SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-63352; File No. SR-CBOE-2010-046)

November 19, 2010

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Order Granting Approval of Proposed Rule Change To Amend Certain Rules Pertaining to Credit Options

I. Introduction

On September 20, 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 amend its rules relating to Credit Options. The proposed rule change was published for comment in the Federal Register on October 7, 2010.[3] The Commission received no comments on the proposal. This order approves the proposed rule change.

II. Description of the Proposal

The Exchange proposes to amend its rules governing Credit Options[4] to make three substantive changes. First, CBOE proposes to permit the Exchange to fix the exercise settlement value for Credit Default Options, on a class-by-class basis, at $1 or $100, or at a value between

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

2 17 CFR 240.19b-4.

3 See Securities Exchange Act Release No. 63026 (October 1, 2010), 75 FR 62167 ("Notice").

4 Credit Options include Credit Default Options and Credit Default Basket Options. Credit Default Options are cash-settled binary options that are automatically exercised upon the occurrence of specified credit events or expire worthless. See CBOE Rule 29.1(b); Securities Exchange Act Release No. 55871 (June 6, 2007), 72 FR 32372 (June 12, 2007) (SR-CBOE-2006-84) (order approving CBOE's proposed rules to list and trade Credit Default Options). Credit Default Basket Options are cash-settled binary options based on a basket of at least two reference entities. See CBOE Rule 29.1(h); Securities Exchange Act Release No. 56275 (August 17, 2007), 72 FR 47097 (August 22, 2007) (SR-CBOE-2007-26) (order approving CBOE's proposed rules to list and trade Credit Default Basket Options).

those two points. Currently, the exercise settlement value is fixed at $100. Since the cash settlement amount for Credit Default Options is the product of the exercise settlement value multiplied by a contract multiplier that may be fixed by the Exchange on a class-by-class basis within a range of 1 to 1,000, this change will enable the Exchange to list a Credit Default Option contact with a cash settlement amount that could be arrived at in different ways.[5] Second, the proposal would permit the Exchange to establish the minimum price variation ("MPV") for all Credit Options, which is currently $0.05, on a class-by-class basis, at an increment no less than $0.01, which would permit more pricing points, such as when lower exercise settlement values are designated. Third, the proposal would give the Exchange authority to list Credit Options that contemplate only a single credit event. Currently, CBOE rules for Credit Options enumerate several potential credit events, the occurrence of any one of which could allow the Credit Option to be exercised. For example, a failure-to-pay default will always be a designated credit event for each class, and the Exchange may, on a class-by-class basis, specify other events of default or a restructuring.[6] The Exchange proposes to amend its rules to permit it to list Credit Options designating a single credit event, such as a failure-to-pay default, another event of default, or a restructuring. The Exchange also proposes to make a technical, non-substantive change to one of its rules governing Credit Options, Rule 29.3.

III. Discussion and Commission's Findings

After careful consideration, 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

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5 The Exchange has represented that it will not list more than one Credit Default Option contract with a cash settlement amount arrived at in different ways. See Notice at note 8 and accompanying text.

6 See CBOE Rules 29.2 and 29.2A.

national securities exchange.[7] In particular, the Commission finds that the proposed rule change is consistent with the requirements of Section 6(b)(5) of the Act,[8] which requires, among other things, that the Exchange's rules 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 market system; and, in general, to protect investors and the public interest.

The Commission believes that the proposal to authorize the Exchange to list Credit Options that contemplate only a single credit event is consistent with the Act. In addition, the Commission believes that the proposal to allow the Exchange flexibility to fix the exercise settlement value for Credit Default Options within a range of $1 to $100 is consistent with the Act. With this change, the Exchange could list a contract with a cash settlement value of $10,000 with a multiplier of 1,000 and an exercise settlement amount of $10, or with a multiplier of 100 and an exercise settlement amount of $100. There could be concerns if the Exchange were to seek to list Credit Default Options having the same cash settlement value but with different combinations of multiplier and cash settlement amount. This could fragment the market and dilute the liquidity of economically identical products. The Exchange has represented, however, that it will not list more than one Credit Default Option contract with a cash settlement value that

7 In approving this proposed rule change, the Commission notes that it 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).

has been arrived at in multiple ways.[9] The Commission's approval of this aspect of the proposal incorporates that representation.[10]

Finally, the Commission believes that the proposal to use an MPV of as little as $0.01 for all Credit Options is consistent with the Act. With exercise settlement values as low as $1, the ability to set the MPV at $0.01 would make available 100 price points for quoting bids and offers in the range of $0 to $1, as opposed to only 20 price points under the current MPV of $0.05. The CBOE has represented that it has analyzed its capacity and believes that it and the Options Price Reporting Authority have the necessary systems capacity to handle the additional traffic associated with the ability to designate $0.01 as the MPV for Credit Options; and that the Exchange believes that the change will not lead to a proliferation of quotes and thus do not have multiple series with different strike prices, because Credit Options do not have strike prices.[11]

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9 See supra note 5.

10 The Commission also notes that the CBOE currently has the flexibility to set the exercise settlement value for binary options listed on the Exchange on a class-by-class basis. See CBOE Rule 22.1(e). See also Notice at note 9 and accompanying text.

11 See Notice. The Commission also notes that the Exchange has the discretion to establish the MPV on a class-by-class basis for binary options at an increment no less than $0.01. See CBOE Rule 22.13(b).

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,[12] that the proposed rule change (SR-CBOE-2010-046), be, and it hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[13]

Florence E. Harmon
Deputy Secretary

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[12] 15 U.S.C. 78s(b)(2).

[13] 17 CFR 200.30-3(a)(12).