CBOE
CHICAGO BOARD OPTIONS EXCHANGE

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Via Electronic Mail
Ms. Elizabeth M. Murphy
Secretary
U.S. Securities and Exchange Commission
100 F. Street, NE
Washington, D.C. 20549

Re: SR-CBOE-2011-012: CBOE Response to Wolverine Trading LLC Comment Letter

Dear Ms. Murphy:

The Chicago Board Options Exchange, Inc. ("CBOE" or "Exchange") submits this letter in response to a comment letter received by the U.S. Securities & Exchange Commission ("SEC" or "Commission") from Wolverine Trading, LLC ("Wolverine" or "Wolverine Letter") regarding the above-referenced CBOE rule filing.[1] CBOE's filing, which was submitted in response to a filing made by Phlx, expanded CBOE's Short Term Option Series Program ("Weeklys Program") so that CBOE may select up to fifteen option classes to participate.[2]

The Wolverine Letter does not oppose the rule change, but rather asserts that the expansion may have unintended consequences on the market place. As a result, Wolverine suggests that the Commission compel the exchanges with Weeklys Programs to collect and provide data pertaining to three specific areas: (1) liquidity effects; (2) bandwidth limitations; and (3) customer confusion. The Exchange responds separately to each of the three areas discussed in the Wolverine Letter.

Introduction

As a preliminary matter, the Exchange notes that the filing at issue was submitted in response to a rule proposal of another exchange and that CBOE submitted its filing for competitive reasons. Notwithstanding this fact, the Exchange believes that the modest expansion of CBOE's Weeklys Program is measured and responsive to customer demand and enables listing continuity.

In addition, the Exchange notes that our Weeklys Program has been in operation for approximately six years. Our past analysis and experience to date evidence a significant interest in

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[1] Letter from Kurt Eckert, Principal, Wolverine to Elizabeth M. Murphy, Secretary, SEC, dated March 3, 2011, technically commenting on a proposal by the International Securities Exchange, LLC ("ISE") but referencing similar filings submitted by CBOE and NASDAQ OMX PHLX, LLC ("Phlx").

[2] See Securities Exchange Act Release No. 63877 (February 9, 2011), 76 FR 8794 (February 15, 2011) (notice and immediate effectiveness of SR-CBOE-2011-012). Immediately prior to the rule filing, CBOE could select up to 5 option classes to participate in the Weeklys Program. In addition, CBOE may list any option classes that are selected by other options exchanges that employ a similar program under their respective rules.

trading Weeklys and lend support for increasing the number of eligible classes. We continue to believe that Weeklys provide investors with a flexible and valuable tool to manage risk exposure, minimize capital outlays, and be more responsive to the timing of events affecting the securities that underlie option contracts. Notwithstanding the Wolverine Letter, the Weeklys Program has generally been well received by the Exchange's members and investors. The Exchange also believes that the existing participation in the program reflects that members are committed to the program and lends support for increasing the number of eligible classes.

Liquidity Effects

Wolverine states its belief that the recent volume increases in Weekly options is attributable to a migration from standard options, and that while retail investors are provided with additional risk management tools, market makers are not relieved from the continuous quoting obligations "despite the lighter trading volume in these products." As a result, Wolverine suggests that the listing of these new products will "have a long-term effect on liquidity availability and cause wider bid-offer spreads for all expiration cycles..."

Early data observed by the Exchange has not revealed a deleterious effect on options volume due to the listing of Weeklys Options. In general, active and liquid classes are selected to participate in the Weeklys Programs. In addition, if a class is selected to participate in the Weeklys Programs, the number of series per expiration is limited to a maximum of 20.[3] Assuming *arguendo* that some volume has migrated from standard to weekly expirations, any series migration would be *de minimus* in the aggregate because of the series limitation (20) and the nature of the classes selected to participate in the Weeklys Program. We also see no reason to distinguish or single out the listing of Weekly Options from other option series in a class as having an adverse impact on liquidity in this manner.

Quoting obligations vary by exchange. CBOE's continuous quoting obligations are set forth in Rules 8.7 (at least 60% of the Non-LEAPS series of a class for Market Makers) and 8.85 (at least 90% of the series of a class for DPMs). Because the number of series per expiration is limited to 20 for Weekly Options and because of the liquid nature of most classes that participate in the Weeklys Program, it is possible for liquidity providers to meet their quoting obligations without quoting Weekly Options if they so choose. In other words, because classes that participate in the Weeklys Program are generally very liquid and actively traded (having hundreds of series with various strikes and expirations) liquidity providers may choose to meet their quoting obligations without quoting series in the Weeklys Program. Conversely, liquidity providers may choose to focus their quoting in Weeklys Options instead of other series. In any event, any relief or change to quoting obligations is a separate rules issue and outside the scope of expansion of the Weeklys Program. As indicated above, we see no basis to distinguish or single out Weekly Options from other option series in a class as having an adverse impact on liquidity in this manner.

Bandwidth Limitations

Wolverine suggests that representations by the exchanges in their filings that there have been no system capacity issues experienced by the respective exchange or OPRA fails to take into account that some exchanges are "now attempting to control or limit the amount of information sent to their systems by imposing minimum quote-to-contracts traded ratios" (citing a recent NYSE Amex, LLC Trader Update). Wolverine also suggests that the exchanges do not address possible strain that expansion of the Weeklys Programs may have on the systems and operations of their members. As a result, Wolverine suggests that markets will be negatively impacted by either "(1) imposing unreasonable costs on market

[3] See CBOE Rule 5.5(d)(1) and 24.9(a)(2)(A)(i).

makers while they attempt to provide additional liquidity for short-term options, or (2) force market makers to choose which products to quote more actively, thereby reducing liquidity and widening spreads in many series."

Again, we see no reason to distinguish or single out the listing of Weekly Options from other option series in a class as having an adverse impact on bandwidth limitations and associated fees. We respectfully believe that comments about exchange bandwidth limitations and associated fees are better directed at rule filings addressing those particular topics and not the instant filing seeking to expand the number of classes that may be selected to participate in an existing listing program. Nonetheless, we note that on CBOE each Market Maker Trading Permit receives a quoting allowance within the cost of the Trading Permit as set forth in our fees schedule. As described above, it is possible for liquidity providers to meet their quoting obligations without quoting Weekly Options. However, even if liquidity providers quote Weekly Options, the number of series is limited to 20, which CBOE believes should not generally result in exhausting the quoting bandwidth allowance provided in the cost of a Trading Permit. Separately, if additional bandwidth is needed, the Exchange notes that this is a cost of conducting business and of receiving the benefit of being a liquidity provider. The Exchange believes the cost of an additional bandwidth packet, which is set forth in our fees schedule, is reasonable in that it is designed to provide for the equitable allocation of reasonable dues, fees, and other charges among CBOE Trading Permit Holders and other persons using its facilities.

Customer Confusion

Wolverine believes that the "over-expansion" of the Weeklys Program may lead to investor confusion and the inability to distinguish Weekly Options from standard third-Friday expirations. Wolverine suggests that the Commission poll retail focused brokers to inquire if the expansion has resulted in an increase of customer initiated busts or adjustments due to incorrect series purchases or sales.

CBOE generally has not experienced any increased number of busts or adjusts due to incorrect series associated with the Weeklys Program CBOE believes that the potential for investor confusion raised by Wolverine does not have it origins in, and is not unique or novel to, the Weeklys Program. Also, to the extent any investor confusion may exist on distinguishing one options series from another, it must be analyzed in light of and take into account the industry wide symbology initiative.[4]

Beginning in mid-May 2010, The Options Clearing Corporation completed implementation of new symbology plan ("Plan") that links all options on a particular class under the same root ticker symbol. To avoid confusion, the Plan also tacks on additional information, including an explicit expiration date that uniquely identifies each option series of an underlying class. The Exchange believes that the industry is still progressing along a learning curve and as investors, firms and brokers become more experienced and familiar with the Plan, any potential for confusion will correspondingly be reduced or eliminated altogether.

Conclusion

As addressed above, CBOE's filing is responsive to investor demand and enables the Exchange to remain competitive as other exchanges expand their respective Weekly option series programs. Accordingly, the Exchange believes that the proposed rule change is consistent with Section 6(b)(5) of the

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[4] Prior to the symbology initiative, market participants relied on unique ticker symbols in order to distinguish Weekly Options and other options (*e.g.*, Quarterlys and LEAPS) from standard third-Friday options with the same underlying class.

Securities Exchange Act of 1934 and urges the Commission to permit the expansion to the Weeklys program to continue uninterrupted and without revision.

Please do not hesitate to contact me at (312) 786-7466 if you have any questions.

Sincerely,

Jenny L. Klebes

Jenny L. Klebes
Senior Attorney

cc: Edward Joyce
Joanne Moffic-Silver
Nathan Saunders (SEC)