

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-52625; File No. SR-CBOE-2005-81)

October 18, 2005

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change Relating to Options on a Reduced-Value Version of the Standard and Poor's 500 Stock Index

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934, as amended, ("Act")<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on October 5, 2005, the Chicago Board Options Exchange, Incorporated ("Exchange" or "CBOE") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I and II below, which Items have been substantially prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons and is approving the proposal on an accelerated basis.

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

The CBOE proposes to amend its rules to allow the Exchange to list options on a reduced-value version of the Standard and Poor's 500 Stock Index at \$1 strike price intervals.

The text of the proposed rule change is available on the CBOE's Web site (<http://www.cboe.com>), at the CBOE's Office of the Secretary, and at the Commission's Public Reference Room.

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

<sup>2</sup> 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, the 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 III below. The 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 Exchange proposes to amend CBOE Rule 24.9 (“Terms of Index Option Contracts”) by adding a new interpretation that would allow the Exchange to list series on the reduced-value version of the Standard & Poor’s 500 Stock Index (“S&P 500 Index”) option (“Mini-SPX option”), which is based on 1/10<sup>th</sup> of the value of the S&P 500 Index, at strike price intervals no less than \$1.<sup>3</sup>

Similarly, the Exchange currently lists and trades options at \$1 strike price intervals on an exchange traded fund (“ETF”) based on the S&P 500 index; specifically, the Standard & Poor’s Depository Receipts (commonly known as the “SPDRs”) ETF.<sup>4</sup> The SPDR, like the Mini-SPX option, is designed to track the performance of the S&P 500 Index and the price of one SPDR roughly approximates 1/10<sup>th</sup> the value of the S&P 500 Index. The Exchange believes it would be

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<sup>3</sup> Currently, under Interpretation and Policy .01 to CBOE Rule 24.9, the Exchange has authority to list options on the Mini-SPX at \$2.50 strike price intervals.

<sup>4</sup> The Exchange has authority to list option series on any qualifying ETF at \$1 strike price intervals. See Interpretation and Policy .08 to CBOE Rule 5.5. See also Interpretation and Policy .07 to CBOE Rule 5.5, which allows the Exchange to list \$1 strike price series on options based on an ETF that represents an interest in the securities that make up the Nasdaq-100 Index (“QQQQ”), regardless of whether the value of the QQQQ exceeds \$200.

logical to set the strike price interval for the Mini-SPX option at the same interval as options on the SPDR, because setting the price interval higher for Mini-SPX options than for SPDR options could cause confusion to investors and would put Mini-SPX options at a competitive disadvantage to SPDR options. As such, the Exchange proposes to list series on Mini-SPX options at \$1 strike price intervals.

The Exchange also proposes to impose certain conditions upon the listing of \$1 strike price series on Mini-SPX options, as described below. First, to limit the number of series listed, the Exchange would not be allowed to list new series at less than \$1 strike price intervals on Mini-SPX options at strike prices that are more than twenty percentage points (20%) away from one-tenth ( $1/10^{\text{th}}$ ) the current index value of the S&P 500 Index. For example, if the current index value of the S&P 500 Index were 1,200.00, the Exchange would be permitted to list \$1 strike price series on Mini-SPX options at strike prices ranging from \$96 to \$144.

The Exchange would be permitted to list series on Mini-SPX options at \$3 or greater strike price intervals with strike prices that are no more than twenty-five percentage points (25%) away from  $1/10^{\text{th}}$  the current value of the S&P 500 Index and the Exchange would be permitted to list series at \$5 or greater strike price intervals on Mini-SPX options that are more than 25% away from one-tenth of the current value of the S&P 500 Index. Also, the Exchange would not be permitted to list LEAPS or reduced-value LEAPS on Mini-SPX options at intervals less than \$5.

Finally, as long as there are open Mini-SPX option series listed at \$1 strike price intervals, the Exchange would be required to surrender one of its five selections under the CBOE \$1 Strike Price Pilot Program (“Pilot”).<sup>5</sup> Under the terms of the Pilot, the Exchange may select

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<sup>5</sup> See Interpretation and Policy .01(a) to CBOE Rule 5.5.

up to five different equity option classes on which series may be listed at \$1 strike price intervals.<sup>6</sup> This proposal would limit the listing of option series at \$1 strike price intervals on the Exchange in the Pilot to four classes when Mini-SPX options are listed at \$1 strike price intervals. If the Exchange were to determine to discontinue listing Mini-SPX option series at \$1 strike price intervals, the Exchange would again be free to select up to five option classes for inclusion in the Pilot. Accordingly, CBOE’s Rule provisions relating to the Pilot will be amended to reference these measures.

As a technical matter, the Exchange also proposes to amend Interpretation and Policy .09 to Rule 24.9, which describes the current index value of a “reduced-value option on the Standard & Poor’s 500 Stock Index”,<sup>7</sup> to indicate that the new term “Mini-SPX” will be used to describe the option product.

## 2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act,<sup>8</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>9</sup> in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect investors and the public interest.

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<sup>6</sup> Under the terms of the Pilot, the Exchange also may list series at \$1 strike price intervals on any other option classes if those classes are specifically designated by other securities exchanges that employ a similar Pilot under their respective rules. The CBOE Pilot also provides for other restrictions that will not necessarily apply to Mini-SPX options. See supra note 5.

<sup>7</sup> This description was added at the time the Exchange was granted approval to list and trade Mini-SPX options. See Securities Exchange Act Release No. 32893 (September 14, 1993); 58 FR 49070 (September 21, 1993) (allowing CBOE to list options on the Mini-SPX).

<sup>8</sup> 15 U.S.C. 78f(b).

<sup>9</sup> 15 U.S.C. 78f(b)(5).

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

The Exchange believes that the proposed rule change will impose no burden on competition that is 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 by the Exchange on this proposal.

III. 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-2005-81 on the subject line.

Paper comments:

- Send paper comments in triplicate to Jonathan G. Katz, Secretary, Securities and Exchange Commission, Station Place, 100 F Street, NE, Washington, DC 20549-9303.

All submissions should refer to File Number SR-CBOE-2005-81. 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. 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-2005-81 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

IV. Commission's Findings and Order Granting Accelerated Approval of Proposed Rule Change

After careful consideration, the Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder, applicable to a national securities exchange,<sup>10</sup> and, in particular, with the requirements of Section 6(b)(5) of the Act,<sup>11</sup> which requires, among other things, that the Exchange's rules promote just and equitable principles of trade and facilitate transactions in securities, and, in general, protect investors and the public interest.

The Commission believes that the CBOE's proposal should provide investors with increased flexibility in satisfying their investment objectives by allowing them to purchase and sell (under certain conditions) Mini-SPX options at strike price intervals of no less than \$1. In addition, the proposed restrictions that would permit the listing of options at \$1 and \$3 strike price intervals only for strike prices that are within 20% and 25%, respectively, of 1/10 of the

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<sup>10</sup> In approving this proposal, the Commission has considered its impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

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

current value of the S&P 500 Index should help to mitigate the effect of this proposal on the use of options system capacity.

The Exchange has requested that the Commission approve the proposed rule change on an accelerated basis. The Commission finds good cause, pursuant to Section 19(b)(2) of the Act,<sup>12</sup> for approving the proposed rule change prior to the thirtieth day after the date of publication of notice in the Federal Register. The Commission notes that the CBOE received approval to list and trade options on the Mini-SPX more than 10 years ago. At that time, the proposal was noticed for the full comment period and no comments were received. The Commission believes that the proposal, which would permit the exchange to begin listing options on the Mini-SPX at \$1 strike price intervals on an expedited basis, raises no new issues of regulatory concern. Accordingly, the Commission finds that good cause exists, consistent with Sections 6(b)(5) and 19(b)(2) of the Act,<sup>13</sup> to approve the proposed rule change on an accelerated basis.

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<sup>12</sup> 15 U.S.C. 78s(b)(2).

<sup>13</sup> 15 U.S.C. 78f(b)(5) and 78s(b)(2).

V. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,<sup>14</sup> that the proposed rule change (SR-CBOE-2005-81) is hereby approved on an accelerated basis.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>15</sup>

Jonathan G. Katz  
Secretary

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<sup>14</sup> 15 U.S.C. 78s(b)(2).

<sup>15</sup> 17 CFR 200.30-3(a)(12).