

Shares will be subject to CBOE Rule 52.3, which provides that, if the listing market halts trading when the IIV or value of the underlying index is not being calculated or disseminated, the Exchange also would halt trading.

In support of this proposal, the Exchange has made the following additional representations:

1. The Exchange's surveillance procedures are adequate to properly monitor Exchange trading of the Shares in all trading sessions and to deter and detect violations of Exchange rules.

2. Prior to the commencement of trading, the Exchange would inform its members in an Information Bulletin of the special characteristics and risks associated with trading the Shares.

3. The Information Bulletin also would discuss the requirement that members deliver a prospectus to investors purchasing newly issued Shares prior to or concurrently with the confirmation of a transaction.

This approval order is based on the Exchange's representations.

The Commission notes that, if the Shares should be delisted by the listing exchange, the Exchange would no longer have authority to trade the Shares pursuant to this order.

The Commission finds good cause for approving this proposal before the thirtieth day after the publication of notice thereof in the **Federal Register**. As noted above, the Commission previously found that the listing and trading of the Shares on Amex and the trading of the Shares on NYSE Arca and The NASDAQ Stock Market pursuant to UTP are consistent with the Act. The Commission presently is not aware of any regulatory issue that should cause it to revisit those findings or would preclude the trading of the Shares on the Exchange pursuant to UTP. Therefore, accelerating approval of this proposal should benefit investors by creating, without undue delay, additional competition in the market for the Shares.

## V. Conclusion

It is therefore ordered, pursuant to section 19(b)(2) of the Act,<sup>25</sup> that the proposed rule change (SR-CBOE-2007-124), as modified by Amendment No. 1 thereto, be, and it hereby is, approved on an accelerated basis.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>26</sup>

**Florence E. Harmon,**

*Deputy Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-56821; File No. SR-CBOE-2007-82]

### Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Order Granting Approval of 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

November 20, 2007.

#### I. Introduction

On July 17, 2007, the Chicago Board Options Exchange, Incorporated ("CBOE" or "Exchange") filed with the Securities and Exchange Commission ("Commission") a proposed rule change, pursuant to section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> to permit the Exchange to: (i) 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; and (ii) remove outdated rule text from Rule 24.9(a)(2). On September 19, 2007, CBOE filed Amendment No. 1 to the proposed rule change. The proposed rule change, as modified by Amendment No. 1, was published for comment in the **Federal Register** on October 16, 2007.<sup>3</sup> The Commission received no comments on the proposal. This order approves the proposed rule change, as amended.

#### II. Description of the Proposal

In its proposal, CBOE proposed 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.

In the filing, CBOE explained that it had plans to introduce new volatility products and new volatility indexes in the near future, including the CBOE S&P 500 Three-Month Volatility Index ("VXV").<sup>4</sup> According to CBOE, 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 (like other volatility indexes such as the CBOE Volatility Index or "VIX"), 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.

CBOE stated in its filing that 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 proposed 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.

CBOE explained that 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

<sup>26</sup> 17 CFR 200.30-3(a)(12).

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

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

<sup>3</sup> See Securities Exchange Act Release No. 56632 (October 9, 2007), 72 FR 58694 ("Notice").

<sup>4</sup> 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.

<sup>25</sup> 15 U.S.C. 78s(b)(2).

the time.<sup>5</sup> 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, according to CBOE, may make the index unattractive as an underlying for volatility products.

Under the proposed rule change, however, the Exchange will be permitted, eight times a year, to add an additional seventh month in order to maintain four consecutive near term contract months.

The Exchange also proposed to remove outdated rule text from Rule 24.9(a)(2). Specifically, the Exchange proposed to delete the provision that permitted the Exchange to list up to seven expiration months at any one time for the SPX, MNX and DJX index option contracts, provided that one of those expiration months is November 2004.<sup>6</sup>

#### Capacity

CBOE represented that it 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.

### III. Discussion

After careful review, the Commission finds that CBOE's proposal 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, and to remove certain outdated rule text from Rule 24.9(a)(2) is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities

<sup>5</sup> See Notice, *supra* note 3, at 58695 (providing examples to illustrate the effect of the proposed rule change).

<sup>6</sup> 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).

exchange<sup>7</sup> and, in particular, the requirements of section 6 of the Act<sup>8</sup> and the rules and regulations thereunder. The Commission believes that increasing, 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 (to accommodate a fourth consecutive near-term month while maintaining the listing of three months on a quarterly expiration cycle) will result in a more consistent and predictable calculation in which the option series that bracket three months to expiration will always expire one month apart, thereby promoting just and equitable principles of trade while protecting investors and the public interest.

The Commission also notes CBOE's representations that it possesses 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.

### IV. Conclusion

*It is therefore ordered*, pursuant to section 19(b)(2) of the Act,<sup>9</sup> that the proposed rule change (SR-CBOE-2007-82), as amended, be, and hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>10</sup>

**Florence E. Harmon,**

*Deputy Secretary.*

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<sup>7</sup> In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

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

<sup>9</sup> 15 U.S.C. 78s(b)(2).

<sup>10</sup> 17 CFR 200.30-3(a)(12).

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-56813; File No. SR-CBOE-2007-52]

### Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Order Granting Approval of 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

November 19, 2007.

#### I. Introduction

On July 11, 2007, the Chicago Board Options Exchange, Incorporated ("CBOE" or "Exchange") filed with the Securities and Exchange Commission ("Commission") a proposed rule change, pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> to 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. On August 20, 2007, CBOE filed Amendment No. 1 to the proposed rule change. The proposed rule change, as modified by Amendment No. 1, was published for comment in the **Federal Register** on September 24, 2007.<sup>3</sup> The Commission received one comment letter regarding the proposal.<sup>4</sup> This order approves the proposed rule change, as amended.

#### II. Description of the Proposal

In its proposal, CBOE proposed rules 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.<sup>5</sup> Additionally, the rule change proposed to permit the Exchange

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

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

<sup>3</sup> See Securities Exchange Act Release No. 56449 (September 17, 2007), 72 FR 54306 ("Notice").

<sup>4</sup> See Letter from John C. Nagel, Director & Associate General Counsel, Citadel Investment Group, L.L.C. ("Citadel") to Nancy Morris, Secretary, Commission, dated November 2, 2007 ("Citadel Comment").

<sup>5</sup> The Commission 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).