SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-56632; File No. SR-CBOE-2007-82)

October 9, 2007

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing of a Proposed Rule Change as Modified by Amendment No. 1 Thereto to Allow the Exchange to List Up to Seven Expiration Months for Broad-Based Security Index Options Upon Which the Exchange Calculates a Constant Three-Month Volatility Index

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 17, 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 substantially prepared by the Exchange. On September 19, 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

The Exchange proposes to amend Rule 24.9(a)(2), Terms of Index Option Contracts, to allow the Exchange to list up to seven expiration months for broad-based security index options upon which the Exchange calculates a constant three-month volatility index. The Exchange also proposes to remove outdated rule text from Rule 24.9(a)(2). 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.

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 this rule filing is to amend Rule 24.9(a)(2), Terms of Index Options, to allow the Exchange to list up to seven expiration months for broad-based security index options upon which the Exchange calculates a constant three-month volatility index. Currently, Rule 24.9(a)(2) permits the Exchange to list only six expiration months in any index options at any one time.

Volatility products offer investors a unique set of tools for speculating and hedging. For example, CBOE Volatility Index ("VIX") options, first introduced in February 2006, have proven to be one of the Exchange's most successful new products ever listed, currently averaging over 90,000 contracts traded per day. The Exchange plans to introduce new volatility products and new volatility indexes in the near future. One such index is the CBOE S&P 500 Three-Month Volatility Index ("VXV").[3]

---

[3] The Exchange calculates volatility indexes on other broad-based security indexes, such as the Dow Jones Industrial Average index ("DJX"), the Nasdaq-100 index ("NDX"), and the Russell 2000 index ("RUT"). The Exchange may calculate a constant three-month volatility index on DJX, NDX or RUT in the future.

Similar to the VIX, the VXV is a measure of S&P 500 implied volatility – the volatility implied by S&P option prices – but instead of reflecting a constant 1-month implied volatility period, VXV is designed to reflect the implied volatility of an option with a constant 3 months to expiration. Since there is only one day on which an option has exactly 3 months to expiration, VXV is calculated as a weighted average of options expiring immediately before and immediately after the three-month standard. Accordingly, the Exchange would need to use four consecutive expiration months in order to calculate a constant three-month volatility index.

Under the current application of CBOE Rule 24.9(a)(2), the Exchange generally lists three consecutive near term months and three months on a quarterly expiration cycle. One of the three consecutive near term months is always a quarterly month; however, that near term contract month (which is also a quarterly month) is not included as part of the three months listed on a quarterly expiration cycle. Therefore, in order to permit the addition of four consecutive near term months under current Rule 24.9(a)(2), the Exchange would only be able to list two months on a quarterly expiration cycle. Because of customer demand and other investment strategy reasons for having three months on a quarterly expiration cycle, the Exchange is seeking to increase, from six to seven, the number of expiration months for broad-based security index options upon which the Exchange calculates a constant three-month volatility index.

Without this proposed rule change, if the Exchange calculated a three-month volatility using only three consecutive near term months, this would result in the VXV being calculated with options expiring three months apart about one-third of the time. Another one-third of the time, VXV would be calculated with options expiring two months apart. And the final one-third of the time, VXV would be calculated with options expiring one month apart. As a result, the calculation of the three-month VXV under current Rule 24.9(a)(2) would render the VXV subject to inconsistencies that may make the index unattractive as an underlying for volatility products.

The proposed rule change will permit the Exchange, eight times a year, to add an additional seventh month in order to maintain four consecutive near term contract months. The following examples illustrate the need for a seventh month in order to maintain four consecutive near term contract months. In the following examples, "X" represents RUT contract months that will be listed under the current application of Rule 24.9(a)(2).

Example 1: After September 2007 expiration, under the proposed rule change, the Exchange will list January 2008 RUT contracts in order to have four consecutive near term contract months.

Consecutive Near Term Months			7th Month	March Quarterly Expiration Cycle		
Oct 07	Nov 07	Dec 07		Mar 08	June 08	Sept 08
X	X	X	**Jan 08**	X	X	X

Example 2: After October 2007 expiration, under the proposed rule change, the Exchange will list February 2008 RUT contracts in order to have four consecutive near term contract months.

Consecutive Near Term Months			7th Month	March Quarterly Expiration Cycle		
Nov 07	Dec 07	Jan 07		Mar 08	June 08	Sept 08
X	X	X	**Feb 08**	X	X	X

Example 3: After November 2007 expiration, the Exchange will not have to add a seventh RUT contract month because there will already be four consecutive near term contract months.

Consecutive Near Term Months			7th Month	March Quarterly Expiration Cycle		
Dec 07	Jan 08	Feb 08		Mar 08	June 08	Sept 08
X	X	X	**N/A**	X	X	X

Example 4: After December 2007 expiration, under the proposed rule change, the Exchange will list April 2008 RUT contracts in order to have four consecutive near term contract months, and to maintain three contract months on the March quarterly expiration cycle, the Exchange will list December 2008 RUT contracts.

Consecutive Near Term Months			7th Month	March Quarterly Expiration Cycle		
Jan 08	Feb 08	Mar 08		June 08	Sept 08	Dec 08
X	X	X	**April 08**	X	X	X

Therefore, the Exchange believes that the addition of a fourth consecutive near-term month for broad-based security index options upon which the Exchange calculates a constant three-month volatility index will result in a consistent calculation in which the option series that bracket three months to expiration will always expire one month apart. In order to accommodate the listing of a fourth consecutive near-term month and to maintain the listing of three months on a quarterly expiration cycle, the Exchange proposes the increase, from six to seven, the number of expiration months for broad-based security indexes on which the Exchange calculates a constant three-month volatility index.

The Exchange also proposes to remove outdated rule text from Rule 24.9(a)(2). Specifically, the Exchange proposes to delete the provision that permitted the Exchange to list up to seven expiration months at anyone time for the SPX, MNX and DJX index option contracts, provided that one of those expiration months is November 2004.[4] This allowance has since expired and should be deleted from the Exchange's Rulebook.

---

[4] This provision was added in July 2004 in response to customer demand for index options expiring in November 2004 to hedge positions in stocks overlying particular index options or to hedge market exposure to the equity markets generally against the uncertainty presented by the elections. See Securities Exchange Act Release No. 50063 (July 22, 2004), 69 FR 45357 (July 29, 2004)(SR-CBOE-2004-49).

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 additional listing of a seventh contract month in order to maintain four consecutive near term contract months for those broad-based security index options upon which the Exchange calculates a constant three-month volatility index.

2. Statutory Basis

Because the increase in the number of expiration months is limited to broad-based security indexes upon which the Exchange calculates a constant three-month volatility and because the series could be added without presenting capacity problems, the Exchange believes the 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.[5] Specifically, the Exchange believes that the proposed rule change is consistent with the Section 6(b)(5) Act[6] 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.

---

5 15 U.S.C. 78f(b).

6 15 U.S.C. 78f(b)(5).

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:

- 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-2007-82 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-2007-82. 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-2007-82 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.[7]

Florence E. Harmon
Deputy Secretary

---

[7] 17 CFR 200.30-3(a)(12).