SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-72991; File No. SR-CBOE-2014-069)

September 4, 2014

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to XSP and DJX Strike Price Listings

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"),[1] and Rule 19b-4 thereunder,[2] notice is hereby given that, on August 28, 2014, Chicago Board Options Exchange, Incorporated (the "Exchange" or "CBOE") filed with the Securities and Exchange Commission (the "Commission") the proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. 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

[sic] proposes to amend Rule 24.9 (Terms of Index Option Contracts), including Interpretation and Policy .02(b) and Interpretation and Policy .11 thereunder regarding the strike setting regimes for Mini-S&P 500 Index ("XSP") options and options based on one-one hundredth of the Dow Jones Industrial Average ("DJX") under the End of Week/End of Month Expirations Pilot Program ("EOW/EOM Pilot Program") in Rule 24.9(e) and the Short Term Options Series Program ("STOS") in Rule 24.9(a)(2)(A). The text of the proposed rule change is provided below.

(additions are italicized; deletions are [bracketed])

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

2 17 CFR 240.19b-4.

Chicago Board Options Exchange, Incorporated
Rules

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Rule 24.9 – Terms of Index Option Contracts

RULE 24.9(a) – (e) No change.

. . . ***Interpretations and Policies:***

.01 The procedures for adding and deleting strike prices for index options are provided in Rule 5.5 and Interpretations and Policies related thereto, as otherwise generally provided by Rule 24.9, and include the following:

(a) No change.

(b) Notwithstanding the above paragraph, the interval between strike prices may be no less than $0.50 for options based on one-one hundredth of the value of the DJIA<u>, including for series listed under either the Short Term Options Series Program in Rule 24.9(a)(2)(A) or the EOW/EOM Pilot Program in Rule 24.9(e)</u>.

(c) – (m) No change.

.02 – .10 No change.

.11 Notwithstanding Interpretations and Policies .01(a), .01(d) and .04 to Rule 24.9, the exercise prices for new and additional series of Mini-SPX options shall be listed subject to the following:

(a) 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;

(b) 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

(c) The lowest strike price interval that may be listed for standard Mini-SPX options is $1, including for LEAPS, and the lowest strike price interval that may be listed for series of Mini-SPX listed under either the Short Term Option Series Program in Rule 24.9(a)(2)(A) or the EOW/EOM Pilot Program in Rule 24.9(e) is $0.50.

.12 – .14 No change.

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The text of the proposed rule change is also 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 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 Rule 24.9 (Terms of Index Option Contracts) to allow the Exchange to list Weekly series of XSP and DJX in $0.50 strike price intervals.[3] Specifically, the

[3] The Exchange uses the term "Weeklys" to generally refer to the different types of security options that expire on any Friday other than the third Friday of the month. The Rules currently specify two types of security options that expire on such Fridays: STOS and EOW/EOM expirations. See Rules 5.5(d) (STOS program for equity classes) and

Exchange proposes to modify Interpretation and Policy .01(b) and Interpretation and Policy .11 to Rule 24.9 to provide that Weekly series of XSP and DJX options listed under the STOS Program in Rule 24.9(a)(2)(A) and EOW/EOM Pilot Program in Rule 24.9(e) may be listed in strike price intervals of $0.50 or greater.[4] The Exchange believes that the proposed rule change is consistent with the strike setting regimes of similar competitive products and that the proposed rule change would make XSP and DJX options easier for investors and traders to use and more tailored to their investment needs.

XSP and DJX options track the performance of the S&P 500 Index ("SPX") and Dow Jones Industrial Average ("DJIA"). Whereas SPX options reflect strike prices equal to S&P 500 Index value, the price of XSP equals 1/10th of the price of the SPX. The DJX reflects a price equal to 1/100th of the price of the DJIA. Accordingly, XSP strike prices reflect a value equal to 1/10th of the value of the SPX and DJX strike prices reflect a value equal to 1/100th of the value of the DJIA with each having a multiplier of $100. For example, if the S&P 500 Index is at 1972.56, XSP options will have a value of 197.26 and a notional value of $19,726. If the DJIA is at 16,569.98, DJX options will have a value of 165.70 and a notional value of $16,570. In general, XSP and DJX options provide retail investors and traders with the benefit of trading the broad market in a manageably sized contract. XSP and DJX Weekly options trade under the EOW/EOM Pilot Program in Rule 24.9(e) and STOS Program in Rule 24.9(a)(2)(A) respectively.

24.9(a)(2)(A) (STOS program for index classes) and Rule 24.9(e) (sets forth the terms of the EOW/EOM Pilot Program).

4 The Exchange proposes to make the changes in this filing at the class level, i.e., DJX and XSP. Currently, weekly series on DJX are listed under the STOS program and weekly series on XSP are listed under the EOW/EOM Pilot Program. A noteworthy difference between these programs is that series in the EOW/EOM Pilot Program are P.M.-settled and series in the STOS program have the same settlement style as standard expirations on that same class. The Exchange is proposing to permit $0.50 strike price intervals for DJX and XSP series listed under either program so as to create flexibility and to conform the strike setting regimes for series of these classes listed under either program.

The SPX is widely regarded as the best single gauge of large cap U.S. equities. Similarly, the DJIA is widely quoted as an indicator of stock prices and investor confidence in the securities market. As a result, individual investors often use SPX- and DJIA-related products to diversify their portfolios and benefit from market trends With respect to XSP, the Commission has noted that,

> 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 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.[5]

Accordingly, the Exchange believes that offering a wide range of SPX- and DJIA-based options affords traders and investors important hedging and trading opportunities. The Exchange believes that not having the proposed $0.50 strike price for series of near-term XSP and DJX options significantly constricts investors' hedging and trading possibilities.

Notably, standard DJX already trade in $0.50 strike price intervals and SPX options trade in $5.00 strike intervals, which are equivalent to $0.50 strike price intervals in XSP. XSP, however, only trades in intervals of $1.00 or greater. This disunity creates a situation where certain options trading strategies cannot be executed using options with the same underlying. For example, an XSP options investor may not be able to roll a position to a higher strike price (equivalent to a strike price listed in SPX), simply because of the strike setting regime

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5 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).

differences between the products despite the relative notional values between standard SPX and scaled XSP options. The Exchange's proposed rule change would remedy this situation by establishing strike interval settings for XSP and DJX Weekly options in-line with the strikes listed for standard SPX and DJX options products. The Exchange believes that the proposed rule change, like other strike price programs currently offered by the Exchange, will benefit investors by giving them increased flexibility and the ability to more closely tailor their investment and hedging decisions to their needs. Moreover, the proposed rule change is consistent with similar rule changes proposed by other exchanges.[6]

Under current Interpretation and Policy .01(b) to Rule 24.9, the interval between strike prices in standard series of DJX options may be no less than $0.50. The Exchange seeks to clarify that Interpretation and Policy .01(b) to Rule 24.9 applies to all series of the DJX options, including DJX options listed under either the STOS Program or EOW/EOM Pilot Program. Accordingly, the Exchange's proposal would add language stating that the interval between strike prices may be no less than $0.50 for options based on one-one hundredth of the value of the DJIA, including for Weekly options listed under the STOS Program in Rule 24.9(a)(2)(A) or EOW/EOM Pilot Program. Similarly, the Exchange proposes to amend Interpretation and Policy .11 to Rule 24.9 to allow Weekly series XSP options to trade in $0.50 increments. Specifically, the Exchange proposes to amend Interpretation and Policy .11(c) to Rule 24.9 to state that the Exchange may list Weekly series of XSP options listed under either the STOS Program in Rule 24.9(a)(2)(A) or the EOW/EOM Pilot Program in Rule 24.9(e) in $0.50 intervals.

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6 See Securities and Exchange Act Release 34-72664 (July 24, 2014), 79 FR 44231 (July 30, 2014) (Notice of Filing of Proposed Rule Change, as Modified by Amendment No. 1, Relating to SPY and DIA Options) (SR-Phlx-2014-046).

The Exchange believes that by having smaller strike intervals in series XSP and DJX, investors and traders would have more efficient hedging and trading opportunities. The proposed strike setting regime would permit strikes to be set to more closely reflect values in the underlying S&P 500 Index and DJIA and allow investors and traders to roll open positions from a lower strike to a higher strike in conjunction with the price movement of the underlying.

With respect to DJX options, by listing Weekly series of DJX options with $0.50 intervals between strike prices, traders and investors would be able to more precisely hedge open positions with $0.50 strike prices in standard options with Weekly options and roll open positions with $0.50 strike prices in standard DJX options uniformly into DJX Weekly options positions. With respect to XSP, the proposed approach would achieve full harmonization between strikes in XSP options and SPX options. For example, if there is a 1985 strike in SPX options, the Exchange would be permitted to list a parallel 198.50 strike in XSP options. Thus, the Exchange believes that the proposed rule change would allow XSP traders and investors to tailor their investment strategies in the same manner as traders and investors in SPX –that these changes would allow traders and investors to use XSP options to hedge S&P 500 cash positions more precisely and in the same manner as SPX traders and investors.

The Exchange believes that the proposed rule change, like the other strike price programs currently offered by the Exchange, will benefit investors by providing investors the flexibility to more closely tailor their investment and hedging decisions using XSP and DJX options. In addition, the Exchange believes that the proposal would harmonize the strike setting regimes for XSP and DJX weekly series with the strike setting regimes for weekly series on certain exchange-trade options ("ETF") option classes (that track the performance of broad based indexes such as the S&P 500 and the Dow Jones Industrial Average), for which the lowest strike price interval is $0.50. A recent rule filing proposed to amend the strike setting regimes for certain standard ETF option classes, which would result in $0.50 strike price intervals being permitted in STOs on those same ETF option classes.[7]

The Exchange notes that its proposal to list XSP and DJX Weekly options in $0.50 intervals would moderately augment the potential total number of options series available on the Exchange. However, the Exchange has analyzed its capacity and represents that it and the Options Price Reporting Authority ("OPRA") have the necessary systems capacity to handle any potential additional traffic associated with this proposed rule change. The Exchange also believes that Trading Permit Holders will not have a capacity issue due to the proposed rule change. The Exchange further represents that it does not believe that this expansion will cause fragmentation of liquidity.

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.[8] Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)[9] 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

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7 See Securities and Exchange Act Release 34-72664 (July 24, 2014), 79 FR 44231 (July 30, 2014) (Notice of Filing of Proposed Rule Change, as Modified by Amendment No. 1, Relating to SPY and DIA Options) (SR-Phlx-2014-046).

8 15 U.S.C. 78f(b).

9 15 U.S.C. 78f(b)(5).

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)[10] 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 options markets and allow investors to more easily use XSP and DJX options. Notably, the current Rules already permit the Exchange to list standard series of DJX options with $0.50 strike price intervals[11] and SPX options currently trade in strike intervals equivalent to $0.50 strike price intervals in XSP. This creates a situation where traders and investors may not be able to effectively execute certain traditional options strategies such as, for example, rolling positions out a month because of disunity in the strike settings of a product or because of the smaller notional value of a scaled product relative to the product from which it derives. This proposal remedies the situation by establishing interval regime for Weekly XSP and DJX options that is in line with standard DJX and SPX options products. The Exchange believes that the proposed rule change, like other strike price programs currently offered by the Exchange, would provide additional flexibility in the market and benefit investors and traders. Moreover, the proposed rule change would increase market competition and provide traders and investors with alternatives tailored to their investment, trading, and hedging need. Notably, the Exchanges proposal is also consistent with proposed rule changes recently filed with the Commission by other exchanges.[12]

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10 Id.

11 See Interpretation and Policy .01(b) to Rule 24.9.

12 See Securities and Exchange Act Release 34-72664 (July 24, 2014), 79 FR 44231 (July 30, 2014) (Notice of Filing of Proposed Rule Change, as Modified by Amendment No. 1, Relating to SPY and DIA Options) (SR-Phlx-2014-046).

The Exchange believes that the proposed rule change would contribute to the robustness of the market and help ensure fair competition between participants. Other proposed rule changes have recently been filed with the Commission, including by CBOE, seeking to list Weekly series of SPY and DIA options with $0.50 intervals between strikes. XSP and DJX products compete directly with SPY and DIA options products, which roughly track the S&P 500 Index and DJIA. Without the ability to list XSP and DJX options with strike prices similar to those being offered in competing series of SPY and DIA options, XSP and DJX would be unable to compete fairly with SPY and DIA options in the marketplace. The inability to list XSP and DJX options with finer $0.50 strikes in harmony with similar SPY and DIA products would put the Exchange at a competitive disadvantage and ultimately, result in fewer investment and trading opportunities for investors and traders. The Exchange believes that the proposed rule change would allow the Exchange to compete on equal footing with other exchanges that may propose to list Weekly SPY and DIA options products with finer intervals between strike price intervals and ensure that XSP and DJX options investors and traders are not at a disadvantage in the market.

The Exchange also believes the proposed rule change is consistent with Section 6(b)(1) of the Act, which provides that the Exchange be organized and have the capacity to be able to carry out the purposes of the Act and the rules and regulations thereunder, and the rules of the Exchange. The proposed rule change would allow the Exchange to respond to customer demand for finer strike prices in series of Weekly XSP and DJX options.

In addition, The Exchange does not believe that the proposed rule would create additional capacity issues or affect market functionality. With regard to the impact of this proposal on system capacity, the Exchange has analyzed its capacity and represents that it and OPRA have the necessary systems capacity to handle any potential additional traffic associated with this proposed rule change. The Exchange believes that its members will not have a capacity issue as a result of this proposal.

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 will result in additional investment options and opportunities to achieve the investment and trading objectives of market participants seeking efficient trading and hedging vehicles, to the benefit of investors, market participants, and the marketplace in general. Specifically, the Exchange believes that XSP and DJX option investors and traders will significantly benefit from the availability of finer strike prices being listed in series of XSP and DJX Weekly options. Moreover, the Exchange believes that the proposed rule changes will bolster intermarket competition by allowing the Exchange to list XSP and DJX strike prices commensurate with the strike prices in SPY and DIA options products with which XSP and DJX options products compete directly. The inability to list $0.50 strikes in series of XSP and DJX Weekly options would put the Exchange at a distinct competitive disadvantage with respect to SPY and DIA options. As such, the Exchange believes that the proposed rule change is essential for intermarket competitive purposes and to promote a free and open market for the benefit of investors and traders.

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[13] and Rule 19b-4(f)(6) thereunder.[14]

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 would allow the Exchange to list XSP and DJX strike prices commensurate with available strike prices in SPY and DIA options products against which XSP and DJX options products compete directly. The Exchange also stated that, given the current level of the S&P 500 Index, the Exchange believes that it is important to be able to list the requested strikes as soon as possible so that traders and investors have appropriately tailored products available to them to meet their needs in the current market conditions. For these reasons, 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; and will allow the Exchange to remain competitive with other exchanges. Therefore, the Commission designates the proposed rule change to be operative upon filing.[15]

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

14 17 CFR 240.19b-4(f)(6). As required under Rule 19b-4(f)(6)(iii), the Exchange provided the Commission with written notice of its intent to file the proposed rule change, along with a brief description and the 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.

15 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).

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 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. Please include File Number SR-CBOE-2014-069 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-2014-069. 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-2014-069 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.[16]

Kevin M. O'Neill
Deputy Secretary

[16] 17 CFR 200.30-3(a)(12).