SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-56449; File No. SR-CBOE-2007-52)

September 17, 2007

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing of a Proposed Rule Change as modified by Amendment No. 1 Thereto Relating to $1 Strikes for VXD and VXN Options and $1 Strikes for RVX, VIX, VXD and VXN LEAPs

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")[1] and Rule 19b-4 thereunder,[2] notice is hereby given that on July 11, 2007, 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, II, and III below, which Items have been prepared by the Exchange. On August 20, 2007, CBOE filed Amendment No. 1 to the proposed rule change. The Commission is publishing this notice to solicit comments on the proposed rule change, as amended, from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

CBOE proposes rules that would permit the Exchange to: (i) list and trade CBOE Dow Jones Industrial Average Volatility Index ("VXD") options and Nasdaq-100 Volatility Index ("VXN") options in $1 strike price intervals; and (ii) list and trade CBOE Russell 2000 Volatility Index ("RVX"), VXD, VXN and CBOE Volatility Index ("VIX") LEAPs in $1 strike price intervals. The text of the rule proposal is available on the Exchange's website (http://www.cboe.org/legal), at the Exchange's Office of the Secretary and at the Commission.

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

2 17 CFR 240.19b-4.

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

In its filing with the Commission, CBOE 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 these statements may be examined at the places specified in Item IV below. CBOE has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

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

1. Purpose

The purpose of the proposed rule change is to permit the Exchange to list and trade options on the CBOE Dow Jones Industrial Average Volatility Index ("VXD") and the Nasdaq-100 Volatility Index ("VXN") in $1 strike price intervals within certain parameters described below.[3] Additionally, the rule change proposes to permit the Exchange to list and trade CBOE Russell Volatility Index ("RVX"), CBOE Volatility Index ("VIX"), VXD, and VXN LEAPs in $1 strike price intervals within certain parameters also described below.

$1 Strikes for VXD and VXN Options

Similar to other volatility indexes, VXD and VXN are calculated using real-time quotes of out-of-the-money and at-the-money and second nearly index puts and calls on the Dow Jones Industrial Index ("DJIA") and the Nasdaq-100 Index ("NDX") respectively. VXD and VXN are quoted in absolute numbers that represent the volatility of the DJIA and the NDX respectively in percentage points per annum. For example, a VXD level of 11.63 (the closing value of the VXD

3 The SEC previously approved the listing and trading of VXD and VXN options, which the Exchange anticipates trading shortly. See Securities Exchange Act Release No. 49563 (April 14, 2004), 69 FR 21589 (April 21, 2004) (approving SR-CBOE-2003-40).

on April 26, 2007) represents an annualized volatility of 11.637% in the DJIA Index and a VXN level of 15.97 (the closing value of the VXN on April 26, 2007) represents an annualized volatility of 15.77% in the NDX.

As with other proprietary CBOE volatility indexes, VXD and VXN levels fluctuate quite differently than individual equity securities or indexes of individual equity securities. Specifically, indexes such as VXD and VXN that track volatility are "mean-reverting," a statistical term used to describe a strong tendency for the volatility index to move toward its long-term historical average level. In other words, at historically low volatility index levels, there is a higher probability that the next big move will be up rather than down. Conversely, at historically high volatility index levels, the next big move is more likely to be down rather than up.

Thus, as exemplified by VXD and VXN, volatility indexes tend to move within set ranges, and even when a level moves outside that range, the tendency towards mean-reversion often results in the volatility index returning to a level within the range. In the case of VXD, the historical average index value since January 2, 2002 is 16.92. Since January 2002, VXD has fluctuated in a range between 9.28 and 41.85. Furthermore, VXD closed under 25 for 85% of the days on which the level was calculated since 2002 (1,171 days out of a total of 1,372 days) and has closed under 30 for 91% of the days on which the level was calculated since 2002 (1,245 days out of a total of 1,372 days). VXD has closed between 10 and 25 for 82% of the days on which the level was calculated since 2002 (1,130 days out of a total of 1,372 days).

In the case of VXN, the historical average index value since January 2, 2002 is 26.14. Since January 2002, VXN has fluctuated in a range between 12.61 and 60.66. Furthermore, VXN closed under 25 for 61% of the days on which the level was calculated since 2002 (822 days out of a total of 1,355 days) and has closed under 30 for 73% of the days on which the level was calculated since 2002 (987 days out of a total of 1,355 days). VXN has closed between 15 and 30 for 66% of the days on which the level was calculated since 2002 (895 days out of a total of 1,355 days).

Because of the generally limited range in which VXD and VXN have fluctuated, the Exchange believes that investors will be better served if the Exchange is able to list $1 strike price intervals in VXD and VXN option series. To address this, the Exchange is proposing to list series at $1 or greater strike price intervals for each expiration on up to 5 VXD and VXN option series above and 5 VXD and VXN option series below the current index level.[4] Additional series at $1.00 or greater strike price internals could be listed for each expiration as the current index levels of VXD and VXD, respectively, move from the exercise price of the VXD and VXN options series that already have been opened for trading on the Exchange in order to maintain at least 5 VXD and VXD option series above and 5 VXD and VXN option series below the current index levels respectively. As the current index level of RVX, VIX, VXD and VXN moves from the exercise price of those RVX, VIX, VXD and VXN options and LEAPs series that already have been opened for trading on the Exchange, the Exchange may open for trading additional series at $1.00 or greater strike price intervals for each expiration on up to 5 RVX, VIX, VXD and VXN option and LEAPs series above and 5 RVX, VIX, VXD and VXN option and LEAPs series below the current index level.

For purposes of adding strike prices at $1.00 or greater strike price intervals, as well as at $2.50 or greater strike price intervals, the "current index level" would be defined as the "implied

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4 The Commission previously approved the listing of VIX and RVX options at $1 strike intervals. See Securities Exchange Act Release No. 54192 (July 21, 2006), 71 FR 43251 (July 31, 2006) (approving SR-CBOE-2006-27); see also Securities Exchange Act Release No. 55425 (March 8, 2007), 72 FR 12238 (March 15, 2007) (approving SR-CBOE-2006-73).

forward level" of VXN and VXD for each expiration.[5] The Exchange believes that the $1 strike price intervals will more closely bracket the levels of VXN and VXD when it remains locked within a static range, as currently exists, and will enable investors to assume more dynamic volatility index option positions that reflect greater possibilities of settling in-the-month.

The Exchange intends to determine implied forward levels of VXN and VXD through the use of VXN and VXD futures prices respectively. Its reasons for using this approach are explained below.

By way of background, option prices reflect the market's expectation of the price of the underlying at expiration, which is referred to as the "forward" level. For stock indexes such as the DJIA and the NDX, the best estimate of the forward level is the current, or "spot," price adjusted for the "carry," which is the financing cost of owning the component stocks in the index less the dividends paid by those stocks. For volatility indexes such as VXD and VXN, a better estimate than the standard "cash and carry" model for calculating the forward levels of VXN and VXD at each expiration is reflected in the prices of the options that will be used to calculate VXN and VXD on that expiration day. For example, December 2007 DJIA options will be used to calculate VXD on the November 2007 VXD expiration date. Likewise, February 2008 VXN options are tied to the implied volatility of March 2008 NDX options, and so on.

One important property of implied volatility is that it exhibits a "term structure." In other

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5 With respect to $2.50 or greater strikes, the $2.50 or greater strike price intervals will be reasonably related to the current index value of VXN and VXD at or about the time such series are first opened for trading. The term "reasonably related to the current index value of the underlying index" means that the exercise price is within 30% of the current index value. The Exchange may also open additional $2.50 or greater strike price series that are more than 30% away from the current index value, provided that demonstrated customer interest exists for such series, as expressed by institutional, corporate, or individual customers or their brokers. See Interpretations and Policies .01(d) and .04 of Rule 24.9.

words, the implied volatility of options expiring on different dates can trade at different levels and can move independently. Another property related to the term structure is that implied volatility tends to trend toward the market's expectation of a long-term "average" value. As a result, a large spike in one-month implied volatility might not affect implied volatility of longer-dated options very much at all.

The Exchange states that the VXD futures contract and the VXN futures contract were first listed for trading on CBOE Futures Exchange, LLC ("CFE") on March 26, 2004 and July 6, 2007, respectively.[6] The Exchange believes that traders will likely use VXD and VXN futures prices as a proxy for forward VXD and VXN levels. CBOE believes that using these prices is an accurate and transparent method for determining the "current index level" used to center the limited range in which $1 or greater strikes in VXD and VXN options will be listed and the broader range in which $2.50 or greater strikes in VXD and VXN options will be listed.

Additionally, the Exchange is proposing that it would not list series with $1 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 or 13 strike).

$1 Strike LEAPs for RVX, VIX, VXN and VXD.

Similar to the rationale advanced for $1 strikes for options, the Exchange is proposing rules to permit $1 strike intervals for RVX, VIX, VXD and VXN LEAPs. Typically, LEAPs strike prices moves in increments of $2.50 and $5.00 and such incremental pricing is suited for long-term contracts on traditional equity and stock index products. However, as discussed above, the levels of volatility indexes fluctuate quite differently than equities and stock indexes.

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6 The VIX futures contract was first listed for trading on CFE on March 26, 2004 and the RVX futures contract was first listed for trading on CFE on July 6, 2007.

As a "mean-reverting" product, volatility indexes gravitate towards their historical average levels; thus, limiting the range of movement.

As with volatility index options, the Exchange is proposing to list series at $1 or greater strike price intervals for each expiration on up to 5 RVX, VIX, VXD and VXN LEAPs series above and 5 RVX, VIX, VXD and VXN LEAPs series below the current index level. As the current index level of RVX, VIX, VXD and VXN moves from the exercise price of those RVX, VIX, VXD and VXN options and LEAPs series that already have been opened for trading on the Exchange, the Exchange may open for trading additional series at $1.00 or greater strike price intervals for each expiration on up to 5 RVX, VIX, VXD and VXN option and LEAPs series above and 5 RVX, VIX, VXD and VXN option and LEAPs series below the current index level. For purposes of adding strike prices at $1.00 or greater strike price intervals, as well as at $2.50 or greater strike price intervals, the "current index level" would be defined as the "implied forward level" of RVX, VIX, VXN and VXD for each expiration.

Capacity

CBOE has analyzed its capacity and 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 and trading of the $1 strikes for VXD and VXN option and of the $1 strikes for RVX, VIX, VXD and VXN LEAPs.

2. Statutory Basis

The Exchange believes this rule proposal is consistent with the Act and the rules and regulations under the Act applicable to a national securities exchange and, in particular, the requirements of Section 6(b) of the Act.[7] Specifically, the Exchange believes that the proposed

[7] 15 U.S.C. 78f(b).

rule change is consistent with the Section 6(b)(5) Act[8] requirements that the rules of an exchange be designed to promote just and equitable principles of trade, to prevent fraudulent and manipulative acts and, in general, to protect investors and the public interest.

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 not necessary or appropriate in furtherance of 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

Within 35 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) by order approve 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:

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[8] 15 U.S.C. 78f(b)(5).

- 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-2007-52 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-2007-52. 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 inspection and copying in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 am and 3:00 pm. Copies of such filing also will be available for inspection and copying at the principal office of 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-2007-52 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.[9]

Florence E. Harmon
Deputy Secretary

[9] 17 CFR 200.30-3(a)(12).