

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-64654; File No. SR-CBOE-2011-039)

June 13, 2011

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing of Proposed Rule Change to Trade Single Stock Dividend 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 May 31, 2011, 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 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

Chicago Board Options Exchange, Incorporated ("CBOE" or "Exchange") proposes to amend certain of its rules to provide for the listing and trading of options that overlie the ordinary cash dividends paid by an issuer over an annual, semi-annual, or quarterly "accrual period." The options will be cash-settled, have European-style exercise and be P.M.-settled. 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'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 self-regulatory organization 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

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

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

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 purpose of the proposed rule change is to permit the Exchange to list and trade options that overlie the ordinary cash dividends paid by an issuer over an annual accrual period. The Exchange may also list series of SSDOs with an accrual period of less than a year, but in no event less than one quarter of a year. SSDOs will be cash-settled, have European-style exercise and be P.M.-settled.

Product Design

Each SSDO represents the accumulated ordinary dividend amounts paid by a specific issuer over a specified accrual period. For purposes of SSDOs, dividends are deemed to be "paid" on the ex-dividend date. Each annual accrual period will run from the business day after the third Friday of December through the third Friday of the following December. For an SSDO with an accrual period of less than a year, the accrual period runs from the business day after the third Friday of the month beginning the accrual period through the third Friday of the month ending the accrual period.<sup>3</sup> An example of a quarterly accrual period is one that will run from Monday, March 21, 2011 through Friday, June 17, 2011.

The underlying value for SSDOs will be equal to ten (10) times the ex-dividend amounts of an issuer accumulated over the specified accrual period. Each day, CBOE will calculate the aggregate daily dividend totals for the specific issuer, which are summed up over any given

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<sup>3</sup> The Exchange will assign separate trading symbols to SSDOs overlying the accumulated ex-dividends of the same issuer that have different accrual periods.

accrual period (e.g., quarterly, semi-annually, annually). During each business day, CBOE will disseminate the underlying SSDO value, multiplied by ten (10), through the Options Price Reporting Authority ("OPRA"), the Consolidated Tape Association ("CTA") tape and/or the Market Data Index ("MDI") feed.

### Options Trading

Each SSDO will be quoted in decimals and one point will be equal to \$100. The minimum price variation shall be established on a class-by-class basis by the Exchange and shall not be less than \$0.01. Exhibit 3 presents proposed contract specifications for SSDOs.

The Exchange expects that the underlying index values for SSDOs will be relatively low. As a result, the proposal permits the Exchange to designate \$0.01 as the minimum price variation for quotes and believes that granular pricing will result in more pricing points. The availability of more pricing points creates tighter spreads between quotes, which in turn benefits investors.

Similarly, the Exchange is proposing to list series at 1 point (\$1.00) or greater strike price intervals if the strike price is equal to or less than \$200 and 2.5 points (\$2.50) or greater strike price intervals if the strike price exceeds \$200. Because the underlying value of an SSDO will fluctuate around a limited expected dividend value range, the Exchange believes that a granular strike price increment will provide investors with greater flexibility by allowing them to establish positions that are better tailored to meet their investment objectives. Below are examples of values underlying SSDOs using past ordinary dividend payouts over varying accrual periods:

<b>Example: Annual Accrual Period</b>			
December 21, 2009 through December 17, 2010			
<i>Exxon Mobil Corporation (XOM)</i>			
Ex-Dividend Date	Ex-Dividend Amount	Cumulative Dividend	SSDO Index Value
2/8/2010	\$0.42	\$0.42	4.20
5/11/2010	\$0.42	\$0.84	8.40
8/11/2010	\$0.42	\$1.26	12.60
11/9/2010	\$0.44	\$1.70	17.00

<i>General Electric Company (GE)</i>			
Ex-Dividend Date	Ex-Dividend Amount	Cumulative Dividend	SSDO Index Value
12/23/2009	\$0.10	\$0.10	1.00
2/25/2010	\$0.10	\$0.20	2.00
6/17/2010	\$0.10	\$0.30	3.00
9/16/2010	\$0.12	\$0.42	4.20
12/22/2010	\$0.14	Not Included	

<b>Example: Semi-Annual Accrual Period</b>			
June 21, 2010 through December 17, 2010			
<i>ONEOK Partners, L.P. (OKS)</i>			
Ex-Dividend Date	Ex-Dividend Amount	Cumulative Dividend	SSDO Index Value
1/27/2010	\$1.11	Not Included	
4/28/2010	\$1.12	Not Included	
7/28/2010	\$1.13	\$1.13	11.30
10/27/2010	\$1.14	\$2.27	22.70

<i>Caterpillar Inc. (CAT)</i>			
Ex-Dividend Date	Ex-Dividend Amount	Cumulative Dividend	SSDO Index Value
1/15/2010	\$0.42	Not Included	
4/22/2010	\$0.42	Not Included	
7/16/2010	\$0.44	\$0.44	4.40
10/21/2010	\$0.44	\$0.88	8.80

<b>Example: Quarterly Accrual Period</b>			
December 21, 2010 through March 19, 2010 [sic]			
<i>International Business Machines Corporation (IBM)</i>			
Ex-Dividend Date	Ex-Dividend Amount	Cumulative Dividend	SSDO Index Value
2/8/2010 [sic]	\$0.55	\$0.55	5.50
5/16/2010 [sic]	\$0.65	Not Included	
8/6/2010 [sic]	\$0.65	Not Included	
11/8/2010 [sic]	\$0.65	Not Included	

<i>Altria Group, Inc. (MO)</i>			
Ex-Dividend Date	Ex-Dividend Amount	Cumulative Dividend	SSDO Index Value
3/11/2010 [sic]	\$0.35	\$0.35	3.50
6/11/2010 [sic]	\$0.35	Not Included	
9/13/2010 [sic]	\$0.38	Not Included	
12/23/2010 [sic]	\$0.38	Not Included	

Initially, the Exchange will list in-, at- and out-of-the-money strike prices and may open for trading up to five annual contract months expiring in December for any single stock underlying an SSDO and up to ten contract months for accrual periods of less than a year. The Exchange is proposing to use the expected dividend (i.e., the aggregate value of dividends that are expected to be paid by the issuer over a given accrual period) amount for setting the initial strikes. Near-term SSDOs will reflect dividends accumulating in the then-current accrual period. All other SSDO options (i.e., contracts listed for trading that are not in the then-current accrual period) will reflect dividends expected in comparable accrual periods beyond the current accrual period.

The Exchange may open for trading additional series, either in response to customer demand or as the price of the expected dividends for an issuer changes.

The Exchange is proposing to permit the listing of up to five annual contract months that expire in December in different years for any single stock underlying an SSDO. For example, the Exchange would be permitted to list the following annual XOM contracts: December 2011, December 2012, December 2013, December 2014 and December 2015. As shown in the following table, each annual XOM SSDO contract features a one-year accrual period that begins on the first business day following the third Friday in December and ends on the respective XOM SSDO expiration date. As of May 17, 2011, near-term XOM SSDO prices would reflect a combination of actual dividend payouts of \$0.91 (\$0.44 on the ex-dividend date of February 8, 2011 and \$0.47 on the ex-dividend date of May 11, 2011), plus any ordinary cash dividends expected to be paid (estimated to be \$0.94 – \$0.47 on two expected ex-dividend dates) through December 16, 2011. Since the accrual periods for longer-dated SSDOs expiring in December 2012, December 2013, December 2014 and December 2015 have not yet begun, longer-dated SSDO prices would reflect dividends that are expected to be paid during their respective one-year accrual periods. The expected dividends for longer-dated SSDOs listed in the table reflect an assumption of 5% dividend growth annually through December 2015. In-, at- and out-of-the-money SSDO strike prices would be listed relative to the Expected SSDO Index level equal to ten times the dividends expected during the relevant accrual period.

Accrual Period Start Date	Accrual Period End Date (SSDO Expiration Date)	Actual Dividends	Expected Dividends	Actual + Expected Dividends	Expected SSDO Index Level	SSDO Strikes
December 20, 2010	December 16, 2011	\$ 0.91	\$ 0.94	\$ 1.85	\$ 18.50	16, 17, 18, 19, 20
December 19, 2011	December 21, 2012	\$ -	\$ 1.94	\$ 1.94	\$ 19.40	17, 18, 19, 20, 21
December 24, 2012	December 20, 2013	\$ -	\$ 2.04	\$ 2.04	\$ 20.40	19, 20, 21, 22, 23
December 23, 2013	December 19, 2014	\$ -	\$ 2.14	\$ 2.14	\$ 21.40	20, 21, 22, 23, 24
December 22, 2014	December 18, 2015	\$ -	\$ 2.25	\$ 2.25	\$ 22.50	21, 22, 23, 24, 25

In addition, the Exchange is proposing to permit the listing of up to ten contract months for accrual periods of less than a year. Near-term SSDOs with accrual periods of less than a year will reflect dividends accumulating in the then-current accrual period. All other SSDOs will reflect dividends expected in comparable accrual periods beyond the current accrual period.

#### Exercise and Settlement

The proposed options will expire on the Saturday following the third Friday of the expiring month. Trading in the expiring contract month will normally cease at 3:00 p.m. Chicago time on the last day of trading (ordinarily the Friday before expiration Saturday, unless there is an intervening holiday). When the last trading day is moved because of an Exchange holiday (such as when CBOE is closed on the Friday before expiration), the last trading day for expiring options will be Thursday.

Exercise will result in delivery of cash on the business day following expiration. SSDOs will be P.M.-settled. The Exchange is proposing P.M.-settlement for SSDOs because options trading on individual stocks are P.M. settled. As a result, the Exchange is proposing to match the expiration style for SSDOs to individual stock option exercise. The exercise-settlement amount will be equal [sic] ten times the ordinary cash dividends paid by the issuer over the accrual period. The exercise settlement amount is equal to the difference between the exercise-settlement value and the exercise price of the option, multiplied by the contract multiplier (\$100).

If the exercise settlement value is not available or the normal settlement procedure cannot be utilized due to a trading disruption or other unusual circumstance, the settlement value will be determined in accordance with the rules and bylaws of the OCC.

#### Surveillance

The Exchange will use the same surveillance procedures currently utilized for each of the Exchange's other single stock options to monitor trading in SSDOs. Such procedures include for

example monitoring dividend announcements. CBOE is confident that it has adequate tools in place to surveil for market manipulation. The Exchange represents that these surveillance procedures shall be adequate to monitor trading in options on these option products. For surveillance purposes, the Exchange will have complete access to information regarding trading activity in the pertinent securities whose dividend payment is the basis for particular SSDOs. Specifically, as a member of the Intermarket Surveillance Group ("ISG"), the Exchange is able to obtain this information from the exchanges listing the securities whose dividend payment is the basis for particular SSDOs. CBOE's access to information from the ISG and tools such as the Exchange's large options positions reports should prove more than sufficient for surveillance of market manipulation.

#### Position Limits

Position and exercise limits for SSDOs will be the same as those for standard options overlying the same security. While positions in SSDOs will be aggregated with longer-dated positions in SSDOs with the same underlying stock for position and exercise limits purposes, they will not be aggregated with positions in the ordinary options overlying the stock of the issuer paying the dividends underlying the SSDO. The reason for not aggregating positions with ordinary options is that SSDOs are based solely on expected dividends for an issuer and will reflect the forward value of that expectation. In contrast, the value of ordinary stock options reflect a variety of factors, of which expected dividends is only one. Hence the pricing of ordinary options versus SSDOs will differ dramatically and there is no need to aggregate positions to prevent manipulative practices involving the underlying.



### Exchange Rules Applicable

A new Rule 5.9 is proposed to govern the listing and trading of SSDOs. In addition, SSDOs will be margined in the same manner as single stock options under Exchange Rule 12.3. Purchasers of puts or calls, however, must be paid in full, even if there remains longer than nine months until expiration for the position. For SSDOs, the aggregate contract value on which the margin amount will be calculated will be the product of the forward expected dividend amount for the accrual period (as adjusted for any contract scaling factor) and the applicable multiplier (\$100).

The Exchange hereby designates SSDO options as eligible for trading as Flexible Exchange Options as provided for in Chapters XXIVA (Flexible Exchange Options) and XXIVB (FLEX Hybrid Trading System).

### Capacity

CBOE has analyzed its capacity and represents that it believes the Exchange and OPRA have the necessary systems capacity to handle the additional traffic associated with the listing of new series that will result from the introduction of SSDOs. This is particularly the case since the value of SSDOs are predicated on expected dividend payments, which are generally much less volatile than share prices. Hence, there is less need to list numerous strike prices for each expiration date of an SSDO or to have to add many new strikes over the life of an SSDO.

## 2. Statutory Basis

The Exchange believes the proposed rule change is consistent with Section 6(b)<sup>4</sup> of the Act, in general, and furthers the objectives of Section 6(b)(5)<sup>5</sup> in particular in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable

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<sup>4</sup> 15 U.S.C. 78f(b).

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

principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, and to remove impediments to and perfect the mechanisms of a free and open market in a manner consistent with the protection of investors and the public interest. The Exchange believes that the introduction of SSDOs will provide investors with the ability to invest in options that settle to a value that represents the accumulated dividend amounts paid by a specific issuer over a specified accrual period. This will protect investors and the public interest by allowing market participants to hedge against potential declines in dividend income from long positions in the underlying stocks, which can be significant over long holding periods. In addition, the Exchange understands that dividend options trade in the other-the-counter [sic] marketplace and believes that the introduction of SSDOs will attract order flow to the Exchange, increase the variety of listed options to investors, and provide a valuable hedging tool to investors. Similarly, the proposed rule change will permit market participants to trade SSDOs in an environment subject to exchange-based rules that provides price transparency and eliminates contra-party risk through the role of the OCC as issuer, thus removing impediments to a free and open market consistent with the Act. Finally, SSDOs will be subject to CBOE's rules, regulations and oversight, which provide enhanced investor protection and market surveillance.

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 the purposes of the Act.

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 self-regulatory organization consents, the Commission will:

- (A) by order approve or disapprove the 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](mailto:rule-comments@sec.gov). Please include File Number SR-CBOE-2011-039 on the subject line.

##### Paper comments:

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

All submissions should refer to File Number SR-CBOE-2011-039. 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 website (<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 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 publicly available. All submissions should refer to File Number SR-CBOE-2011-039 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.<sup>6</sup>

Cathy H. Ahn  
Deputy Secretary

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<sup>6</sup> 17 CFR 200.30-3(a)(12).