

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-59667; File No. SR-CBOE-2009-022)

March 31, 2009

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing of Proposal to List and Trade S&P 500 Dividend Index 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 March 25, 2009, 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, II, and III below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposal from interested persons.

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

The Exchange proposes to amend certain of its rules to provide for the listing and trading of options that overlie the S&P 500 Dividend Index, which will be cash-settled and will have European-style exercise. 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.

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 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.

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

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

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 options that overlie the S&P 500 Dividend Index, which will be cash-settled and will have European-style exercise.

Index Design

The S&P 500 Dividend Index, which is currently being calculated, represents the accumulated ex-dividend amounts of all S&P 500 Index component securities over a specified quarterly accrual period. Each day Standard & Poor's calculates the aggregate daily dividend totals for the S&P 500 Index component securities, which are summed over any given calendar quarter and are the basis of the S&P 500 Dividend index. On any given day, the index dividend is calculated as the total dividend value for all constituents of the S&P 500 Index divided by the S&P 500 Index divisor. The total dividend value is calculated as the sum of dividends per share multiplied by the shares outstanding for all constituents of the S&P 500 Index that are trading "ex-dividend" on that day.

Each accrual period will run from the business day after the third Friday of a quarterly expiration month (March, June, September or December) through the third Friday of the next quarterly expiration month. An example of a quarterly accrual period is one that will run from Monday, March 23, 2009 through Friday, June 19, 2009. The S&P 500 Dividend Index is expressed in S&P 500 Index points and is reset to zero at the end of each quarterly accrual period.

The S&P 500 Dividend Index is currently calculated by Standard & Poor's and is

disseminated by Standard and Poor's once per day.<sup>3</sup> The S&P 500 Dividend Index is reported in absolute numbers (e.g., 3, 5, 7), and the Exchange proposes to trade option contracts on the S&P 500 Dividend Index level with an applied scaling factor of 10. To illustrate, where the S&P 500 Dividend Index is 3, the underlying will have an index value of 30 (3 x 10). Once daily, CBOE will disseminate the underlying S&P 500 Dividend Index value with the applied scaling factor of 10 through the Options Price Reporting Authority ("OPRA") and/or one or more major market data vendors.

### Options Trading

The exercise-settlement value for S&P 500 Dividend Index options will be the S&P 500 Dividend Index that is calculated by Standard & Poor's with an applied scaling factor that will be set by the Exchange at listing. The underlying S&P Dividend Index will be quoted in decimals and one point will be equal to \$100.<sup>4</sup> The minimum tick size for options trading at or below 3.00 be 0.05 point (\$5.00) and for all other series, 0.10 (\$10.00). Exhibit 3 presents proposed contract specifications for S&P 500 Dividend Index options.

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 scaled index points on S&P 500 Dividend Index options.<sup>5</sup> Because the S&P 500 Dividend Index will fluctuate around a limited index 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

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<sup>3</sup> The daily values can be accessed on Bloomberg under the symbol: SPXDIV <Index>.

<sup>4</sup> The contract multiplier will be \$100.

<sup>5</sup> When the strike price exceeds 200 scaled index points, strike price intervals will be no less than 2.5 points.

investment objectives.

Initially, the Exchange will list in-, at- and out-of-the-money strike prices and may open for trading up to five series above and five series below the price of the related S&P 500 Dividend Index futures contract. The Exchange is proposing to use the forward index level rather than the current index for setting strikes because the current index level is reset to zero at the end of each quarterly accrual period. The Exchange believes that the related S&P 500 Dividend Index futures price is a good proxy for the forward index level.

As for additional series, either in response to customer demand or as the price of the related S&P 500 Dividend Index futures contract moves from the initial exercise prices of options and LEAPs series that have been opened for trading, the Exchange may open for trading up to an additional twenty series. The Exchange will not be permitted to open for trading series with 1 point (\$1.00) intervals within 0.50 of an existing 2.5 point (\$2.50) strike price with the same expiration month. The Exchange will not be permitted to list LEAPS on S&P 500 Dividend Index options at intervals less than 1 point.

The Exchange also proposes to add new Interpretation and Policy .13 to Rule 5.5, Series of Option Contracts Open for Trading, which will be an internal cross reference stating that the intervals between strike prices for S&P 500 Dividend Index option series will be determined in accordance with proposed new Interpretation and Policy .01(h) to Rule 24.9.

#### 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 3:15 p.m. Chicago time on 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.

Exercise will result in delivery of cash on the business day following expiration. S&P 500 Dividend Index options will be A.M.-settled. The exercise-settlement amount will be 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 index options to monitor trading in S&P 500 Dividend Index 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 Limits

The Exchange is not proposing to establish any position limits for S&P 500 Dividend Index options. Because the S&P 500 Dividend Index represents the accumulated "ex-dividend" amounts of all S&P 500 Index component securities, the Exchange believes that the position and exercise limits for these new products should be the same as those for other broad-based index options, e.g., SPX, for which there are no position limits. S&P 500 Dividend Index options will be subject to the same reporting and other requirements triggered for other options dealt in on the

Exchange.<sup>6</sup>

### Exchange Rules Applicable

Except as modified herein, the rules in Chapters I through XIX, XXIV, XXIVA, and XXIVB will equally apply to S&P 500 Dividend Index options.

S&P 500 Dividend Index 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 aggregate contract value. Additional margin may be required pursuant to Exchange Rule 12.10.

The Exchange hereby designates S&P 500 Dividend Index 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 S&P 500 Dividend Index options.

## 2. Statutory Basis

The proposed rule change is consistent with Section 6(b) of the Act in general and furthers the objectives of Section 6(b)(5) in particular in that it 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 settle to an index that represents the accumulated ex-

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<sup>6</sup> See Rule 4.13, Reports Related to Position Limits.

dividend amounts of all S&P 500 Index component securities over a specified quarterly accrual period.

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

The Exchange neither solicited nor received comments on the proposal.

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](mailto:rule-comments@sec.gov). Please include File Number SR-CBOE-2009-022 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-2009-022. 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 the 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 available publicly. All submissions should refer to File Number SR-CBOE-2009-022 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>7</sup>

Florence E. Harmon  
Deputy Secretary

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<sup>7</sup> 17 CFR 200.30-3(a)(12).