Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 19

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Form 19b-4

File No.* SR - 2011 - * 040

Amendment No. (req. for Amendments *)

Proposed Rule Change by Chicago Board Options Exchange

Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial * ☑   Amendment * ☐   Withdrawal ☐

Section 19(b)(2) * ☑   Section 19(b)(3)(A) * ☐   Section 19(b)(3)(B) * ☐

Pilot ☐

Extension of Time Period for Commission Action * ☐

Date Expires *

Rule

19b-4(f)(1) ⊙   19b-4(f)(4) ⊙
19b-4(f)(2) ⊙   19b-4(f)(5) ⊙
19b-4(f)(3) ⊙   19b-4(f)(6) ⊙

Exhibit 2 Sent As Paper Document ⊙

Exhibit 3 Sent As Paper Document ⊙

Description

Provide a brief description of the proposed rule change (limit 250 characters, required when Initial is checked *).

Proposal to amend CBOE's rules to simply the $1 strike price interval program.

Contact Information

Provide the name, telephone number and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the proposed rule change.

First Name * Jenny   Last Name * Klebes

Title *   Senior Attorney

E-mail *   klebes@cboe.com

Telephone * (312) 786-7466   Fax (312) 786-7919

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized officer.

Date 07/26/2011

By Jenny L. Klebes

          (Name *)

Senior Attorney / Assistant Secretary

          (Title *)

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

Jenny Klebes, klebes@cboe.com

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFS website.

Form 19b-4 Information (required)

[Add] [Remove] [View]

The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

Exhibit 1 - Notice of Proposed Rule Change (required)

[Add] [Remove] [View]

The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications

[Add] [Remove] [View]

Exhibit Sent As Paper Document
☐

Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

Exhibit 3 - Form, Report, or Questionnaire

[Add] [Remove] [View]

Exhibit Sent As Paper Document
☐

Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

Exhibit 4 - Marked Copies

[Add] [Remove] [View]

The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

Exhibit 5 - Proposed Rule Text

[Add] [Remove] [View]

The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

Partial Amendment

[Add] [Remove] [View]

If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

Item 1.   Text of the Proposed Rule Change

(a)   Chicago Board Options Exchange, Incorporated ("CBOE" or "Exchange") proposes

to amend its rules in order to simplify the $1 Strike Price Interval Program. The text of the

proposed rule change is provided below with additions underlined and deletions [bracketed].

(b)   Not applicable.

(c)   Not applicable.

<div align="center">

Chicago Board Options Exchange, Incorporated
Rules

*   *   *   *   *

</div>

Rule 5.5—Series of Option Contracts Open for Trading

RULE 5.5

No change.

. . Interpretations and Policies:

.01 The interval between strike prices of series of options on individual stocks may be:

a. *The $1 Strike Price Interval Program.*

(1) *Program Description.* $1.00 or greater [("$1] strike price ["] provided] intervals where the strike price is $50.00 or less, but not less than $1. Except as provided in subparagraph 3 below, the listing of $1 strike price[s] intervals shall be limited to options classes overlying no more than 150 individual stocks as specifically designated by the Exchange. The Exchange may list $1 strike price[s] intervals on any other option classes if those classes are specifically designated by other securities exchanges that employ a similar $1 Strike Price Interval Program under their respective rules. If a class participates in the $1 Strike Price Interval Program, $2.50 strike price intervals are not permitted between $1 and $50 for non-LEAPS and LEAPs.

(2) *Initial and Additional Series.* To be eligible for inclusion into the $1 Strike Price Interval Program, an underlying stock must close below $50 in its primary market on the previous trading day. After a stock is added to the $1 Strike Price Interval Program, the Exchange may list $1 strike price[s] intervals from $1 to $50 [that are no more than $5 from the closing price of the underlying on the preceding day, or no more than $5 from the opening price of the underlying on its primary market to be added intraday. For example, if

the underlying stock closes at $13, the Exchange may list strike prices from $8 to $18. Also, for example, if the same issue were to open on its primary listing market the next day at $22.10, the Exchange could immediately list strike prices from $19 to $27. In instances where the overnight price movement in the underlying security has left a discontinuity in $1 strike prices, the Exchange may list all $1 strikes between the previous day's close and the opening price on the primary listing market. For instance, an underlying issue that closes at $14 may have $1 strikes from $9 to $19. If the same issue opens on its primary listing market the next day at $27.10, it may add $21 and $22, in addition to strikes from $23 to $32 (and in addition to the standard interval strike of $20). The Exchange may not list series with $1.00 intervals within $0.50 of an existing strike price in the same series, except that strike prices of $2, $3, $4, $5 and $6 shall be permitted within $0.50 of an existing strike price for classes also selected to participate in the $0.50 Strike Program. In addition, the Exchange may not list series with $2.50 intervals (e.g., $12.50, $17.50) below $50 under Interpretation and Policy .05 of this Rule ($2.50 Strike Price Program) for any issue included within the $1 Strike Program. The Exchange may list one $1 Strike option series strike above and below each standard $5 strike interval that is more than $5 from the price of the underlying security, with the strike being $2 above the standard strike for each interval above the price of the underlying security, and $2 below the standard strike, for each interval below the price of the underlying security, provided it meets the OLPP Provisions in Rule 6.4A. For instance, if the underlying security was trading at $19, the Exchange could list, for each month, the following strikes: $3, $5, $8, $10, $13, $14, $15, $16, $17, $18, $19, $20, $21, $22, $23, $24, $25, $27, $30, $32, $35, and $37. Additionally, the Exchange may not list long-term option series ("LEAPS®") at $2.50 strike price intervals for any option class selected for the $1 Strike Program, except as provided in subparagraph 3 below.] according to the following parameters:

(i) If the price of the underlying stock is equal to or less than $20, the Exchange may list series with an exercise price up to 100% above and 100% below the price of the underlying stock. However, the foregoing restriction shall not prohibit the listing of at least five (5) strike prices above and below the price of the underlying stock per expiration month in an option class. For example, if the price of the underlying stock is $2, the Exchange would be permitted to list the following series: $1, $2, $3, $4, $5, $6 and $7.

(ii) If the price of the underlying stock is greater than $20, the Exchange may list series with an exercise price up to 50% above and 50% below the price of the underlying security up to $50.

(iii) For the purpose of adding strikes under the $1 Strike Price Interval Program, the "price of the underlying stock" shall be measured in the same way as "the price of the underlying security" is as set forth in Rule 5.5A(b)(i).

(iv) No additional series in $1 strike price intervals may be listed if the underlying stock closes at or above $50 in its primary market. Additional series in $1 strike price intervals may not be added until the underlying stock closes again below $50.

(v) *LEAPS.* For [issues] stocks in the $1 Strike Price Interval Program, the Exchange may list one [long-term option series] $1 strike price interval between each standard $5 strike interval, with the $1 strike price interval being $2 above the standard strike for each interval above the price of the underlying [security] stock, and $2 below the standard strike for each interval below the price of the underlying [security] stock ("$2 wings"). For example, if the price of the underlying stock is $24.50, the Exchange may list the following standard strikes in $5 intervals: $15, $20, $25, $30 and $35. Between these standard $5 strikes, the Exchange may list the following $2 wings: $18, $27 and $32.

In addition, the Exchange may list the $1 strike price interval which is $2 above the standard strike just below the underlying price at the time of listing [,]. In the above example, since the standard strike just below the underlying price ($24.50) is $20, the Exchange may list a $22 strike. [and] The Exchange may add additional long-term options series strikes as the price of the underlying [security] stock moves, consistent with the OLPP. [For instance, if the underlying is trading at $21.25, long-term strikes could be listed at $15, $18, $20, $22, $25, $27, and $30. If the underlying subsequently moved to $22, the $32 strike could be added. If the underlying moved to $19.75, the $13, $10, $8, and $5 strikes could be added.]

Additional long-term option strikes may not be listed within $1 of an existing strike until less than nine months to expiration.

(3) The Exchange may list $1 strike prices up to $5 in LEAPS in up to 200 option classes on individual stocks. The Exchange may not list $1 strike price[s with $1.00] intervals within $0.50 of an existing $2.50 strike [price] in the same [series] expiration.

(4) *Delisting Policy*. For options classes selected to participate in the $1 Strike Price Interval Program, the Exchange will on a monthly basis review series that were originally listed under the $1 Strike Price Interval Program with strike prices that are more than $5 from the current value of an options class and delist those 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.

If the Exchange identifies series for delisting pursuant to this policy, the Exchange shall notify the other options exchanges with similar delisting policies regarding the eligible series for delisting, and shall work jointly with such other exchanges to develop a uniform list of series to be delisted so as to ensure uniform series delisting of multiply listed options classes.

Notwithstanding the above delisting policy, the Exchange may grant member requests to add strikes and/or maintain strikes in series of options classes traded pursuant to this Program that are eligible for delisting.

A stock shall remain in the $1 Strike Price Interval Program until otherwise designated by the Exchange.

(b) – (f)   No change.

.02 – 18   No change.

<p style="text-align:center">*   *   *   *   *</p>

2.   <u>Procedures of the Self-Regulatory Organization</u>

(a)   The proposed rule change was approved by the Exchange's Office of the Chairman pursuant to delegated authority on July 26, 2011.

(b)   Please refer questions and comments on the proposed rule change to Joanne Moffic-Silver, General Counsel, CBOE, 400 South LaSalle, Chicago, IL 60605, (312) 786-7462 or to Jenny Klebes at (312) 786-7466.

3.   <u>Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change</u>

(a)   <u>Purpose</u>

The Exchange proposes to amend Interpretation and Policy .01 to Rule 5.5 in order to simplify the $1 Strike Price Interval Program ("Program").

In 2003, the Commission issued an order permitting the Exchange to establish the Program on a pilot basis.[1] At that time, the underlying stock had to close at $20 on the previous trading day in order to qualify for the Program. The range of available $1 strike price intervals was limited to a range between $3 and $20 and no strike price was permitted that was greater than $5 from the underlying stock's closing price on the previous trading day. Series in $1 strike price intervals were not permitted within $0.50 an existing strike. In addition, the Exchange was limited to selecting five (5) classes and reciprocal listing was permitted. Furthermore, LEAPS in $1 strike price intervals were not permitted for classes selected to participate in the Program.

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[1]   See Securities Exchange Act Release No. 47991 (June 5, 2003), 68 FR 35243 (June 12, 2003) (SR-CBOE-2001-60).

The Exchange renewed the pilot program on a yearly basis and in 2007, the Commission granted permanent approval of the Program.[2] At that time, the Program was expanded to increase the upper limit of the permissible strike price range from $20 to $50. In addition, the number of class selections per exchange was increased from five (5) to ten (10).

Since the Program was made permanent, the number of class selections per exchange has been increased from ten (10) classes to 55 classes[3] and subsequently increased from 55 classes to 150 classes.[4]

Amendments to Simplify Non-LEAPS Rule Text

The most recent expansion of the Program was approved by the Commission in early 2011 and increased the number of $1 strike price intervals permitted within the $1 to $50 range.[5] This expansion was a proposal of another exchange and CBOE submitted its filing for competitive reasons. This expansion, however, has resulted in very lengthy rule text that is complicated and difficult to understand. CBOE believes that the proposed changes to simplify the rule text of the Program will benefit market participants since the Program will be easier to understand and will maintain the expansions made to the Program in early 2011. Through the current proposal, the Exchange also hopes to make administration of the Program easier, *e.g.*, system programming efforts. To simply the rules of the Program and, as a proactive attempt to mitigate any unintentional listing of improper strikes, CBOE is proposing the following streamlining amendments:

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[2] See Securities Exchange Act Release No. 57049 (December 27, 2007), 73 FR 528 (January 3, 2008) (SR-CBOE-2007-125).

[3] See Securities Exchange Act Release No. 59587 (March 17, 2009), 74 FR 12414 (March 24, 2009) (SR-CBOE-2009-001).

[4] See Securities Exchange Act Release No. 62443 (July 2, 2010), 74 FR 39608 (July 9, 2010) (SR-CBOE-2010-064).

[5] See Securities Exchange Act Release No. 63772 (January 25, 2011), 76 FR 5644 (February 1, 2011) (SR-CBOE-2011-006).

- When the price of the underlying stock is equal to or less than $20, permit $1 strike price intervals with an exercise price up to 100% above and 100% below the price of the underlying stock.[6]

  o However, the above restriction would not prohibit the listing of at least five (5) strike prices above and below the price of the underlying stock per expiration month in an option class.[7]

  o For example, if the price of the underlying stock is $2, the Exchange would be permitted to list the following series: $1, $2, $3, $4, $5, $6 and $7.[8]

- When the price of the underlying stock is greater than $20, permit $1 strike price intervals with an exercise price up to 50% above and 50% below the price of the underlying security up to $50.[9]

- For the purpose of adding strikes under the Program, the "price of the underlying stock" shall be measured in the same way as "the price of the underlying security" is as set forth in Rule 5.5A(b)(i).[10]

- Prohibit the listing of additional series in $1 strike price intervals if the underlying stock closes at or above $50 in its primary market and provide that additional series in $1 strike price intervals may not be added until the underlying stock closes again below $50.[11]

Amendments to Simplify LEAPS Rule Text

The early 2011 expansion of the Program permitted for some limited listing of LEAPS in

$1 strike price intervals for classes that participate in the Program. The Exchange is proposing to

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[6] See proposed new subparagraph (i) to Rule 5.5.01(a)(2).
[7] Id.
[8] Id.
[9] See proposed new subparagraph (ii) to Rule 5.5.01(a)(2).
[10] See proposed new subparagraph (iii) to Rule 5.5.01(a)(2). Rule 5.5A(b(i) provides, "[t]he price of a security is measured by: (1) for intra-day add-on series and next-day series additions, the daily high and low of all prices reported by all national securities exchanges; (2) for new expiration months, the daily high and low of all prices reported by all national securities exchanges on the day the Exchange determines it preliminary notification of new series; and (3) for option series to be added as a result of pre-market trading, the most recent share price reported by all national securities exchanges between 7:45 a.m. and 8:30 a.m. (Chicago time)."
[11] See proposed new subparagraph (iv) to Rule 5.5.01(a)(2). The Exchange believes that it is important to codify this additional series criterion because there have been conflicting interpretations among the exchanges that have adopted similar programs. The $50 price criterion for additional series was intended when the Program was originally established (as a pilot) in 2003. See Securities Exchange Act Release No. 47991 (June 5, 2003), 68 FR 35243 (June 12, 2003) (SR-CBOE-2001-60) ("CBOE may list an additional expiration month provide that the underlying stock closes below $20 on its primary market on expiration Friday. If the underlying stock closes at or above $20 on expiration Friday, CBOE will not list an additional month for a $1 strike series until the stock again closes below $20.")

maintain the expansion as to LEAPS, but simplify the language and provide examples of the simplified rule text. These changes are set forth subparagraph (v) to Rule 5.5.01(b)(2).

For stocks in the Program, the Exchange may list one $1 strike price interval **between** each standard $5 strike interval, with the $1 strike price interval being $2 above the standard strike for each interval **above** the price of the underlying stock, and $2 **below** the standard strike for each interval below the price of the underlying stock ("$2 wings"). For example, if the price of the underlying stock is $24.50, the Exchange may list the following standard strikes in $5 intervals: $15, $20, $25, $30 and $35. Between these standard $5 strikes, the Exchange may list the following $2 wings: $18, $27 and $32.[12]

In addition, the Exchange may list the $1 strike price interval which is $2 above the standard strike just below the underlying price at the time of listing. In the above example, since the standard strike just below the underlying price ($24.50) is $20, the Exchange may list a $22 strike. The Exchange may add additional long-term options series strikes as the price of the underlying stock moves, consistent with the OLPP.

<u>Non-substantive Amendments to Rule Text</u>

The early 2011 expansion of the Program prohibited the listing of $2.50 strike price intervals for classes that participate in the Program. This prohibition applies to non-LEAP and LEAPS. The Exchange proposes to maintain this prohibition and codify it in Rule 5.5.01(a)(1) (Program Description).

For ease of reference, the Exchange is proposing to add the headings "Program Description," "Initial and Additional Series" and "LEAPS" to Rule 5.5.01.

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[12]   The Exchange notes that a $2 wing is not permitted between the standard $20 and $25 strikes in the above example. This is because the $2 wings are added based on reference to the price of the underlying and as being **between** the standard strikes **above and below** the price of the underlying stock. Since the price of

The Exchange is proposing to more accurately reflect the nature of the Program and is proposing to make stylistic changes throughout Rule 5.5.01 by adding the phrase "price interval."

Lastly, the Exchange is making technical changes to Rule 5.5.01, *e.g.*, replacing the word "security" with the word "stock."

The Exchange represents that it has the necessary systems capacity to support the increase in new options series that will result from the proposed streamlining changes to the Program.

(b)   Statutory Basis

The Exchange believes the proposed rule change is consistent with the Securities Exchange Act of 1934 (the "Act")[13] and the rules and regulations thereunder and, in particular, the requirements of Section 6(b) of the Act.[14] Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)[15] requirements that the rules of an exchange be designed to promote just and equitable principles of trade, to prevent fraudulent and manipulative acts, to remove impediments to and to perfect the mechanism for a free and open market and a national market system, and, in general, to protect investors and the public interest. In particular, the proposed rule change seeks to reduce investor confusion and to simplify the provisions of the $1 Strike Price Interval Program.

Item 4.   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.

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the underlying stock ($24.50) straddles the standard strikes of $20 and $25, no $2 wing is permitted between these standard strikes.

[13]   15 U.S.C. 78a et seq.
[14]   15 U.S.C. 78f(b).
[15]   15 U.S.C. 78f(b)(5).

Item 5.   <u>Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others</u>

The Exchange neither solicited nor received comments on the proposal.

Item 6.   <u>Extension of Time Period for Commission Action</u>

The Exchange does not consent to an extension of the time-period for Commission action.

Item 7.   <u>Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)</u>

Not applicable.

Item 8.   <u>Proposed Rule Change Based on Rules or By-Laws of Another Self-Regulatory Organization or of the Commission</u>

Not applicable.

Item 9.   <u>Exhibits</u>

Exhibit 1.   Notice of proposed rule change for publication in the <u>Federal Register</u>.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-   ; File No. SR-CBOE-2011-040)

Dated:_____

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Proposed Rule to Simplify the $1 Strike Price Interval Program

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934

(the "Act"),[1] and Rule 19b-4 thereunder,[2] notice is hereby given that on _____,

2011, 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 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

CBOE proposes to amend its rules in order to simplify the $1 Strike Price Interval

Program.   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

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[1]   15 U.S.C. 78s(b)(1).
[2]   17 CFR 240.19b-4.

A, B, and C below, of the most significant parts of such statements.

    A.   <u>Self-Regulatory Organization's Statement of the Purpose of, and the Statutory Basis for, the Proposed Rule Change</u>

    1.   <u>Purpose</u>

The Exchange proposes to amend Interpretation and Policy .01 to Rule 5.5 in order to simplify the $1 Strike Price Interval Program ("Program").

In 2003, the Commission issued an order permitting the Exchange to establish the Program on a pilot basis.[3] At that time, the underlying stock had to close at $20 on the previous trading day in order to qualify for the Program. The range of available $1 strike price intervals was limited to a range between $3 and $20 and no strike price was permitted that was greater than $5 from the underlying stock's closing price on the previous trading day. Series in $1 strike price intervals were not permitted within $0.50 an existing strike. In addition, the Exchange was limited to selecting five (5) classes and reciprocal listing was permitted. Furthermore, LEAPS in $1 strike price intervals were not permitted for classes selected to participate in the Program.

The Exchange renewed the pilot program on a yearly basis and in 2007, the Commission granted permanent approval of the Program.[4] At that time, the Program was expanded to increase the upper limit of the permissible strike price range from $20 to $50. In addition, the number of class selections per exchange was increased from five (5) to ten (10).

Since the Program was made permanent, the number of class selections per exchange has been increased from ten (10) classes to 55 classes[5] and subsequently increased from 55

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[3]   <u>See</u> Securities Exchange Act Release No. 47991 (June 5, 2003), 68 FR 35243 (June 12, 2003) (SR-CBOE-2001-60).

[4]   <u>See</u> Securities Exchange Act Release No. 57049 (December 27, 2007), 73 FR 528 (January 3, 2008) (SR-CBOE-2007-125).

[5]   <u>See</u> Securities Exchange Act Release No. 59587 (March 17, 2009), 74 FR 12414 (March 24, 2009)

classes to 150 classes.[6]

Amendments to Simplify Non-LEAPS Rule Text

The most recent expansion of the Program was approved by the Commission in early

2011 and increased the number of $1 strike price intervals permitted within the $1 to $50

range.[7]   This expansion was a proposal of another exchange and CBOE submitted its filing

for competitive reasons. This expansion, however, has resulted in very lengthy rule text that

is complicated and difficult to understand. CBOE believes that the proposed changes to

simplify the rule text of the Program will benefit market participants since the Program will

be easier to understand and will maintain the expansions made to the Program in early 2011.

Through the current proposal, the Exchange also hopes to make administration of the

Program easier, *e.g.*, system programming efforts. To simply the rules of the Program and,

as a proactive attempt to mitigate any unintentional listing of improper strikes, CBOE is

proposing the following streamlining amendments:

- When the price of the underlying stock is equal to or less than $20, permit $1 strike price intervals with an exercise price up to 100% above and 100% below the price of the underlying stock.[8]

  o However, the above restriction would not prohibit the listing of at least five (5) strike prices above and below the price of the underlying stock per expiration month in an option class.[9]

  o For example, if the price of the underlying stock is $2, the Exchange would be permitted to list the following series: $1, $2, $3, $4, $5, $6 and $7.[10]

- When the price of the underlying stock is greater than $20, permit $1 strike price intervals with an exercise price up to 50% above and 50% below the price of the

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[6] (SR-CBOE-2009-001).
See Securities Exchange Act Release No. 62443 (July 2, 2010), 74 FR 39608 (July 9, 2010) (SR-CBOE-2010-064).
[7] See Securities Exchange Act Release No. 63772 (January 25, 2011), 76 FR 5644 (February 1, 2011) (SR-CBOE-2011-006).
[8] See proposed new subparagraph (i) to Rule 5.5.01(a)(2).
[9] Id.
[10] Id.

underlying security up to $50.[11]

- For the purpose of adding strikes under the Program, the "price of the underlying stock" shall be measured in the same way as "the price of the underlying security" is as set forth in Rule 5.5A(b)(i).[12]

- Prohibit the listing of additional series in $1 strike price intervals if the underlying stock closes at or above $50 in its primary market and provide that additional series in $1 strike price intervals may not be added until the underlying stock closes again below $50.[13]

<u>Amendments to Simplify LEAPS Rule Text</u>

The early 2011 expansion of the Program permitted for some limited listing of LEAPS in $1 strike price intervals for classes that participate in the Program. The Exchange is proposing to maintain the expansion as to LEAPS, but simplify the language and provide examples of the simplified rule text. These changes are set forth subparagraph (v) to Rule 5.5.01(b)(2).

For stocks in the Program, the Exchange may list one $1 strike price interval **between** each standard $5 strike interval, with the $1 strike price interval being $2 above the standard strike for each interval **above** the price of the underlying stock, and $2 **below** the standard strike for each interval below the price of the underlying stock ("$2 wings"). For example, if

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[11]   See proposed new subparagraph (ii) to Rule 5.5.01(a)(2).

[12]   See proposed new subparagraph (iii) to Rule 5.5.01(a)(2). Rule 5.5A(b(i) provides, "[t]he price of a security is measured by: (1) for intra-day add-on series and next-day series additions, the daily high and low of all prices reported by all national securities exchanges; (2) for new expiration months, the daily high and low of all prices reported by all national securities exchanges on the day the Exchange determines it preliminary notification of new series; and (3) for option series to be added as a result of pre-market trading, the most recent share price reported by all national securities exchanges between 7:45 a.m. and 8:30 a.m. (Chicago time)."

[13]   See proposed new subparagraph (iv) to Rule 5.5.01(a)(2). The Exchange believes that it is important to codify this additional series criterion because there have been conflicting interpretations among the exchanges that have adopted similar programs. The $50 price criterion for additional series was intended when the Program was originally established (as a pilot) in 2003. See Securities Exchange Act Release No. 47991 (June 5, 2003), 68 FR 35243 (June 12, 2003) (SR-CBOE-2001-60) ("CBOE may list an additional expiration month provide that the underlying stock closes below $20 on its primary market on expiration Friday. If the underlying stock closes at or above $20 on expiration Friday, CBOE will not list an additional month for a $1 strike series until the stock again closes below $20.")

the price of the underlying stock is $24.50, the Exchange may list the following standard strikes in $5 intervals: $15, $20, $25, $30 and $35. Between these standard $5 strikes, the Exchange may list the following $2 wings: $18, $27 and $32.[14]

In addition, the Exchange may list the $1 strike price interval which is $2 above the standard strike just below the underlying price at the time of listing. In the above example, since the standard strike just below the underlying price ($24.50) is $20, the Exchange may list a $22 strike. The Exchange may add additional long-term options series strikes as the price of the underlying stock moves, consistent with the OLPP.

Non-substantive Amendments to Rule Text

The early 2011 expansion of the Program prohibited the listing of $2.50 strike price intervals for classes that participate in the Program. This prohibition applies to non-LEAP and LEAPS. The Exchange proposes to maintain this prohibition and codify it in Rule 5.5.01(a)(1) (Program Description).

For ease of reference, the Exchange is proposing to add the headings "Program Description," "Initial and Additional Series" and "LEAPS" to Rule 5.5.01.

The Exchange is proposing to more accurately reflect the nature of the Program and is proposing to make stylistic changes throughout Rule 5.5.01 by adding the phrase "price interval."

Lastly, the Exchange is making technical changes to Rule 5.5.01, *e.g.*, replacing the word "security" with the word "stock."

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[14] The Exchange notes that a $2 wing is not permitted between the standard $20 and $25 strikes in the above example. This is because the $2 wings are added based on reference to the price of the underlying and as being **between** the standard strikes **above and below** the price of the underlying stock. Since the price of the underlying stock ($24.50) straddles the standard strikes of $20 and $25, no $2 wing is permitted between these standard strikes.

The Exchange represents that it has the necessary systems capacity to support the increase in new options series that will result from the proposed streamlining changes to the Program.

2.   Statutory Basis

The Exchange believes the proposed rule change is consistent with Section 6(b)[15] of the Act, in general, and furthers the objectives of Section 6(b)(5)[16] in particular in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, and to remove impediments to and perfect the mechanisms of a free and open market in a manner consistent with the protection of investors and the public interest. In particular, the proposed rule change seeks to reduce investor confusion and to simplify the provisions of the $1 Strike Price Interval Program.

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

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 45 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

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[15]   15 U.S.C. 78f(b).
[16]   15 U.S.C. 78f(b)(5).

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-2011-040 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-2011-040. 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 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-2011-040 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.[17]

Dated: _____   Secretary

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