

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * **SECURITIES AND EXCHANGE COMMISSION** File No.* SR - - *
 WASHINGTON, D.C. 20549 Form 19b-4 Amendment No. (req. for Amendments *)

Filing 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) *
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
			Rule		
Pilot	Extension of Time Period for Commission Action *	Date Expires *	<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
<input type="checkbox"/>	<input type="checkbox"/>	<input type="text"/>	<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input 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) *	Section 806(e)(2) *
<input type="checkbox"/>	<input type="checkbox"/>
	Section 3C(b)(2) *
	<input type="checkbox"/>

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

Description

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

Proposed rule change to amend certain margin rules for volatility index options.

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 * Last Name *
 Title *
 E-mail *
 Telephone * Fax

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 Assistant Secretary

By

(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 - 1382733830495,

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information *

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 *

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

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, 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

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 (the “Exchange” or “CBOE”) proposes to amend certain margin rules for volatility index options. The text of the proposed rule change is attached as Exhibit 5.

(b) Not applicable.

(c) Not applicable.

Item 2. Procedures of the Self-Regulatory Organization

(a) The Exchange’s Chief Regulatory Officer pursuant to delegated authority approved the proposed rule change on April 28, 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 Jenny Golding, (312) 786-7466, 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

Over the past decade, the Exchange has received approval from the Commission to list options on different types of volatility indexes, including volatility indexes comprised of options on: (1) broad-based indexes, (2) individual stocks; and (3) exchange traded funds (“ETFs”). For each volatility index comprised of broad-based index options, the Exchange received approval to classify each respective volatility index as a “broad-based index” for margin purposes.¹ For stock and ETF-based volatility indexes, the margin requirements were set at the

¹ See Securities Exchange Act Release Nos. 49563 (April 14, 2004), 69 FR 21589 (April 21, 2004) (order approving SR-CBOE-2003-40 to list options on the CBOE Volatility Index (“VIX”), the CBOE Nasdaq 100 Index Volatility Index (“VXN”) and the CBOE Dow Jones Industrial Index (“VXD”)), 55425 (March

same levels that apply to equity options.²

The Exchange is proposing to amend CBOE Rules 12.3 (Margin Requirements) and 12.4 (Portfolio Margin) to increase the minimum margin requirements for certain 30-day volatility index options and for options on the VXST Index, which is designed to reflect investors' consensus view of 9-day expected stock market volatility. To affect these changes as new minimum margin requirements going forward, the Exchange is proposing to add the proposed margin levels to the text of CBOE Rules 12.3 and 12.4. Specifically, the Exchange proposes to make the rule text more "user-friendly" by enumerating "Volatility Indexes" and identifying specific classes in the appropriate places. The Exchange will now describe the proposed changes below.

Proposed Changes to CBOE Rule 12.3(c)(5)

CBOE Rule 12.3(c)(5) sets forth the initial and maintenance margin requirements for short options held in a customer account. As described earlier, when VIX, VXN, VXD, RVX and VXST options were approved for trading, the Exchange was permitted to margin these products as "broad-based index" options. The first chart in CBOE Rule 12.3(c)(5) sets forth at paragraph 3 that the initial and/or maintenance margin required for broad-based index options is the greater of: 100% of the current market value of the option plus 15% of the current underlying component value less any out-of-the-money amount or 100% of the current market value of the

8, 2007), 72 FR 12238 (March 15, 2007) (order approving SR-CBOE-2006-73 to list options on the CBOE Russell 2000 Volatility Index ("RVX")), and 71764 (March 21, 2014), 79 FR 17212 (March 27, 2014) (order approving SR-CBOE-2014-003 to list options on the CBOE Short-Term Volatility Index ("VXST")).

² See Securities Exchange Act Release Nos. 62139 (May 19, 2010), 75 FR 29597 (May 26, 2010) (order approving SR-CBOE-2010-018 to list options on the CBOE Gold ETF Volatility Index ("GVZ"), and 64551 (May 26, 2011), 76 FR 32000 (June 2, 2011) (order approving SR-CBOE-2011-026 to list options on the CBOE Equity VIX on Apple ("VXAPL"), the CBOE Equity VIX on Amazon ("VXAZN"), the CBOE Equity VIX on Goldman Sachs ("VXGS"), the CBOE Equity VIX on Google ("VXGOG"), the CBOE Equity VIX on IBM ("VXIBM"), the CBOE Crude Oil ETF Volatility Index ("OVX"), the CBOE Emerging Markets ETF Volatility Index ("VXEEM"), the CBOE China ETF Volatility Index ("VXFPI"), the CBOE Brazil ETF Volatility Index ("VXEWZ"), the CBOE Gold Miners ETF Volatility Index ("VXGDX") and the CBOE Energy Sector ETF Volatility Index ("VXXLE")).

option plus 10% of the current underlying component value.³ The “underlying component value” for broad-based index options is the product of the current index group value and the applicable index multiplier. The Exchange believes that the 15% initial and/or maintenance margin component should be increased to 20% for 30-day volatility index options and to 40% for 9-day volatility index options (VXST), which were approved to be treated as “broad-based index” options for margin purposes. For 9-day volatility index options (VXST), the Exchange also believes that the 10% minimum margin required should be increased to 20%.⁴ The Exchange is not proposing to increase the 10% minimum margin required for 30-day volatility index options.

Trading Permit Holder (“TPH”) organizations can, through their own policies and procedures, impose even higher margin requirements should they deem it advisable (i.e., house margin requirements). CBOE Rule 12.10 confirms this ability, in relevant part, as follows: “[t]he amount of margin prescribed by these Rules is the minimum which must be required initially and subsequently maintained with respect to each account affected thereby; but nothing in these rules shall be construed to prevent a TPH organization from requiring margin in an amount greater than that specified.”

To affect this change, the Exchange proposes to amend existing paragraph 15 to the first chart set forth in CBOE Rule 12.3(c)(5). Paragraph 15 currently sets forth the initial and/or maintenance margin required and minimum margin required for individual stock or ETF-based volatility indexes (whose margin requirements the Exchange is not proposing to change). The

³ There is one difference in the case of a put option. For the 10% minimum only, 10% of the put’s exercise price is required rather than 10% the current underlying component value.

⁴ Prior to the April 10, 2104 launch of trading in VXST options, the Exchange exercised its authority under CBOE Rules 12.3(h) and 12.10 to impose higher initial and maintenance margin requirements for short, uncovered VXST options. See CBOE Regulatory Circular [RG14-040](#) (Margin Requirements for VXST Options).

Exchange is proposing to amend paragraph 15 to expand its application to all volatility indexes. Specifically, the Exchange proposes to set forth “Volatility Indexes” as the type of option and to set forth below that heading the specific volatility index option classes that are currently listed for trading (i.e., VIX, RVX, VXST, GVZ, OVX, VXEEM and VXEZW). The Exchange believes that the identification of specific volatility index option classes would make finding the applicable minimum margin levels easier for users of CBOE’s Rulebook. The Exchange also believes that identification of specific volatility index option classes would give the Exchange flexibility to change margin levels by volatility index class if the need arises in the future. The Exchange notes that this styling is similar to paragraph 9, “Foreign Currency Option and Warrants,” for-which specific currencies are identified.

The Exchange also proposes to include a category under “Volatility Indexes” labeled, “Other Volatility Indexes identified in Rules 24.9(a)(3) and 24.9(a)(4).⁵” The Exchange is proposing to include this general category because the Exchange has received approval to trade options on certain volatility indexes, which are not currently listed for trading. Having a general category for products that have already been approved for trading would enable the-Exchange to quickly list these products when launch dates are determined. The Exchange expects that when this happens, CBOE would follow up with a filing to identify any volatility indexes on which options trading has begun.

The Exchange also proposes to amend the definition for “index value” for volatility indexes in Row IV (Underlying Component Value) to the first chart in CBOE Rule 12.3(c)(5) in order to be more clear. Specifically, the Exchange proposes to add the descriptive phrase, “current (spot or cash)” so that the CBOE Rule 12.3(c)(5) is clear on its face that the current

⁵ CBOE Rules 24.9(a)(3) (European-style index options approved for trading) and 24.9(a)(4) (A.M.-settled index options approved for trading) identify, among other indexes, all other volatility indexes that have approved for options trading but which are not currently listed for trading.

(spot or cash) value for a volatility index is used to calculate margin requirements. The Exchange believes that this descriptive phrase is necessary because the prices of the corresponding futures contract (on the same volatility index) are sometimes used as the “current index level” for volatility index options.⁶

The Exchange is also proposing to delete “Individual Stock or ETF Based” from the Option or Warrant Issue column from the second chart in CBOE Rule 12.3(c)(5) and replace it with “Volatility Indexes.” In addition, the Exchange is proposing to add the descriptive phrase “(spot or cash)” before the references to “current index value” in the Call and Put rows. These changes conform to the changes described above regarding the new category of “Volatility Indexes” and provide clarity as to what is meant by “current index value” for volatility index options.

Proposed Changes to CBOE Rule 12.4

As an alternative to the margin requirements set forth in CBOE Rule 12.3, CBOE Rule 12.4 (Portfolio Margin) permits TPH organizations to compute a margin requirement for option positions carried for customers using a portfolio (or risk-based) approach. CBOE proposes to amend CBOE Rule 12.4 to identify “Volatility Index (30-day implied)” and “Volatility Index (9-day implied)” as portfolio types in the chart set forth in CBOE Rule 12.4 and to specify “+/- 20%” and “+/- 40%” as the respective applicable up/down market move (high & low valuation points).⁷ The Exchange believes that specifying “Volatility Index (30-day implied)” and “Volatility Index (9-day implied)” as portfolio types would make finding the applicable portfolio

⁶ See e.g., CBOE Rules 24.7(iii) and 24.7.03.

⁷ Prior to the April 10, 2104 launch of trading in VXST options, the Exchange exercised its authority under CBOE Rule 12.10 to provide that the magnitude of the valuation point range under CBOE Rule 12.4 for VXST options held in a portfolio margin is +/-40% and that the price of the VXST futures contract with a corresponding expiration will be used to calculate theoretical gains and losses for VXST options. See CBOE Regulatory Circular [RG14-056](#) (Margin Requirements for VXST Options).

margin levels easier for users of CBOE's Rulebook. The Exchange notes that this proposed change would increase the applicable up/down market move (high & low valuation points) for all of its volatility index options. The Exchange is proposing to delete the four footnote 1 references and the text of footnote 1 from the chart set forth in CBOE Rule 12.4. The text of the footnote reads, "In accordance with sub-paragraph (b)(1)(i)(B) of Rule 15c3-1a under the Securities Exchange Act of 1934." The Exchange proposes to delete this sentence because it is no longer deemed necessary to link the margin requirements of CBOE Rule 12.4 to SEC Rule 15c3-1a. While SEC Rule 15c3-1a originally served as a model for CBOE Rule 12.4, a difference between the two, such as the addition of the "Volatility Index (30-day implied)" and "Volatility Index (9-day implied)" categories to CBOE Rule 12.4, results in inconsistency, and the current footnote may imply there must be consistency.

The Exchange also proposes to amend subparagraph (a)(9) to CBOE Rule 12.4, which sets forth the definition for "underlying instrument" as meaning "a security or security index upon which any listed option, unlisted derivative, security futures product or related instrument is based. The term underlying instrument shall not be deemed to include, futures contracts, options on futures contracts or underlying stock baskets." The Exchange proposes to amend that definition by adding the following phrase at the end of the definition, "except that, for the purpose of calculating theoretical gains and losses for a listed option, unlisted derivative, or security futures product overlying a volatility index pursuant to this Rule, the price of a futures contract referencing the same volatility index may be utilized in lieu of the current (spot or cash) index value." The Exchange is proposing to make this change because a more accurate theoretical price for a volatility index option is obtained, and thus a more accurate portfolio margin requirement is derived, by using the price of a futures contract that references the same

volatility index. Market participants price volatility index options in view of the price a futures contract that references the same volatility index, rather than using the cash or spot index value.

In addition, the Exchange proposes to amend subparagraph (d)(3)(ii) to CBOE Rule 12.4 to add volatility index options to the list of eligible positions for portfolio margin. Finally, the Exchange proposes to make a technical change earlier in Rule 12.4(a)(5) to delete the unnecessary word “and” from the definition of “option series.”

Ongoing Analysis Regarding Margin Levels

The Exchange will continue to analyze and review the appropriate minimum margin levels for volatility index option. Specifically, the Exchange will continue to review market data in order to determine whether the proposed margin levels should remain or be adjusted. Among other things, CBOE may propose an alternate methodology for determining margin levels or CBOE may subsequently change margin levels after having time to study the impact of the proposed rule change. Any such change would be accomplished by way of a rule filing with the Commission.

(b) Statutory Basis

The Exchange believes the proposed rule changes are 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.⁸ Specifically, the Exchange believes the proposed rule changes are consistent with the Section 6(b)(5)⁹ 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

⁸ 15 U.S.C. 78f(b).

⁹ 15 U.S.C. 78f(b)(5).

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.

The Exchange believes that increasing the minimum margin requirements for certain volatility index options will protect the integrity of the Exchange's marketplace by setting margin at a level that is appropriate for the given instrument. Also, the Exchange believes that the proposed changes will benefit investors and other market participants by making CBOE's rules more user-friendly in that the applicable margin levels will be easier to locate in CBOE's Rulebook.

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 that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange does not believe that the proposed rule change will impose any burden on intramarket competition because it applies to all customers that hold positions in volatility index options. The Exchange does not believe the proposed rule changes will impose any burden on intermarket competition as it will result in margin levels being increased to appropriate levels for volatility index options.

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

The Exchange does not consent to an extension of the time period specified in Section 19(b)(2) of the Exchange Act.

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)

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 5. Proposed rule text.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34- ; File No. SR-CBOE-2014-039)

Dated: _____

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Proposed Rule Change to Amend Certain Margin Rules for Volatility Index Options

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”), and Rule 19b-4 thereunder, notice is hereby given that on _____, 2014, the 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 and II 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 certain margin rules for volatility index options. The text of the proposed rule change is available on the Exchange’s Web site <http://www.cboe.com/AboutCBOE/CBOELegalRegulatoryHome.aspx>), at the Exchange’s Office of the Secretary, and at the Commission.

II. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the self-regulatory organization included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of those statements may be examined at the places specified in Item IV below. The Exchange has prepared

summaries, set forth in sections A, B, and C below, of the most significant parts of such statements.

A. Self-Regulatory Organization’s Statement of the Purpose of, and the Statutory Basis for, the Proposed Rule Change

1. Purpose

Over the past decade, the Exchange has received approval from the Commission to list options on different types of volatility indexes, including volatility indexes comprised of options on: (1) broad-based indexes, (2) individual stocks; and (3) exchange traded funds (“ETFs”). For each volatility index comprised of broad-based index options, the Exchange received approval to classify each respective volatility index as a “broad-based index” for margin purposes.¹ For stock and ETF-based volatility indexes, the margin requirements were set at the same levels that apply to equity options.²

The Exchange is proposing to amend CBOE Rules 12.3 (Margin Requirements) and 12.4 (Portfolio Margin) to increase the minimum margin requirements for certain 30-day volatility index options and for options on the VXST Index, which is designed to reflect investors’ consensus view of 9-day expected stock market volatility. To affect

¹ See Securities Exchange Act Release Nos. 49563 (April 14, 2004), 69 FR 21589 (April 21, 2004) (order approving SR-CBOE-2003-40 to list options on the CBOE Volatility Index (“VIX”), the CBOE Nasdaq 100 Index Volatility Index (“VXN”) and the CBOE Dow Jones Industrial Index (“VXD”)), 55425 (March 8, 2007), 72 FR 12238 (March 15, 2007) (order approving SR-CBOE-2006-73 to list options on the CBOE Russell 2000 Volatility Index (“RVX”)), and 71764 (March 21, 2014), 79 FR 17212 (March 27, 2014) (order approving SR-CBOE-2014-003 to list options on the CBOE Short-Term Volatility Index (“VXST”)).

² See Securities Exchange Act Release Nos. 62139 (May 19, 2010), 75 FR 29597 (May 26, 2010) (order approving SR-CBOE-2010-018 to list options on the CBOE Gold ETF Volatility Index (“GVZ”), and 64551 (May 26, 2011), 76 FR 32000 (June 2, 2011) (order approving SR-CBOE-2011-026 to list options on the CBOE Equity VIX on Apple (“VXAPL”), the CBOE Equity VIX on Amazon (“VXAZN”), the CBOE Equity VIX on Goldman Sachs (“VXGS”), the CBOE Equity VIX on Google (“VXGOG”), the CBOE Equity VIX on IBM (“VXIBM”), the CBOE Crude Oil ETF Volatility Index (“OVX”), the CBOE Emerging Markets ETF Volatility Index (“VXEEM”), the CBOE China ETF Volatility Index (“VXFXI”), the CBOE Brazil ETF Volatility Index (“VXEWZ”), the CBOE Gold Miners ETF Volatility Index (“VXGDX”) and the CBOE Energy Sector ETF Volatility Index (“VXXLE”)).

these changes as new minimum margin requirements going forward, the Exchange is proposing to add the proposed margin levels to the text of CBOE Rules 12.3 and 12.4. Specifically, the Exchange proposes to make the rule text more “user-friendly” by enumerating “Volatility Indexes” and identifying specific classes in the appropriate places. The Exchange will now describe the proposed changes below.

Proposed Changes to CBOE Rule 12.3(c)(5)

CBOE Rule 12.3(c)(5) sets forth the initial and maintenance margin requirements for short options held in a customer account. As described earlier, when VIX, VXN, VXD, RVX and VXST options were approved for trading, the Exchange was permitted to margin these products as “broad-based index” options. The first chart in CBOE Rule 12.3(c)(5) sets forth at paragraph 3 that the initial and/or maintenance margin required for broad-based index options is the greater of: 100% of the current market value of the option plus 15% of the current underlying component value less any out-of-the-money amount or 100% of the current market value of the option plus 10% of the current underlying component value.³ The “underlying component value” for broad-based index options is the product of the current index group value and the applicable index multiplier. The Exchange believes that the 15% initial and/or maintenance margin component should be increased to 20% for 30-day volatility index options and to 40% for 9-day volatility index options (VXST), which were approved to be treated as “broad-based index” options for margin purposes. For 9-day volatility index options (VXST), the Exchange also believes that the 10% minimum margin required should be increased

³ There is one difference in the case of a put option. For the 10% minimum only, 10% of the put’s exercise price is required rather than 10% the current underlying component value.

to 20%.⁴ The Exchange is not proposing to increase the 10% minimum margin required for 30-day volatility index options.

Trading Permit Holder (“TPH”) organizations can, through their own policies and procedures, impose even higher margin requirements should they deem it advisable (*i.e.*, house margin requirements). CBOE Rule 12.10 confirms this ability, in relevant part, as follows: “[t]he amount of margin prescribed by these Rules is the minimum which must be required initially and subsequently maintained with respect to each account affected thereby; but nothing in these rules shall be construed to prevent a TPH organization from requiring margin in an amount greater than that specified.”

To affect this change, the Exchange proposes to amend existing paragraph 15 to the first chart set forth in CBOE Rule 12.3(c)(5). Paragraph 15 currently sets forth the initial and/or maintenance margin required and minimum margin required for individual stock or ETF-based volatility indexes (whose margin requirements the Exchange is not proposing to change). The Exchange is proposing to amend paragraph 15 to expand its application to all volatility indexes. Specifically, the Exchange proposes to set forth “Volatility Indexes” as the type of option and to set forth below that heading the specific volatility index option classes that are currently listed for trading (*i.e.*, VIX, RVX, VXST, GVZ, OVX, VXEEM and VXEWS). The Exchange believes that the identification of specific volatility index option classes would make finding the applicable minimum margin levels easier for users of CBOE’s Rulebook. The Exchange also believes that identification of specific volatility index option classes would give the Exchange

⁴ Prior to the April 10, 2014 launch of trading in VXST options, the Exchange exercised its authority under CBOE Rules 12.3(h) and 12.10 to impose higher initial and maintenance margin requirements for short, uncovered VXST options. See CBOE Regulatory Circular [RG14-040](#) (Margin Requirements for VXST Options).

flexibility to change margin levels by volatility index class if the need arises in the future. The Exchange notes that this styling is similar to paragraph 9, “Foreign Currency Option and Warrants,” for-which specific currencies are identified.

The Exchange also proposes to include a category under “Volatility Indexes” labeled, “Other Volatility Indexes identified in Rules 24.9(a)(3) and 24.9(a)(4).⁵” The Exchange is proposing to include this general category because the Exchange has received approval to trade options on certain volatility indexes, which are not currently listed for trading. Having a general category for products that have already been approved for trading would enable the Exchange to quickly list these products when launch dates are determined. The Exchange expects that when this happens, CBOE would follow up with a filing to identify any volatility indexes on which options trading has begun.

The Exchange also proposes to amend the definition for “index value” for volatility indexes in Row IV (Underlying Component Value) to the first chart in CBOE Rule 12.3(c)(5) in order to be more clear. Specifically, the Exchange proposes to add the descriptive phrase, “current (spot or cash)” so that the CBOE Rule 12.3(c)(5) is clear on its face that the current (spot or cash) value for a volatility index is used to calculate margin requirements. The Exchange believes that this descriptive phrase is necessary because the prices of the corresponding futures contract (on the same volatility index) are sometimes used as the “current index level” for volatility index options.⁶

The Exchange is also proposing to delete “Individual Stock or ETF Based” from

⁵ CBOE Rules 24.9(a)(3) (European-style index options approved for trading) and 24.9(a)(4) (A.M.-settled index options approved for trading) identify, among other indexes, all other volatility indexes that have approved for options trading but which are not currently listed for trading.

⁶ See e.g., CBOE Rules 24.7(iii) and 24.7.03.

the Option or Warrant Issue column from the second chart in CBOE Rule 12.3(c)(5) and replace it with “Volatility Indexes.” In addition, the Exchange is proposing to add the descriptive phrase “(spot or cash)” before the references to “current index value” in the Call and Put rows. These changes conform to the changes described above regarding the new category of “Volatility Indexes” and provide clarity as to what is meant by “current index value” for volatility index options.

Proposed Changes to CBOE Rule 12.4

As an alternative to the margin requirements set forth in CBOE Rule 12.3, CBOE Rule 12.4 (Portfolio Margin) permits TPH organizations to compute a margin requirement for option positions carried for customers using a portfolio (or risk-based) approach. CBOE proposes to amend CBOE Rule 12.4 to identify “Volatility Index (30-day implied)” and “Volatility Index (9-day implied)” as portfolio types in the chart set forth in CBOE Rule 12.4 and to specify “+/-20%” and “+/- 40%”) as the respective applicable up/down market move (high & low valuation points).⁷ The Exchange believes that specifying “Volatility Index (30-day implied)” and “Volatility Index (9-day implied)” as portfolio types would make finding the applicable portfolio margin levels easier for users of CBOE’s Rulebook. The Exchange notes that this proposed change would increase the applicable up/down market move (high & low valuation points) for all of its volatility index options. The Exchange is proposing to delete the four footnote 1 references and the text of footnote 1 from the chart set forth in CBOE Rule 12.4. The

⁷ Prior to the April 10, 2104 launch of trading in VXST options, the Exchange exercised its authority under CBOE Rule 12.10 to provide that the magnitude of the valuation point range under CBOE Rule 12.4 for VXST options held in a portfolio margin is +/-40% and that the price of the VXST futures contract with a corresponding expiration will be used to calculate theoretical gains and losses for VXST options. See CBOE Regulatory Circular [RG14-056](#) (Margin Requirements for VXST Options).

text of the footnote reads, “In accordance with sub-paragraph (b)(1)(i)(B) of Rule 15c3-1a under the Securities Exchange Act of 1934.” The Exchange proposes to delete this sentence because it is no longer deemed necessary to link the margin requirements of CBOE Rule 12.4 to SEC Rule 15c3-1a. While SEC Rule 15c3-1a originally served as a model for CBOE Rule 12.4, a difference between the two, such as the addition of the “Volatility Index (30-day implied)” and “Volatility Index (9-day implied)” categories to CBOE Rule 12.4, results in inconsistency, and the current footnote may imply there must be consistency.

The Exchange also proposes to amend subparagraph (a)(9) to CBOE Rule 12.4, which sets forth the definition for “underlying instrument” as meaning “a security or security index upon which any listed option, unlisted derivative, security futures product or related instrument is based. The term underlying instrument shall not be deemed to include, futures contracts, options on futures contracts or underlying stock baskets.” The Exchange proposes to amend that definition by adding the following phrase at the end of the definition, “except that, for the purpose of calculating theoretical gains and losses for a listed option, unlisted derivative, or security futures product overlying a volatility index pursuant to this Rule, the price of a futures contract referencing the same volatility index may be utilized in lieu of the current (spot or cash) index value.” The Exchange is proposing the make this change because a more accurate theoretical price for a volatility index option is obtained, and thus a more accurate portfolio margin requirement is derived, by using the price of a futures contract that references the same volatility index. Market participants price volatility index options in view of the price a futures contract that references the same volatility index, rather than using the cash or spot index value.

In addition, the Exchange proposes to amend subparagraph (d)(3)(ii) to CBOE Rule 12.4 to add volatility index options to the list of eligible positions for portfolio margin. Finally, the Exchange proposes to make a technical change earlier in Rule 12.4(a)(5) to delete the unnecessary word “and” from the definition of “option series.”

Ongoing Analysis Regarding Margin Levels

The Exchange will continue to analyze and review the appropriate minimum margin levels for volatility index option. Specifically, the Exchange will continue to review market data in order to determine whether the proposed margin levels should remain or be adjusted. Among other things, CBOE may propose an alternate methodology for determining margin levels or CBOE may subsequently change margin levels after having time to study the impact of the proposed rule change. Any such change would be accomplished by way of a rule filing with the Commission.

2. Statutory Basis

The Exchange believes the proposed rule changes are 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.⁸ Specifically, the Exchange believes the proposed rule changes are consistent with the Section 6(b)(5)⁹ 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

⁸ 15 U.S.C. 78f(b).

⁹ 15 U.S.C. 78f(b)(5).

market and a national market system, and, in general, to protect investors and the public interest.

The Exchange believes that increasing the minimum margin requirements for certain volatility index options will protect the integrity of the Exchange's marketplace by setting margin at a level that is appropriate for the given instrument. Also, the Exchange believes that the proposed changes will benefit investors and other market participants by making CBOE's rules more user-friendly in that the applicable margin levels will be easier to locate in CBOE's Rulebook.

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

CBOE does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange does not believe that the proposed rule change will impose any burden on intramarket competition because it applies to all customers that hold positions in volatility index options. The Exchange does not believe the proposed rule changes will impose any burden on intermarket competition as it will result in margin levels being increased to appropriate levels for volatility index options.

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 up to 90 days (i) as the Commission may designate if it finds

such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the Exchange consents, the Commission will:

- A. by order approve or disapprove 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-2014-039 on the subject line.

Paper comments:

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

All submissions should refer to File Number SR-CBOE-2014-039. 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 website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the principal 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-2014-039 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.¹⁰

Dated: _____

Secretary

¹⁰ 17 CFR 200.30-3(a)(12).

EXHIBIT 5

(additions are underlined; deletions are [bracketed])

* * * * *

**Chicago Board Options Exchange, Incorporated
Rules**

* * * * *

Rule 12.3. Margin Requirements

(a) – (b) No change.

(c) *Customer Margin Account—Exception.* The foregoing requirements are subject to the following exceptions. Nothing in this paragraph (c) shall prevent a broker-dealer from requiring margin from any account in excess of the amounts specified in these provisions.

(1) – (4) No change.

(5) *Initial and Maintenance Margin Requirements on Short Options, Stock Index Warrants, Currency Index Warrants and Currency Warrants.*

(A) *Listed. General Rule.* The initial and maintenance margin required on any listed put, call, stock index warrant, currency index warrant or currency warrant carried “short” in a customer’s account shall be 100% of the current market value of the option or warrant plus the percentage of the current “underlying component value” (as described in column IV of the table below) specified in column II of the table below reduced by any “out-of-the-money” amount as defined in this subparagraph (c)(5)(A) below.

Notwithstanding the margin required above, the minimum margin for each such call option or call warrant shall not be less than 100% of the current market value of the option or warrant plus the percentage of the current market value of the underlying component specified in column III of the table below, and for each such put option or put warrant, shall not be less than 100% of the current market value of the option or warrant plus the percentage of the option or warrant’s aggregate exercise price amount specified in column III of the table below.

<i>I. Type of Option</i>	<i>II. Initial and/or Maintenance Margin Required</i>	<i>III. Minimum Margin Required</i>	<i>IV. Underlying Component Value</i>
--------------------------	---	-------------------------------------	---------------------------------------

1. – 14. No change.

<i>I. Type of Option</i>	<i>II. Initial and/or Maintenance Margin Required</i>	<i>III. Minimum Margin Required</i>	<i>IV. Underlying Component Value</i>
15. [Individual Stock or ETF Based] Volatility Indexes [as defined in Rule 24.1(bb)]	[20%]	[10%]	The product of the <u>current (spot or cash) index value</u> and the applicable index multiplier
<u>CBOE Volatility Index</u>	<u>20%</u>	<u>10%</u>	
<u>CBOE Russell 2000 Volatility Index</u>	<u>20%</u>	<u>10%</u>	
<u>CBOE Gold ETF Volatility Index</u>	<u>20%</u>	<u>10%</u>	
<u>CBOE Crude Oil ETF Volatility Index</u>	<u>20%</u>	<u>10%</u>	
<u>CBOE Emerging Markets ETF Volatility Index</u>	<u>20%</u>	<u>10%</u>	
<u>CBOE Brazil ETF Volatility Index</u>	<u>20%</u>	<u>10%</u>	
<u>CBOE Short-Term Volatility Index</u>	<u>40%</u>	<u>20%</u>	
<u>Other Volatility Indexes identified in Rules 24.9(a)(3) and 24.9(a)(4)</u>	<u>20%</u>	<u>10%</u>	
16. No change.			

For purposes of this subparagraph (c)(5)(A), "out-of-the-money" amounts are determined as follows:

<i>Option or Warrant Issue</i>	<i>Call</i>	<i>Put</i>
Stock Options, Registered Investment Company Options	Any excess of the aggregate exercise price of the option over the current market value of the equivalent number of shares of the underlying security.	Any excess of the current market value of the equivalent number of shares of the underlying security over the aggregate exercise price of the option.
U.S. Treasury Options	Any excess of the aggregate exercise price of the option over the current market value of the underlying principal amount.	Any excess of the current market value of the underlying principal amount over the aggregate exercise price of the option.

<i>Option or Warrant Issue</i>	<i>Call</i>	<i>Put</i>
Corporate Debt Security Options	Any excess of the aggregate exercise price of the option over the current market value of the equivalent quantity of the underlying security.	Any excess of the current market value of the equivalent quantity of the underlying security over the aggregate exercise price of the option.
Index stock options, [Individual Stock or ETF Based] Volatility Index options, currency index warrants and stock index warrants	Any excess of the aggregate exercise price of the option or warrant over the product of the current (<u>spot or cash</u>) index value and the applicable multiplier.	Any excess of the product of the current (<u>spot or cash</u>) index value and the applicable multiplier over the aggregate exercise price of the option or warrant.
Foreign currency options and warrants	Any excess of the aggregate exercise price of the option or warrant over the product of units per foreign currency contract and the closing spot prices.	Any excess of the product of units per foreign currency contract and the closing spot prices over the aggregate price of the option or warrant.
Interest rate options	Any excess of the aggregate exercise price of the option over the product of the current interest rate measure value and the applicable multiplier.	Any excess of the product of the current interest rate measure value and the applicable multiplier over the aggregate exercise price of the option.

Remainder of Rule 12.3 – No change.

* * * * *

Rule 12.4. Portfolio Margin

As an alternative to the transaction / position specific margin requirements set forth in Rule 12.3 of this Chapter 12, a TPH organization may require margin for all margin equity securities (as defined in Section 220.2 of Regulation T), listed options, unlisted derivatives, security futures products, and index warrants in accordance with the portfolio margin requirements contained in this Rule 12.4.

In addition, a TPH organization, provided it is a Futures Commission Merchant ("FCM") and is either a clearing member of a futures clearing organization or has an affiliate that is a clearing member of a futures clearing organization, is permitted under this Rule 12.4 to combine a customer's related instruments (as defined below), listed index options, unlisted derivatives, options on exchange traded funds, index warrants, and underlying instruments and compute a margin requirement for such combined products on a portfolio margin basis.

Application of the portfolio margin provisions of this Rule 12.4 to IRA accounts is prohibited.

(a) Definitions.

(1) – (4) No change.

(5) The term “option series” [and] means all option contracts of the same type (either a call or a put) and exercise style, covering the same underlying instrument with the same exercise price, expiration date, and number of underlying units.

(6) – (8) No change.

(9) The term “underlying instrument” means a security or security index upon which any listed option, unlisted derivative, security futures product or related instrument is based. The term underlying instrument shall not be deemed to include, futures contracts, options on futures contracts or underlying stock baskets except that, for the purpose of calculating theoretical gains and losses for a listed option, unlisted derivative, or security futures product overlying a volatility index pursuant to this Rule, the price of a futures contract referencing the same volatility index may be utilized in lieu of the current (spot or cash) index value.

(10) – (11) No change.

The magnitude of the valuation point range shall be as follows:

Portfolio Type	Up / down market move (high & low valuation points)
High Capitalization, Broad-based Market Index ^[1]	+6%/-8%
Non-High Capitalization, Broad-based Market Index ^[1]	+/-10%
Narrow-based Index ^[1]	+/-15%
Individual Equity ^[1]	+/-15%
<u>Volatility Index (30-day implied)</u>	+/-20%
<u>Volatility Index (9-day implied)</u>	+/-40%

^[1]In accordance with sub-paragraph (b)(1)(i)(B) of Rule 15c3-1a under the Securities Exchange Act of 1934.]

(b) – (c) No change.

(d) *Establishing Account and Eligible Positions.*

(1) For purposes of applying the portfolio margin requirements provided in this Rule 12.4, TPH organizations are to establish and utilize a dedicated securities margin account, or sub-account of a margin account, clearly identified as a portfolio margin account that is separate from any other securities account carried for a customer.

(2) A margin deficit in the portfolio margin account of a customer may not be considered as satisfied by excess equity in another account. Funds and/or securities must be transferred to the

deficient account and a written record created and maintained. In the case of a portfolio margin account carried as a sub-account of a margin account, excess equity in the margin account may be used to satisfy a margin deficiency in the portfolio margin sub-account without transferring funds and/or securities to the portfolio margin sub-account.

(3) Eligible Positions

(i) a margin equity security (including a foreign equity security and option on a foreign equity security, provided the foreign equity security is deemed to have a "ready market" under SEC Rule 15c3-1 or a no-action position issued thereunder; and a control or restricted security, provided the security has met the requirements in a manner consistent with SEC Rule 144 or an SEC no-action position issued thereunder, sufficient to permit the sale of the security, upon exercise of any listed option or unlisted derivative written against it, without restriction)

(ii) a listed option on an equity security [or] index of equity securities, or volatility index referencing either such equity instrument,

(iii) a security futures product,

(iv) an unlisted derivative on an equity security or index of equity securities,

(v) a warrant on an equity security or index of equity securities, and

(vi) a related instrument.

(4) No change.

Remainder of Rule 12.4 – No change.

* * * * *