SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-60978; File No. SR-CBOE-2009-068)

November 10, 2009

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Order Approving a Proposed Rule Change to Amend the $1 Strike Program to Allow Low-Strike LEAPS

On September 16, 2009, the Chicago Board Options Exchange, Incorporated (the "Exchange" or "CBOE") filed with the Securities and Exchange Commission ("Commission"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")[1] and Rule 19b-4 thereunder,[2] a proposed rule change to amend CBOE's $1 Strike Program. The proposed rule change was published for comment in the Federal Register on October 7, 2009.[3] The Commission received no comments on the proposed rule change. This order approves the proposed rule change.

LEAPS are long-term equity options that expire from 12 to 39 months from the time they are listed.[4] The proposed rule change expands the Exchange's $1 Strike Program ("Program") to permit the exchange to list LEAPS with low strike prices[5] and at $1 strike price intervals.

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

2 17 CFR 240.19b-4.

3 See Securities Exchange Act Release No. 60749 (September 30, 2009), 74 FR 51632.

4 See CBOE Rule 5.8.

5 CBOE, along with the other options exchanges, recently amended the Options Listing Procedures Plan ("OLPP") to adopt objective, exercise price range limitations applicable to options on individual equity securities, ETFs, and trust-issued receipts. See Securities Exchange Act Release No. 60531 (August 19, 2009), 74 FR 43173 (August 26, 2009) (approving Amendment No. 3 to the OLPP). The exercise price range limitations of paragraph (3)(g) of the OLPP state that the exercise price of each newly listed option on an equity security, ETF, or trust-issued receipt shall be fixed at a price per unit that is reasonably close to the price of the underlying security at or about the time of the series listing. Under paragraph (3)(g)(i), if the price of the underlying security is less than or equal to $20, the exchange shall not list new option series with an exercise price more than 100% above or below the price of the underlying security; and if the price of the

Specifically, the Exchange will be able to list LEAPS series having strike prices of $1, $2, $3, $4, and $5 in up to 200 option classes on individual securities that are in the Exchange's Program or another exchange's Program.[6] CBOE believes that deep out-of-the-money put options that could be listed under this proposal are functionally similar to credit default swaps and could be a viable, liquid alternative to OTC-traded credit default swaps.

The margin requirements set forth in Chapter XII of the Exchange's rules and the position and exercise requirements set forth in CBOE Rules 4.11 and 4.12 will apply to these new series, and no changes to those requirements were proposed.

The Commission has carefully reviewed the proposed rule change and finds that it is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange.[7] In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,[8] which requires, among other things, that the rules of an exchange be designed to promote just and equitable principles of trade, 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. The Commission believes that the low-strike LEAPS contemplated in this proposal will provide investors with a potentially

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underlying security is greater than $20, the exchange shall not list new option series with an exercise price more than 50% above or below the price of the underlying security. However, paragraph (3)(g)(ii) of the OLPP states that these exercise price range limitations do not apply with regard to, among others, option classes participating in the Program. Therefore, LEAPS series listed under this proposal would not be subject to the exercise price range limitations contained in paragraph (3)(g).

6 However, if the Exchange already has listed a LEAPS series with a $2.50 strike price, it would be permitted under this proposal to list additional series with strike prices of $1, $4, and $5, but not series with strike prices of $2 or $3. See CBOE Rule 5.5, Interpretation .01(a)(3).

7 In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

8 15 U.S.C. 78f(b)(5).

useful investment choice. The proposal will extend to these options the benefits of a listed exchange market, which include a centralized forum for price discovery, pre- and post-trade transparency, standardized contract specifications, and the guarantee of the Options Clearing Corporation.

The Commission believes that the proposal strikes a reasonable balance between the Exchange's desire to offer a wider array of products with the need to avoid unnecessary proliferation of options series and the corresponding increase in quotes. In approving the proposed rule change, the Commission has relied on the Exchange's representation that it has the necessary systems capacity to support the new options series that will be listed under this proposal. This approval order is conditioned on CBOE's adherence to this representation. The Commission expects the Exchange to continue to monitor for options with little or no open interest and trading activity and to act promptly to delist such options. In addition, the Commission expects that CBOE will monitor the trading volume associated with the additional options series listed as a result of this proposal and the effect of these additional series on market fragmentation and on the capacity of the Exchange's, the Options Price Reporting Authority's, and vendors' automated systems.

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,[9] that the proposed rule change (SR-CBOE-2009-068), be, and hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[10]

Florence E. Harmon
Deputy Secretary

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[9] 15 U.S.C. 78s(b)(2).

[10] 17 CFR 200.30-3(a)(12).