SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-63155; File No. SR-CBOE-2010-096)

October 21, 2010

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Expand the Range of Strike Price Intervals for VIX Options

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")[1] and Rule 19b-4 thereunder,[2] notice is hereby given that, on October 19, 2010, the Chicago Board Options Exchange, Incorporated ("CBOE"or the "Exchange") filed with the Securities and Exchange Commission ("SEC" or "Commission") the proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. The Exchange filed the proposal as a "non-controversial" proposed rule change pursuant to Section 19(b)(3)(A)(iii) of the Act[3] and Rule 19b-4(f)(6) thereunder.[4] 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

CBOE proposes to amend Rule 24.9.01(e), Terms of Index Option Contracts, to expand the range of strike price intervals for options on the CBOE Volatility Index ("VIX"). The text of the rule proposal is available on the Exchange's website (http://www.cboe.org/legal), at the Exchange's principal office, and at the Commission's Public Reference Room.

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

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1 15 U.S.C. 78s(b)(1).

2 17 CFR 240.19b-4.

3 15 U.S.C. 78s(b)(3)(A)(iii).

4 17 CFR 240.19b-4(f)(6).

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 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 this rule filing is to amend Rule 24.9.01(e), Terms of Index Option Contracts, to expand the range of strike price intervals for options on the CBOE Volatility Index ("VIX"). Currently, Rule 24.9.01(e) permits the Exchange to list series at $1 or greater strike price intervals for each VIX expiration. Dollar strikes for VIX options, however, are centered around a limited range based on VIX futures prices. Specifically, the Exchange may open up to five option series above and five option series below the current index level, which is based on VIX futures prices. As the current index level moves, the Exchange may open additional series within the same range (i.e., five above/below). This filing proposes to eliminate the band that limits the number of $1 strikes that may be listed in VIX options.

In support of this modification, the Commission has already addressed the policy issue raised by this filing, i.e., broader range of $1 strikes for vehicles to trade S&P 500 volatility, and the Commission has already approved $1 strikes for VIX options.[5] The Exchange notes since the strike setting parameters for VIX options were first established, other products have been introduced that compete with VIX options, but do not have similar strike adding restrictions. For

5 See Securities Exchange Act Release Nos. 61696 (March 12, 2010), 75 FR 13174 (March 18, 2010) (SR-CBOE-2010-005) (order approving $1 strikes for options on index-linked securities) and No. 54192 (July 21, 2006), 71 FR 43251 (July 31, 2006) (SR-CBOE-2006-27) (order approving $1 strikes for VIX options).

example, $1 or greater strike price intervals (where the strike price is less then $200) are permitted for options on the iPath S&P 500 VIX Short-Term Futures Index ETN ("VXX") and on the iPath S&P 500 VIX Mid-Term Futures Index ETN ("VXZ").

VXX and VXZ are exchange traded notes that "are linked to the performance of an underlying index that is designed to provide investors with exposure to one or more maturities of futures contracts on the VIX Index, which reflect implied volatility of the S&P 500 Index at various points along the volatility forward curve."[6] The futures contracts on the VIX level that the VXX and VXZ notes are linked to are listed for trading on the CBOE Futures Exchange, LLC ("CFE"). VIX options traded on CBOE overlie the same index on which CFE lists futures contracts. As a result, options on VIX, VXX and VXZ are competing listed vehicles to trade volatility and market participants may use the products interchangeably. In addition, CFE launched Weekly Options on VIX futures on September 28, 2010, and $0.50 or greater strike price intervals are permitted.

CBOE notes that the Commission has previously permitted similar $1 strike setting regimes for other index options that compete with physically-settled options. Specifically, $1 strikes are permitted for options on the Mini-Russell 2000 Index ("RMN")[7] and for options on the iShares Russell 2000 Index Fund ("IWM").[8] Similarly, $1 strikes are permitted for options on the Mini S&P 500 Index ("Mini SPX")[9] and for options on the Standard and Poor's Depositary Receipts Trust ("SPY").[10]

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6 See Pricing Supplement to the Barclay's iPath Prospectus, dated August 31, 2010, at PS-1, which is available at: http://ipathetn.com/pdf/vix-prospectus.pdf.

7 See Rule 24.9.01(k).

8 See Rule 5.5.06.

9 See Rule 24.9.11.

10 See Rule 5.5.06.

In addition, the Exchange states that it has received requests to add strikes so that market participants may be able to "roll" expiring positions; that is, trade out of an expiring VIX option with a certain strike and re-establish a new position in the next month's VIX option with the same strike. Because the strike setting regime for volatility index options is tied to futures prices, certain strikes may not be available for listing, thus creating the situation in which rolling cannot be accomplished.

In order to be able to compete effectively and provide market participants with products that can be used to hedge other products already trading in the market, CBOE believes that untying the addition of $1 or greater strikes to the "current index level" will provide investors with greater flexibility by allowing them to establish positions that are better tailored to meet their investment objectives.

<u>Capacity</u>

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 expanded range of strike price intervals for VIX options.

2. <u>Statutory Basis</u>

Because the current proposed is limited to VIX options for which $1 strikes are already permitted and because the series could be added without presenting capacity problems, the Exchange believes the rule proposal is consistent with the Securities Exchange Act of 1934 (the "Act") and the rules and regulations under the Act applicable to a national securities exchange and, in particular, the requirements of Section 6(b) of the Act.[11] Specifically, the Exchange

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[11] 15 U.S.C. 78f(b).

believes that the proposed rule change is consistent with the Section 6(b)(5) Act[12] requirements that the rules of an exchange be designed to promote just and equitable principles of trade, to prevent fraudulent and manipulative acts and, in general, to protect investors and the public interest.

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

Because the foregoing proposed rule does not (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act[13] and Rule 19b-4(f)(6) thereunder.[14] At any time within 60 days of the filing of such proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to

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12 15 U.S.C. 78f(b)(5).

13 15 U.S.C. 78s(b)(3)(A).

14 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6)(iii) requires the Exchange to give the Commission written notice of the Exchange's intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

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-2010-096 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-2010-096. 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-2010-096 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.[15]

Florence E. Harmon
Deputy Secretary

[15] 17 CFR 200.30-3(a)(12).