

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * <input type="text" value="20"/>	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - <input type="text" value="2010"/> - * <input type="text" value="106"/> Amendment No. (req. for Amendments *) <input type="text" value="1"/>
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Proposed Rule Change by Chicago Board Options Exchange
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

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

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 proposed rule change (limit 250 characters, required when Initial is checked *).

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

First Name * 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 officer.

Date
 By Senior Attorney / Assistant Secretary
 (Name *) (Title *)

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

Jenny Klebes, klebes@cboe.com

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information (required)

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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 (required)

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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 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 (“CBOE” or “Exchange”) proposes to establish a Credit Option Margin Pilot Program (“Program”). To implement the Program, the Exchange proposes to amend Rule 12.3(l), Margin Requirements, to make CBOE’s margin requirements for Credit Options consistent with Financial Industry Regulatory Authority (“FINRA”) Rule 4240, Margin Requirements for Credit Default Swaps. CBOE’s Credit Options (*i.e.*, Credit Default Options and Credit Default Basket Options) are analogous to credit default swaps.¹ The text of the proposed rule change is provided below (additions are underlined; deletions are [bracketed]).

(b) Not applicable.

(c) Not applicable.

Chicago Board Options Exchange, Incorporated

Rules

* * * * *

Rule 12.3—Margin Requirements

RULE 12.3

(a) – (k) No changes.

(l) Credit Options

(1) Risk Monitoring Procedures and Guidelines

Trading Permit Holders are required to monitor the risk of customer and broker-dealer accounts with exposure to Credit Options and must implement and maintain a comprehensive written risk analysis methodology for assessing the potential risk to the Trading Permit Holder’s capital over a specified range of possible market movements over a specified time period. For purposes of complying with this rule, Trading Permit Holders must employ the risk monitoring procedures and guidelines set forth below in

¹ CBOE’s Credit Default Options and Credit Default Basket Options are also referred to as Credit Event Binary Options.

sub-paragraphs (i) through (viii) of this Rule 12.3(l)(1). The Trading Permit Holder must review, in accordance with the Trading Permit Holder's written procedures, at reasonable periodic intervals, the Trading Permit Holder's credit extension activities for consistency with the risk monitoring procedures and guidelines set forth in this Rule 12.3(l)(1), and must determine whether the data necessary to apply the risk monitoring procedures and guidelines is accessible on a timely basis and information systems are available to adequately capture, monitor, analyze and report relevant data, including:

(i) obtaining and reviewing the required account documentation and financial information necessary for assessing the amount of credit to be extended to customers and broker-dealers;

(ii) assessing the determination, review and approval of credit limits to each customer and broker-dealer, and across all customers and broker-dealers, engaging in Credit Option transactions;

(iii) monitoring credit risk exposure to the Trading Permit Holder from Credit Options, including the type, scope and frequency of reporting to senior management;

(iv) the use of stress testing of accounts containing Credit Option contracts in order to monitor market risk exposure from individual accounts and in the aggregate;

(v) managing the impact of credit extended related to Credit Option contracts on the Trading Permit Holder's overall risk exposure;

(vi) determining the need to collect margin from a particular customer or broker-dealer in addition to the amount required by this Rule 12.3(l), including whether such determination was based upon the credit worthiness of the customer or broker-dealer and/or the risk of the specific Credit Option contracts;

(vii) monitoring the credit exposure resulting from concentrated positions within both individual accounts and across all accounts containing Credit Option contracts: and

(viii) maintaining sufficient margin in each customer and broker-dealer account to protect against the default of the largest individual exposure in the account as measured by computing the largest maximum possible loss.

(2) Requiring Additional Margin. Trading Permit Holders shall, based on the risk monitoring procedures and guidelines required above, determine whether the margin required by this Rule 12.3(l) is adequate with respect to their customer and broker-dealer accounts and, where appropriate, increase such requirements.

([1]3) Margin Account -- Credit Default Options.

(i) The initial and maintenance margin required on a[ny] Credit Default Option carried long in a customer[’s] or broker-dealer’s account is a percentage of the option’s cash settlement amount (as defined in Rule 29.1) according to the table below [100% of the current market value; provided, however, for the account of a qualified customer, the margin is 20% of the current market value. For purposes of this Rule 12.3(1), the term "qualified customer" shall be a person or entity that owns and invests on a discretionary basis no less than \$5,000,000 in investments].

<u>Credit Default Swap (“CDS”) Spread* for the Reference Entity Underlying the Credit Default Option</u>	<u>Length of Time Until Expiration of the Option</u>			
	<u>1 Year or Less</u>	<u>Greater than 1 Year / Less Than or Equal to 3 Years</u>	<u>Greater Than 3 Years / Less Than or Equal to 7 Years</u>	<u>Greater Than 7 Years</u>
<u>0 – 100</u>	<u>.5%</u>	<u>1%</u>	<u>2%</u>	<u>3.5%</u>
<u>100 – 300</u>	<u>1%</u>	<u>2.5%</u>	<u>3.5%</u>	<u>5%</u>
<u>300 – 500</u>	<u>2.5%</u>	<u>5%</u>	<u>7.5%</u>	<u>10%</u>
<u>500 – 700</u>	<u>5%</u>	<u>7.5%</u>	<u>10%</u>	<u>12.5%</u>
<u>700 & above</u>	<u>7.5%</u>	<u>10%</u>	<u>12.5%</u>	<u>15%</u>

* Over LIBOR, in basis points.

(ii) The initial and maintenance margin required on any Credit Default Option carried short in a customer[’s] or broker-dealer’s account is a percentage of the option’s cash settlement amount (as defined in Rule 29.1) according to the table below[is the cash settlement amount as defined in Rule 29.1; provided, however, for the account of a qualified customer, the margin is the lesser of the current market value plus 20% of the cash settlement amount defined in Rule 29.1 or the cash settlement amount].

<u>Credit Default Swap (“CDS”) Spread* for the Reference Entity Underlying the Credit Default Option</u>	<u>Length of Time Until Expiration of the Option</u>			
	<u>1 Year or Less</u>	<u>Greater than 1 Year / Less Than or Equal to 3 Years</u>	<u>Greater Than 3 Years / Less Than or Equal to 7 Years</u>	<u>Greater Than 7 Years</u>
<u>0 – 100</u>	<u>1%</u>	<u>2%</u>	<u>4%</u>	<u>7%</u>
<u>100 – 300</u>	<u>2%</u>	<u>5%</u>	<u>7%</u>	<u>10%</u>
<u>300 – 500</u>	<u>5%</u>	<u>10%</u>	<u>15%</u>	<u>20%</u>
<u>500 – 700</u>	<u>10%</u>	<u>15%</u>	<u>20%</u>	<u>25%</u>
<u>700 & above</u>	<u>15%</u>	<u>20%</u>	<u>25%</u>	<u>30%</u>

* Over LIBOR, in basis points.

(iii) Debt Security Offset. If an account is short a Credit Default Option and also has a short position in a debt security issued by the Reference Entity underlying the option, and the principal amount of the debt security is equal to: the cash settlement amount of the option multiplied by 1.33, no margin is required on the Credit Default Option. [Credit Default Option margin requirements may be satisfied by a deposit of cash or marginable securities.]

([2]4) Margin Account - Credit Default Basket Options.

(i) The initial and maintenance margin required on a[ny] Credit Default Basket Option carried long in a customer[’s] or broker-dealer’s account is a percentage of the option’s cash settlement amount (as defined in Rule 29.1) according to the table below[100% of the current market value; provided, however, for the account of a qualified customer (as defined above), the margin is 15% of the current market value]. In the case of a Single Payout Credit Default Basket Option, the cash settlement amount to be used is the one that is the highest among the basket components, and in the case of a Multiple Payout Credit Default Basket Option, the cash settlement amount to be used is 50% of the sum of each basket component’s cash settlement amount.

<u>Average Credit Default Swap (“CDS”) Spread* of the Basket Component Reference Entities</u>	<u>Length of Time Until Expiration of the Option</u>				
	<u>1 Year or Less</u>	<u>Greater than 1 Year / Less Than or Equal to 3 Years</u>	<u>Greater than 3 Years / Less Than or Equal to 5 Years</u>	<u>Greater Than 5 Years / Less Than or Equal to 7 Years</u>	<u>Greater Than 7 Years</u>
<u>0 – 200</u>	<u>.5%</u>	<u>.5%</u>	<u>1%</u>	<u>2%</u>	<u>2.5%</u>
<u>200-500</u>	<u>1%</u>	<u>1.5%</u>	<u>2%</u>	<u>2.5%</u>	<u>3.5%</u>
<u>500 & above</u>	<u>1.5%</u>	<u>2.5%</u>	<u>5%</u>	<u>6%</u>	<u>7.5%</u>

* Over LIBOR, in basis points.

(ii) The initial and maintenance margin required on a[ny] Credit Default Basket Option carried short in a customer[’s] or broker-dealer’s account is a percentage of the option’s cash settlement amount (as defined in Rule 29.1) according to the table below. In the case of a Single Payout Credit Default Basket Option, the cash settlement amount to be used is the one that is the highest among the basket components, and in the case of a Multiple Payout Credit Default Basket Option, the cash settlement amount to be used is 50% of the sum of each basket component’s

cash settlement amount. [as follows:

(A) for Multiple Payout Credit Default Basket Options, the sum of each Basket Component's cash settlement amount as defined in Rule 29.1; provided, however, for the account of a qualified customer (as defined above), the margin is the lesser of the current market value plus 15% of the sum of each Basket Component's cash settlement amount as defined in Rule 29.1 or of the sum of each Basket Component's cash settlement amount; or

(B) or Single Payout Credit Default Options, the Basket Component cash settlement amount as defined in Rule 29.1 that is the highest; provided, however, for the account of a qualified customer (as defined above), the margin is the lesser of the current market value plus 15% of the Basket Component cash settlement amount defined in Rule 29.1 that is the highest or the Basket Component cash settlement amount that is the highest.]

<u>Average Credit Default Swap ("CDS") Spread* of the Basket Component Reference Entities</u>	<u>Length of Time Until Expiration of the Option</u>				
	<u>1 Year or Less</u>	<u>Greater than 1 Year / Less Than or Equal to 3 Years</u>	<u>Greater than 3 Years / Less Than or Equal to 5 Years</u>	<u>Greater Than 5 Years / Less Than or Equal to 7 Years</u>	<u>Greater Than 7 Years</u>
<u>0 – 200</u>	<u>1%</u>	<u>1%</u>	<u>2%</u>	<u>4%</u>	<u>5%</u>
<u>200-500</u>	<u>2%</u>	<u>3%</u>	<u>4%</u>	<u>5%</u>	<u>7%</u>
<u>500 & above</u>	<u>3%</u>	<u>5%</u>	<u>10%</u>	<u>12%</u>	<u>15%</u>

* Over LIBOR, in basis points.

(5) Spreads. If an account is short a Credit Option and is also long a Credit Option with the same underlying Reference Obligation(s), and the long option is paid for in full, and the long option does not expire before the short option, no margin is required

[(iii)]6) Credit [Default Basket]Option margin requirements may be satisfied by a deposit of cash or marginable securities.

(7) Concentrations. If, across all accounts, the maximum exposure in Credit Option contracts overlying any single Reference Entity exceeds the Trading Permit Holder's tentative net capital, the Trading Permit Holder must deduct from net capital an amount equal to the aggregate margin requirement for all such accounts on the Credit Option contracts (including Credit Default Basket Options having the subject Reference Entity as a component) overlying such single Reference Entity, as specified in this Rule 12.3(l). This

deduction from net capital may be reduced by the amount of excess margin held in all customer and broker-dealer accounts.

([3]8) Cash Account --Credit Default Options. A Credit Default Option carried short in a customer's account is deemed a covered position, and eligible for the cash account, provided any one of the following either is held in the account at the time the option is written or is received into the account promptly thereafter:

(i) cash or cash equivalents equal to 100% of the cash settlement amount as defined in Rule 29.1; or

(ii) an escrow agreement. The escrow agreement must certify that the bank holds for the account of the customer as security for the agreement (A) cash, (B) cash equivalents, (C) one or more qualified equity securities, or (D) a combination thereof having an aggregate market value of not less than 100% of the cash settlement amount as defined in Rule 29.1 and that the bank will promptly pay the TPH organization the cash settlement amount in the event of a Credit Event as defined in Rule 29.1.

([4]9) Cash Account - Credit Default Basket Options. A Credit Default Basket Option carried short in a customer's account is deemed a covered position, and eligible for the cash account, provided any one of the following either is held in the account at the time the option is written or is received into the account promptly thereafter:

(i) For Multiple Payout Credit Default Basket Options, cash or cash equivalents equal to [100%] 50% of the sum of each Basket Component's cash settlement amount as defined in Rule 29.1;

(ii) For Single Payout Credit Default Basket Options, cash or cash equivalents equal to 100% of the Basket Component cash settlement amount as defined in Rule 29.1 that is the highest; or

(iii) an escrow agreement. The escrow agreement must certify that the bank holds for the account of the customer as security for the agreement (A) cash, (B) cash equivalents, (C) one or more qualified equity securities, or (D) a combination thereof having an aggregate market value of not less than 100% of the sum of each Basket Component's cash settlement amount as defined in Rule 29.1 in the case of Multiple Payout Credit Default Basket Option or 100% of the Basket Component cash settlement amount as defined in Rule 29.1 that is the highest in the case of a Single Payout Credit Default Basket Option and that the bank will promptly pay the TPH organization the cash settlement amount in the event of a Credit Event as defined in Rule 29.1.

(10) Duration of the Credit Option Margin Pilot Program. The Credit Option Margin Pilot Program shall be through July 16, 2011.

Rule 12.5—Determination of Value for Margin Purposes

RULE 12.5. Positions in active securities, except security futures contracts, dealt in on a recognized exchange (including option contracts) shall, for margin purposes, be valued at current market value prices; provided that, whether or not dealt in on an exchange, only those options contracts on a stock or stock index, or a stock index warrant, having an expiration that exceeds 9 months, or a Credit Option as defined in Rule 29.1 [that is carried for the account of a qualified customer], and which are listed or guaranteed by the carrying broker-dealer, may be deemed to have market value for the purposes of Rule 12.3(c). Security futures contracts shall have no value for margin purposes. Positions in other securities shall be valued conservatively in the light of current market prices and the amount of anticipated realization upon a liquidation of the entire position. Substantial additional margin must be required in all cases where the securities carried are subject to unusually rapid or violent changes in value, or where the amount carried is such that they cannot be liquidated promptly.

* * * * *

Item 2. Procedures of the Self-Regulatory Organization

(a) CBOE's Office of the Chairman pursuant to delegated authority approved the proposed rule change on October 8, 2010. No further action is required.

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

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

(a) Purpose

Amendment 1 replaces the original filing in its entirety. The purpose of Amendment 1 is to restyle the original proposal on a pilot basis.

This filing proposes to amend Rule 12.3(l), Margin Requirements, to make CBOE's margin requirements for Credit Options consistent with Financial Industry Regulatory Authority ("FINRA") Rule 4240, Margin Requirements for Credit Default Swaps. CBOE's Credit Options consist of two variations – Credit Default Options and Credit Default Basket Options. Credit

Default Options and Credit Default Basket Options are also referred to as “Credit Event Binary Options.” Effectively, both contracts operate in the same manner as credit default swap contracts.

As with a credit default swap contract, the buyer of a Credit Option contract is buying protection from the seller of the Credit Option. This protection is in the form of a monetary payment from the Credit Option seller to the Credit Option buyer in the event that the issuer of debt securities, or Reference Entity, specified as underlying the Credit Option contract has a Credit Event (e.g., declares bankruptcy), consequently defaulting on the payment of principal and interest on its debt securities. When a Credit Option buyer and seller initially open their positions via a transaction consummated on the Exchange, the Credit Option buyer’s account is charged (debited) for the cost of the protection. The Credit Option seller’s account is credited. For the protection, there is only a one-time debit and credit to the buyer and seller, respectively. If, prior to expiration of the Credit Option, a Credit Event occurs (e.g., bankruptcy is declared), the Credit Option contract is settled with a credit to the Credit Option buyer’s account for a predetermined payout amount (e.g., \$1,000), based on the Exchange’s contract specifications. The Credit Option seller’s account is debited (charged) for the payout amount.

Credit Default Options have a single Reference Entity. Credit Default Basket Options have multiple Reference Entities. If a Credit Default Basket Option is specified as having a single payout, settlement is triggered when any one of the component Reference Entities has a Credit Event (e.g., declares bankruptcy) and thereafter the option ceases to exist. The payout is the settlement amount attached to that one Reference Entity. If a Credit Default Basket Option is specified as having multiple payouts, a settlement is triggered when any one of the component Reference Entities has a Credit Event (e.g., declares bankruptcy), but the option continues to exist until its expiration. Therefore, additional settlements would be triggered if, and as, any Credit

Events occur in respect of the remaining Reference Entity components. The payout is the settlement amount attached to each particular Reference Entity.

The current Exchange margin requirements for Credit Options were established before FINRA implemented margin requirements for credit default swaps (FINRA Rule 4240). In order to be consistent with FINRA margin requirements and establish a level playing field for similar instruments, CBOE's proposed amendments adopt the FINRA requirements to a large extent. For Credit Default Options, which overlie a single Reference Entity, CBOE proposes to adopt FINRA's margin percentage table for credit default swaps. With respect to Credit Default Basket Options, CBOE is adopting the margin percentage table that FINRA requires for CDX indices because, like an index, a Credit Default Basket Option involves multiple component Reference Entities. CBOE proposes to revise the FINRA column headings to fit Credit Options. FINRA Rule 4240 requires the percentage to be applied to the notional amount of a credit default swap. CBOE's proposed rules would require that the percentage be applied to the settlement value of a Credit Option to arrive at a margin requirement because the settlement value of a Credit Option is analogous to the notional amount of a credit default swap. CBOE's proposed rules incorporate all other relevant aspects of FINRA 4240, such as risk monitoring procedures and guidelines, and concentration charge (net capital) requirements.

It should be noted that CBOE's proposed rules would require no margin in the case of a spread (i.e., long and short Credit Options with the same underlying Reference Entity or Entities.) This differs from FINRA Rule 4240, which requires margin of 50% of the margin required on the long or short (credit default swap), whichever is greater. CBOE is proposing no margin because the long and short are required to have the same underlying Reference Entity. Moreover, Credit Options are standardized and are settled through The Options Clearing Corp.

CBOE's proposed rules would also require no margin on a short Credit Default Option that is offset with a short position in a debt security issued by the Reference Entity underlying the option. This differs from the debt security offset allowed under FINRA Rule 4240. Rule 4240 requires no margin for a long credit default swap contract that is paired with a long position in the underlying debt security. However, this type of offset does not appear to be workable in respect of a Credit Default Option.

The proposal will become effective on a pilot basis to run on a parallel track with FINRA Rule 4240 that operates on an interim pilot basis which is currently scheduled to expire on July 16, 2011.² If the Exchange were to propose an extension of the Credit Option Margin Pilot Program or should the Exchange propose to make the Program permanent, then the Exchange would submit a filing proposing such amendments to the Program.

(b) Statutory Basis

The Exchange believes this rule proposal is consistent with the Securities Exchange Act of 1934 (the "Act") and the rules and regulations under the Act applicable to a national securities exchange and, in particular, the requirements of Section 6(b) of the Act.³ Specifically, the Exchange believes that the proposed rule change is consistent with the Section 6(b)(5) Act⁴ requirements that the rules of an exchange be designed to promote just and equitable principles of trade, to prevent fraudulent and manipulative acts and, in general, to protect investors and the public interest, and because it enhances fair competition among exchange markets.

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

² See Securities Exchange Act Release No. 63391 (November 30, 2010) (notice of filing for immediate effectiveness extending FINRA Rule 4240 margin interim pilot program to July 16, 2011).

³ 15 U.S.C. 78f(b).

⁴ 15 U.S.C. 78f(b)(5).

This proposed rule change does not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

Item 5. 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.

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 Act⁵ for Commission consideration of the proposed rule change.

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

Not applicable.

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

As stated above, this proposed rule change is based primarily on and is substantially similar to FINRA Rule 4240, Margin Requirements for Credit Default Swaps.

Item 9. Exhibits

Exhibit 1. Form of Notice of Proposed Rule Change for Publication in the Federal Register

⁵ 15 U.S.C. 78s(b)(2).

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34- ; File No. SR-CBOE-2010-106)

Dated: _____

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Proposed Rule Change, as Modified by Amendment 1, to Establish a Credit Option Margin Pilot Program

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on _____, 2010, the Chicago Board Options Exchange, Incorporated (“Exchange” or “CBOE”) filed with the Securities and Exchange Commission (the “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. On _____, 2010, the Exchange filed Amendment 1 to the proposed rule change. 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 establish a Credit Option Margin Pilot Program (“Program”). To implement the Program, the Exchange proposes to amend Rule 12.3(l), Margin Requirements, to make CBOE’s margin requirements for Credit Options consistent with Financial Industry Regulatory Authority (“FINRA”) Rule 4240, Margin Requirements for Credit Default Swaps. CBOE’s Credit Options (*i.e.*, Credit Default Options and Credit Default Basket Options) are analogous to credit default swaps.³ The text of the rule proposal

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ CBOE’s Credit Default Options and Credit Default Basket Options are also referred to as Credit Event Binary Options.

is available on the Exchange's website (<http://www.cboe.org/legal>), at the Exchange's Office of the Secretary and at the Commission.

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

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

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

1. Purpose

Amendment 1 replaces the original filing in its entirety. The purpose of Amendment 1 is to restyle the original proposal on a pilot basis.

This filing proposes to amend Rule 12.3(1), Margin Requirements, to make CBOE's margin requirements for Credit Options consistent with Financial Industry Regulatory Authority ("FINRA") Rule 4240, Margin Requirements for Credit Default Swaps. CBOE's Credit Options consist of two variations – Credit Default Options and Credit Default Basket Options. Credit Default Options and Credit Default Basket Options are also referred to as "Credit Event Binary Options." Effectively, both contracts operate in the same manner as credit default swap contracts.

As with a credit default swap contract, the buyer of a Credit Option contract is buying protection from the seller of the Credit Option. This protection is in the form of a monetary payment from the Credit Option seller to the Credit Option buyer in the event that the issuer of debt securities, or Reference Entity, specified as underlying the Credit Option contract has a

Credit Event (e.g., declares bankruptcy), consequently defaulting on the payment of principal and interest on its debt securities. When a Credit Option buyer and seller initially open their positions via a transaction consummated on the Exchange, the Credit Option buyer's account is charged (debited) for the cost of the protection. The Credit Option seller's account is credited. For the protection, there is only a one-time debit and credit to the buyer and seller, respectively. If, prior to expiration of the Credit Option, a Credit Event occurs (e.g., bankruptcy is declared), the Credit Option contract is settled with a credit to the Credit Option buyer's account for a predetermined payout amount (e.g., \$1,000), based on the Exchange's contract specifications. The Credit Option seller's account is debited (charged) for the payout amount.

Credit Default Options have a single Reference Entity. Credit Default Basket Options have multiple Reference Entities. If a Credit Default Basket Option is specified as having a single payout, settlement is triggered when any one of the component Reference Entities has a Credit Event (e.g., declares bankruptcy) and thereafter the option ceases to exist. The payout is the settlement amount attached to that one Reference Entity. If a Credit Default Basket Option is specified as having multiple payouts, a settlement is triggered when any one of the component Reference Entities has a Credit Event (e.g., declares bankruptcy), but the option continues to exist until its expiration. Therefore, additional settlements would be triggered if, and as, any Credit Events occur in respect of the remaining Reference Entity components. The payout is the settlement amount attached to each particular Reference Entity.

The current Exchange margin requirements for Credit Options were established before FINRA implemented margin requirements for credit default swaps (FINRA Rule 4240). In order to be consistent with FINRA margin requirements and establish a level playing field for similar instruments, CBOE's proposed amendments adopt the FINRA requirements to a large

extent. For Credit Default Options, which overlie a single Reference Entity, CBOE proposes to adopt FINRA's margin percentage table for credit default swaps. With respect to Credit Default Basket Options, CBOE is adopting the margin percentage table that FINRA requires for CDX indices because, like an index, a Credit Default Basket Option involves multiple component Reference Entities. CBOE proposes to revise the FINRA column headings to fit Credit Options. FINRA Rule 4240 requires the percentage to be applied to the notional amount of a credit default swap. CBOE's proposed rules would require that the percentage be applied to the settlement value of a Credit Option to arrive at a margin requirement because the settlement value of a Credit Option is analogous to the notional amount of a credit default swap. CBOE's proposed rules incorporate all other relevant aspects of FINRA 4240, such as risk monitoring procedures and guidelines, and concentration charge (net capital) requirements.

It should be noted that CBOE's proposed rules would require no margin in the case of a spread (i.e., long and short Credit Options with the same underlying Reference Entity or Entities.) This differs from FINRA Rule 4240, which requires margin of 50% of the margin required on the long or short (credit default swap), whichever is greater. CBOE is proposing no margin because the long and short are required to have the same underlying Reference Entity. Moreover, Credit Options are standardized and are settled through The Options Clearing Corp.

CBOE's proposed rules would also require no margin on a short Credit Default Option that is offset with a short position in a debt security issued by the Reference Entity underlying the option. This differs from the debt security offset allowed under FINRA Rule 4240. Rule 4240 requires no margin for a long credit default swap contract that is paired with a long position in the underlying debt security. However, this type of offset does not appear to be workable in respect of a Credit Default Option.

The proposal will become effective on a pilot basis to run on a parallel track with FINRA Rule 4240 that operates on an interim pilot basis which is currently scheduled to expire on July 16, 2011.⁴ If the Exchange were to propose an extension of the Credit Option Margin Pilot Program or should the Exchange propose to make the Program permanent, then the Exchange would submit a filing proposing such amendments to the Program.

2. Statutory Basis

The Exchange believes this rule proposal is consistent with the Act and the rules and regulations under the Act applicable to a national securities exchange and, in particular, the requirements of Section 6(b) of the Act.⁵ Specifically, the Exchange believes that the proposed rule change is consistent with the Section 6(b)(5) Act⁶ requirements that the rules of an exchange be designed to promote just and equitable principles of trade, to prevent fraudulent and manipulative acts and, in general, to protect investors and the public interest, and because it enhances fair competition among exchange markets.

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

CBOE does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

No written comments were solicited or received with respect to the proposed rule change.

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

Within 45 days of the date of publication of this notice in the Federal Register or

⁴ See Securities Exchange Act Release No. 63391 (November 30, 2010) (notice of filing for immediate effectiveness extending FINRA Rule 4240 margin interim pilot program to July 16, 2011).

⁵ 15 U.S.C. 78f(b).

⁶ 15 U.S.C. 78f(b)(5).

within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) By order approve such proposed rule change, or

(B) Institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>);
or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-CBOE-2010-106 on the subject line.

Paper comments:

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

All submissions should refer to File Number SR-CBOE-2010-106. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the

Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 am and 3:00 pm. Copies of such filing also will be available for inspection and copying at the principal office of the CBOE. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-CBOE-2010-106 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.⁷

Dated: _____

Florence E. Harmon
Deputy Secretary

⁷ 17 CFR 200.30-3(a)(12).