rule change, or

(B) institute proceedings to determine whether the proposed rule change should be disapproved.

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 Number SR-CBOE-2012-042 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-2012-042. 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, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the 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-2012-042 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.¹⁴

Kevin M. O'Neill
Deputy Secretary

¹⁴ 17 CFR 200.30-3(a)(12).