SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-57946; File No. SR-CBOE-2008-26)

June 10, 2008

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing of Proposed Rule Change to List and Trade Options on the BXM Index (1/10th Value)

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 June 2, 2008, the Chicago Board Options Exchange, Incorporated ("CBOE" or the "Exchange") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II, and III 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.

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

The Exchange hereby proposes to amend certain of its rules to provide for the listing and trading of options that overlie an index that is equal to 1/10th of the value of the CBOE S&P 500 BuyWrite Index (the "BXM" or the "BXM Index"). BXM options will be cash-settled and will have European-style expiration. The text of the proposed rule change is available on the Exchange's Web site (http://www.cboe.org/Legal), at the CBOE'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 Exchange 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

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

[2]   17 CFR 240.19b-4.

in Item IV below. The Exchange 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 cash-

settled, European-style options on an index that is equal to $1/10^{th}$ of the value of the CBOE S&P

500 BuyWrite Index (the "BXM" or the "BXM Index").[3]

Index Design

The BXM Index measures the total rate of return of a hypothetical "covered call" strategy

applied to the S&P 500 Composite Price Index (the "S&P 500 Index"). This strategy, referred to

as the "BXM covered call strategy," consists of a hypothetical portfolio consisting of a "long"

position indexed to the S&P 500 Index on which are deemed sold a succession of one-month, at-

the-money call options on the S&P 500 Index listed on the Exchange. This hypothetical

portfolio is referred to as the "covered S&P 500 Index portfolio."

The BXM Index provides a benchmark measure of the total return performance of this

hypothetical portfolio. Dividends paid on the component stocks underlying the S&P 500 Index

and the dollar value of option premium deemed received from the sold call options are

functionally "re-invested" in the covered S&P 500 Index portfolio. The BXM Index is based on

the cumulative gross rate of return of the covered S&P 500 Index portfolio since the inception of

the BXM Index on June 1, 1988, when it was set to an initial value of 100.00.

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[3]   The Exchange is not currently proposing to list and trade options that overlie the full-value BXM Index, but may do so in the future. In that event, the Exchange will seek Commission approval.

CBOE Futures Exchange, LLC ("CFE") currently lists and trades CBOE S&P 500 BuyWrite Index future contracts, which commenced trading on October 2, 2006.

The BXM covered call strategy requires that each S&P 500 Index call option in the hypothetical portfolio be held to maturity, generally the third Friday of each month. The call option is settled against the Special Opening Quotation ("SOQ") of the S&P 500 Index used as the final settlement price of S&P 500 Index call options.[4] The SOQ is a special calculation of the S&P 500 Index that is compiled from the opening prices of component stocks underlying the S&P 500 Index. The SOQ calculation is performed when all 500 stocks underlying the S&P 500 Index have opened for trading, and is usually determined before 10:00 a.m. Chicago time.[5] The final settlement price of the call option at maturity is the greater of 0 and the difference between the SOQ minus the strike price of the expiring call option.

Subsequent to the settlement of the expiring call option, a new at-the-money call option expiring in the next month is then deemed written, or sold, a transaction commonly referred to as a "roll." The strike price of the new call option is the S&P 500 Index call option listed on CBOE with the closest strike price above the last value of the S&P 500 Index reported before 10:00 a.m. Chicago time.[6] For example, if the last S&P 500 Index value reported before 10:00 a.m. Chicago time is 901.10 and the closest listed S&P 500 Index call option strike price above 901.10 is 905, then the 905 strike S&P 500 Index call option is selected as the new call option to be incorporated into the BXM Index. The long S&P 500 Index component and the short call

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[4]   If the third Friday of the month is an exchange holiday, the call option will be settled against the SOQ on the previous business day and the new call option will be selected on that day as well.

[5]   If one or more stocks in the S&P 500 Index do not open on the day the SOQ is calculated, the final settlement price for SPX options is determined in accordance with the Rules and By-Laws of The Options Clearing Corporation ("OCC").

[6]   If the last value of the S&P 500 Index reported before 10:00 a.m. Chicago time is exactly equal to a listed S&P 500 Index call option strike price, then the new call option is the S&P 500 Index call option with that exact at-the-money strike price.

option component are held in equal notional amounts, i.e., the short position in the call option is "covered" by the long S&P 500 Index component.

Once the strike price of the new call option has been identified, the new call option is deemed sold at a price equal to the volume-weighted average of the traded prices ("VWAP") of the new call option during the half-hour period beginning at 10:30 a.m. Chicago time.[7] CBOE calculates the VWAP in a two-step process: first, CBOE excludes trades in the new call option between 10:30 a.m. and 11:00 a.m. Chicago time that are identified as having been executed as part of a "spread," and then CBOE calculates the weighted average of all remaining transaction prices of the new call option between 10:30 a.m. and 11:00 a.m. Chicago time, with weights equal to the fraction of total non-spread volume transacted at each price during this period. The source of the transaction prices used in the calculation of the VWAP is CBOE's Market Data Retrieval ("MDR") System.[8] If no transactions occur in the new call option between 10:30 a.m. and 11:00 a.m. Chicago time, then the new call option is deemed sold at the last bid price reported before 11:00 a.m. Chicago time. The value of option premium deemed received from the new call option is functionally "reinvested" in the portfolio.

Index Calculation

The BXM Index is calculated in real-time by CBOE every 15 seconds during each trading day, excluding roll dates (for the respective components of the covered S&P 500 Index

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[7]   The timing of the roll and the price used to sell the new call has changed over time. The monthly roll originally occurred at the close of trading on the third Friday of the month, i.e. the strike price of the new call was determined at 3:00 p.m. Chicago time, and the new call was deemed to be sold at the last bid price before 3:00 p.m. Chicago time. Since October 16, 1992, the call has been rolled at 11:00 a.m. Chicago time instead, and starting on June 18, 2004, the new call began to be sold at the VWAP.

[8]   Time and sales information from CBOE's MDR System is disseminated through the Options Price Reporting Authority ("OPRA") and is publicly available through most price quote vendors.

portfolio). The BXM Index calculation is disseminated through OPRA and is publicly available

through most price quote vendors.[9] The BXM Index is a chained index, i.e., its value is equal to

100 times the cumulative product of gross daily rates of return of the covered S&P 500 Index

portfolio since the inception date of the BXM Index. On any given day, the BXM Index is

calculated as follows:

$$BXM_t = BXM_{t-1}(1 + R_t)$$

where R_t is the daily rate of return of the covered S&P 500 Index portfolio. This rate includes

ordinary cash dividends paid on the stocks underlying the S&P 500 Index that trade "ex-

dividend" on that date.

On each trading day excluding roll dates, the daily gross rate of return of the BXM equals

the change in the value of the components of the covered S&P 500 Index portfolio, including the

value of ordinary cash dividends payable on component stocks underlying the S&P 500 Index

that trade "ex-dividend" on that date, as measured from the close in trading on the preceding

trading day. The gross daily rate of return is equal to:

$$1 + R_t = (S_t + Div_t - C_t)/(S_{t-1} - C_{t-1})$$

In this equation, S_t is the closing value of the S&P 500 Index at date t, Div_t represents the

ordinary cash dividends payable on the component stocks underlying the S&P 500 Index that

trade "ex-dividend" at date t expressed in S&P 500 Index points, and C_t is the arithmetic average

of the last bid and ask prices of the call option reported before 4:00 p.m. ET at date t. S_{t-1} is the

closing value of the S&P 500 Index on the preceding trading day and C_{t-1} is the average of the

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[9]   Information regarding the BXM Index may be found on CBOE's Web site at the
        following Internet address: www.cboe.com/micro/bxm.

last bid and ask prices of the call option reported before 4:00 p.m. ET on the preceding trading day.

On roll dates, the gross daily rate of return is compounded from three gross rates of return: the gross rate of return from the previous close to the time the SOQ is determined and the expiring call is settled; the gross rate of return from the SOQ to the initiation of the new call position; and the gross rate of return from the time the new call option is deemed sold to the close of trading on the roll date, expressed as follows:

$$1 + R_t = (1 + R_a) \times (1 + R_b) \times (1 + R_c)$$

where:

$$1 + R_a = (S^{SOQ} + Div_t - C_{Settle}) / (S_{t-1} - C_{t-1});$$

$$1 + R_b = (S^{VWAV}) / (S^{SOQ}); \text{ and}$$

$$1 + R_c = (S_t - C_t) / (S^{VWAV} - C_{VWAP})$$

In this equation, R_a is the rate of return of the covered S&P 500 Index portfolio from the previous close of trading through the settlement of the expiring call option. S^{SOQ} is the Special Opening Quotation used in determining the settlement price of the expiring call option. As previously defined, Div_t represents dividends on S&P 500 Index component stocks determined in the same manner as on non-roll dates, and C_{Settle} is the final settlement price of the expiring call option. S_{t-1} and C_{t-1} are determined in the same manner as on non-roll dates.

R_b is the rate of return of the un-covered S&P 500 Index portfolio from the settlement of the expiring option to the time the new call option is deemed sold. S^{VWAV} is the volume-weighted average value of the S&P Index based on the same time and weights used to calculate the VWAP in the new call option.

R_c is the rate of return of the covered S&P 500 Index portfolio from the time the new call option is deemed sold to the close of trading on the roll date. As defined above, S^{VWAV} is the volume-weighted average value of the S&P Index based on the same time and weights used to calculate the VWAP in the new call option. C_{VWAP} is the volume-weighted average trading price of the new call option between 10:30 a.m. and 11:00 a.m. Chicago time, and C_t refers to the average bid/ask quote of the new call option reported before 3:00 p.m. Chicago time on the roll date.

Options Trading

BXM options will be quoted in terms of the underlying BXM Index ($1/10^{th}$ value). Both options prices and cash index levels will be stated in decimal format and one point will equal $100. The minimum tick size for series trading below 3.00 will be 0.05 point ($5.00) and the minimum tick for series trading at and above 3.00 will be 0.10 point ($10.00). In accordance with Rule 24.9(a)(2), the Exchange will typically list three near-term expiration months and three additional expiration months from the March quarterly cycle (March, June, September and December).

The minimum strike price interval for BXM options will be 0.01 point ($1.00). CBOE believes that because the BXM Index is less volatile than other broad-based indexes (e.g., S&P 500 Index), $1 strike price intervals in BXM option series will provide investors with greater flexibility by allowing them to establish positions that are better tailored to meet their investment objectives. This is consistent with existing Exchange rules and practices that allow the Exchange to list series at $1 (or lower) strike price intervals in similar options products. For example, Rule 24.9.01(b) allows the Exchange to list series on options based on one-one hundredth ($1/100^{th}$) of

the value of the Dow Jones Industrial Average Index at no less than $0.50 intervals.[10] Similarly, Rule 24.9.11 allows the Exchange to list strike price intervals at no less than $1 for the reduced-value version of the Standard & Poor's S&P 500 Stock Index option ("Mini-SPX option"), which is based on 1/10th the value of the S&P 500 Index.[11]

To address this, the Exchange is proposing to list series at $1 or greater strike price intervals on BXM options that overlie an index that is equal to 1/10th the value of the BXM Index. Initially, the Exchange will list at least two strike prices above and two strike prices below the current value of the BXM Index (1/10th value) at or about the time a series is opened for trading on the Exchange. As part of this initial listing, the Exchange will list strike prices that are within 5 points from the closing value of the BXM Index (1/10th value) on the preceding day.

As for additional series, the Exchange will be permitted to add additional series when the Exchange deems it necessary to maintain an orderly market, to meet customer demand, or when the underlying BXM Index (1/10th value) moves substantially from the initial exercise price or prices. To the extent that any additional strike prices are listed by the Exchange, such additional strike prices shall be within 30 percent above or below the closing value of the BXM Index (1/10th value). The Exchange will also be permitted to open additional strike prices that are more than 30 percent above or below the current BXM Index (1/10th value) provided that customer interest for such series is demonstrated and expressed by institutional, corporate or individual customers or their brokers. Market-Makers trading for their own account would not be considered when determining customer interest. In addition to the initial listed series, the

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[10]   See Securities Exchange Act Release No. 39011 (September 3, 1997), 62 FR 47840 (September 11, 1997) (SR-CBOE-1997-26).

[11]   See Securities Exchange Act Release Nos. 52625 (October 18, 2005), 70 FR 61479 (October 24, 2005) (SR-CBOE-2005-81) and 57049 (December 27, 2007), 73 FR 528 (January 3, 2008) (SR-CBOE-2007-125).

Exchange may list up to 60 additional series per expiration month for each series in BXM options. In addition, the Exchange proposes that it shall not list LEAPS on BXM options at intervals less than $5.

The Exchange is also proposing to set forth a delisting policy with respect to BXM options. Specifically, the Exchange would, on a monthly basis, review series that are outside a range of five strikes above and five strikes below the current value of the BXM Index (1/10th value) and delist series with no open interest in both the put and the call series having a: (i) strike higher than the highest strike price with open interest in the put and/or call series for a given expiration month; and (ii) strike lower than the lowest strike price with open interest in the put and/or call series for a given expiration month.

Notwithstanding the proposed delisting policy, customer requests to add strikes and/or maintain strikes in BXM options in series eligible for delisting shall be granted.

The Exchange also proposes to add new Interpretation and Policy .11 to Rule 5.5, Series of Option Contracts Open for Trading, which would be an internal cross reference stating that the intervals between strike prices for BXM option series would be determined in accordance with proposed new Interpretation and Policy .01(f) to Rule 24.9.

Exercise and Settlement

The proposed options will expire on the Saturday following the third Friday of the expiration month. Trading in the expiring contract month will normally cease at 3:15 p.m. Chicago time on the business day preceding the last day of trading (ordinarily the Thursday 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 Wednesday and the SOQ of the BXM Index will be calculated on Thursday.

Exercise will result in delivery of cash on the business day following expiration. BXM options will be A.M.-settled. As described above, the exercise settlement value of a BXM option shall be a SOQ of the BXM Index (1/10th value). The exercise-settlement amount is equal to the difference between the exercise-settlement value and the exercise price of the option, multiplied by $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 index options to monitor trading in BXM options. The Exchange further 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 underlying securities (i.e., S&P 500 Index component securities).

Position and Exercise Limits; Reporting of Positions

The Exchange is not proposing to establish any position and exercise limits for BXM options. Because the BXM Index (1/10th value) is calculated using values of the S&P 500 Index, the Exchange believes that the position and exercise limits for this new product should be the same as those for broad-based index options, e.g., SPX, for which there are no position limits.

BXM options will be subject to the same reporting and other requirements triggered for other options dealt in on the Exchange.[12]

Exchange Rules Applicable

Except as modified herein, the rules in Chapters I through XIX, XXIV, XXIVA, and XXIVB will equally apply to BXM options.

BXM options will be margined as "broad-based index" options, and under CBOE rules, especially, Rule 12.3(c)(5)(A), the margin requirement for a short put or call shall be 100% of the current market value of the contract plus up to 15% of the respective underlying indicator value. Additional margin may be required pursuant to Exchange Rule 12.10.

The Exchange hereby designates BXM 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 the OPRA have the necessary systems capacity to handle the additional traffic associated with the listing of new series that would result from the introduction of BXM options.

2.   Statutory Basis

The Exchange believes the proposed rule change is consistent with Section 6(b) of the Act[13] in general, and furthers the objectives of Section 6(b)(5) of the Act[14] in particular, in that it

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[12]   See e.g., Rule 4.13, Reports Related to Position Limits. For purposes of calculating reportable positions, the Exchange has employed a contract factor of 10 for determining reporting and other requirements for BXM options. For example, the reporting requirements of Rule 24.4.03 for BXM options will be triggered when an end of day aggregate position exceeds 1 million contracts.

[13]   15 U.S.C. 78f(b).

[14]   15 U.S.C. 78f(b)(5).

will permit trading in options based on the index pursuant to rules designed to prevent fraudulent and manipulative acts and practices and to promote just and equitable principles of trade, and thereby will provide investors with the ability to invest in options that provide statistical measurements of market variability.

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 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 with respect to the proposed rule change.

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 CBOE 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-2008-26 on the subject line.

Paper comments:

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

All submissions should refer to File Number SR-CBOE-2008-26. 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 a.m. and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the principal offices 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-2008-26 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.[15]

Florence E. Harmon
Acting Secretary

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[15]   17 CFR 200.30-3(a)(12).