

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-55425; File No. SR-CBOE-2006-73)

March 8, 2007

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing of Amendment No. 2 and Order Granting Accelerated Approval of Proposed Rule Change as amended, to Amend Certain of its Rules to Provide for the Listing and Trading of Options on the CBOE Russell 2000 Volatility Indexsm (“RVXsm”)

I. Introduction

On August 31, 2006, the Chicago Board Options Exchange, Incorporated (“CBOE” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”) a proposed rule change, pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² to amend certain of its rules to provide for the listing and trading of options on the CBOE Russell 2000 Volatility Indexsm (“RVXsm”). On October 20, 2006, CBOE filed Amendment No. 1 to the proposed rule change. The proposed rule change, as modified by Amendment No. 1, was published for comment in the Federal Register on October 30, 2006.³ The Commission received no comments on the proposal. On February 26, 2007, CBOE filed Amendment No. 2 to the proposed rule change.⁴ This order provides notice of Amendment No. 2 to the proposed rule change and approves the proposed rule change as amended.

II. Description of the Proposal

The Exchange seeks to list and trade cash-settled, European-style options on the RVX. The index is calculated using real-time Russell 2000 Index (“RUT”) option bid/ask quotes. RVX

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 54643 (October 23, 2006), 71 FR 63367 (“Notice”).

⁴ In Amendment No. 2, the Exchange represented that CBOE Futures Exchange, LLC (“CFE”) does not currently list and trade RVX futures. The Exchange further represented that it will not list for trading RVX options until RVX futures have begun trading on CFE.

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

For each contract month, CBOE will determine the at-the-money strike price. It 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. Then, to compute the index level, CBOE will calculate a volatility measure for the nearby options and then for the second nearby options. This is done 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.⁵

CBOE will compute the index on a real-time basis throughout each trading day, from 8:30 a.m. until 3:15 p.m. CST. Volatility index levels will be calculated by CBOE and disseminated at 15-second intervals to market information vendors via the Options Price Reporting Authority (“OPRA”).

Because of the generally limited range in which RVX has fluctuated, the Exchange proposes to list series at \$1.00 or greater strike price intervals for each expiration on up to 5 RVX option series above and 5 RVX option series below the current index level. Additional series at \$1.00 or greater strike price intervals could be listed for each expiration as the current index level of RVX moves from the exercise price of the RVX options series that already have

⁵ The Exchange represented in its filing that the RVX is calculated in the same manner as other volatility indexes (e.g., the CBOE Volatility Index (“VIX”)), upon which options have been based and previously approved by the Commission. A more detailed explanation of the method used to calculate VIX may be found on CBOE’s Web site at the following internet address: <http://www.cboe.com/micro/vix/vixwhite.pdf>.

been opened for trading on the Exchange in order to maintain at least 5 RVX option series above and 5 RVX option series below the current index level.

Additionally, the Exchange proposes that it would not list series with \$1.00 intervals within \$0.50 of an existing \$2.50 strike price with the same expiration month (e.g., if there is an existing \$12.50 strike, the Exchange would not list a \$12.00 or \$13.00 strike). The interval between strike prices for RVX long-term option series (“LEAPs®”) will continue to be no less than \$2.50.

III. Discussion

After careful review, the Commission finds that CBOE’s proposal to permit trading in options based on the RVX is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange⁶ and, in particular, the requirements of Section 6 of the Act⁷ and the rules and regulations thereunder. The Commission believes that CBOE’s proposal gives options investors the ability to make an additional investment choice in a manner consistent with the requirements of Section 6(b)(5) of the Act.⁸ The Commission further believes that trading options on this volatility index provides investors with an important trading and hedging mechanism.

The Commission finds that it is consistent with the Act for CBOE to apply its rules for trading of broad-based index options to RVX. The Commission believes that because this volatility index is composed of options on an index which the Commission has previously

⁶ In approving this proposed rule change, the Commission has considered the proposed rule’s impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

⁷ 15 U.S.C. 78f.

⁸ 15 U.S.C. 78f(b)(5).

determined is appropriate to treat as broad-based for purposes of CBOE's rules,⁹ it is appropriate to apply to the RVX options the position limits, exercise limits and margin requirements that apply to CBOE's component index options.

The Commission also notes CBOE's representation that it has adequate surveillance procedures in place to monitor for manipulation of the RVX options. In addition, the Commission notes that the Exchange will use the same surveillance procedures currently utilized for each of the Exchange's other index options to monitor trading in options on the RVX and that CBOE believes that these surveillance procedures are adequate to monitor the trading of options on the RVX. For surveillance purposes, the Exchange will have complete access to information regarding trading activity in the pertinent underlying securities.

As explained by CBOE, the RVX fluctuates in a narrow range, and the Commission believes that the implementation of \$1 strike price intervals in the RVX option product, within the parameters detailed in CBOE's proposal, is appropriate. The Commission also finds that CBOE's trading rules and other product specifications are consistent with the Act. Because the exercise of these options will be cash-settled, RVX options will be A.M.-settled on the business day following expiration, in a manner that will deter manipulation.

The Commission also notes CBOE's representations that it possesses the necessary systems capacity to support new series that would result from the introduction of RVX options and that CBOE also has been informed that OPRA has the capacity to support such new series.

The Commission finds good cause to approve the proposed rule change, as modified by Amendment Nos. 1 and 2 before the 30th day after the date of publication of notice of filing of Amendment No. 2 in the Federal Register. In Amendment No. 2, the Exchange represented that

⁹ See Securities Exchange Act Release No. 31382 (October 30, 1992), 57 FR 52802 (November 5, 1992) (SR-CBOE-92-02).

CBOE Futures Exchange, LLC ("CFE") does not currently list and trade RVX futures and that the Exchange will not list for trading RVX options until RVX futures have begun trading on CFE.

The Commission believes that this clarifying language is necessary because the Exchange plans to use RVX futures prices as a proxy for "implied forward" RVX levels.¹⁰

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change as amended 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-2006-73 on the subject line.

Paper comments:

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

All submissions should refer to File Number SR-CBOE-2006-73. 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

¹⁰ See Notice supra note 3.

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 Room. Copies of such filing also will be available for inspection and copying at the principal office of the Exchange. 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-2006-73 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

V. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,¹¹ that the proposed rule change (SR-CBOE-2006-73), as amended, be, and hereby is, approved on an accelerated basis.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹²

Nancy M. Morris
Secretary

¹¹ 15 U.S.C. 78s(b)(2).

¹² 17 CFR 200.30-3(a)(12).