

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-72482; File No. SR-CBOE-2014-051)

June 26, 2014

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to Strike Settings for Mini-S&P 500 Index Options

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on June 25, 2014, Chicago Board Options Exchange, Incorporated (the “Exchange” or “CBOE”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared by the self-regulatory organization. The Commission is publishing this notice to solicit comments on the proposed rule from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to amend Interpretation and Policy .11 to Rule 24.9 (Terms of Index Options Contracts) by modifying the strike setting regime for Mini-S&P 500 Index (“XSP”) options.

The text of the proposed rule change is available on the Exchange’s website (<http://www.cboe.com/AboutCBOE/CBOELegalRegulatoryHome.aspx>), at the Exchange’s Office of the Secretary, 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 Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

proposed rule change. The text of these 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 aspects of such statements.

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

1. Purpose

The Exchange proposes to amend Interpretation and Policy .11 to Rule 24.9 (“Interpretation and Policy .11”) by modifying the strike setting regime for Mini-S&P 500 Index (“XSP”) options. Specifically, the Exchange is proposing to more closely align: (1) the permitted strike prices in XSP options with scaled corresponding strikes in full value S&P 500 Index (“SPX”) options; and (2) the exercise price range limitations for XSP options with the exercise price range limitations for equity and exchange traded fund (“ETF”) options. Through this filing, the Exchange hopes to make XSP options easier for investors to use and more tailored to their investment needs.

Over two decades ago, CBOE introduced XSP options in order to allow smaller-scale investors to gain broad exposure to the SPX options market and hedge S&P 500 Index cash positions.<sup>3</sup> XSP options are reduced value options that are equal to 1/10th of the value of the S&P 500 Index and have a multiplier of \$100. For example, if the S&P 500 Index is at 1932.56, the XSP Index would have a value of 193.26 and the notional value of an XSP option would be \$19,326. As the Commission noted in the XSP option Approval Order,

reduced-value SPX options may benefit investors by providing them with a relatively low-cost means to hedge their portfolios. The Commission also believes that the lower cost of the reduced-value SPX options should allow investors to hedge

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<sup>3</sup> See Securities Exchange Act Release No. 32893 (September 14, 1993), 58 FR 49070 (September 21, 1993) (Order approving listing of reduced-value options on the Standard & Poor's 500 Stock Index) (SR-CBOE-93-12).

their portfolios with a smaller outlay of capital and may facilitate participation in the market for SPX options, which should, in turn, help to maintain the depth and liquidity of the market for SPX options, thereby protecting investors and the public interest.<sup>4</sup>

As the Commission anticipated, XSP options provide retail investors with the benefit of trading the broad market in a manageably sized contract.

Under current Interpretation and Policy .11 “the interval between strike prices of series of Mini-SPX options will be \$1 or greater where the strike price is \$200 or less and \$5.00 or greater where the strike price is greater than \$200.”<sup>5</sup> Currently, the XSP Index is hovering close to 200, reflecting levels near 2000 in the S&P 500 Index. As a result, the Exchange has received customer requests to add strike prices in XSP options that exceed \$200. Specifically, customers have requested strike prices in the XSP options scaled to match strike prices in the SPX options. Under existing Interpretation and Policy .11, the Exchange is unable to list some of the requested strikes. For example, currently, SPX options have strike prices that include 2010, 2020 and 2030. In order to list corresponding scaled strikes in XSP options, CBOE would need the ability to list the following strikes: 201, 202 and 203. The listing of strikes in those increments, however, is not permitted under current Interpretation and Policy .11. Rather, the Exchange currently only has the ability to list a 200 strike price and a 205 strike price in XSP options.

In addition, exercise prices for XSP options must be within 30% of the current XSP value.<sup>6</sup> Exercise prices more than 30% away from the current XSP level are permitted provided there is

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<sup>4</sup> 58 FR at 49071.

<sup>5</sup> Rule 24.9.11.

<sup>6</sup> Rule 24.9.04 generally provides that exercise prices for index options must be within 30% of the current index value. Exercise prices more than 30% away from the current

demonstrated customer interest for such exercise prices. Through this filing, the Exchange is proposing to align the exercise price range limitations for XSP options with the exercise price range limitations for equity and ETF options.<sup>7</sup> The following example illustrates the different exercise price range limitations between XSP options and equity and ETF options. If the underlying price of an equity or ETF option is \$200, the Exchange would be permitted to list strikes ranging from \$100 through \$300. If the underlying level of the XSP is 200, the Exchange would only be permitted to list strikes ranging from \$140 to \$260. To put XSP options on equal standing with equity and ETF options in terms of exercise price range limitations, the Exchange proposes to replace the 30% +/- current index level strike setting band for XSP options with the strike setting band that currently exists for equity and ETF options. The Exchange believes that the existing strike setting regime for XSP options is unnecessarily restrictive and thus, proposes to establish a new strike setting regime for XSP options.

In order to more closely align strike prices between reduced value XSP options and full value SPX options and to align the exercise price range limitations for XSP options with the existing price range limitations for equity and ETF options, CBOE proposes to amend Interpretation and Policy .11 as follows:

- If the current value of the Mini-SPX is less than or equal to 20, the Exchange shall not list series with an exercise price of more than 100% above or below the current value of the Mini-SPX;<sup>8</sup>

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index level are permitted provided there is demonstrated customer interest for such exercise prices.

<sup>7</sup> Rule 5.5A (Select Provisions of Options Listing Procedures Plan) sets forth the exercise price range limitations for equity and ETF options, which are identical to those being proposed for XSP options in the current filing.

<sup>8</sup> The Exchange is proposing to exclude XSP options from the provisions of Rules 24.9.01(a), 24.01(d) and 24.9.04. Rule 24.9.01(a) identifies those indexes for which the

- If the current value of the Mini-SPX is greater than 20, the Exchange shall not list series with an exercise price of more than 50% above or below the current value of the Mini-SPX; and
- The lowest strike price interval that may be listed for Mini-SPX options is \$1, including for LEAPS.

The Exchange believes that the above strike price setting regime would permit strikes to be set to more closely reflect the current values in the underlying S&P 500 Index would provide flexibility and allow the Exchange to better respond to customer demand for XSP options strike prices that better relate to current S&P 500 Index values. In addition, the Exchange believes that because the number of strikes that may be listed would be contained by the percentages above and below the current XSP Index value, there is no need to artificially restrict the use of \$1 strike price intervals based on the exercise price. Rather, the Exchange may determine to list strikes in \$1 intervals or higher based on the level of the XSP Index, customer demand and the need to list scaled strikes in reduced value XSP options that correspond to strikes in full value SPX options. Also, the Exchange believes that there is no reason to have a more limited range of strikes for XSP options than is currently permitted for equity or ETF options

The Exchange recognizes that the proposed approach does not achieve full harmonization between strikes in XSP options and SPX options. For example, if there is a 2015 strike in SPX options, CBOE is not seeking the ability to list a 201.50 strike in XSP options. CBOE believes that having the ability to list the 201 and 202 strikes in XSP options would provide the marketplace with

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minimum strike price interval is \$2.50. Rules 24.9.01(d) and 24.9.04 set forth 30% ranges for setting strike prices based on the current index level, which are in conflict with the percentages proposed in this filing.

a sufficient number of strike prices over a range of XSP Index values.<sup>9</sup> The Exchange believes that these changes would allow retail investors to better use XSP options to gain exposure to the SPX options market and hedge S&P 500 cash positions in the event that the S&P 500 Index surpasses 2000.

The S&P 500 Index is widely regarded as the best single gauge of large cap U.S. equities. As a result, individual investors often use S&P 500 Index-related products to diversify their portfolios and benefit from market trends. Full size SPX options offer these benefits to investors, but may be expensive with a notional value that exceeds \$190,000 per contract and are primarily used by institutional market participants. By contrast, reduced value XSP options offer individual investors the ability to benefit from S&P 500 Index options at much lower cost.

The Exchange 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 proposed revised strike setting regime for XSP options. Because the rule change proposes to continue to only list strikes within a certain band relative to current S&P 500 Index levels, the number of listed strikes would remain contained. In addition, the proposal is limited to a single option class (XSP).

## 2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the Act and the rules and regulations thereunder applicable to the Exchange and, in particular, the requirements of Section 6(b) of the Act.<sup>10</sup> Specifically, the Exchange believes the proposed rule change is

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<sup>9</sup> In the future, the Exchange may request via a rule filing to have even finer strike price increments for XSP options and nothing herein is meant to imply or preclude the Exchange from doing so in the future if the need arises.

<sup>10</sup> 15 U.S.C. 78f(b).

consistent with the Section 6(b)(5)<sup>11</sup> requirements that the rules of an exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest. Additionally, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>12</sup> requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

In particular, the proposed rule change would add consistency to the S&P 500 Index options markets and allow investors to more easily use XSP options. Moreover, the proposed rule change would allow small investors to better hedge positions in the S&P 500 Index cash market with XSP options and ensure that XSP options investors are not at a disadvantage with respect to larger institutional investors in the SPX options.

The Exchange also believes the proposed rule change is consistent with Section 6(b)(1) of the Act,<sup>13</sup> which provides that the Exchange be organized and have the capacity to be able to carry out the purposes of the Act and to enforce compliance by the Exchange's Trading Permit Holders and persons associated with its Trading Permit Holders with the Act, the rules and regulations thereunder, and the rules of the Exchange. The Exchange does not believe that the proposed rule would create additional capacity issues or affect market functionality. The rule change proposes to allow the Exchange to respond to customer demand by listing strike prices in

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<sup>11</sup> 15 U.S.C. 78f(b)(5).

<sup>12</sup> Id.

<sup>13</sup> 15 U.S.C. 78f(b)(1).

the XSP options scaled to match strike prices in the SPX options. The number of XSP strikes that may be listed, however, would not be unbounded. This would be accomplished by limiting the interval between strike prices of series of XSP options to \$1 or greater when the strike price is greater than 20 and by prohibiting the Exchange from listing series with an exercise price of more than 50% above or below the current value of the XSP (which is identical to what is currently permitted for equity and ETF options).

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. Rather, the Exchange believes that the proposed rule change would relieve any burden on, or otherwise promote, competition in the S&P 500 Index-related markets. The Exchange believes that the proposed rule change would bolster intramarket competition by affording individual investors in XSP options investment opportunities that are similar to those that are available to investors in SPX options. In addition, the proposed rule change would allow investors in XSP options to better hedge positions in the S&P 500 Index cash market in a manner similar to larger investors in the SPX options market. The Exchange also believes that the proposed rule change would make XSP options easier for investors to use because the options would more accurately reflect positions in the underlying cash market. Accordingly, the Exchange believes that the proposed rule change would contribute to intramarket competition and a more robust marketplace. Notably, all market participants would have the same access to XSP options and would be able to use XSP options products to appropriately suit their investment needs.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

The Exchange neither solicited nor received comments on the proposed rule change.



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

Because the proposed rule change 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, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>14</sup> and Rule 19b-4(f)(6) thereunder.<sup>15</sup>

The Exchange has asked the Commission to waive the 30-day operative delay so that the proposal may become operative immediately upon filing. The Exchange stated that waiver of this requirement will allow the Exchange to respond to current customer demand for strike prices in XSP options that are scaled to match existing strikes prices in SPX options. For this reason, the Commission believes that the proposed rule change presents no novel issues and that waiver of the 30-day operative delay is consistent with the protection of investors and the public interest. Therefore, the Commission designates the proposed rule change to be operative upon filing.<sup>16</sup>

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to 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. If the Commission takes such action, the

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<sup>14</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>15</sup> 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.

<sup>16</sup> For purposes only of waiving the 30-day operative delay, the Commission has also considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

Commission shall institute proceedings to determine whether the proposed rule should be approved or 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](mailto:rule-comments@sec.gov). Please include File Number SR-CBOE-2014-051 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-CBOE-2014-051. 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-2014-051 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.<sup>17</sup>

Kevin M. O'Neill  
Deputy Secretary

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<sup>17</sup> 17 CFR 200.30-3(a)(12).