

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-61696; File No. SR-CBOE-2010-005)

March 12, 2010

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Order Approving Proposed Rule Change to Establish Strike Price Intervals and Trading Hours for Options on Index-Linked Securities

I. Introduction

On January 27, 2010, the Chicago Board Options Exchange, Incorporated (“CBOE” or “Exchange”) 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 establish strike price intervals and trading hours for Index-Linked Securities. The proposed rule change was published for comment in the Federal Register on February 8, 2010.³ The Commission received no comment letters on the proposal. This order approves the proposed rule change.

II. Description of the Proposal

Prior to the commencement of trading options on Index-Linked Securities (also known as exchange-traded notes (“ETN”)), CBOE has proposed to establish strike price intervals and trading hours for these new products. The Commission has approved CBOE's and other option exchanges' proposals to enable the listing and trading of options on Index-Linked Securities.⁴

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Securities Exchange Act Release No. 61466 (February 2, 2010), 75 FR 6243.

⁴ See e.g., Securities Exchange Act Release Nos. 58204 (July 22, 2008), 73 FR 43807 (July 28, 2008) (approving SR-CBOE-2008-64); 58203 (July 22, 2008), 73 FR 43812 (July 28, 2008) (approving SR-NYSEArca-2008-57); 58985 (November 10, 2008), 73 FR 72538 (November 28, 2008) (approving SR-ISE-2008-86).

\$1 Strikes for ETN Options

CBOE's proposal would extend the trading conventions applicable to options on exchange-traded funds ("ETFs") to options on Index-Linked Securities. Specifically, under the proposed rule change, strike price intervals of \$1 will be permitted where the strike price is less than \$200.

Where the strike price is greater than \$200, \$5 strikes will be permitted. These proposed changes are reflected by the proposed addition of new Interpretation and Policy .09 to Rule 5.5. The proposed strike price intervals for options on Index-Linked Securities are consistent with the strike price intervals currently permitted for options on ETFs.⁵

In support of its proposal, CBOE stated that it believes the marketplace and investors will be expecting ETN options to trade in a similar manner to options on ETFs. Strike prices for ETF options are permitted in \$1 or greater intervals where the strike price is \$200 or less and \$5 or greater where the strike price is greater than \$200.⁶ Accordingly, the Exchange asserts that the rationale for permitting \$1 strikes for ETF options equally applies to permitting \$1 strikes for ETN options and that investors will be better served if \$1 strike price intervals are available for ETN options (where the strike price is less than \$200).

CBOE further stated that it 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 listing and trading of \$1 strikes (where the strike price is less than \$200) for ETN options.

⁵ See Interpretation and Policy .08 to Rule 5.5. See also Securities Exchange Act Release No. 46507 (September 17, 2002), 67 FR 60266 (September 25, 2002) (permitting list of options on ETFs at \$1 strike price intervals) (SR-CBOE-2002-54).

⁶ See id.

Trading Hours for ETN Options

Similar to the trading hours for ETF options, the Exchange's proposal also would amend Interpretation and Policy .03 to Rule 6.1 by: (1) adding new subparagraph (b) to provide that options on Index-Linked Securities, as defined under Interpretation and Policy .13 to Rule 5.3, may be traded on the Exchange until 3:15 p.m. each business day; and (2) making a technical change to Interpretation and Policy .03 to Rule 6.1.

III. Discussion

The Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange.⁷ Specifically, the Commission finds that the proposal is consistent with Section 6(b)(5) of the Act,⁸ which requires, among other things, that the rules of a national securities exchange be designed to promote just and equitable principles of trade, 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.

The Commission notes that the proposed strike price intervals for options on Index-Linked Securities are consistent with the strike price intervals currently permitted for options on ETFs.⁹ Accordingly, the proposal should provide consistency and predictability for investors who may view these products as serving similar investment functions in the marketplace to ETFs and may provide investors with greater flexibility in achieving their investment objectives.

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).

⁹ See supra note 5.

In addition, the Commission notes that CBOE has represented that it believes the Exchange and the Options Price Reporting Authority CBOE and the Options Price Reporting Authority have the necessary systems capacity to handle the additional traffic associated with the listing and trading of \$1 strikes for options on Index-Linked Securities.

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,¹⁰ that the proposed rule change (SR-CBOE-2010-005) be, and hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹¹

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Deputy Secretary

¹⁰ 15 U.S.C. 78s(b)(2).

¹¹ 17 CFR 200.30-3(a)(12).