

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * <input type="text" value="38"/>	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - <input type="text" value="2014"/> - * <input type="text" value="043"/>	Amendment No. (req. for Amendments *) <input type="text"/>
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Filing by Chicago Board Options Exchange
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial * <input checked="" type="checkbox"/>	Amendment * <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input type="checkbox"/>	Section 19(b)(3)(A) * <input checked="" type="checkbox"/>	Section 19(b)(3)(B) * <input type="checkbox"/>
			Rule		
Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input checked="" type="checkbox"/> 19b-4(f)(6)	

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010	Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934
Section 806(e)(1) * <input type="checkbox"/>	Section 806(e)(2) * <input type="checkbox"/>
Section 3C(b)(2) * <input type="checkbox"/>	

Exhibit 2 Sent As Paper Document <input type="checkbox"/>	Exhibit 3 Sent As Paper Document <input type="checkbox"/>
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Description

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

Proposal to make minor changes to Interpretation and Policy .06 to Rule 6.2B to extend end-of-month pricing procedures to series of S&P 500 Index options traded on the Hybrid Trading System.

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 action.

First Name * <input type="text" value="William"/>	Last Name * <input type="text" value="Wallenstein"/>
Title * <input type="text" value="Attorney/Assistant Secretary"/>	
E-mail * <input type="text" value="wallenstein@cboe.com"/>	
Telephone * <input type="text" value="(312) 786-8716"/>	Fax <input type="text" value="(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.

(Title *)

Date <input type="text" value="05/30/2014"/>	Attorney/Assistant Secretary
By <input type="text" value="William P. Wallenstein"/>	<input type="text"/>
(Name *)	

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.

Persona Not Validated - 1399919657847,

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information *

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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 *

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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 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies *

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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, security-based swap submission, or advance notice 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

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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

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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

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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

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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

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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 (the “Exchange” or “CBOE”) proposes to make minor changes to Interpretation and Policy .06 to Rule 6.2B (Hybrid Opening System (“HOSS”)) relating to month-end closing price rotation procedures for non-expiring S&P 500 Index (“SPX”) options. The text of the proposed rule change is provided below and in Exhibit 1.

(additions are underlined; deletions are [bracketed])

* * * * *

**Chicago Board Options Exchange, Incorporated
Rules**

* * * * *

Rule 6.2B. Hybrid Opening System (“HOSS”)

(a) – (h) No change.

. . . Interpretations and Policies:

.01 - .05 No change.

.06 Following the 3:15 p.m. Chicago time close of trading on the last business day of each calendar month, the Exchange will conduct special non-trading closing rotations for each series of S&P 500 Index (“SPX”) options in order to determine the theoretical “fair value” of such series as of 3:00 p.m. Chicago time. During such special non-trading closing rotations, [the] an LMM in [each series of] the SPX options designated by the Exchange in each series of SPX options, will provide bid and offer quotations, the midpoint of which will reflect the theoretical fair value of the series of SPX options, as determined by the LMM pursuant to the LMM’s algorithmic analysis of relevant and available data. Notwithstanding that trading in SPX options on the Exchange continues until 3:15 p.m., on the last business day of each month, after 3:15 p.m. the Exchange shall disseminate the 3:00 p.m. fair value quotations provided by [each] the designated LMM as the quotations used to calculate the theoretical fair value for each series of SPX options, provided, however, that the Exchange may determine, in the interest of fair and orderly markets, not to disseminate such quotations.

* * * * *

(b) Not applicable.

(c) Not applicable.

Item 2. Procedures of the Self-Regulatory Organization

(a) The Exchange's President (or designee) pursuant to delegated authority approved the proposed rule change on May 5, 2014.

(b) Please refer questions and comments on the proposed rule change to Joanne Moffic-Silver, Executive Vice President, General Counsel, and Corporate Secretary, (312) 786-7462, or William P. Wallenstein, (312) 786-8716, Chicago Board Options Exchange, Incorporated, 400 South LaSalle, Chicago, Illinois 60605.

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

(a) Purpose

The Exchange proposes to make minor changes to Interpretation and Policy .06 to Rule 6.2B ("Interpretation and Policy .06") to extend its SPX end-of-month pricing procedures to series of SPX options on the Hybrid Trading System ("Hybrid System").¹ The Exchange believes that the proposed rule will add consistency to S&P 500 Index-related markets and make it easier for investors to trade SPX options.

¹ The Hybrid Platform refers to the Exchange's trading platform that allows automatic executions to occur electronically and open outcry trades to occur on the floor of the Exchange. To operate in this "hybrid" environment, the Exchange has a dynamic order handling system that has the capability to route orders to the trade engine for automatic execution and book entry, to Trading Permit Holder and PAR Official workstations located in the trading crowds for manual handling, and/or to other order management terminals generally located in booths on the trading floor for manual handling. Classes of SPX options other than standard SPX options are traded on the Hybrid Platform. The Hybrid 3.0 Platform is an electronic trading platform on the Hybrid Trading System that allows one or more quoters to submit electronic quotes which represent the aggregate Market-Maker quoting interest in a series for the trading crowd. Standard SPX options contracts are traded on the Hybrid 3.0 Platform.

Background

In 2001, the Chicago Mercantile Exchange (“CME”) adopted special settlement procedures to determine end-of-month settlement prices for its domestic futures contracts.² Specifically, CME adopted end-of-month valuation procedures to calculate the price of S&P 500 futures contracts based on the value of the underlying S&P 500 Index at the close of trading. CME has termed these procedures “End-of-Month Special Fair Value” (“EOM FV”) or “Fair Value” (“FV”) settlement procedures.

According to CME, “[f]air value represents the level at which futures theoretically should be priced in relation to cash index values in the absence of transaction costs – albeit not where they necessarily will trade.”³ Pursuant to its EOM FV settlement procedures, CME calculates the end-of-month final settlement value of S&P 500 futures contracts based on the value of the underlying S&P 500 Index cash market, rather than the actual final trading prices of S&P 500 futures contracts. CME uses its end-of-month theoretical fair value settlement prices for all purposes, including account value reporting and end-of-day variation margin calls.⁴ These procedures mitigate issues caused by the misalignment of valuations in the S&P 500 futures market and the underlying S&P 500 Index cash market due to the extended trading hours for S&P 500 futures contracts after the close of trading in the cash market.

² The CME originally instituted this practice for the December 31, 1999 year-end, but has adopted the practice for each month-end closing date since January 2001. See generally CME Group, Month-End Fair Value Procedures, available at <http://www.cmegroup.com/trading/equity-index/fairvaluefaq.html>.

³ See generally CME Group, Month-End Fair Value Procedures, available at <http://www.cmegroup.com/trading/equity-index/fairvaluefaq.html>.

⁴ Id.

The Exchange understands that CME adopted its EOM FV procedures at the request of institutional investors (active in both the S&P 500 futures and S&P 500 Index cash markets), who wanted the end-of-month value of their futures positions to align with prices in the underlying S&P 500 Index cash market. If the month-end settlement price of investors' futures positions were based on the actual closing trading prices as of the 3:15 p.m.⁵ close of futures market while the month-end closing price of their cash positions were based on the 3:00 p.m. close of trading in the underlying S&P 500 Index cash market, investors might experience tracking errors and/or financial reporting incongruities that do not reflect actual portfolio performance. Pricing model discrepancies or misaligned pricing between the S&P 500 futures and S&P 500 Index cash market could also lead to unnecessary and/or unwarranted margin calls and returns as well as other hedging and accounting problems. The EOM FV settlement procedures adopted by CME mitigate these issues by aligning the end-of-month settlement prices of S&P 500 futures contracts with closing prices in the underlying cash market as of 3:00 p.m.⁶

⁵ All times referred to herein are stated as Chicago Central Standard Time.

⁶ CME has explained the reason for maintaining its 3:00 p.m. fair value procedure as follows:

Stock index products on the . . . [CME] normally close and settle fifteen minutes after the daily close of trading in cash equities. The cash/futures basis may be affected to the extent that futures may fluctuate – sometimes sharply – during those final fifteen minutes. As such, this may become a difficulty for institutional traders practicing coordinated cash/futures strategies. Still, the opportunity to lay off equity market exposure during those fifteen minutes subsequent to the cash close has proven quite beneficial. The use of FV settlement procedures is intended to address this so-called "tracking error" while still permitting trade [*sic*] to continue for fifteen minutes past the 3:00 p.m. cash close. Conceptually, the fair value settlement is determined when

The S&P 500 futures market and SPX options market are highly interconnected. Many investors use SPX options to hedge S&P 500 futures positions. Because of the interconnectedness between the S&P 500 futures and SPX options markets, the Exchange believed that the use of end-of-month pricing procedures that diverged significantly from the CME's EOM FV pricing procedures would be disruptive to fair and orderly markets. Although the Exchange could have aligned the end-of-month settlement prices of standard non-expiring SPX options with the end-of-month prices of the related S&P 500 futures contracts (and the underlying S&P Index cash market) by simply ending trading at 3:00 p.m. on the last trading day of each month, the Exchange determined that closing trading in SPX options market prior to the close of trading at the CME would also be disruptive to fair and orderly markets. In particular, the Exchange believed that closing trading for standard non-expiring SPX options during S&P 500 futures trading hours would be disruptive to many market participants who hedge S&P 500 futures positions with SPX options. Accordingly, the Exchange adopted end-of-month settlement practices designed to align its end-of-month pricing with CME's EOM FV settlement procedures. The Exchange's end-of-month pricing procedures were adopted through a

the cash market closes at 3:00 p.m., since any new information following 3:00 p.m. will not affect the closing price of the stocks and the indexes. However, information or events subsequent to the cash close may still impact futures prices. Market participants should be aware of the possibility that futures may trade at prices apart from fair value settlement prices between 3:00 p.m. and the close of the market at 3:15 p.m. on days on which FV settlement procedures are applied.

See id.

series of Regulatory Circulars and subsequently codified in the Exchange's rules in Interpretation and Policy .06.⁷

⁷ See CBOE Interpretation and Policy .06 to Rule 6.2B; Securities and Exchange Act Release No. 34-67992; File No. SR-CBOE-2012-095 (October 5, 2012) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Closing Rotation Procedures for S&P 500 Index Options).

See also CBOE Regulatory Circular RG99-233 (Dec. 21, 1999), [available at https://www.cboe.org/publish/regcir/rg99-233.pdf](https://www.cboe.org/publish/regcir/rg99-233.pdf); CBOE Regulatory Circular RG00-049 (Mar. 29, 2000), [available at https://www.cboe.org/publish/regcir/rg00-049.pdf](https://www.cboe.org/publish/regcir/rg00-049.pdf); CBOE Regulatory Circular RG01-014 (Jan. 25, 2001), [available at http://www.cboe.com/publish/RegCir/REG01-014.pdf](http://www.cboe.com/publish/RegCir/REG01-014.pdf); CBOE Regulatory Circular RG01-040 (Mar. 29, 2001), [available at https://www.cboe.org/publish/regcir/rg01-040.pdf](https://www.cboe.org/publish/regcir/rg01-040.pdf); CBOE Regulatory Circular RG01-058 (Apr. 27, 2001), [available at https://www.cboe.org/publish/regcir/rg01-058.pdf](https://www.cboe.org/publish/regcir/rg01-058.pdf); CBOE Regulatory Circular RG02-019 (Apr. 4, 2002), [available at http://www.cboe.com/publish/RegCir/REG02-019.pdf](http://www.cboe.com/publish/RegCir/REG02-019.pdf); CBOE Regulatory Circular RG02-039 (June 12, 2002), [available at http://www.cboe.com/publish/RegCir/REG02-039.pdf](http://www.cboe.com/publish/RegCir/REG02-039.pdf); CBOE Regulatory Circular RG02-073 (Sept. 17, 2002), [available at http://www.cboe.com/publish/RegCir/REG02-073.pdf](http://www.cboe.com/publish/RegCir/REG02-073.pdf); CBOE Regulatory Circular RG02-118 (Dec. 19, 2002), [available at http://www.cboe.org/publish/regcir/rg02-118.pdf](http://www.cboe.org/publish/regcir/rg02-118.pdf); CBOE Regulatory Circular RG03-016 (Mar. 19, 2003), [available at http://www.cboe.com/publish/RegCir/REG03-016.pdf](http://www.cboe.com/publish/RegCir/REG03-016.pdf); CBOE Regulatory Circular RG03-039 (June 11, 2003), [available at http://www.cboe.com/publish/RegCir/REG03-039.pdf](http://www.cboe.com/publish/RegCir/REG03-039.pdf); CBOE Regulatory Circular RG03-075 (Sept. 10, 2003), [available at http://www.cboe.com/publish/RegCir/REG03-075.pdf](http://www.cboe.com/publish/RegCir/REG03-075.pdf); CBOE Regulatory Circular RG03-082 (Sept. 22, 2003), [available at http://www.cboe.com/publish/RegCir/REG03-082.pdf](http://www.cboe.com/publish/RegCir/REG03-082.pdf); CBOE Regulatory Circular RG03-110 (Dec. 17, 2003), [available at http://www.cboe.com/publish/RegCir/REG03-110.pdf](http://www.cboe.com/publish/RegCir/REG03-110.pdf); CBOE Regulatory Circular RG04-132 (Dec. 30, 2004), [available at http://www.cboe.com/publish/RegCir/REG04-132.pdf](http://www.cboe.com/publish/RegCir/REG04-132.pdf); CBOE Regulatory Circular RG05-130 (Dec. 29, 2005), [available at http://www.cboe.com/publish/RegCir/REG05-130.pdf](http://www.cboe.com/publish/RegCir/REG05-130.pdf); CBOE Regulatory Circular RG06-130 (Dec. 19, 2006), [available at http://www.cboe.org/publish/regcir/rg06-130.pdf](http://www.cboe.org/publish/regcir/rg06-130.pdf); CBOE Regulatory Circular RG08-004 (Jan. 8, 2008), [available at http://www.cboe.com/publish/RegCir/REG08-004.pdf](http://www.cboe.com/publish/RegCir/REG08-004.pdf); CBOE Regulatory Circular RG09-151 (Dec. 30, 2009), [available at http://www.cboe.org/publish/regcir/rg09-151.pdf](http://www.cboe.org/publish/regcir/rg09-151.pdf); and CBOE Regulatory Circular RG12-023 (Jan. 30, 2012), [available at http://www.cboe.org/publish/regcir/rg12-023.pdf](http://www.cboe.org/publish/regcir/rg12-023.pdf).

Current Exchange Procedures

Currently, on days other than the last business day of each month, the final closing price of standard non-expiring SPX options traded on the Hybrid 3.0 Platform is determined by the OCC based on the final end-of-day trading quotations that it receives from the Exchange. In general, the OCC determines the closing price of standard non-expiring SPX options using the midpoint between the final bid and final offer quotations disseminated by the Exchange through the Options Price Reporting Authority (“OPRA”).

On the last business day of each month, however, the Exchange conducts special end-of-month non-trading rotations for series of standard non-expiring SPX options pursuant to Interpretation and Policy .06. These special non-trading closing rotations are conducted on the same month-end business days on which CME calculates the EOM FV settlement prices of the S&P 500 futures contracts based on the theoretical fair value of the underlying S&P 500 Index cash market at the close of trading.⁸ The OCC calculates the final month-end settlement prices for standard non-expiring SPX options based on non-trading quotations provided by a designated Lead Market-Maker (“LMM”) or LMMs in the SPX, which are then “smoothed” by the OCC with an implied volatility curve. LMMs calculate non-trading closing bid and offer quotations to reflect the theoretical fair value of the options through pricing algorithms with a number of relevant inputs, in particular, the EOM FV settlement prices of the related S&P 500 futures contracts at CME.⁹ The theoretical fair value prices are disseminated to the OCC via OPRA after the

⁸ See CBOE Interpretation and Policy .06 to Rule 6.2B.

⁹ See Securities and Exchange Act Release No. 34-67992; File No. SR-CBOE-2012-095 (October 5, 2012) (Notice of Filing and Immediate Effectiveness of

3:15 p.m. close of trading on the last business day of each month (on the same day that CME performs its end-of-month fair market valuations for the S&P 500 futures). Consistent with CME's practices, the Exchange considers the end-of-month theoretical fair value closing prices of SPX options traded on the Hybrid 3.0 Platform to be the final month-end settlement prices for all purposes, including OCC margin calculations, even though no actual trades occur at these prices.

Proposed Rule Change

The Exchange proposes minor changes to its rules to extend its current end-of-month settlement pricing procedures for SPX options traded on the Hybrid 3.0 Platform to series of SPX options traded on the Hybrid System (e.g., SPXW). The Exchange believes that extending Interpretation and Policy .06 to additional groups of series of SPX options will allow investors to realize consistency in the SPX options market and with respect to valuations in the S&P 500 futures market and underlying S&P 500 Index cash market.

Although Interpretation and Policy .06 does not restrict the Exchange from conducting special end-of-month non-trading closing rotations for series of SPX options traded on the Hybrid System, Interpretation and Policy .06 does not contemplate the application of month-end fair value pricing procedures in groups of series of SPX options without an LMM. Thus, under the Exchange's current rules, the Exchange cannot extend Interpretation and Policy .06 to series of SPX options traded on the Hybrid System with

no LMM.¹⁰ The proposed changes to Interpretation and Policy .06 will allow a designated LMM in the SPX options class to conduct non-trading closing rotations for series of SPX options on the Hybrid System.

Under the proposed rule, end-of-month settlement pricing procedures will be conducted in the same manner in all series of SPX options. The Exchange expects that LMMs in the SPX class will continue to base their end-of-month non-trading quotations substantially and materially on the closing prices of the related S&P 500 futures contracts (which reflect the theoretical fair value of the S&P 500 Index cash market as of 3:00 p.m. as determined by CME), in all series of SPX options. The Exchange believes that the proposed rule will allow investors to realize consistency in the SPX options market by ensuring that the same pricing models are applied to determine the end-of-month theoretical fair value of each non-expiring series of SPX options. The Exchange believes that the application of consistent pricing models in the SPX options market will protect investors' interests by mitigating the risk of tracking errors and inconsistent reporting that may be caused by the dissemination of closing quotations derived from several different pricing models.

The Exchange believes that extending Interpretation and Policy .06 to additional groups of series of SPX options will promote the functioning of a fair and orderly market in SPX options. The misalignment of month-end S&P 500 futures valuations and SPX options prices poses unnecessary risk to investors who actively trade in these markets. Such inconsistencies expose investors to the possibility of unwarranted and potentially significant margin calls, which may not reflect actual levels of portfolio risk or true

¹⁰ Notably, the Exchange's rules do not require the appointment of an LMM in each options class or group of series of options. See CBOE Rule 8.14.

market exposure. The Exchange believes that extending Interpretation and Policy .06 to additional groups of series of SPX options will mitigate these risks and allow investors to realize consistency with respect to the margin treatment of SPX options.

Interpretation and Policy .06 was adopted in response to investors' requests for end-of-month pricing of SPX options on the Hybrid 3.0 Platform consistent with CME's end-of-month S&P 500 futures valuations. Similarly, the Exchange is proposing this rule change in response to investors' requests for consistent pricing between the S&P 500 futures and series of SPX options traded on the Hybrid System. The Exchange anticipates disseminating end-of-month non-trading closing rotation quotations for each series of SPX options so long as doing so remains consistent with CME's end-of-month pricing practices in the S&P 500 futures. The Exchange, however, cannot predict whether CME will change its EOM FV procedures in the future. Accordingly, the proposed rule change preserves the Exchange's discretion not to disseminate the 3:00 p.m. fair value quotations provided by a designated LMM in a series, if the Exchange determines that disseminating the quotations would not be in the interests of investors or fair and orderly markets. In the event that the CME determines not to apply its special EOM FV procedures, either on a particular month-end trading day or otherwise, the Exchange would allow the actual 3:15 p.m. closing quotations to act as the final quotations, as occurs on other trading days.

The Exchange believes that the proposed rule is designed to guard against unfair discrimination in the application of its end-of-month settlement pricing procedures. The proposed rule merely extends the Exchange's current end-of-month pricing procedures (which have been reviewed and accepted by the Commission), to additional series of SPX

options. Under the proposed rule an LMM in the SPX class will provide end-of-month non-trading quotations for each series of SPX options. LMM appointments in SPX options will continue to be governed by CBOE Rules 8.15 and 8.15A and selected based on the criteria set forth in those rules including, but not limited to: adequacy of capital; experience in trading index options or options on ETPs; presence in the trading crowd; and ability to meet required quoting and market-making obligations as described in the Exchange's rules.¹¹ The Exchange believes that the LMM appointment process and procedures are objective; all Trading Permit Holders may request an LMM appointment subject to approval based on nondiscriminatory criteria and considerations designed to promote fair and orderly markets. To the extent that there may be more than one LMM appointed in the SPX, the Exchange will designate an LMM to provide end-of-month non-trading quotations for each group of series of SPX options on a monthly rotating basis.

The Exchange recognizes that LMMs may have an interest in the outcome of month-end valuation determinations based on the composition of their own proprietary positions. For example, an LMM may have an incentive to skew their fair value determinations to minimize the risk of potential variation margin calls from the OCC to cover proprietary holdings. The Exchange believes, however, that these risks are substantially mitigated by the weight given to the CME's valuations of related S&P 500 futures contracts. The Exchange expects that under the proposed rule the end-of-month non-trading closing quotations provided by the designated LMM in each series of SPX options will continue to be materially, if not directly, based on CME's EOM FV

¹¹ CBOE Rules 8.15(a) and 8.15A(a).

calculations. The Exchange believes that the risk of market manipulation is further limited by the fact that fair valuations can generally be approximated by other third parties and verified through independent checks.

In addition, the Exchange is equipped to monitor LMMs' end-of-month fair value calculations. The Exchange currently monitors the fair value calculations of LMMs who quote end-of-month fair value settlement prices for SPX options on the Hybrid 3.0 Platform. The Exchange also conducts surveillance and oversight of LMMs' fair value quotations to monitor for potential attempts at manipulation. Should the proposed rule change take effect, the Exchange would extend its regulatory practices to monitor the end-of-month fair valuation calculations of LMMs who quote any series of SPX options under Interpretation and Policy .06.

(b) Statutory Basis

The Exchange believes the proposed rule change is consistent with the Securities Exchange Act of 1934 (the "Act") and the rules and regulations thereunder applicable to the Exchange and, in particular, the requirements of Section 6(b) of the Act.¹² Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)¹³ requirements that the rules of an exchange be 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 regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open

¹² 15 U.S.C. 78f(b).

¹³ 15 U.S.C. 78f(b)(5).

market and a national market system, and, in general, to protect investors and the public interest. Additionally, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)¹⁴ requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

In particular, the proposed rule change furthers the interests of fair and orderly markets by allowing investors to realize consistency across the SPX options, S&P 500 futures and S&P 500 Index cash markets. The Exchange proposes to extend the end-of-month fair value pricing procedures in Interpretation and Policy .06 to additional series of SPX options traded on the Hybrid System to better align end-of-month prices in the SPX options market with prices of related S&P 500 futures contracts and prices in the underlying cash market. The Exchange believes that greater consistency in SPX options market is in the best interests of investors.

The Exchange also believes that the proposed rule change will contribute to more robust and competitive markets by making it easier for investors to trade S&P 500 Index-related securities and, in particular, making it easier for investors to use SPX options to hedge S&P 500 futures positions. Thus, the proposed rule change will facilitate investors' use of risk-reducing trading strategies and promote robust trading activity in the S&P 500 Index-related markets. The Exchange also believes that extending its fair value pricing procedures to additional groups of series of SPX options will mitigate risk to investors, including investors' risk of tracking errors, misrepresentative financial reporting, and potential unwarranted margin calls that may be caused by misaligned end-

¹⁴ Id.

of-month settlement pricing in the S&P 500 Index-related markets, rather than actual portfolio risk or market exposure.

The Exchange believes that the proposed rule change is designed to guard against unfair discrimination in the application of its end-of-month settlement pricing procedures. The proposed rule merely extends the Exchange's current procedures (which have been reviewed and approved by the Commission), to additional series of SPX options. Under the proposed rule a designated LMM in each series of the SPX options will provide end-of-month non-trading settlement pricing quotations for series of SPX options. LMM appointments in SPX options will continue to be governed by CBOE Rules 8.15 and 8.15A and selected based on the criteria set forth in those rules including, but not limited to: adequacy of capital; experience in trading index options or options on ETPs; presence in the trading crowd; and ability to meet the required quoting and market-making obligations described in the Exchange's rules.¹⁵ The Exchange believes that the LMM appointment procedures and process set forth in Rules 8.15 and 8.15A are objective; all TPHs may request an appointment subject to the nondiscriminatory criteria set forth in Rules 8.15 and 8.15A, which are designed to promote fair and orderly markets.

The Exchange recognizes that LMMs may have an interest in the outcome of month-end valuation determinations based on the composition of their own proprietary positions. For example, an LMM may have an incentive to skew their fair value determinations to minimize the risk of potential of variation margin calls from the OCC to cover proprietary holdings. The Exchange believes, however, that these risks are substantially mitigated by the weight given to fair valuations of the related S&P 500

¹⁵ CBOE Rules 8.15(a) and 8.15A(a).

futures contracts at CME. The Exchange expects that the end-of-month non-trading closing price quotations provided by LMMs for series of SPX options on the Hybrid System will continue to be materially, if not directly, based on CME's EOM FV calculations under the proposed rule. The Exchange believes that the risk of market manipulation is further limited by the fact that fair valuations can generally be approximated by other third parties and verified through independent checks.

In addition, the Exchange is equipped to protect investors through end-of-month fair value calculations monitoring practices. The Exchange currently monitors the fair value calculations of LMMs who quote end-of-month fair value settlement prices for SPX options on the Hybrid 3.0 Platform. The Exchange also conducts surveillance and oversight of LMMs' fair value quotations to monitor for potential attempts at manipulation. Under the proposed rule, the Exchange would extend its regulatory practices to monitor LMMs' end-of-month price calculations for all series of SPX options quoted in accordance with Interpretation and Policy .06.

Item 4. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange 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. Extending the Exchange's current end-of-month fair value settlement procedures to other series of SPX options will not adversely affect investors. These procedures will be equally applied to affect all market participants equally in the SPX options market. Furthermore, the Exchange believes that the proposed rule will bolster competition and contribute to more robust markets by making it easier for investors to trade SPX options and use SPX options to hedge S&P 500 futures positions. The Exchange believes that the proposed rule will bolster competition with other exchanges

by making it easier for investors to trade S&P 500 Index-related securities listed on exchanges other than CBOE.

Item 5. 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 proposed rule change.

Item 6. Extension of Time Period for Commission Action

Not applicable.

Item 7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2) or Section 19(b)(7)(D)

(a) The proposed rule change is filed for immediate effectiveness pursuant to Section 19(b)(3)(A) of Act¹⁶ and Rule 19b-4(f)(6)¹⁷ thereunder.

(b) The Exchange designates that the proposed rule change effects a change that (i) does not significantly affect the protection of investors or the public interest; (ii) does not impose any significant burden on competition; and (iii) by its terms, does not become operative for 30 days after the date of the filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest. Additionally, the Exchange has given the Commission written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission.

¹⁶ 15 U.S.C. 78s(b)(3)(A).

¹⁷ 17 CFR 240.19b-4(f)(6).

The proposed rule merely seeks to extend the Exchange's current month-end non-trading closing rotation procedures to additional series of SPX options on the Hybrid System. Special end-of-month non-trading closing rotations would be conducted in the same manner in series of SPX traded on the Hybrid System as such rotations are currently conducted in series of SPX options on the Hybrid 3.0 Platform. The LMMs in the SPX options will also quote end-of-month closing prices for series of SPX options traded on the Hybrid System. An LMM will be designated by the Exchange to provide such quotations in each series of SPX options on a monthly rotating basis.

For the foregoing reasons, this rule filing qualifies as a "non-controversial" rule change under Rule 19b-4(f)(6), which renders the proposed rule change effective upon filing with the Commission. At any time within 60 days of the filing of this proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission will institute proceedings to determine whether the proposed rule change should be approved or disapproved.

(c) Not applicable.

(d) Not applicable.

Item 8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission

The proposed rule change is not based on a rule either of another self-regulatory organization or of the Commission.

Item 9. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act

Not applicable.

Item 10. Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act

Not applicable.

Item 11. Exhibits

Exhibit 1. Completed Notice of Proposed Rule Change for publication in the Federal Register.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION

Release No. 34- ; File No. SR-CBOE-2014-043

May 28, 2014

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing of a Proposed Rule Change Relating to Closing Rotation Procedures for S&P 500 Index Options

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 May 28, 2014 Chicago Board Options Exchange, Incorporated (the “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

The Exchange proposes to make minor changes to Interpretation and Policy .06 to Rule 6.2B (Hybrid Opening System (“HOSS”)) relating to month-end closing price rotation procedures for non-expiring S&P 500 Index (“SPX”) options. The text of the proposed rule change is provided below.

(additions are underlined; deletions are [bracketed])

* * * * *

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

**Chicago Board Options Exchange, Incorporated
Rules**

* * * * *

Rule 6.2B. Hybrid Opening System ("HOSS")

(a) – (h) No change.

. . . Interpretations and Policies:

.01 - .05 No change.

.06 Following the 3:15 p.m. Chicago time close of trading on the last business day of each calendar month, the Exchange will conduct special non-trading closing rotations for each series of S&P 500 Index ("SPX") options in order to determine the theoretical "fair value" of such series as of 3:00 p.m. Chicago time. During such special non-trading closing rotations, [the] an LMM in [each series of] the SPX options designated by the Exchange in each series of SPX options, will provide bid and offer quotations, the midpoint of which will reflect the theoretical fair value of the series of SPX options, as determined by the LMM pursuant to the LMM's algorithmic analysis of relevant and available data. Notwithstanding that trading in SPX options on the Exchange continues until 3:15 p.m., on the last business day of each month, after 3:15 p.m. the Exchange shall disseminate the 3:00 p.m. fair value quotations provided by [each] the designated LMM as the quotations used to calculate the theoretical fair value for each series of SPX options, provided, however, that the Exchange may determine, in the interest of fair and orderly markets, not to disseminate such quotations.

* * * * *

The text of the proposed rule change is also available on the Exchange's website (<http://www.cboe.com/AboutCBOE/CBOELegalRegulatoryHome.aspx>), at the Exchange'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 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 Exchange proposes to make minor changes to Interpretation and Policy .06 to Rule 6.2B (“Interpretation and Policy .06”) to extend its SPX end-of-month pricing procedures to series of SPX options on the Hybrid Trading System (“Hybrid System”).³ The Exchange believes that the proposed rule will add consistency to S&P 500 Index-related markets and make it easier for investors to trade SPX options.

Background

In 2001, the Chicago Mercantile Exchange (“CME”) adopted special settlement procedures to determine end-of-month settlement prices for its domestic futures contracts.⁴ Specifically, CME adopted end-of-month valuation procedures to calculate the price of S&P 500 futures contracts based on the value of the underlying S&P 500

³ The Hybrid Platform refers to the Exchange’s trading platform that allows automatic executions to occur electronically and open outcry trades to occur on the floor of the Exchange. To operate in this “hybrid” environment, the Exchange has a dynamic order handling system that has the capability to route orders to the trade engine for automatic execution and book entry, to Trading Permit Holder and PAR Official workstations located in the trading crowds for manual handling, and/or to other order management terminals generally located in booths on the trading floor for manual handling. Classes of SPX options other than standard SPX options are traded on the Hybrid Platform. The Hybrid 3.0 Platform is an electronic trading platform on the Hybrid Trading System that allows one or more quoters to submit electronic quotes which represent the aggregate Market-Maker quoting interest in a series for the trading crowd. Standard SPX options contracts are traded on the Hybrid 3.0 Platform.

⁴ The CME originally instituted this practice for the December 31, 1999 year-end, but has adopted the practice for each month-end closing date since January 2001. See generally CME Group, Month-End Fair Value Procedures, available at <http://www.cmegroup.com/trading/equity-index/fairvaluefaq.html>.

Index at the close of trading. CME has termed these procedures “End-of-Month Special Fair Value” (“EOM FV”) or “Fair Value” (“FV”) settlement procedures.

According to CME, “[f]air value represents the level at which futures theoretically should be priced in relation to cash index values in the absence of transaction costs – albeit not where they necessarily will trade.”⁵ Pursuant to its EOM FV settlement procedures, CME calculates the end-of-month final settlement value of S&P 500 futures contracts based on the value of the underlying S&P 500 Index cash market, rather than the actual final trading prices of S&P 500 futures contracts. CME uses its end-of-month theoretical fair value settlement prices for all purposes, including account value reporting and end-of-day variation margin calls.⁶ These procedures mitigate issues caused by the misalignment of valuations in the S&P 500 futures market and the underlying S&P 500 Index cash market due to the extended trading hours for S&P 500 futures contracts after the close of trading in the cash market.

The Exchange understands that CME adopted its EOM FV procedures at the request of institutional investors (active in both the S&P 500 futures and S&P 500 Index cash markets), who wanted the end-of-month value of their futures positions to align with prices in the underlying S&P 500 Index cash market. If the month-end settlement price of investors’ futures positions were based on the actual closing trading prices as of the 3:15 p.m.⁷ close of futures market while the month-end closing price of their cash

⁵ See generally CME Group, Month-End Fair Value Procedures, [available at http://www.cmegroup.com/trading/equity-index/fairvaluefaq.html](http://www.cmegroup.com/trading/equity-index/fairvaluefaq.html).

⁶ Id.

⁷ All times referred to herein are stated as Chicago Central Standard Time.

positions were based on the 3:00 p.m. close of trading in the underlying S&P 500 Index cash market, investors might experience tracking errors and/or financial reporting incongruities that do not reflect actual portfolio performance. Pricing model discrepancies or misaligned pricing between the S&P 500 futures and S&P 500 Index cash market could also lead to unnecessary and/or unwarranted margin calls and returns as well as other hedging and accounting problems. The EOM FV settlement procedures adopted by CME mitigate these issues by aligning the end-of-month settlement prices of S&P 500 futures contracts with closing prices in the underlying cash market as of 3:00 p.m.⁸

The S&P 500 futures market and SPX options market are highly interconnected. Many investors use SPX options to hedge S&P 500 futures positions. Because of the

⁸ CME has explained the reason for maintaining its 3:00 p.m. fair value procedure as follows:

Stock index products on the . . . [CME] normally close and settle fifteen minutes after the daily close of trading in cash equities. The cash/futures basis may be affected to the extent that futures may fluctuate – sometimes sharply – during those final fifteen minutes. As such, this may become a difficulty for institutional traders practicing coordinated cash/futures strategies. Still, the opportunity to lay off equity market exposure during those fifteen minutes subsequent to the cash close has proven quite beneficial. The use of FV settlement procedures is intended to address this so-called "tracking error" while still permitting trade [*sic*] to continue for fifteen minutes past the 3:00 p.m. cash close. Conceptually, the fair value settlement is determined when the cash market closes at 3:00 p.m., since any new information following 3:00 p.m. will not affect the closing price of the stocks and the indexes. However, information or events subsequent to the cash close may still impact futures prices. Market participants should be aware of the possibility that futures may trade at prices apart from fair value settlement prices between 3:00 p.m. and the close of the market at 3:15 p.m. on days on which FV settlement procedures are applied.

See id.

interconnectedness between the S&P 500 futures and SPX options markets, the Exchange believed that the use of end-of-month pricing procedures that diverged significantly from the CME's EOM FV pricing procedures would be disruptive to fair and orderly markets. Although the Exchange could have aligned the end-of-month settlement prices of standard non-expiring SPX options with the end-of-month prices of the related S&P 500 futures contracts (and the underlying S&P Index cash market) by simply ending trading at 3:00 p.m. on the last trading day of each month, the Exchange determined that closing trading in SPX options market prior to the close of trading at the CME would also be disruptive to fair and orderly markets. In particular, the Exchange believed that closing trading for standard non-expiring SPX options during S&P 500 futures trading hours would be disruptive to many market participants who hedge S&P 500 futures positions with SPX options. Accordingly, the Exchange adopted end-of-month settlement practices designed to align its end-of-month pricing with CME's EOM FV settlement procedures. The Exchange's end-of-month pricing procedures were adopted through a series of Regulatory Circulars and subsequently codified in the Exchange's rules in Interpretation and Policy .06.⁹

⁹ See CBOE Interpretation and Policy .06 to Rule 6.2B; Securities and Exchange Act Release No. 34-67992; File No. SR-CBOE-2012-095 (October 5, 2012) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Closing Rotation Procedures for S&P 500 Index Options).

See also CBOE Regulatory Circular RG99-233 (Dec. 21, 1999), available at <https://www.cboe.org/publish/regcir/rg99-233.pdf>; CBOE Regulatory Circular RG00-049 (Mar. 29, 2000), available at <https://www.cboe.org/publish/regcir/rg00-049.pdf>; CBOE Regulatory Circular RG01-014 (Jan. 25, 2001), available at <http://www.cboe.com/publish/RegCir/RG01-014.pdf>; CBOE Regulatory Circular RG01-040 (Mar. 29, 2001), available at <https://www.cboe.org/publish/regcir/rg01-040.pdf>; CBOE Regulatory Circular

Current Exchange Procedures

Currently, on days other than the last business day of each month, the final closing price of standard non-expiring SPX options traded on the Hybrid 3.0 Platform is determined by the OCC based on the final end-of-day trading quotations that it receives from the Exchange. In general, the OCC determines the closing price of standard non-expiring SPX options using the midpoint between the final bid and final offer quotations disseminated by the Exchange through the Options Price Reporting Authority (“OPRA”).

RG01-058 (Apr. 27, 2001), available at <https://www.cboe.org/publish/regcir/rg01-058.pdf>; CBOE Regulatory Circular RG02-019 (Apr. 4, 2002), available at <http://www.cboe.com/publish/RegCir/REG02-019.pdf>; CBOE Regulatory Circular RG02-039 (June 12, 2002), available at <http://www.cboe.com/publish/RegCir/REG02-039.pdf>; CBOE Regulatory Circular RG02-073 (Sept. 17, 2002), available at <http://www.cboe.com/publish/RegCir/REG02-073.pdf>; CBOE Regulatory Circular RG02-118 (Dec. 19, 2002), available at <http://www.cboe.org/publish/regcir/rg02-118.pdf>; CBOE Regulatory Circular RG03-016 (Mar. 19, 2003), available at <http://www.cboe.com/publish/RegCir/REG03-016.pdf>; CBOE Regulatory Circular RG03-039 (June 11, 2003), available at <http://www.cboe.com/publish/RegCir/REG03-039.pdf>; CBOE Regulatory Circular RG03-075 (Sept. 10, 2003), available at <http://www.cboe.com/publish/RegCir/REG03-075.pdf>; CBOE Regulatory Circular RG03-082 (Sept. 22, 2003), available at <http://www.cboe.com/publish/RegCir/REG03-082.pdf>; CBOE Regulatory Circular RG03-110 (Dec. 17, 2003), available at <http://www.cboe.com/publish/RegCir/REG03-110.pdf>; CBOE Regulatory Circular RG04-132 (Dec. 30, 2004), available at <http://www.cboe.com/publish/RegCir/REG04-132.pdf>; CBOE Regulatory Circular RG05-130 (Dec. 29, 2005), available at <http://www.cboe.com/publish/RegCir/REG05-130.pdf>; CBOE Regulatory Circular RG06-130 (Dec. 19, 2006), available at <http://www.cboe.org/publish/regcir/rg06-130.pdf>; CBOE Regulatory Circular RG08-004 (Jan. 8, 2008), available at <http://www.cboe.com/publish/RegCir/REG08-004.pdf>; CBOE Regulatory Circular RG09-151 (Dec. 30, 2009), available at <http://www.cboe.org/publish/regcir/rg09-151.pdf>; and CBOE Regulatory Circular RG12-023 (Jan. 30, 2012), available at <http://www.cboe.org/publish/regcir/rg12-023.pdf>.

On the last business day of each month, however, the Exchange conducts special end-of-month non-trading rotations for series of standard non-expiring SPX options pursuant to Interpretation and Policy .06. These special non-trading closing rotations are conducted on the same month-end business days on which CME calculates the EOM FV settlement prices of the S&P 500 futures contracts based on the theoretical fair value of the underlying S&P 500 Index cash market at the close of trading.¹⁰ The OCC calculates the final month-end settlement prices for standard non-expiring SPX options based on non-trading quotations provided by a designated Lead Market-Maker (“LMM”) or LMMs in the SPX, which are then “smoothed” by the OCC with an implied volatility curve. LMMs calculate non-trading closing bid and offer quotations to reflect the theoretical fair value of the options through pricing algorithms with a number of relevant inputs, in particular, the EOM FV settlement prices of the related S&P 500 futures contracts at CME.¹¹ The theoretical fair value prices are disseminated to the OCC via OPRA after the 3:15 p.m. close of trading on the last business day of each month (on the same day that CME performs its end-of-month fair market valuations for the S&P 500 futures). Consistent with CME’s practices, the Exchange considers the end-of-month theoretical fair value closing prices of SPX options traded on the Hybrid 3.0 Platform to be the final month-end settlement prices for all purposes, including OCC margin calculations, even though no actual trades occur at these prices.

Proposed Rule Change

¹⁰ See CBOE Interpretation and Policy .06 to Rule 6.2B.

¹¹ See Securities and Exchange Act Release No. 34-67992; File No. SR-CBOE-2012-095 (October 5, 2012) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Closing Rotation Procedures for S&P 500 Index Options).

The Exchange proposes minor changes to its rules to extend its current end-of-month settlement pricing procedures for SPX options traded on the Hybrid 3.0 Platform to series of SPX options traded on the Hybrid System (e.g., SPXW). The Exchange believes that extending Interpretation and Policy .06 to additional groups of series of SPX options will allow investors to realize consistency in the SPX options market and with respect to valuations in the S&P 500 futures market and underlying S&P 500 Index cash market.

Although Interpretation and Policy .06 does not restrict the Exchange from conducting special end-of-month non-trading closing rotations for series of SPX options traded on the Hybrid System, Interpretation and Policy .06 does not contemplate the application of month-end fair value pricing procedures in groups of series of SPX options without an LMM. Thus, under the Exchange's current rules, the Exchange cannot extend Interpretation and Policy .06 to series of SPX options traded on the Hybrid System with no LMM.¹² The proposed changes to Interpretation and Policy .06 will allow a designated LMM in the SPX options class to conduct non-trading closing rotations for series of SPX options on the Hybrid System.

Under the proposed rule, end-of-month settlement pricing procedures will be conducted in the same manner in all series of SPX options. The Exchange expects that LMMs in the SPX class will continue to base their end-of-month non-trading quotations substantially and materially on the closing prices of the related S&P 500 futures contracts (which reflect the theoretical fair value of the S&P 500 Index cash market as of 3:00 p.m. as determined by CME), in all series of SPX options. The Exchange believes that the

¹² Notably, the Exchange's rules do not require the appointment of an LMM in each options class or group of series of options. See CBOE Rule 8.14.

proposed rule will allow investors to realize consistency in the SPX options market by ensuring that the same pricing models are applied to determine the end-of-month theoretical fair value of each non-expiring series of SPX options. The Exchange believes that the application of consistent pricing models in the SPX options market will protect investors' interests by mitigating the risk of tracking errors and inconsistent reporting that may be caused by the dissemination of closing quotations derived from several different pricing models.

The Exchange believes that extending Interpretation and Policy .06 to additional groups of series of SPX options will promote the functioning of a fair and orderly market in SPX options. The misalignment of month-end S&P 500 futures valuations and SPX options prices poses unnecessary risk to investors who actively trade in these markets. Such inconsistencies expose investors to the possibility of unwarranted and potentially significant margin calls, which may not reflect actual levels of portfolio risk or true market exposure. The Exchange believes that extending Interpretation and Policy .06 to additional groups of series of SPX options will mitigate these risks and allow investors to realize consistency with respect to the margin treatment of SPX options.

Interpretation and Policy .06 was adopted in response to investors' requests for end-of-month pricing of SPX options on the Hybrid 3.0 Platform consistent with CME's end-of-month S&P 500 futures valuations. Similarly, the Exchange is proposing this rule change in response to investors' requests for consistent pricing between the S&P 500 futures and series of SPX options traded on the Hybrid System. The Exchange anticipates disseminating end-of-month non-trading closing rotation quotations for each series of SPX options so long as doing so remains consistent with CME's end-of-month

pricing practices in the S&P 500 futures. The Exchange, however, cannot predict whether CME will change its EOM FV procedures in the future. Accordingly, the proposed rule change preserves the Exchange's discretion not to disseminate the 3:00 p.m. fair value quotations provided by a designated LMM in a series, if the Exchange determines that disseminating the quotations would not be in the interests of investors or fair and orderly markets. In the event that the CME determines not to apply its special EOM FV procedures, either on a particular month-end trading day or otherwise, the Exchange would allow the actual 3:15 p.m. closing quotations to act as the final quotations, as occurs on other trading days.

The Exchange believes that the proposed rule is designed to guard against unfair discrimination in the application of its end-of-month settlement pricing procedures. The proposed rule merely extends the Exchange's current end-of-month pricing procedures (which have been reviewed and accepted by the Commission), to additional series of SPX options. Under the proposed rule an LMM in the SPX class will provide end-of-month non-trading quotations for each series of SPX options. LMM appointments in SPX options will continue to be governed by CBOE Rules 8.15 and 8.15A and selected based on the criteria set forth in those rules including, but not limited to: adequacy of capital; experience in trading index options or options on ETPs; presence in the trading crowd; and ability to meet required quoting and market-making obligations as described in the Exchange's rules.¹³ The Exchange believes that the LMM appointment process and procedures are objective; all Trading Permit Holders may request an LMM appointment subject to approval based on nondiscriminatory criteria and considerations designed to

¹³ CBOE Rules 8.15(a) and 8.15A(a).

promote fair and orderly markets. To the extent that there may be more than one LMM appointed in the SPX, the Exchange will designate an LMM to provide end-of-month non-trading quotations for each group of series of SPX options on a monthly rotating basis.

The Exchange recognizes that LMMs may have an interest in the outcome of month-end valuation determinations based on the composition of their own proprietary positions. For example, an LMM may have an incentive to skew their fair value determinations to minimize the risk of potential variation margin calls from the OCC to cover proprietary holdings. The Exchange believes, however, that these risks are substantially mitigated by the weight given to the CME's valuations of related S&P 500 futures contracts. The Exchange expects that under the proposed rule the end-of-month non-trading closing quotations provided by the designated LMM in each series of SPX options will continue to be materially, if not directly, based on CME's EOM FV calculations. The Exchange believes that the risk of market manipulation is further limited by the fact that fair valuations can generally be approximated by other third parties and verified through independent checks.

In addition, the Exchange is equipped to monitor LMMs' end-of-month fair value calculations. The Exchange currently monitors the fair value calculations of LMMs who quote end-of-month fair value settlement prices for SPX options on the Hybrid 3.0 Platform. The Exchange also conducts surveillance and oversight of LMMs' fair value quotations to monitor for potential attempts at manipulation. Should the proposed rule change take effect, the Exchange would extend its regulatory practices to monitor the

end-of-month fair valuation calculations of LMMs who quote any series of SPX options under Interpretation and Policy .06.

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the Act and the rules and regulations thereunder applicable to the Exchange 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 prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest. Additionally, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)¹⁶ requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

In particular, the proposed rule change furthers the interests of fair and orderly markets by allowing investors to realize consistency across the SPX options, S&P 500 futures and S&P 500 Index cash markets. The Exchange proposes to extend the end-of-month fair value pricing procedures in Interpretation and Policy .06 to additional series of SPX options traded on the Hybrid System to better align end-of-month prices in the SPX

¹⁴ 15 U.S.C. 78f(b).

¹⁵ 15 U.S.C. 78f(b)(5).

¹⁶ Id.

options market with prices of related S&P 500 futures contracts and prices in the underlying cash market. The Exchange believes that greater consistency in SPX options market is in the best interests of investors.

The Exchange also believes that the proposed rule change will contribute to more robust and competitive markets by making it easier for investors to trade S&P 500 Index-related securities and, in particular, making it easier for investors to use SPX options to hedge S&P 500 futures positions. Thus, the proposed rule change will facilitate investors' use of risk-reducing trading strategies and promote robust trading activity in the S&P 500 Index-related markets. The Exchange also believes that extending its fair value pricing procedures to additional groups of series of SPX options will mitigate risk to investors, including investors' risk of tracking errors, misrepresentative financial reporting, and potential unwarranted margin calls that may be caused by misaligned end-of-month settlement pricing in the S&P 500 Index-related markets, rather than actual portfolio risk or market exposure.

The Exchange believes that the proposed rule change is designed to guard against unfair discrimination in the application of its end-of-month settlement pricing procedures. The proposed rule merely extends the Exchange's current procedures (which have been reviewed and approved by the Commission), to additional series of SPX options. Under the proposed rule a designated LMM in each series of the SPX options will provide end-of-month non-trading settlement pricing quotations for series of SPX options. LMM appointments in SPX options will continue to be governed by CBOE Rules 8.15 and 8.15A and selected based on the criteria set forth in those rules including, but not limited to: adequacy of capital; experience in trading index options or options on ETPs; presence

in the trading crowd; and ability to meet the required quoting and market-making obligations described in the Exchange's rules.¹⁷ The Exchange believes that the LMM appointment procedures and process set forth in Rules 8.15 and 8.15A are objective; all TPHs may request an appointment subject to the nondiscriminatory criteria set forth in Rules 8.15 and 8.15A, which are designed to promote fair and orderly markets.

The Exchange recognizes that LMMs may have an interest in the outcome of month-end valuation determinations based on the composition of their own proprietary positions. For example, an LMM may have an incentive to skew their fair value determinations to minimize the risk of potential of variation margin calls from the OCC to cover proprietary holdings. The Exchange believes, however, that these risks are substantially mitigated by the weight given to fair valuations of the related S&P 500 futures contracts at CME. The Exchange expects that the end-of-month non-trading closing price quotations provided by LMMs for series of SPX options on the Hybrid System will continue to be materially, if not directly, based on CME's EOM FV calculations under the proposed rule. The Exchange believes that the risk of market manipulation is further limited by the fact that fair valuations can generally be approximated by other third parties and verified through independent checks.

In addition, the Exchange is equipped to protect investors through end-of-month fair value calculations monitoring practices. The Exchange currently monitors the fair value calculations of LMMs who quote end-of-month fair value settlement prices for SPX options on the Hybrid 3.0 Platform. The Exchange also conducts surveillance and oversight of LMMs' fair value quotations to monitor for potential attempts at

¹⁷ CBOE Rules 8.15(a) and 8.15A(a).

manipulation. Under the proposed rule, the Exchange would extend its regulatory practices to monitor LMMs' end-of-month price calculations for all series of SPX options quoted in accordance with Interpretation and Policy .06.

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange 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. Extending the Exchange's current end-of-month fair value settlement procedures to other series of SPX options will not adversely affect investors. These procedures will be equally applied to affect all market participants equally in the SPX options market. Furthermore, the Exchange believes that the proposed rule will bolster competition and contribute to more robust markets by making it easier for investors to trade SPX options and use SPX options to hedge S&P 500 futures positions. The Exchange believes that the proposed rule will bolster competition with other exchanges by making it easier for investors to trade S&P 500 Index-related securities listed on exchanges other than CBOE.

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 proposed rule change.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Because the foregoing proposed rule change does not:

- A. significantly affect the protection of investors or the public interest;
- B. impose any significant burden on competition; and

C. become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act¹⁸ and Rule 19b-4(f)(6)¹⁹ thereunder. At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission will institute proceedings to determine whether the proposed rule change should be approved or 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-2014-043 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.

¹⁸ 15 U.S.C. 78s(b)(3)(A).

¹⁹ 17 CFR 240.19b-4(f)(6).

All submissions should refer to File Number SR-CBOE-2014-043. 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 website (<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 website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, D.C. 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. 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-2014-043 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.²⁰

Secretary

²⁰ 17 CFR 200.30-3(a)(12).