

November 27, 2013

Via Electronic Mail

Ms. Elizabeth M. Murphy  
Secretary  
Securities and Exchange Commission  
100 F Street, NE  
Washington, D.C. 20549-1090  
[rule-comments@sec.gov](mailto:rule-comments@sec.gov)

Re: Comment Letter on File No. SR-ISE-2013-42

Dear Ms. Murphy:

Chicago Board Options Exchange, Incorporated (CBOE or Exchange) hereby submits comments to the Order Instituting Proceedings (OIP) to Determine Whether to Approve or Disapprove a Proposed Rule Change, as Modified by Amendment No. 1, to List Options on the National VolDex Index (VolDex index) submitted by International Securities Exchange, LLC (ISE).<sup>1</sup>

CBOE previously submitted a comment letter when the Commission initially published the ISE proposal to list VolDex index options for comment.<sup>2</sup> CBOE reiterates below the substance of its previous comments as the Exchange believes that the points raised in CBOE's original comment letter remain important and relevant.

**Consistent Regulatory Treatment for Position Limits**

As ISE describes in its filing (and unaltered by Amendment 1) the spot calculation of the VolDex index would be comprised of a total of (at most) four component SPDR S&P ETF (SPY) put options and that the settlement value for the proposed VolDex index options would be calculated using the opening NBBO quotations of those component options. The component weights of the four put options used to calculate the VolDex index can become highly concentrated in just one or two component options depending on the time to expiration and the relationship of the forward SPY price to the strike prices of the component options. As CBOE discussed in its original comment letter, a no-position limit regime is inappropriate due to the construction of the VolDex index. Instead, the more analogous comparison for appropriate

<sup>1</sup> Securities Exchange Act Release No. 70787 (October 31, 2013), 78 FR 66798 (November 6, 2013) (notice of SR-ISE-2103-42).

<sup>2</sup> A copy of CBOE's August 23, 2013 letter may be accessed at: <http://www.sec.gov/comments/sr-ise-2013-42/ise201342-1.pdf>.

regulatory treatment is the Alpha Index option contract that the SEC approved for trading on NASDAQ OMX PHLX, LLC in 2011.<sup>3</sup>

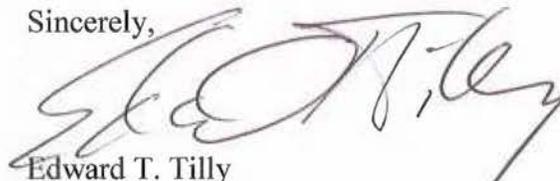
Alpha Index options are cash-settled index options that measure the relative performance of two single securities (a target component and a benchmark component) on which traditional options are physically-settled. Notably all approved Alpha Index pairings include SPY as the benchmark component. Options on Alpha Index pairings in which the target component is an exchange-traded fund have a position limit of 15,000 contracts and options on all other approved pairings in which the target component is a single stock have a position limit of 60,000 contracts.<sup>4</sup> CBOE believes that the position limits established for Alpha Index options (all of which include SPY as one of the two securities included in the index) are the appropriate comparison for determining the regulatory treatment of VolDex index options.

ISE's proposed VolDex index options are analogous to Alpha Index options. As noted above and as described in more detail in CBOE's original comment letter, the exercise settlement value for VolDex index options could be dominated by just one or two component securities. As a result, CBOE disagrees with ISE that VolDex index options are not analogous to Alpha Index options. Rather, the construction of the VolDex index (*i.e.*, number of component securities) and ISE's own description that the VolDex index measures the volatility of a single ETF support CBOE's position that the Commission should extend consistent regulatory treatment to VolDex index options. Specifically, CBOE urges the Commission to require ISE to establish position limits for VolDex index options in accordance with the Alpha Index option precedent.

\* \* \* \* \*

CBOE appreciates the opportunity to provide these comments. Should you require any further information, please contact Jenny Golding, Senior Attorney, at [REDACTED]

Sincerely,



Edward T. Tilly  
Chief Executive Officer  
Chicago Board Options Exchange, Incorporated

cc: Heather Seidel (SEC)  
Richard Holley (SEC)  
John Roeser (SEC)

<sup>3</sup> See Securities Exchange Act Release No. 65149 (August 17, 2011), 76 FR 52729 (August 23, 2011) (Order Granting Approval of Proposed Rule Change Relating to Alpha Index Options) (SR-Phlx-2011-89).

<sup>4</sup> See Securities Exchange Act Release No. 63860 (February 7, 2011), 76 FR 7888 (February 11, 2011) (Order Granting Approval of Proposed Rule Change Relating to Listing and Trading of Alpha Index Options) (SR-Phlx-2010-176).