SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-72115; File No. SR-CBOE-2014-039)

May 7, 2014

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing of a Proposed Rule Change to Amend Certain Margin Rules for Volatility Index Options

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 April 28, 2014, the 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

CBOE proposes to amend certain margin rules for volatility index options. 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 those statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant parts of such statements.

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

2 17 CFR 240.19b-4.

A. Self-Regulatory Organization's Statement of the Purpose of, and the Statutory Basis for, the Proposed Rule Change

1. Purpose

Over the past decade, the Exchange has received approval from the Commission to list options on different types of volatility indexes, including volatility indexes comprised of options on: (1) broad-based indexes, (2) individual stocks; and (3) exchange traded funds ("ETFs"). For each volatility index comprised of broad-based index options, the Exchange received approval to classify each respective volatility index as a "broad-based index" for margin purposes.[3] For stock and ETF-based volatility indexes, the margin requirements were set at the same levels that apply to equity options.[4]

The Exchange is proposing to amend CBOE Rules 12.3 (Margin Requirements) and 12.4 (Portfolio Margin) to increase the minimum margin requirements for certain 30-day volatility index options and for options on the VXST Index, which is designed to reflect investors' consensus view of 9-day expected stock market volatility. To affect these changes as new minimum margin requirements going forward, the Exchange is proposing to add the proposed

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3 See Securities Exchange Act Release Nos. 49563 (April 14, 2004), 69 FR 21589 (April 21, 2004) (order approving SR-CBOE-2003-40 to list options on the CBOE Volatility Index ("VIX"), the CBOE Nasdaq 100 Index Volatility Index ("VXN") and the CBOE Dow Jones Industrial Index ("VXD")), 55425 (March 8, 2007), 72 FR 12238 (March 15, 2007) (order approving SR-CBOE-2006-73 to list options on the CBOE Russell 2000 Volatility Index ("RVX")), and 71764 (March 21, 2014), 79 FR 17212 (March 27, 2014) (order approving SR-CBOE-2014-003 to list options on the CBOE Short-Term Volatility Index ("VXST")).

4 See Securities Exchange Act Release Nos. 62139 (May 19, 2010), 75 FR 29597 (May 26, 2010) (order approving SR-CBOE-2010-018 to list options on the CBOE Gold ETF Volatility Index ("GVZ"), and 64551 (May 26, 2011), 76 FR 32000 (June 2, 2011) (order approving SR-CBOE-2011-026 to list options on the CBOE Equity VIX on Apple ("VXAPL"), the CBOE Equity VIX on Amazon ("VXAZN"), the CBOE Equity VIX on Goldman Sachs ("VXGS"), the CBOE Equity VIX on Google ("VXGOG"), the CBOE Equity VIX on IBM ("VXIBM"), the CBOE Crude Oil ETF Volatility Index ("OVX"), the CBOE Emerging Markets ETF Volatility Index ("VXEEM"), the CBOE China ETF Volatility Index ("VXFXI"), the CBOE Brazil ETF Volatility Index ("VXEWZ"), the CBOE Gold Miners ETF Volatility Index ("VXGDX") and the CBOE Energy Sector ETF Volatility Index ("VXXLE")).

margin levels to the text of CBOE Rules 12.3 and 12.4. Specifically, the Exchange proposes to make the rule text more "user-friendly" by enumerating "Volatility Indexes" and identifying specific classes in the appropriate places. The proposed changes are described below.

Proposed Changes to CBOE Rule 12.3(c)(5)

CBOE Rule 12.3(c)(5) sets forth the initial and maintenance margin requirements for short options held in a customer account. As described earlier, when VIX, VXN, VXD, RVX and VXST options were approved for trading, the Exchange was permitted to margin these products as "broad-based index" options. The first chart in CBOE Rule 12.3(c)(5) sets forth at paragraph 3 that the initial and/or maintenance margin required for broad-based index options is the greater of: 100% of the current market value of the option plus 15% of the current underlying component value less any out-of-the-money amount or 100% of the current market value of the option plus 10% of the current underlying component value.[5] The "underlying component value" for broad-based index options is the product of the current index group value and the applicable index multiplier. The Exchange believes that the 15% initial and/or maintenance margin component should be increased to 20% for 30-day volatility index options and to 40% for 9-day volatility index options (VXST), which were approved to be treated as "broad-based index" options for margin purposes. For 9-day volatility index options (VXST), the Exchange also believes that the 10% minimum margin required should be increased to 20%.[6] The Exchange is not proposing to increase the 10% minimum margin required for 30-day volatility index options.

5 There is one difference in the case of a put option. For the 10% minimum only, 10% of the put's exercise price is required rather than 10% the current underlying component value.

6 Prior to the April 10, 2104 launch of trading in VXST options, the Exchange exercised its authority under CBOE Rules 12.3(h) and 12.10 to impose higher initial and maintenance margin requirements for short, uncovered VXST options. See CBOE Regulatory Circular RG14-040 (Margin Requirements for VXST Options).

Trading Permit Holder ("TPH") organizations can, through their own policies and procedures, impose even higher margin requirements should they deem it advisable (i.e., house margin requirements). CBOE Rule 12.10 confirms this ability, in relevant part, as follows: "[t]he amount of margin prescribed by these Rules is the minimum which must be required initially and subsequently maintained with respect to each account affected thereby; but nothing in these rules shall be construed to prevent a TPH organization from requiring margin in an amount greater than that specified."

To affect this change, the Exchange proposes to amend existing paragraph 15 to the first chart set forth in CBOE Rule 12.3(c)(5). Paragraph 15 currently sets forth the initial and/or maintenance margin required and minimum margin required for individual stock or ETF-based volatility indexes (whose margin requirements the Exchange is not proposing to change). The Exchange is proposing to amend paragraph 15 to expand its application to all volatility indexes. Specifically, the Exchange proposes to set forth "Volatility Indexes" as the type of option and to set forth below that heading the specific volatility index option classes that are currently listed for trading (i.e., VIX, RVX, VXST, GVZ, OVX, VXEEM and VXEWZ). The Exchange believes that the identification of specific volatility index option classes would make finding the applicable minimum margin levels easier for users of CBOE's Rulebook. The Exchange also believes that identification of specific volatility index option classes would give the Exchange flexibility to change margin levels by volatility index class if the need arises in the future. The Exchange notes that this styling is similar to paragraph 9, "Foreign Currency Option and Warrants," for which specific currencies are identified.

The Exchange also proposes to include a category under "Volatility Indexes" labeled, "Other Volatility Indexes identified in Rules 24.9(a)(3) and 24.9(a)(4)." [7] The Exchange is proposing to include this general category because the Exchange has received approval to trade options on certain volatility indexes, which are not currently listed for trading. Having a general category for products that have already been approved for trading would enable the Exchange to quickly list these products when launch dates are determined. The Exchange expects that when this happens, CBOE would follow up with a filing to identify any volatility indexes on which options trading has begun.

The Exchange also proposes to amend the definition for "index value" for volatility indexes in Row IV (Underlying Component Value) to the first chart in CBOE Rule 12.3(c)(5) in order to be more clear. Specifically, the Exchange proposes to add the descriptive phrase, "current (spot or cash)" so that the CBOE Rule 12.3(c)(5) is clear on its face that the current (spot or cash) value for a volatility index is used to calculate margin requirements. The Exchange believes that this descriptive phrase is necessary because the prices of the corresponding futures contract (on the same volatility index) are sometimes used as the "current index level" for volatility index options.[8]

The Exchange is also proposing to delete "Individual Stock or ETF Based" from the Option or Warrant Issue column from the second chart in CBOE Rule 12.3(c)(5) and replace it with "Volatility Indexes." In addition, the Exchange is proposing to add the descriptive phrase "(spot or cash)" before the references to "current index value" in the Call and Put rows. These

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7 CBOE Rules 24.9(a)(3) (European-style index options approved for trading) and 24.9(a)(4) (A.M.-settled index options approved for trading) identify, among other indexes, all other volatility indexes that have approved for options trading but which are not currently listed for trading.

8 See e.g., CBOE Rules 24.7(iii) and 24.7.03.

changes conform to the changes described above regarding the new category of "Volatility Indexes" and provide clarity as to what is meant by "current index value" for volatility index options.

Proposed Changes to CBOE Rule 12.4

As an alternative to the margin requirements set forth in CBOE Rule 12.3, CBOE Rule 12.4 (Portfolio Margin) permits TPH organizations to compute a margin requirement for option positions carried for customers using a portfolio (or risk-based) approach. CBOE proposes to amend CBOE Rule 12.4 to identify "Volatility Index (30-day implied)" and "Volatility Index (9-day implied)" as portfolio types in the chart set forth in CBOE Rule 12.4 and to specify "+/- 20%" and "+/- 40%) as the respective applicable up/down market move (high & low valuation points).[9] The Exchange believes that specifying "Volatility Index (30-day implied)" and "Volatility Index (9-day implied)" as portfolio types would make finding the applicable portfolio margin levels easier for users of CBOE's Rulebook. The Exchange notes that this proposed change would increase the applicable up/down market move (high & low valuation points) for all of its volatility index options. The Exchange is proposing to delete the four footnote 1 references and the text of footnote 1 from the chart set forth in CBOE Rule 12.4. The text of the footnote reads, "In accordance with sub-paragraph (b)(1)(i)(B) of Rule 15c3-1a under the Securities Exchange Act of 1934." The Exchange proposes to delete this sentence because it is no longer deemed necessary to link the margin requirements of CBOE Rule 12.4 to SEC Rule 15c3-1a. While SEC Rule 15c3-1a originally served as a model for CBOE Rule 12.4, a difference between

[9] Prior to the April 10, 2104 launch of trading in VXST options, the Exchange exercised its authority under CBOE Rule 12.10 to provide that the magnitude of the valuation point range under CBOE Rule 12.4 for VXST options held in a portfolio margin is +/-40% and that the price of the VXST futures contract with a corresponding expiration will be used to calculate theoretical gains and losses for VXST options. See CBOE Regulatory Circular RG14-056 (Margin Requirements for VXST Options).

the two, such as the addition of the "Volatility Index (30-day implied)" and "Volatility Index (9-day implied)" categories to CBOE Rule 12.4, results in inconsistency, and the current footnote may imply there must be consistency.

The Exchange also proposes to amend subparagraph (a)(9) to CBOE Rule 12.4, which sets forth the definition for "underlying instrument" as meaning "a security or security index upon which any listed option, unlisted derivative, security futures product or related instrument is based. The term underlying instrument shall not be deemed to include, futures contracts, options on futures contracts or underlying stock baskets." The Exchange proposes to amend that definition by adding the following phrase at the end of the definition, "except that, for the purpose of calculating theoretical gains and losses for a listed option, unlisted derivative, or security futures product overlying a volatility index pursuant to this Rule, the price of a futures contract referencing the same volatility index may be utilized in lieu of the current (spot or cash) index value." The Exchange is proposing the make this change because a more accurate theoretical price for a volatility index option is obtained, and thus a more accurate portfolio margin requirement is derived, by using the price of a futures contract that references the same volatility index. Market participants price volatility index options in view of the price a futures contract that references the same volatility index, rather than using the cash or spot index value.

In addition, the Exchange proposes to amend subparagraph (d)(3)(ii) to CBOE Rule 12.4 to add volatility index options to the list of eligible positions for portfolio margin. Finally, the Exchange proposes to make a technical change earlier in Rule 12.4(a)(5) to delete the unnecessary word "and" from the definition of "option series."

Ongoing Analysis Regarding Margin Levels

The Exchange will continue to analyze and review the appropriate minimum margin levels for volatility index option. Specifically, the Exchange will continue to review market data in order to determine whether the proposed margin levels should remain or be adjusted. Among other things, CBOE may propose an alternate methodology for determining margin levels or CBOE may subsequently change margin levels after having time to study the impact of the proposed rule change. Any such change would be accomplished by way of a rule filing with the Commission.

2. Statutory Basis

The Exchange believes the proposed rule changes are 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.[10] Specifically, the Exchange believes the proposed rule changes are consistent with the Section 6(b)(5)[11] requirements that the rules of an exchange 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 Exchange believes that increasing the minimum margin requirements for certain volatility index options will protect the integrity of the Exchange's marketplace by setting margin at a level that is appropriate for the given instrument. Also, the Exchange believes that the proposed changes will benefit investors and other market participants by making CBOE's

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10 15 U.S.C. 78f(b).

11 15 U.S.C. 78f(b)(5).

rules more user-friendly in that the applicable margin levels will be easier to locate in CBOE's Rulebook.

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. The Exchange does not believe that the proposed rule change will impose any burden on intramarket competition because it applies to all customers that hold positions in volatility index options. The Exchange does not believe the proposed rule changes will impose any burden on intermarket competition as it will result in margin levels being increased to appropriate levels for volatility index options.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

No written comments were solicited or received with respect to the proposed rule change.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the Exchange consents, the Commission will:

A. by order approve or disapprove such proposed rule change, or

B. institute proceedings to determine whether the proposed rule change should be 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-2014-039 on the subject line.

Paper comments:

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

All submissions should refer to File Number SR-CBOE-2014-039. 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 Web site (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 such filing also will be available for inspection and copying at the principal office of the CBOE. 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-2014-039 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.[12]

Kevin M. O'Neill
Deputy Secretary

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