



SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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

**Form 19b-4 Information (required)**

Add Remove View

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

**Exhibit 1 - Notice of Proposed Rule Change (required)**

Add Remove View

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

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

Add Remove View

Exhibit Sent As Paper Document

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

**Exhibit 3 - Form, Report, or Questionnaire**

Add Remove View

Exhibit Sent As Paper Document

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

**Exhibit 4 - Marked Copies**

Add Remove View

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

**Exhibit 5 - Proposed Rule Text**

Add Remove View

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

**Partial Amendment**

Add Remove View

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

Item 1. Text of the Proposed Rule Change

(a) Chicago Board Options Exchange, Incorporated (“CBOE” or “Exchange”) proposes to amend Interpretation and Policy .01 to Rule 5.5 to allow CBOE to list and trade series in intervals of \$5 or greater where the strike price is more than \$200 in up to five (5) option classes on individual stocks. The text of the proposed rule change is provided below with additions underlined and deletions [bracketed].

(b) Not applicable.

(c) Not applicable.

Chicago Board Options Exchange, Incorporated  
Rules

\* \* \* \* \*

**Rule 5.5—Series of Option Contracts Open for Trading**

RULE 5.5

No change.

***...Interpretations and Policies:***

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

a. The \$1 Strike Program.

(1) – (4) No change.

b. No change.

c. \$2.50 or greater where the strike price is \$25.00 or less; provided, however, that the Exchange may not list \$2.50 intervals (*e.g.*, \$12.50, \$17.50) for any class included within the \$1 Strike Program if the addition of \$2.50 intervals would cause the class to have strike price intervals that are \$0.50 apart.

d. \$5.00 or greater where the strike price is greater than \$25.00.

e. \$10.00 or greater where the strike price is greater than \$200[.00], except as provided in subparagraph (f) below.

f. The Exchange may list series in intervals of \$5 or greater where the strike price is more than \$200 in up to five (5) option classes on individual stocks.

**.02 – 17** No change.

\* \* \* \* \*

2. Procedures of the Self-Regulatory Organization

(a) The proposed rule change was approved by the Exchange’s Office of the Chairman pursuant to delegated authority on December 8, 2010.

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

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

(a) Purpose

The purpose of this proposed rule change is to modify Interpretation and Policy .01 to Rule 5.5 to allow the Exchange to list and trade series in intervals of \$5 or greater where the strike price is more than \$200 in up to five (5) option classes on individual stocks (“\$5 Strike Price Program”) to provide investors and traders with additional opportunities and strategies to hedge high priced securities.

Currently, Interpretation and Policy .01(e) to Rule 5.5 permits strike price intervals of \$10 or greater where the strike price is greater than \$200.<sup>1</sup> The Exchange is proposing to add the proposed \$5 Strike Program as an exception to the \$10 or greater program language in Rule

5.5.01(e). The proposal would allow the Exchange to list series in intervals of \$5 or greater where the strike price is more than \$200 in up to five (5) option classes on individual stocks.

The Exchange specifically proposes to create new subparagraph (f) to Rule 5.5.01 to provide,

The Exchange may list series in intervals of \$5 or greater where the strike price is more than \$200 in up to five (5) option classes on individual stocks.

The Exchange believes the \$5 Strike Price Program would offer investors a greater selection of strike prices at a lower cost. For example, if an investor wanted to purchase an option with an expiration of approximately one month, a \$5 strike interval could offer a wider choice of strike prices, which may result in reduced outlays in order to purchase the option. By way of illustration, using Google, Inc. (“GOOG”) as an example, if GOOG were trading at \$610<sup>2</sup> with approximately one month remaining until expiration, the front month (one month remaining) at-the- money call option (the 610 strike) might trade at approximately \$17.50 and the next highest available strike (the 620 strike) might trade at approximately \$13.00. By offering a 615 strike an investor would be able to trade a GOOG front month call option at approximately \$15.25, thus providing an additional choice at a different price point

Similarly, if an investor wanted to hedge exposure to an underlying stock position by selling call options, the investor may choose an option term with two months remaining until expiration. An additional \$5 strike interval could offer additional and varying yields to the investor. For example if Apple, Inc. (“AAPL”) were trading at \$310<sup>3</sup> with approximately two months remaining until expiration, the second month (two months remaining) at-the-money call

---

<sup>1</sup> Interpretation and Policy .01(d) permits strike intervals of \$2.50 or greater where the strike price is \$25 or less and Interpretation and Policy .01(c) permits strike price intervals of \$5 or greater where the strike price is greater than \$25.

<sup>2</sup> The prices listed in this example are assumptions and not based on actual prices. The assumptions are made for illustrative purposes only using the stock price as a hypothetical.

<sup>3</sup> The prices listed in this example are assumptions and not based on actual prices. The assumptions are made for illustrative purposes only using the stock price as a hypothetical.

option (the 310 strike) might trade at approximately \$14.50 and the next highest available strike (the 320) strike might trade at \$9.90. If at expiration the price of AAPL closed at \$310, the 310 strike call would have yielded a return of 4.68% and the 320 strike call would have yielded a return of 3.19% over the holding period. If the 315 strike call were available, that series might be priced at approximately \$12.10 (a yield of 3.90% over the holding period) and would have had a lower risk of having the underlying stock called away at expiration than that of the 310 strike call .

With regard to the impact of this proposal on system capacity, the Exchange has analyzed its capacity and represents that it and the Options Price Reporting Authority have the necessary systems capacity to handle the potential additional traffic associated with the listing and trading of classes on individual stocks \$5 Strike Price Program. The proposed \$5 Strike Price Program would provide investors increased opportunities to improve returns and manage risk in the trading of equity options that overlie high priced stocks. In addition, the proposed \$5 Strike Price Program would allow investors to establish equity options positions that are better tailored to meet their investment, trading and risk management requirements.

(b) Statutory Basis

The Exchange believes the proposed rule change is consistent with the Securities Exchange Act of 1934 (the “Act”)<sup>4</sup> and the rules and regulations thereunder and, in particular, the requirements of Section 6(b) of the Act.<sup>5</sup> Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>6</sup> requirements that the rules of an exchange be designed to promote just and equitable principles of trade, to prevent fraudulent and

---

<sup>4</sup> 15 U.S.C. 78s(b)(1).

<sup>5</sup> 15 U.S.C. 78f(b).

<sup>6</sup> 15 U.S.C. 78f(b)(5).

manipulative acts, to remove impediments to and to perfect the mechanism for a free and open market and a national market system, and, in general, to protect investors and the public interest. The Exchange believes the \$5 Strike Price Program proposal will provide the investing public and other market participants increased opportunities because a \$5 series in high priced stocks will provide market participants additional opportunities to hedge high priced securities. This will allow investors to better manage their risk exposure, and the Exchange believes the proposed \$5 Strike Price Program would benefit investors by giving them more flexibility to closely tailor their investment decisions in a greater number of securities. While the \$5 Strike Price Program will generate additional quote traffic, the Exchange does not believe that this increased traffic will become unmanageable since the proposal is limited to a fixed number of classes. Further, the Exchange does not believe that the proposal will result in a material proliferation of additional series because it is limited to a fixed number of classes and the Exchange does not believe that the additional price points will result in fractured liquidity.

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

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

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 Exchange Act.

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

(a) The proposed rule change is filed for immediate effectiveness pursuant to Section

19(b)(3)(A)<sup>7</sup> of the Act and Rule 19b-4(f)(6) thereunder.<sup>8</sup>

(b) The Exchange asserts that the proposed rule change does not (i) significantly affect the protection of investors or the public interest, (ii) impose any significant burden on competition, and (iii) become operative for 30 days after the date on which it was filed, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest. The proposed rule change is substantially similar in all material respects to a recently noticed proposal of Phlx to establish a \$5 Strike Program.<sup>9</sup>

The Exchange provided the Commission with written notice of its intent to file the proposal, along with a brief description and text of the proposal, at least five business days prior to the date of the filing of the proposed rule change as required by Rule 19b-4(f)(6). The Exchange requests that the Commission waive the 30-day operative delay period. Waiver of the operative date is consistent with the protection of investors and the public interest in that doing so will encourage fair competition among the exchanges, by allowing the CBOE to compete effectively by establishing a \$5 Strike Program when SR-Phlx-2010-158 is approved.

For the foregoing reasons, the Exchange believes the rule filing qualifies for expedited effectiveness as a “non-controversial” rule change under paragraph (f)(6) of Rule 19b-4 of the Act.

(c) Not applicable.

(d) Not applicable.

---

<sup>7</sup>

15 U.S.C. 78s(b)(3)(A).

<sup>8</sup>

17 CFR 240.19b-4(f)(6).

<sup>9</sup>

See Securities Exchange Act Release No. 63339 (November 18, 2010), 75 FR 71771 (November 24, 2010) (SR-Phlx-2010-158).

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

As discussed above, this proposed rule change is based on a proposal of Phlx, SR-Phlx-2010-158.

Item 9. Exhibits

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

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34- ; File No. SR-CBOE-2011-002

Dated: \_\_\_\_\_

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Establish a \$5 Strike Price Program for Stock Options

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on \_\_\_\_\_, 2011, the Chicago Board Options Exchange, Incorporated (“Exchange” or “CBOE”) filed with the Securities and Exchange Commission (the “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. The Exchange filed the proposal as a “non-controversial” proposed rule change pursuant to Section 19(b)(3)(A)(iii) of the Act<sup>3</sup> and Rule 19b-4(f)(6) thereunder.<sup>4</sup> 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 Interpretation and Policy .01 to Rule 5.5 to allow CBOE to list and trade series in intervals of \$5 or greater where the strike price is more than \$200 in up to five (5) option classes on individual stocks. The text of the rule proposal is available on the Exchange’s website (<http://www.cboe.org/legal>), at the Exchange’s Office of the Secretary and at the Commission.

---

<sup>1</sup> 15 U.S.C. 78s(b)(1).  
<sup>2</sup> 17 CFR 240.19b-4.  
<sup>3</sup> 15 U.S.C. 78s(b)(3)(A)(iii).  
<sup>4</sup> 17 CFR 240.19b-4(f)(6).

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

The purpose of this proposed rule change is to modify Interpretation and Policy .01 to Rule 5.5 to allow the Exchange to list and trade series in intervals of \$5 or greater where the strike price is more than \$200 in up to five (5) option classes on individual stocks (“\$5 Strike Price Program”) to provide investors and traders with additional opportunities and strategies to hedge high priced securities.

Currently, Interpretation and Policy .01(e) to Rule 5.5 permits strike price intervals of \$10 or greater where the strike price is greater than \$200.<sup>5</sup> The Exchange is proposing to add the proposed \$5 Strike Program as an exception to the \$10 or greater program language in Rule 5.5.01(e). The proposal would allow the Exchange to list series in intervals of \$5 or greater where the strike price is more than \$200 in up to five (5) option classes on individual stocks. The Exchange specifically proposes to create new subparagraph (f) to Rule 5.5.01 to provide,

The Exchange may list series in intervals of \$5 or greater where the strike

---

<sup>5</sup> Interpretation and Policy .01(d) permits strike intervals of \$2.50 or greater where the strike price is \$25 or less and Interpretation and Policy .01(c) permits strike price intervals of \$5 or greater where the strike price is greater than \$25.

price is more than \$200 in up to five (5) option classes on individual stocks.

The Exchange believes the \$5 Strike Price Program would offer investors a greater selection of strike prices at a lower cost. For example, if an investor wanted to purchase an option with an expiration of approximately one month, a \$5 strike interval could offer a wider choice of strike prices, which may result in reduced outlays in order to purchase the option. By way of illustration, using Google, Inc. (“GOOG”) as an example, if GOOG were trading at \$610<sup>6</sup> with approximately one month remaining until expiration, the front month (one month remaining) at-the-money call option (the 610 strike) might trade at approximately \$17.50 and the next highest available strike (the 620 strike) might trade at approximately \$13.00. By offering a 615 strike an investor would be able to trade a GOOG front month call option at approximately \$15.25, thus providing an additional choice at a different price point

Similarly, if an investor wanted to hedge exposure to an underlying stock position by selling call options, the investor may choose an option term with two months remaining until expiration. An additional \$5 strike interval could offer additional and varying yields to the investor. For example if Apple, Inc. (“AAPL”) were trading at \$310<sup>7</sup> with approximately two months remaining until expiration, the second month (two months remaining) at-the-money call option (the 310 strike) might trade at approximately \$14.50 and the next highest available strike (the 320) strike might trade at \$9.90. If at expiration the price of AAPL closed at \$310, the 310 strike call would have yielded a return of 4.68% and the 320 strike call would have yielded a return of 3.19% over the holding period. If the 315 strike call were

---

<sup>6</sup> The prices listed in this example are assumptions and not based on actual prices. The assumptions are made for illustrative purposes only using the stock price as a hypothetical.

<sup>7</sup> The prices listed in this example are assumptions and not based on actual prices. The assumptions are made for illustrative purposes only using the stock price as a hypothetical.

available, that series might be priced at approximately \$12.10 (a yield of 3.90% over the holding period) and would have had a lower risk of having the underlying stock called away at expiration than that of the 310 strike call .

With regard to the impact of this proposal on system capacity, the Exchange has analyzed its capacity and represents that it and the Options Price Reporting Authority have the necessary systems capacity to handle the potential additional traffic associated with the listing and trading of classes on individual stocks \$5 Strike Price Program. The proposed \$5 Strike Price Program would provide investors increased opportunities to improve returns and manage risk in the trading of equity options that overlie high priced stocks. In addition, the proposed \$5 Strike Price Program would allow investors to establish equity options positions that are better tailored to meet their investment, trading and risk management requirements.

## 2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the Act<sup>8</sup> and the rules and regulations thereunder and, in particular, the requirements of Section 6(b) of the Act.<sup>9</sup> Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>10</sup> requirements that the rules of an exchange be designed to promote just and equitable principles of trade, to prevent fraudulent and manipulative acts, to remove impediments to and to perfect the mechanism for a free and open market and a national market system, and, in general, to protect investors and the public interest. The Exchange believes the \$5 Strike Price Program proposal will provide the investing public and other market participants increased opportunities because a \$5 series in high priced stocks will provide market participants additional opportunities to hedge high priced securities. This will

---

<sup>8</sup> 15 U.S.C. 78s(b)(1).

<sup>9</sup> 15 U.S.C. 78f(b).

<sup>10</sup> 15 U.S.C. 78f(b)(5).

allow investors to better manage their risk exposure, and the Exchange believes the proposed \$5 Strike Price Program would benefit investors by giving them more flexibility to closely tailor their investment decisions in a greater number of securities. While the \$5 Strike Price Program will generate additional quote traffic, the Exchange does not believe that this increased traffic will become unmanageable since the proposal is limited to a fixed number of classes. Further, the Exchange does not believe that the proposal will result in a material proliferation of additional series because it is limited to a fixed number of classes and the Exchange does not believe that the additional price points will result in fractured liquidity.

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

Because the foregoing proposed rule does not (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest, provided that the self-regulatory organization has given the Commission written notice of its intent to file the proposed rule change at least five business days prior to the date of filing of the proposed rule change or such shorter time as designated by the Commission, the proposed

rule change has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>11</sup> and Rule 19b-4(f)(6) thereunder.<sup>12</sup> At any time within 60 days of the filing of such proposed rule change, the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

#### IV. Solicitation of Comments

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

##### Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>);  
or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-CBOE-2011-002 on the subject line.

##### Paper comments:

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

All submissions should refer to File Number SR-CBOE-2011-002. 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,

---

<sup>11</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>12</sup> 17 CFR 240.19b-4(f)(6).

all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 am and 3:00 pm. Copies of such filing also will be available for inspection and copying at the principal office of the CBOE. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-CBOE-2011-002 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>13</sup>

Dated: \_\_\_\_\_

Florence E. Harmon  
Deputy Secretary

---

<sup>13</sup> 17 CFR 200.30-3(a)(12).