SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-74159; File No. SR-CBOE-2015-007)

January 28, 2015

Self-Regulatory Organizations: Chicago Board Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Adopt a Box Spread Strategy Rebate for Users of the Exchange's Customized Options Pricing Service

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 January 15, 2015, 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, II, and III 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

The Exchange proposes to adopt a box spread strategy rebate for users of the Exchange's Customized Options Pricing Service ("COPS"). 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 proposed rule change. The text of these statements may be examined at the places specified

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

2 17 CFR 240.19b-4.

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 adopt a box spread strategy rebate for users of the Exchange's COPS.[3] COPS provides market participants with an "end-of-day"[4] file and "historical"[5] files of valuations for Flexible Exchange ("FLEX")[6] options and certain over-the-counter ("OTC") options (collectively, "COPS Data"). Market Data Express, LLC ("MDX"), an affiliate of CBOE, offers COPS Data for sale to all market participants. COPS Data is available to "Subscribers" for internal use and internal distribution only, and to "Customers" who, pursuant to a written vendor agreement between MDX and a Customer, may distribute the Data externally (i.e., act as a vendor) and/or use and distribute the Data internally.

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3 See Securities Exchange Act Release No. 67813 (September 10, 2012), 77 FR 56903 (September 14, 2012) (SR-CBOE-2012-083), Securities Exchange Act Release No. 67928 (September 26, 2012), 77 FR 60161 (October 2, 2012) (SR-CBOE-2012-090), Securities Exchange Act Release No. 70705 (October 17, 2013), 78 FR 63265 (October 23, 2013) (SR-CBOE-2013-097), Securities Exchange Act Release No. 70845 (November 12, 2013), 78 FR 69168 (November 18, 2013) (SR-CBOE-2013-104), and Securities Exchange Act Release No. 72621 (July 16, 2014), 79 FR 42616 (July 22, 2014) (SR-CBOE-2014-057).

4 "End of day" refers to data that is distributed prior to the opening of the next trading day.

5 "Historical" COPS data consists of COPS data that is over one month old (i.e., copies of the "end-of-day" COPS file that are over one month old).

6 FLEX options are exchange traded options that provide investors with the ability to customize basic option features including size, expiration date, exercise style, and certain exercise prices.

COPS Data consists of indicative[7] and implied volatility values for four categories of "customized" options. The first category of options is all open series of FLEX options listed on any exchange that offers FLEX options for trading.[8] The second category is OTC options that have the same degree of customization as FLEX options. The third category includes options with strike prices expressed in percentage terms. Values for such options are expressed in percentage terms and are theoretical values.[9] The fourth category includes "exotic" options.[10]

The Exchange uses values produced by CBOE Trading Permit Holders ("TPHs") to produce COPS Data. Participating CBOE TPHs submit values to MDX on options series specified by MDX on a daily basis. These values are generated by the TPH's internal pricing models. The valuations that MDX ultimately publishes are an average of multiple contributions of values from participating CBOE TPHs. For each value provided by MDX through COPS, MDX includes a corresponding indication of the number of market-maker contributors that factored into that value.

CBOE TPHs that meet the following objective qualification criteria are allowed to contribute values to MDX for purposes of producing COPS Data. Interested CBOE TPHs must

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7 "Indicative" values are indications of potential market prices only and as such are neither firm nor the basis for a transaction.

8 Current FLEX options open interest spans over 2,000 series on over 300 different underlying securities.

9 These values are theoretical in that they are indications of potential market prices for options that have not traded (i.e. do not yet exist). Market participants sometimes express option values in percentage terms rather than in dollar terms because they find it is easier to assess the change, or lack of change, in the marketplace from one day to the next when values are expressed in percentage terms.

10 Exotic options are options which are generally traded OTC and are more complex than standard options, usually relating to determination of payoff. An exotic option may also include a non-standard underlying instrument, developed for a particular client or for a particular market.

be approved by the Exchange, have the ability to provide valuations to MDX in a timely manner each day after the close of trading, and sign a services agreement with CBOE. Interested CBOE TPHs must also have the ability to provide both indicative and implied volatility valuations on several different types of options, including (i) options on all open FLEX series traded on any exchange that offers FLEX options for trading, (ii) options on any potential new FLEX options series, (iii) OTC options that have the same degree of customization as FLEX options, (iv) customized options where the strike price is expressed in percentage terms (the valuations provided to MDX must also be expressed in percentage terms), and (v) exotic options. In addition, interested CBOE TPHs must participate in a testing phase with MDX. The values submitted by a TPH during the testing phase and in live production must meet MDX's quality control standards designed to ensure the integrity and accuracy of COPS Data. Any TPH that meets the COPS qualification criteria may contribute to COPS. MDX has implemented procedures including monthly performance reviews to help ensure the integrity and accuracy of COPS Data.

To help ensure that MDX receives numerous values from multiple TPHs on a consistent basis, MDX shares revenue from the sale of COPS Data with participating CBOE TPHs.[11] The fees that MDX charges for COPS Data are set forth on the Price List on the MDX website (www.marketdataexpress.com) ("MDX Website"). MDX currently charges a fee per option per day for "end-of-day" COPS data. The amount of the fee is reduced based on the number of options valuations purchased.

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[11] See Securities Exchange Act Release No. 72621 (July 16, 2014), 79 FR 42616 (July 22, 2014) (SR-CBOE-2014-057) for a detailed description of the Exchange's COPS Data revenue-sharing plan.

Interpretation .02 to CBOE Rule 6.42 defines a “box spread” as “an aggregation of positions in a long call option and short put option with the same exercise price ("buy side") coupled with a long put option and short call option with the same exercise price ("sell side") all of which have the same aggregate current underlying value, and are structured as either: (A) a "long box spread" in which the sell side exercise price exceeds the buy side exercise price or (B) a "short box spread" in which the buy side exercise price exceeds the sell side exercise price.” Essentially, for our purposes, a box spread involves being synthetically long an underlying product at one price and synthetically short the underlying product at a higher price. It is constructed through the combination of four options. All options have the same underlying product and same expiration date. The synthetic long position is achieved through the purchase of a call option and the sale of a put option at the same strike price and expiration date. The synthetic short position, conversely, is achieved through the purchase of a put and the sale of a call at the same strike price (the strike price of the synthetic short is higher than the strike price of the synthetic long).

For example, one could construct a 1000/2000 box spread in option XYZ expiring January 16, 2015. To establish the synthetic long, you would buy one XYZ call with a strike price of 1000 and sell one XYZ put with a strike price of 1000. Then, to establish the synthetic short, you would buy one XYZ put with a strike price at 2000 and sell one XYZ call with a strike price at 2000.

The payoff at expiration of a box spread is the difference between the higher-struck synthetic short minus the lower-struck synthetic long. Therefore, the value of the box spread employed in the example above would be 1000. The price of a box spread is the present value of the payoff, and therefore, box spreads provide useful information about interest rate assumptions within the options markets. If the box spread in the example above was being quoted in the market at 999.50, this would imply an interest rate of 0.05%.

COPS users (and potential COPS users) are usually interested in a number of series (aside from just the one included in the box spread). As such, it is useful for them to know the implied interest rate in the options market. The current COPS fee structure would require these customers to purchase not only the four series in the box spread, but also the other series in which their primary interest lies. Charging the box spread by series makes COPS cost-prohibitive for some customers. Indeed, the Exchange believes that a number of potential COPS customers are not using COPS because the current fee structure (charging for all four valuations of a box spread) is deterring these potential COPS customers from becoming COPS users.

As such, the Exchange proposes to institute a COPS Box Strategy Rebate (the "Rebate"). [12] Under the proposed rebate, the Exchange would ultimately treat the four orders involved in creating the box spread as one series for fee purposes. Because Exchange systems are not currently configured to recognize four separate orders as being part of one box spread, the Exchange would make available a COPS Box Strategy Rebate Request Form (the "Form"). This Form will be very similar to the Exchange's current "Strategies Rebate Form" and would involve listing the relevant trade details necessary to denote the four series as part of one box spread.[13] Once the rebate form has been submitted and verified by CBOE as having described a box

12 The Exchange initially filed the proposed fee change on January 2, 2015 (SR-CBOE-2015-001). On January 15, 2015, the Exchange withdrew that filing and submitted this filing.

13 These details would include the execution date, option symbol, put/call, and strike price for each of the four options purported to compose the box spread.

spread,[14] the TPH will be rebated three series' worth of transaction fees. In sum, COPS users purchasing four options valuations for a box spread can be rebated the cost of three of the valuations by submitting the COPS Box Strategy Rebate Request Form within three days of the end of the month in which the box spread valuations were purchased.

So, for example, if a COPS user purchased four valuations that made up a box spread, he would be charged $5.00.[15] Upon completing the Form, he would then be rebated $3.75. The Exchange currently institutes a similar rebate process for transaction fees assessed to multi-class spread orders, short stock interest, reversal, conversion (reversals and conversions are components of a box spread), and jelly roll strategy orders.[16]

From a practical standpoint for the users, the purpose of COPS is to get end-of-day valuations. COPS users want to know the inputs into an option's price. There are five major inputs into an option's price: 1) underlying price, 2) time to expiration, 3) strike price, 4) implied volatility, and 5) interest rates. The proposed box spread rebate would allow the Exchange to provide COPS users with a cost effective method to extract implied interest rates.

The proposed change is to take effect on January 2, 2015.[17]

2. Statutory Basis

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14 The Exchange will verify that the purported box spread was composed of four options, all with the same underlying product and expiration date, that create a synthetic long and synthetic short position.

15 This assumes that the COPS user purchased 0-50 valuations per day. The Exchange offers lower per-valuation prices based on the number of valuations purchased per day (See the COPS Price List on the MDX Website).

16 See CBOE Fees Schedule, Footnote 13.

17 The Commission notes that CBOE's proposal was filed on January 15, 2015, but a prior proposed rule change containing the same fee change was filed on January 2, 2015 and withdrawn by CBOE on January 15, 2015. See infra footnote 12.

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.[18] Specifically, the Exchange believes the proposed rule change is consistent with Section 6(b)(4) of the Act,[19] which requires that Exchange rules provide for the equitable allocation of reasonable dues, fees, and other charges among its Trading Permit Holders and other persons using its facilities. The Exchange believes the Rebate is reasonable because it will allow COPS users who purchase four valuations that make up a box spread to only be ultimately charged for one of those valuations (thereby saving three valuations' worth of fees).

The Exchange believes the Rebate is equitable and not unfairly discriminatory because it will apply to all COPS users who purchase four valuations that make up a box spread. While receiving end-of-day valuations via COPS is extremely different than, and not really comparable to, trading on CBOE, it should be noted that the components of a box spread trade, reversals and conversions, are also subject to rebates.[20] From a practical standpoint for the users, the purpose of COPS is to get end-of-day valuations. COPS users want to know the inputs into an option's price. There are five major inputs into an option's price: 1) underlying price, 2) time to expiration, 3) strike price, 4) implied volatility, and 5) interest rates. The proposed Rebate simply allows the Exchange to provide COPS users with a cost effective method to extract implied interest rates. While the Exchange cannot conceive of any purpose for COPS users to request pricing on a box spread (other than those described herein), the Rebate will be available to all COPS users.

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[18] 15 U.S.C. 78f(b).

[19] 15 U.S.C. 78f(b)(4).

[20] See CBOE Fees Schedule, Footnote 13.

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 that is not necessary or appropriate in furtherance of the purposes of the Act. CBOE does not believe that the proposed rule change will impose any burden on intramarket competition that is not necessary or appropriate in furtherance of the purposes of the Act because the Rebate will be available to all COPS users. CBOE does not believe that the proposed rule change will impose any burden on intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act because the Rebate only applies to CBOE COPS users, and does not affect pricing or fees on other exchanges. To the extent the Rebate makes CBOE a more attractive marketplace for market participants on other exchanges, such market participants may become CBOE market participants (and COPS users).

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A) of the Act[21] and paragraph (f) of Rule 19b-4[22] thereunder. 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

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21 15 U.S.C. 78s(b)(3)(A).

22 17 CFR 240.19b-4(f).

the Commission takes such action, the Commission will institute proceedings to determine whether the proposed rule change 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-2015-007 on the subject line.

Paper Comments:

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

All submissions should refer to File Number SR-CBOE-2015-007. 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-2015-007 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.[23]

Jill M. Peterson
Assistant Secretary

[23] 17 CFR 200.30-3(a)(12).