SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-62139; File No. SR-CBOE-2010-018)

May 19, 2010

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Order Approving Proposed Rule Change, as Modified by Amendment No. 1 Thereto, to List and Trade CBOE Gold ETF Volatility Index Options

I. Introduction

On March 18, 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 list and trade options on the CBOE Gold ETF Volatility Index ("GVZ"). On March 22, 2010, CBOE filed Amendment No. 1 to the proposed rule change.[3] The proposed rule change was published for comment in the Federal Register on April 14, 2010.[4] The Commission received no comment letters on the proposal. This order approves the proposed rule change, as modified by Amendment No. 1.

II. Description

CBOE proposes to amend certain of its rules to allow the listing and trading of cash-settled, European-style options on GVZ.

Index Design and Calculation

The calculation of GVZ is based on the VIX methodology applied to options on the SPDR Gold Trust ("GLD"). GVZ is an up-to-the-minute market estimate of the expected volatility of GLD calculated by using real-time bid/ask quotes of CBOE listed GLD options.

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

2 17 CFR 240.19b-4.

3 In Amendment No. 1, CBOE made technical corrections to the rule text.

4 See Securities Exchange Act Release No. 61859 (April 7, 2010), 75 FR 19439.

GVZ uses nearby and second nearby options with at least 8 days left to expiration and then weights them to yield a constant, 30-day measure of the expected (implied) volatility.

For each contract month, CBOE will determine the at-the-money strike price. The Exchange will then select the at-the-money and out-of-the money series with non-zero bid prices and determine the midpoint of the bid-ask quote for each of these series. The midpoint quote of each series is then weighted so that the further away that series is from the at-the-money strike, the less weight that is accorded to the quote. To compute the index level, CBOE will calculate a volatility measure for the nearby options and then for the second nearby options, using the weighted mid-point of the prevailing bid-ask quotes for all included option series with the same expiration date. These volatility measures are then interpolated to arrive at a single, constant 30-day measure of volatility.

CBOE will compute values for GVZ underlying option series on a real-time basis throughout each trading day, from 8:30 a.m. until 3:00 p.m. (CT). GVZ levels will be calculated by CBOE and disseminated at 15-second intervals to major market data vendors.

Options Trading

Options on GVZ ("GVZ Options") will be quoted in index points and fractions, and one point will equal $100. The minimum tick size for series trading below $3 will be 0.05 ($5.00) and above $3 will be 0.10 ($10.00).

The Exchange is proposing to permit 1 point or greater strike price intervals on GVZ Options. Initially, the Exchange will list in-, at- and out-of-the-money strike prices and may open for trading up to five series above and five series below the price of the calculated forward value of GVZ, and LEAPS series. As for additional series, either in response to customer demand or as the calculated forward value of GVZ moves from the initial exercise prices of option series that have been open for trading, the Exchange may open for trading up to five series above and five series below the calculated forward value of GVZ, and LEAPS series. The Exchange will not open for trading series with 1 point strike price intervals within 0.50 point of an existing 2.5 point strike price with the same expiration month. The Exchange will not list LEAPS on GVZ Options at strike price intervals less than 1 point.

Exercise and Settlement

The proposed options will typically expire on the Wednesday that is thirty days prior to the third Friday of the calendar month immediately following the expiration month (the expiration date of the options used in the calculation of the index). If the third Friday of the calendar month immediately following the expiring month is a CBOE holiday, the expiration date will be thirty days prior to the CBOE business day immediately preceding that Friday. Trading in the expiring contract month will normally cease at 3:00 pm (CT) on the business day immediately preceding the expiration date. Exercise will result in delivery of cash on the business day following expiration. GVZ Options will be A.M.-settled. The exercise settlement value will be determined by a Special Opening Quotation ("SOQ") of GVZ calculated from the sequence of opening prices of a single strip of options expiring 30 days after the settlement date. The opening price for any series in which there is no trade shall be the average of that options' bid price and ask price as determined at the opening of trading.

The exercise-settlement amount will be equal to the difference between the exercise-settlement value and the exercise price of the option, multiplied by $100. When the last trading day is moved because of a CBOE holiday, the last trading day for expiring options will be the day immediately preceding the last regularly-scheduled trading day.

Position and Exercise Limits

For regular options trading, the Exchange is proposing to establish position limits for GVZ Options at 50,000 contracts on either side of the market and no more than 30,000 contracts in the nearest expiration month. Positions in Short Term Option Series, Quarterly Options Series, and Delayed Start Option Series would be aggregated with positions in options contracts in the same GVZ class. Exercise limits would be the equivalent to the proposed position limits.[5] GVZ Options would be subject to the same reporting requirements triggered for other options dealt in on the Exchange.[6]

For FLEX Options trading, the Exchange proposes that the position limits for FLEX GVZ Options will be equal to the position limits for Non-FLEX GVZ Options established pursuant to Rule 24.4. Similarly, the Exchange is proposing that the exercise limits for FLEX GVZ Options will be equivalent to the position limits established pursuant to Rule 24.4. The proposed position and exercise limits for FLEX GVZ Options are consistent with the treatment of position and exercise limits for other FLEX Index Options. The Exchange is also proposing to provide that as long as the options positions remain open, positions in FLEX GVZ Options that expire on the same day as Non-FLEX GVZ Options, as determined pursuant to Rule 24.9(a)(5), shall be aggregated with positions in Non-FLEX GVZ Options and shall be subject to the position limits set forth in Rules 4.11, 24.4, 24.4A and 24.4B, and the exercise limits set forth in Rules 4.12 and 24.5.

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5 See Rule 24.5, Exercise Limits, which provides that exercise limits are equivalent to position limits.

6 See Rule 4.13, Reports Related to Position Limits.

Exchange Rules Applicable

Except as modified herein, the rules in Chapters I through XIX, XXIV, XXIVA, and XXIVB will equally apply to GVZ Options.

The Exchange is proposing that the margin requirements for GVZ Options be set at the same levels that apply to equity options under Exchange Rule 12.3. Margin of up to 100% of the current market value of the option, plus 20% of the underlying volatility index value must be deposited and maintained. Additional margin may be required pursuant to Exchange Rule 12.10.

The Exchange proposes to designate GVZ Options as eligible for trading as flexible exchange options ("GVZ FLEX Options") as provided for in Chapters XXIVA (Flexible Exchange Options) and XXIVB (FLEX Hybrid Trading System). GVZ FLEX Options will only expire on business days that non-FLEX options on Volatility Indexes expire. As is described earlier, the Exchange is proposing to amend Rule 24.9(a)(5) to provide that the exercise settlement value of GVZ Options for all purposes under CBOE Rules will be calculated as the Wednesday that is thirty days prior to the third Friday of the calendar month immediately following the month in which GVZ Options expire.

Capacity

CBOE 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 of new series that would result from the introduction of GVZ Options.

Surveillance

The Exchange proposes to use the same surveillance procedures currently utilized for each of the Exchange's other index options to monitor trading in GVZ Options. The Exchange represents that these surveillance procedures shall be adequate to monitor trading in options on these volatility indexes. For surveillance purposes, the Exchange states that it will have complete access to information regarding trading activity in the pertinent underlying securities.

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 prevent fraudulent and manipulative acts and practices, 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. In accordance with the Memorandum of Understanding entered into between the Commodity Futures Trading Commission ("CFTC") and the Commission on March 11, 2008, and in particular the addendum thereto concerning Principles Governing the Review of Novel Derivative Products, the Commission believes that novel derivative products that implicate areas of overlapping regulatory concern should be permitted to trade in either or both a CFTC- or Commission-regulated environment, in a manner consistent with laws and regulations (including the appropriate use of all available exemptive and interpretive authority).

As a national securities exchange, the CBOE is required under Section 6(b)(1) of the Act[9] to enforce compliance by its members, and persons associated with its members, with the provisions of the Act, Commission rules and regulations thereunder, and its own rules. In

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

addition, brokers that trade GVZ Options will also be subject to best execution obligations and FINRA rules.[10] Applicable exchange rules also require that customers receive appropriate disclosure before trading GVZ Options.[11] Further, brokers opening accounts and recommending options transactions must comply with relevant customer suitability standards.[12]

GVZ Options will trade as options under the trading rules of the CBOE.[13] The Commission believes that the listing rules proposed by CBOE for GVZ Options are consistent with the Act. One point or greater strike price intervals for GVZ Options should provide investors with greater flexibility in the trading of GVZ Options and further the public interest by allowing investors to establish positions that are better tailored to meet their investment objectives.

The Commission notes that CBOE will compute values for GVZ underlying option series on a real-time basis throughout each trading day, and that GVZ levels will be calculated by CBOE and disseminated at 15-second intervals to major market data vendors.

The Commission believes that the Exchange's proposed position limits and exercise limits for GVZ Options are appropriate and consistent with the Act. The Commission notes that GLD options comprising the underlying components of GVZ rank among the most actively traded options classes. Specifically, the Exchange has represented that in 2009, GLD ranked as the thirteenth most actively traded option class industry-wide, averaging 136,000 contracts per day, and the twelfth most actively traded options class on CBOE, averaging over 50,000

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10 See NASD Rule 2320.

11 See CBOE Rule 9.15.

12 See FINRA Rule 2360(b) and CBOE Rules 9.7 and 9.9.

13 See, also, discussion of listing and trading rules for GLD options. (Securities Exchange Act Release No. 57894 (May 30, 2008), 73 FR 32061 (June 5, 2008) (SR-Amex-2008-15; SR-CBOE-2005-11; SR-ISE-2008-12; SR-NYSEArca-2008-52; and SR-Phlx-2008-17) (order approving the listing and trading of options on GLD).

contracts per day. In addition, the Commission notes that the position and exercise limits for FLEX GVZ Options will be equal to the position and exercise limits for non-FLEX GVZ Options. Further, positions in FLEX GVZ Options that expire on the same day as non-FLEX GVZ Options will be aggregated with positions in Non-FLEX GVZ Options.

The Commission also notes that the margin requirements for equity options will also apply to options on GVZ. The Commission finds this to be reasonable and consistent with the Act.

The Commission also believes that the Exchange's proposal to allow GVZ Options to be eligible for trading as FLEX Options is consistent with the Act. The Commission previously approved rules relating to the listing and trading of FLEX Options on CBOE, which give investors and other market participants the ability to individually tailor, within specified limits, certain terms of those options.[14] The current proposal incorporates GVZ Options that trade as FLEX Options into these existing rules and regulatory framework.

The Commission notes that CBOE represented that it has an adequate surveillance program to monitor trading of GVZ Options and intends to apply its existing surveillance program to support the trading of these options. Finally, the proposed rule change, the Commission has also relied upon the Exchange's representation that it has the necessary systems capacity to support new options series that will result from this proposal.

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[14] See Securities Exchange Act Release No. 31910 (February 23, 1993), 58 FR 12056 (March 2, 1993).

V. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,[15] that the proposed rule change (SR-CBOE-2010-018), as modified by Amendment No. 1, be, and hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[16]

Florence E. Harmon
Deputy Secretary

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15 15 U.S.C. 78s(b)(2).

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