CBOE

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Via Electronic Mail
Ms. Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549-1090
comments@sec.gov

Re: Response to Comment Letter on File No. SR-CBOE-2012-071

Dear Ms. Murphy:

Chicago Board Options Exchange, Incorporated ("CBOE" or "Exchange") submits this letter in response to the comments submitted to the U.S. Securities and Exchange Commission ("SEC" or "Commission") by KOR Trading, LLC ("KOR") on the above referenced rule filing in which CBOE proposes to increase the maximum term for Long-Term Equity Options Series ("LEAPS") to fifteen years.

KOR's comment letter raises two issues. First, KOR suggests that CBOE's filing does not present data evidencing the need for extending the current LEAP terms by 300% to 15 years. Second, KOR suggests that the filing does not list the classes on which CBOE intends to list LEAPS having fifteen year terms, and expresses concern for increased quote traffic. CBOE responds to each issue in turn.

CBOE appreciates the first issue raised by KOR but does not fully understand KOR's interest in this issue. This is because CBOE understands KOR's (or **K**ing **o**f **R**etail) clientele to be retail oriented, whereas CBOE's proposal is geared toward an unmet demand coming from institutional investors. Nevertheless, CBOE responds by stating that the proposed increase to the duration of LEAPS was prompted by numerous requests received by the Exchange from participants, such as insurance companies offering equity-linked variable annuities, that have typically turned to over-the-counter ("OTC") dealers to trade options with longer dated expirations. The Exchange believes that additional institutional demand for longer dated LEAPS (e.g., S&P 500 Index options) would come from sell-side firms hedging longer dated OTC instruments (e.g., S&P 500 variance). Since OTC trades are bilateral agreements for which information is not publicly available, CBOE cannot provide definitive trade data supporting the longer dated request. However, virtually all of the firms queried by CBOE suggested that the ideal maturity for hedging trading activity exceed the 10-year mark. CBOE's current listing of five year S&P 500 Index options does not provide these potential market participants with the longer dated exchange listed tools they need to hedge their equity risk exposure.[1] CBOE seeks to offer various maturities (particularly in S&P 500 Index options) out to 15 years in order to provide a more robust and flexible market for longer dated options. Furthermore, Section 19(b)(2) of the Securities Exchange Act of 1934 ("Exchange Act") does not require submission of the kind of data suggested by KOR. CBOE provided a description of the proposed rule change with sufficient detail to support a finding under Section 19(b)(2) that the proposed rule change is consistent with the requirements of the Exchange Act.

KOR's second comment encompasses two concerns: that the filing does not identify specific classes that would be eligible for 15 year LEAPS and that the proposal may lead to increased quote traffic that would impact the Options Price Reporting Authority ("OPRA"). First, CBOE states that it is difficult to respond to the first half of KOR's second issue because the proposal would make available a type of contract (i.e., longer dated LEAPS) to market participants to suit their future needs, but does not limit longer dated LEAPS to certain classes. In response to KOR's suggestion that CBOE's filing should identify specific classes, CBOE states that it is not clairvoyant and does not currently know all of the specific classes for which there will be market demand in the future. We certainly do not see why classes need to be identified in order for the filing to be deemed consistent with the Exchange Act and approved. However, as noted earlier, the S&P 500 Index is one of the anticipated classes to underlie longer dated LEAPS. Second, as to quote traffic, CBOE notes that this is always an issue with the introduction of a new product or a revision to the terms of a contract, such as a longer dated LEAPS option. However, CBOE does not expect there to be a significant increase to quote traffic since CBOE anticipates listing longer dated LEAPS in response to specific market demand and does not expect to significantly populate expirations. In addition, CBOE notes that certain liquidity providers are not subject to quoting obligations for LEAPs, which will assist with quote traffic mitigation. Finally, if OPRA was concerned about the proposal creating an adverse effect on quote traffic, it presumably would have commented on the filing.

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CBOE appreciates the opportunity to provide these comments. For the reasons set forth above, CBOE believes that KOR's recommendation that the Commission extend the comment period for this filing is unnecessary and CBOE respectfully requests that the Commission approve the proposed rule filing. Should you require any further information, please do not hesitate to contact the undersigned.

Sincerely,

Jenny Klebes-Golding

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cc: Heather Seidel (SEC)
Tina Barry (SEC)
Michael Bradley (SEC)
Sara Gillis Hawkins (SEC)

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1 CBOE's proposal would apply to all LEAPS (equity/index) and would provide the flexibility for market participants to trade longer dated LEAPS on individual stocks in addition to exchange-traded funds such as SPY, IWM, DIA and QQQ.