

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-53470; File No. SR-CBOE-2006-26)

March 10, 2006

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Revise Position Limits for VIX Options

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on March 3, 2006, the Chicago Board Options Exchange, Incorporated ("Exchange" or "CBOE") filed with the Securities and Exchange Commission (the "Commission") the proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. The Exchange filed this proposal as a "non-controversial" proposed rule change pursuant to Section 19(b)(3)(A)(iii) of the Act<sup>3</sup> and Rule 19b-4(f)(6) thereunder,<sup>4</sup> which renders the proposed rule change effective upon filing with the commission.<sup>5</sup> 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

The Exchange is filing this rule change to clarify the position limits for the regular-size options on the CBOE Volatility Index® ("VIX"); the CBOE Nasdaq 100® Volatility Index ("VXN"); and the CBOE Dow Jones Industrial Average® Volatility Index ("VXD") to put

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>4</sup> 17 CFR 240.19b-4(f)(6).

<sup>5</sup> The Exchange requested the Commission to waive the five-day pre-filing notice requirement and the 30-day operative delay, as specified in Rule 19b-4(f)(6)(iii). 17 CFR 240.19b-4(f)(6)(iii).

them on a more equivalent level with the position limits for options on the underlying indexes, the SPX, NDX, and DJX.<sup>6</sup> The proposed position limits would also be proportional to the position limits for the increased-value of VIX, VXN, and VXD. The text of the proposed rule change is available on the Exchange's website (<http://www.cboe.com>), at the Exchange's Office of the Secretary, and at the Commission.

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.

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

1. Purpose

The Exchange received approval from the Commission to list and trade cash-settled, European-style options on (1) the regular-size VIX, VXN, and VXD<sup>7</sup> (together, "Regular-Size Volatility Index Options") and (2) the increased-value versions of VIX, VXN, and VXD (together "Increased-Value Volatility Index Options").<sup>8</sup> VIX, VXN, and VXD are calculated

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<sup>6</sup> Telephone Conference between Dave Doherty, Attorney, CBOE, and Florence E. Harmon, Senior Special Counsel, Division, Commission, on March 10, 2006.

<sup>7</sup> See Securities Exchange Act Release No. 49563 (April 14, 2004), 69 FR 21589 (April 21, 2004) ("Order Granting Approval to Proposed Rule Change and Notice of Filing and Order Granting Accelerated Approval to Amendment No. 2 Relating to Options on Certain CBOE Volatility Indexes"). As of the date of filing, the Exchange lists for trading VIX options (options on the regular size CBOE Volatility Index).

<sup>8</sup> See Securities Exchange Act Release No. 49698 (May 13, 2004), 69 FR 29152 (May

using real-time quotes of at-the-money and out-of-the-money nearby and second nearby index puts and calls of the S&P 500® Index (SPX), the Nasdaq 100® Index (NDX), and the Dow Jones Industrial Average® Index (DJX), respectively. Generally, volatility indexes provide investors with up-to-the-minute market estimates of expected volatility of the corresponding securities index that each particular volatility index tracks.

The Exchange originally sought and received approval for position and exercise limits of Regular-Size Volatility Index Options in the amount of 25,000 contracts on either side of the market, with no more than 15,000 of such contracts in series in the nearest expiration month. Given that there are no position limits for broad-based index option contracts on the DJX, NDX, OEX and SPX, the Exchange believes it is appropriate to increase the position limits for the Regular-Size VIX, VXN, and VXD to 250,000 position and exercise limits on either side of the market for each of those contracts, with no more than 150,000 of such contracts in series in the nearest expiration month. This is also consistent with limits applicable to the Increased-Value Volatility Index Options (which are 25,000 contracts on either side of the market, with no more than 15,000 of such contracts in series in the nearest expiration month).

The Exchange states that increasing the Regular-Size Volatility Index Options position limit from 25,000 contracts to 250,000 contracts would have no effect on the monetary value

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20, 2004) ("Notice of Filing and Order Granting Accelerated Approval of a Proposed Rule change by [CBOE] Relating to Options on Certain CBOE Volatility Indexes"). The increased-value version of VIX, VXN, and VXD will be calculated by simply multiplying the corresponding value of the VIX, VXN, and VXD, respectively, by ten. To illustrate, where the index level of the VIX would be 12.10, the increased-value VIX will have an index value of 121.00 (ten times 12.10). Similarly, the index level of the increased-value versions of the VXN and the VXD always will be ten times the index level of the VXN and the VXD, respectively. As of the date of filing, the Exchange has not listed for trading Increased-Value Volatility Index Options.

of the portfolio that could be controlled by a particular person or firm as compared to the Increased Value Volatility Index Options. The Exchange also stated that this also is consistent with previous filings in which the Exchange introduced reduced-value versions of other broad-based indexes.<sup>9</sup> The Exchange notes that pursuant to current CBOE Rule 24.4(d), positions in Regular-Size Volatility Index Options (up to 250,000 contracts) and each of their respective Increased-Value Volatility Index Options (up to 25,000 contracts) would be aggregated in order to determine compliance with position limits.

## 2. Statutory Basis

By placing position and exercise limits for Regular-Size Volatility Index Options on a more equivalent basis to the position limits of the underlying index options that such volatility indexes track and proportional to the position limits on the Increased- Size Volatility Index Options, the Exchange believes that this proposed rule change is consistent with Section 6(b) of the Act,<sup>10</sup> in general, and further the objectives of Section 6(b)(5) in particular,<sup>11</sup> in that it should promote just and equitable principles of trade, serve to remove impediments to and perfect the mechanism of a free and open market and a national market system, and protect investors and the public interest.

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<sup>9</sup> See SR-CBOE-2000-15 (Securities Exchange Act Release No. 43000 (June 30, 2000), 65 FR 42409 (July 10, 2000) ("Notice of Filing and Immediate Effectiveness of Proposed Rule Change and Amendment No. 1 by [CBOE] Relating to a Reduction in the Value of the Nasdaq 100 Stock Index")) and SR-CBOE-2004-89 (Securities Exchange Act Release No. 51220 (February 17, 2005), 70 FR 9398 (February 25, 2005) ("Notice of Filing and Immediate Effectiveness of Proposed Rule Change and Amendment Nos. 1 and 2 Thereto Relating to Reduced-Value Options on the Russell 2000 Stock Index").

<sup>10</sup> 15 U.S.C. 78f(b).

<sup>11</sup> 15 U.S.C. 78f(b)(5).

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act.

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

The Exchange neither solicited nor received comments on the proposal.

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

The foregoing proposed rule change, as amended, has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>12</sup> and Rule 19b-4(f)(6) thereunder<sup>13</sup> because the proposed rule change: (1) does not significantly affect the protection of investors or the public interest; (2) does not impose any significant burden on competition; and (3) does not become operative for 30 days from the date of filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest pursuant to Section 19(b)(3)(A) of the Act<sup>14</sup> and Rule 19b-4(f)(6)<sup>15</sup> thereunder.

The Exchange has requested that the Commission waive the five-day pre-filing notice requirement and the 30-day operative delay.<sup>16</sup> The Commission is exercising its authority to waive the five-day pre-filing notice requirement and believes that the waiver of the 30-day operative delay is consistent with the protection of investors and the public interest.

Acceleration of the operative delay would allow CBOE to implement the new position and

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<sup>12</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>13</sup> 17 CFR 240.19b-4(f)(6).

<sup>14</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>15</sup> 17 CFR 240.19b-4(f)(6).

<sup>16</sup> 17 CFR 240.19b-4(f)(6)(iii).

exercise limits for Regular-Size Volatility Index Options immediately for the benefit of large volume traders of these options. For these reasons, the Commission designates the proposal to be effective and operative upon filing with the Commission.<sup>17</sup>

At any time within 60 days of the filing of the proposed rule change the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in the furtherance of the purposes of the Act.

#### 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](mailto:rule-comments@sec.gov). Please include File Number SR-CBOE-2006-26 on the subject line.

##### Paper comments:

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

All submissions should refer to File Number SR-CBOE-2006-26. This file number should be included on the subject line if e-mail is used. To help the Commission process and review

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<sup>17</sup> For the purposes only of waiving the operative date of this proposal, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

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 inspection and copying in the Commission's Public Reference Section, 100 F Street, NE, Washington, DC 20549-1090. 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-2006-26 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>18</sup>

Nancy M. Morris  
Secretary

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<sup>18</sup> 17 CFR 200.30-3(a)(12).