

Required fields are shown with yellow backgrounds and asterisks.

Proposed Rule Change by Chicago Board Options Exchange
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial *	Amendment *	Withdrawal	Section 19(b)(2) *	Section 19(b)(3)(A) *	Section 19(b)(3)(B) *			
<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 *	19b-4(f)(1)	19b-4(f)(2)	19b-4(f)(3)	19b-4(f)(4)	19b-4(f)(5)	19b-4(f)(6)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="text"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>

Exhibit 2 Sent As Paper Document <input type="checkbox"/>	Exhibit 3 Sent As Paper Document <input type="checkbox"/>
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Description
Provide a brief description of the 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 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.

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

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

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

Item 1. Text of the Proposed Rule Change

(a) Chicago Board Options Exchange, Incorporated (the “Exchange” or “CBOE”) proposes to permit the listing and trading of P.M.-settled S&P 500 Index options on a pilot basis. The text of the proposed rule change is provided below.

(additions are underlined; deletions are [bracketed])

* * * * *

**Chicago Board Options Exchange, Incorporated
Rules**

* * * * *

Rule 6.42. Minimum Increments for Bids and Offers

The Board of Directors may establish minimum increments for options traded on the Exchange. When the Board of Directors determines to change the minimum increments, the Exchange will designate such change as a stated policy, practice, or interpretation with respect to the administration of Rule 6.42 within the meaning of subparagraph (3)(A) of subsection 19(b) of the Exchange Act and will file a rule change for effectiveness upon filing with the Commission. Until such time as the Board of Directors makes a change to the minimum increments, the following minimum increments shall apply to options traded on the Exchange:

* * * * *

(4) Except as provided in Rule 6.53C, bids and offers on complex orders, as defined in Interpretation and Policy .01 below, may be expressed in any increment regardless of the minimum increments otherwise appropriate to the individual legs of the order. Notwithstanding the foregoing sentence, bids and offers on complex orders in options on the S&P 500 Index (SPX), p.m.-settled S&P 500 Index (SPXPM) or on the S&P 100 Index (OEX and XEO), except for box/roll spreads, shall be expressed in decimal increments no smaller than \$0.05 or in any increment, as determined by the Exchange on a class-by-class basis and announced to the Trading Permit Holders via Regulatory Circular. In addition:

- (a) The legs of a complex order may be executed in \$0.01 increments; and
- (b) complex orders are subject to special priority requirements as described in Rules 6.45, 6.45A, 6.45B, 6.53C, 24.19 and 24.20.

* * * * *

Rule 8.3. Appointment of Market-Makers

* * * * *

(c) Market-Maker Appointments. Absent an exemption by the Exchange, an appointment of a Market-Maker confers the right to quote electronically and in open outcry in the Market-Maker's appointed classes as described below. Subject to paragraph (e) below, a

Market-Maker may change its appointed classes upon advance notification to the Exchange in a form and manner prescribed by the Exchange.

(i) Hybrid Classes. Subject to paragraphs (c)(iv) and (e) below, a Market-Maker can create a Virtual Trading Crowd ("VTC") appointment, which confers the right to quote electronically in an appropriate number of Hybrid classes (as defined in Rule 1.1(aaa)) selected from "tiers" that have been structured according to trading volume statistics, except for the AA tier. All classes within a specific tier will be assigned an "appointment cost" depending upon its tier location. The following table sets forth the tiers and related appointment costs.

Tier	Hybrid Option Classes	Appointment Cost
AA	<p style="text-align: center;">* * * * *</p> <ul style="list-style-type: none"> • <u>P.M.-Settled options on the Standard & Poor's 500 (SPXPM)</u> 	<u>1.0</u>
	* * * * *	

Rule 24.4. Position Limits for Broad-Based Index Options

(a) In determining compliance with Rule 4.11, there shall be no position limits for broad-based index option contracts (including reduced-value option contracts) on CBOE S&P 500 AM/PM Basis, CBOE S&P 500 Three-Month Realized Variance, CBOE S&P 500 Three-Month Realized Volatility and on the BXM (1/10th value), DJX, OEX, XEO, NDX, RUT, VIX, VXN, VXD, S&P 500 Dividend Index, [and]SPX and SPXPM classes. All other broad-based index option contracts shall be subject to a contract limitation fixed by the Exchange, which shall not be larger than the limits provided in the chart below.

* * * * *

...Interpretations and Policies:

.01 - .02 No change.

.03 Reporting Requirement

Each Trading Permit Holder (other than CBOE Market-Makers) or TPH organization that maintains a broad-based index option position on the same side of the market in excess of 100,000 contracts for OEX, XEO, NDX, RUT, VIX, VXN, VXD, S&P 500 Dividend Index, SPX, SPXPM, CBOE S&P 500 AM/PM Basis, CBOE S&P 500 Three-Month Realized Variance or CBOE S&P 500 Three-Month Realized Volatility and 1 million contracts for BXM (1/10th value) and DJX, for its own account or for the account of a customer, shall report information as to whether the positions are hedged and provide

documentation as to how such contracts are hedged, in the manner and form required by the Department of Market Regulation. In calculating the applicable contract-reporting amount, reduced-value contracts will be aggregated with full-value contracts and counted by the amount by which they equal a full-value contract (*e.g.*, 10 XSP options equal 1 SPX full-value contract). The Exchange may specify other reporting requirements of this interpretation as well as the limit at which the reporting requirement may be triggered.

.04 Margin and Clearing Firm Requirements

Whenever the Exchange determines, based on a report by the Department of Market Regulation or otherwise, that additional margin is warranted in light of the risks associated with an under-hedged BXM (1/10th value), SPX, SPXPM, OEX, XEO, NDX, RUT, DJX, VIX, VXN, VXD, S&P 500 Dividend Index, CBOE S&P 500 AM/PM Basis, CBOE S&P 500 Three-Month Realized Variance or CBOE S&P 500 Three-Month Realized Volatility option position, the Exchange may consider imposing additional margin upon the account maintaining such under-hedged position pursuant to its authority under Exchange Rule 12.10. Additionally, it should be noted that the clearing firm carrying the account will be subject to capital charges under SEC Rule 15c3-1 to the extent of any margin deficiency resulting from the higher margin requirements.

* * * * *

Rule 24.5. Exercise Limits

In determining compliance with Rule 4.12, exercise limits for index option contracts shall be equivalent to the position limits prescribed for option contracts with the nearest expiration date in Rule 24.4, 24.4A, or 24.4C. There shall be no exercise limits for broad-based index options (including reduced-value option contracts) on CBOE S&P 500 AM/PM Basis, CBOE S&P 500 Three-Month Realized Variance, CBOE S&P 500 Three-Month Realized Volatility and on the BXM (1/10th value), DJX, OEX, XEO, NDX, RUT, VIX, VXN, VXD, S&P 500 Dividend Index, [or]SPX, or SPXPM.

* * * * *

Rule 24.6. Days and Hours of Business

* * * * *

. . . Interpretations and Policies:

.01 - .03 No change

.04 On their last trading day, transactions in expiring PM-settled S&P 500 Index options (SPXPM) may be effected on the Exchange between the hours of 8:30 a.m. (Chicago time) and 3:00 pm (Chicago time).

* * * * *

Rule 24.9. Terms of Index Option Contracts

(a) *General.*

(1) No change.

(2) *Expiration Months*. Index option contracts may expire at three-month intervals or in consecutive months. The Exchange may list up to six expiration months at any one time, but will not list index options that expire more than twelve months out. Notwithstanding the preceding restriction, the Exchange may list up to twelve expiration months at any one time for any broad-based security index option contracts, including reduced-value and jumbo option contracts, (e.g., DJX, NDX, RUT,₂ [and] SPX and SPX_{pm}) upon which the Exchange calculates a volatility index and for CBOE S&P 500 AM/PM Basis options.

* * * * *

(3) *"European-Style Exercise"*. The following European-style index options, some of which are A.M.-settled as provided in paragraph (a)(4), are approved for trading on the Exchange:

(i)- (cv) No change.

(cvi) Standard & Poor's 500 Stock Index (P.M.-settled)

* * * * *

... Interpretations and Policies:

.01 - .13 No change

.14 In addition to A.M.-settled Standard & Poor's 500 Stock Index options approved for trading on the Exchange pursuant to Rule 24.9, the Exchange may also list options on the S&P 500 Index whose exercise settlement value is derived from closing prices on the last trading day prior to expiration ("SPXPM"). SPXPM options will be listed for trading for a pilot period ending [insert date 12 months from approval].

* * * * *

Rule 24A.7. Position Limits and Reporting Requirements

(a) No change.

(b) *Certain Broad-Based FLEX Index Options*. There shall be no position limits for FLEX BXM (1/10th value), DJX, OEX, XEO, NDX, RUT, VIX, VXN, VXD, CBOE S&P 500 AM/PM Basis, CBOE S&P 500 Three-Month Realized Variance, CBOE S&P 500 Three-Month Realized Volatility, S&P 500 Dividend Index,₂ [or] SPX, or SPX_{PM} option contracts (including reduced-value option contracts). However, each Trading Permit Holder or TPH organization (other than CBOE Market-Makers) that maintains a FLEX broad-based index option position on the same side of the market in excess of 100,000 contracts for OEX, XEO, NDX, RUT, S&P 500 Dividend Index, CBOE S&P 500 AM/PM Basis, [or]SPX or SPX_{PM} and 1 million contracts for BXM (1/10th value) and DJX, for its own account or for the account of a customer, shall report information as to whether the positions are hedged and provide documentation as to how such contracts are hedged, in the manner and form prescribed by the Exchange. In calculating the applicable contract-reporting amount, reduced-value contracts will be aggregated with full-value contracts and counted by the amount by which they equal a full-value contract (e.g., 10 XSP options equal 1 SPX full-value contract). The Exchange may specify other reporting requirements of this interpretation as well as the limit at which the reporting requirement may be triggered. In addition, whenever the Exchange determines that a higher margin is warranted in light of the risks associated with an under-hedged FLEX BXM (1/10th value), DJX, OEX, XEO, NDX, RUT, VIX, VXN, VXD, CBOE S&P 500 AM/PM Basis, CBOE S&P 500 Three-Month Realized Variance, CBOE S&P 500 Three-

Month Realized Volatility, S&P 500 Dividend Index, [or] SPX, or SPXPM option position, the Exchange may consider imposing additional margin upon the account maintaining such under-hedged position, pursuant to its authority under Exchange Rule 12.10. Additionally, it should be noted that the clearing firm carrying the account will be subject to capital charges under 15c3-1 under the Exchange Act to the extent of any margin deficiency resulting from the higher margin requirements.

* * * * *

Rule 24A.8. Exercise Limits

(a) In determining compliance with Rules 4.12 and 24.5, exercise limits for FLEX Index and FLEX Individual Stock or ETF Based Volatility Index Options shall be equivalent to the FLEX position limits prescribed in Rule 24A.7. There shall be no exercise limits for broad-based FLEX Index Options (including reduced-value option contracts) on BXM (1/10th value), DJX, NDX, OEX, RUT, S&P 500 Dividend Index, SPX, SPXPM, VIX, VXN, VXD, CBOE S&P 500 AM/PM Basis, CBOE S&P 500 Three-Month Realized Variance, CBOE S&P 500 Three-Month Realized Volatility and XEO.

* * * * *

Rule 24B.7. Position Limits and Reporting Requirements

(a) No change.

(b) Certain Broad-Based FLEX Index Options. There shall be no position limits for FLEX BXM (1/10th value), DJX, NDX, OEX, RUT, S&P 500 Dividend Index, SPX, SPXPM, VIX, VXN, VXD, CBOE S&P 500 AM/PM Basis, CBOE S&P 500 Three-Month Realized Variance, CBOE S&P 500 Three-Month Realized Volatility or XEO option contracts (including reduced-value option contracts). However, each Trading Permit Holder or TPH organization (other than a FLEX Market-Maker) that maintains a FLEX broad-based index option position on the same side of the market in excess of 100,000 contracts for NDX, OEX, RUT, S&P 500 Dividend Index, SPX, SPXPM, VIX, VXN, VXD, CBOE S&P 500 AM/PM Basis, CBOE S&P 500 Three-Month Realized Variance, CBOE S&P 500 Three-Month Realized Volatility or XEO and 1 million contracts for BXM (1/10th value) and DJX, for its own account or for the account of a customer, shall report information as to whether the positions are hedged and provide documentation as to how such contracts are hedged, in the manner and form prescribed by the Exchange. In calculating the applicable contract-reporting amount, reduced-value contracts will be aggregated with full-value contracts and counted by the amount by which they equal a full-value contract (*e.g.*, 10 XSP options equal 1 SPX full-value contract). The Exchange may specify other reporting requirements of this interpretation as well as the limit at which the reporting requirement may be triggered. In addition, whenever the Exchange determines that a higher margin is warranted in light of the risks associated with an under-hedged FLEX BXM (1/10th value), DJX, NDX, OEX, RUT, S&P 500 Dividend Index, SPX, SPXPM, VIX, VXN, VXD, CBOE S&P 500 AM/PM Basis, CBOE S&P 500 Three-Month Realized Variance, CBOE S&P 500 Three-Month Realized Volatility or XEO option position, the Exchange may consider imposing additional margin upon the account maintaining such under-hedged position, pursuant to its authority under Exchange Rule 12.10. Additionally, it should be noted that the clearing firm carrying the account will be subject to capital charges under Rule 15c3-1

under the Exchange Act to the extent of any margin deficiency resulting from the higher margin requirements.

* * * * *

Rule 24B.8. Exercise Limits

(a) In determining compliance with Rules 4.12 and 24.5, exercise limits for FLEX Index and FLEX Individual Stock or ETF Based Volatility Index Options shall be equivalent to the FLEX position limits prescribed in Rule 24B.7. There shall be no exercise limits for broad-based FLEX Index Options (including reduced-value option contracts) on BXM (1/10th value), DJX, NDX, OEX, RUT, S&P 500 Dividend Index, SPX, SPXPM, VIX, VXN, VXD, CBOE S&P 500 AM/PM Basis, CBOE S&P 500 Three-Month Realized Variance, CBOE S&P 500 Three-Month Realized Volatility and XEO.

* * * * *

(b) Not applicable.

(c) Not applicable.

Item 2. Procedures of the Self-Regulatory Organization

(a) The Exchange's President pursuant to delegated authority approved the proposed rule change on December 5, 2012.

(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 Jeff Dritz, (312) 786-7070, Chicago Board Options Exchange, Incorporated, 400 South LaSalle, Chicago, Illinois 60605.

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

(a) Purpose

The purpose of this rule filing is to permit the listing and trading, on a pilot basis, of Standard & Poor's 500 Index ("S&P 500") options with third-Friday-of-the-month ("Expiration Friday") expiration dates for which the exercise settlement value will be based on the index value derived from the closing prices of component securities ("P.M.-settled") for an initial period of twelve months (the "Pilot Program"). The S&P 500 is a

capitalization-weighted index of 500 stocks from a broad range of industries. The component stocks are weighted according to the total market value of their outstanding shares. The impact of a component's price change is proportional to the issue's total market share value, which is the share price times the number of shares outstanding. These are summed for all 500 stocks and divided by a predetermined base value. The base value for the S&P 500 is adjusted to reflect changes in capitalization resulting from, among other things, mergers, acquisitions, stock rights, and substitutions..

The proposed contract ("SPXPM") would use a \$100 multiplier, and the minimum trading increment would be \$0.05 for options trading below \$3.00 and \$0.10 for all other series. Strike price intervals would be set no less than 5 points apart. Consistent with existing rules for index options, the Exchange would allow up to twelve near-term expiration months,¹ as well as LEAPS.² Expiration processing would occur on Saturday following the Expiration Friday. The product would have European-style exercise, and because it is based on the S&P 500, there would be no position limits.³ The Exchange has the flexibility to open for trading additional series in response to customer demand. SPXPM would be traded on the Exchange's Hybrid Trading System ("Hybrid").

SPXPM is currently being traded, on the same terms as proposed for the Pilot Program, on a pilot basis on C2 Options Exchange, Incorporated ("C2") (the "C2 Pilot

¹ The Exchange wishes to give the same expiration month options for SPXPM as are given for SPX, since both options classes are derived from the S&P 500.

² Pursuant to CBOE Rule 24.9(b)(1)(A), index LEAPS may expire from 12-180 months from the date of issuance.

³ There would be reporting requirements pursuant to Rule 4.13, Reports Related to Position Limits, and Interpretation and Policy .03 to Rule 24.4, Position Limits for Broad-Based Index Options, which sets forth the reporting requirements for certain broad-based indexes that do not have position limits.

Program”).⁴ C2 (which is wholly owned by the same corporation, CBOE Holdings, Inc., as CBOE) intends to cease trading SPXPM upon the introduction of SPXPM trading on CBOE. C2 and CBOE do not intend to engage in trading of SPXPM at the same time. CBOE intends to begin trading SPXPM on or around January 22, 2013.

CBOE proposes to abide by the same reporting requirements for its Pilot Program as C2 has abided by for the C2 Pilot Program. As such, the Exchange proposes to submit a pilot program report to the Securities and Exchange Commission (the “Commission”) at least two months prior to the expiration date of the Pilot Program (the “annual report”). The annual report would contain an analysis of volume, open interest, and trading patterns. The analysis would examine trading in the proposed option product as well as trading in the securities that comprise the S&P 500 index. In addition, for series that exceed certain minimum open interest parameters, the annual report would provide analysis of index price volatility and share trading activity. In addition to the annual report, the Exchange would provide the Commission with periodic interim reports while the pilot is in effect that would contain some, but not all, of the information contained in the annual report. The annual report would be provided to the Commission on a confidential basis.

The annual report would contain the following volume and open interest data:

- (1) monthly volume aggregated for all trades;
- (2) monthly volume aggregated by expiration date;
- (3) monthly volume for each individual series;

⁴ See Supplemental Rule (a) to C2 Chapter 24, and also Securities Exchange Act Release No. 65256 (September 2, 2011), 76 FR 55969 (September 9, 2011) (SR-C2-2011-008) and also Securities Exchange Act. Release No. 67939 (September 27, 2012), 77 FR 60504 (October 3, 2012) (SR-C2-2012-033).

- (4) month-end open interest aggregated for all series;
- (5) month-end open interest for all series aggregated by expiration date; and
- (6) month-end open interest for each individual series.

In addition to the annual report, the Exchange would provide the Commission with interim reports of the information listed in Items (1) through (6) above periodically as required by the Commission while the pilot is in effect. These interim reports would also be provided on a confidential basis. The annual report would also contain the information noted in Items (1) through (6) above for Expiration Friday, A.M.-settled S&P 500 index options traded on CBOE.

In addition, the annual report would contain the following analysis of trading patterns in Expiration Friday, P.M.-settled S&P 500 Index option series in the pilot:

- (1) a time series analysis of open interest; and
- (2) an analysis of the distribution of trade sizes.

Also, for series that exceed certain minimum parameters, the annual report would contain the following analysis related to index price changes and underlying share trading volume at the close on Expiration Fridays:

- (1) a comparison of index price changes at the close of trading on a given Expiration Friday with comparable price changes from a control sample. The data would include a calculation of percentage price changes for various time intervals and compare that information to the respective control sample. Raw percentage price change data as well as percentage price change data normalized for prevailing market volatility, as measured by the CBOE Volatility Index (VIX), would be provided; and

- (2) a calculation of share volume for a sample set of the component securities representing an upper limit on share trading that could be attributable to expiring in-the-money series. The data would include a comparison of the calculated share volume for securities in the sample set to the average daily trading volumes of those securities over a sample period.

The minimum open interest parameters, control sample, time intervals, method for randomly selecting the component securities, and sample periods would be determined by the Exchange and the Commission.

The conditions for listing SPXPM on CBOE will be similar to those for SPX, which is already listed and trading on CBOE (with the one notable exception being that SPXPM will be P.M.-settled). As with SPX, bids and offers on complex orders in SPXPM options, except for box/roll spreads, shall be expressed in decimal increments no smaller than \$0.05 or in any increment, as determined by the Exchange on a class-by-class basis and announced to the Trading Permit Holders (“TPHs”) via Regulatory Circular.⁵

As with SPX, in determining compliance with Rule 4.11 (Position Limits), there shall be no position limits for broad-based index option contracts (including reduced-value option contracts) in the SPXPM class.⁶ As with SPX, each TPH (other than CBOE Market-Makers) or TPH organization that maintains a broad-based index option position on the same side of the market in excess of 100,000 contracts for SPXPM, for its own account or for the account of a customer, shall report information as to whether the positions are hedged and provide documentation as to how such contracts are hedged, in

⁵ See CBOE Rule 6.42(4), in both the current and proposed forms.

⁶ See CBOE Rule 24.4, in both the current and proposed forms.

the manner and form required by the Division of Market Regulation.⁷ As with SPX, whenever the Exchange determines, based on a report by the Department of Market Regulation or otherwise, that additional margin is warranted in light of the risks associated with an under-hedged SPXPM option position, the Exchange may consider imposing additional margin upon the account maintaining such under-hedged position pursuant to its authority under Exchange Rule 12.10.⁸ As with SPX, there shall be no exercise limits for broad-based index options (including reduced-value option contracts) on SPXPM.⁹

As with SPX, the trading hours for SPXPM will be from 8:30 a.m. (Chicago time; all times in this proposed rule change are Chicago time) to 3:15 pm., with the exception being that trading in expiring SPXPM options will close at 3:00 p.m. on their last trading day (except for FLEX Options (as defined below) on SPXPM). SPXPM options will be priced in the market based on corresponding futures values. The primary listing markets for the component securities that comprise the S&P 500 close trading in those securities at 3:00 p.m. The primary listing exchanges for the component securities disseminate closing prices of the component securities, which are used to calculate the exercise settlement value of the S&P 500. CBOE believes that, under normal trading circumstances, the primary listing markets have sufficient bandwidth to prevent any data queuing that would cause any trades that are executed prior to the closing time from being reported after 3 p.m. Despite the fact that the exercise settlement value will be

⁷ See CBOE Rule 24.4, Interpretation and Policy .03, in both the current and proposed forms.

⁸ See CBOE Rule 24.4, Interpretation and Policy .04, in both the current and proposed forms.

⁹ See CBOE Rule 24.5, in both the current and proposed forms.

fixed at or soon after 3 p.m., if the Exchange did not close trading in expiring SPXPM options (except SPXPM FLEX Options) at 3:00 p.m. on their last trading day, trading in expiring PM-settled S&P 500 options would continue for an additional fifteen minutes until 3:15 p.m. and would not be priced on corresponding futures values, but rather the known cash value. At the same time, the prices of non-expiring PM-settled S&P 500 options series would continue to move and be priced in response to changes in corresponding futures prices.

A potential pricing divergence could occur between 3:00 and 3:15 pm on the final trading day in expiring PM-settled S&P 500 options (*e.g.*, switch from pricing off of futures to cash). Further, the switch from pricing off of futures to cash can be a difficult and risky switchover for liquidity providers. As a result, without closing expiring contracts at 3:00 p.m., it is foreseeable that Market-Makers would react by widening spreads in order to compensate for the additional risk. Therefore, the Exchange believes that, in order to mitigate potential investor confusion and the potential for increased costs to investors, it is appropriate to cease trading in expiring PM-settled S&P 500 options contracts at 3:00 p.m. The Exchange does not believe that the proposed change will impact volatility on the underlying cash market at the close on Expiration Friday. Further, the proposal to close trading on the last trading day for transactions in expiring SPXPM options at 3:00 p.m. is identical to a proposal already in effect on C2.¹⁰

Regarding SPXPM Flexible Exchange (“FLEX”) Options generally as well as SPXPM FLEX Options traded on the Exchange’s FLEX Hybrid Trading System, there shall be no position limits (as with SPX FLEX Options). As with SPX FLEX Options,

¹⁰ See Securities Exchange Act Release No. 65640 (October 26, 2011), 76 FR 67510 (November 1, 2011) (SR-C2-2012-030).

each Trading Permit Holder or TPH organization (other than CBOE Market-Makers) that maintains a FLEX broad-based index option position on the same side of the market in excess of 100,000 contracts for SPXPM, for its own account or for the account of a customer, shall report information as to whether the positions are hedged and provide documentation as to how such contracts are hedged, in the manner and form prescribed by the Exchange. In addition, whenever the Exchange determines that a higher margin is warranted in light of the risks associated with an under-hedged FLEX SPXPM option position, the Exchange may consider imposing additional margin upon the account maintaining such under-hedged position, pursuant to its authority under Exchange Rule 12.10 (as with SPX).¹¹ There shall be no exercise limits for broad-based FLEX Index Options (including reduced-value option contracts) on SPXPM (as with SPX).¹² These FLEX Options-related stipulations apply to SPXPM FLEX Options effected pursuant to the rules in Chapter XXIVA or on the FLEX Hybrid Trading System pursuant to the rules in Chapter XXIVB of the Exchange rules.

To explain the basic adoption of SPXPM, the Exchange proposes to add Interpretation and Policy .14 to Rule 24.9. This proposed new Interpretation and Policy would state that in addition to A.M.-settled Standard & Poor's 500 Stock Index options approved for trading on the Exchange pursuant to Rule 24.9, the Exchange may also list options on the S&P 500 Index whose exercise settlement value is derived from closing prices on the last trading day prior to expiration (SPXPM). SPXPM options will be listed for trading for an initial pilot period ending twelve months from the date of Commission approval of this rule change proposal.

¹¹ See CBOE Rules 24A.7 and 24B.7, in both the current and proposed forms.

¹² See CBOE Rules 24A.8 and 24B.8, in both the current and proposed forms.

The Exchange also proposes to amend Rule 8.3 to specifically reference SPXPM options as having a Market-Maker tier appointment cost of 1.0. The Exchange notes that the new tier appointment cost for SPXPM options will be the initial tier appointment cost because this options class is not currently trading. Thus, to trade SPXPM, a Market-Maker will be required to obtain a dedicated Market-Maker permit. Among other reasons, the Exchange believes that the tier appointment cost for SPXPM is reasonable in light of the fact that it is a new product and the cost is comparable to the 1.0 tier appointment cost for SPX,¹³ as well as the 1.0 appointment cost for SPXPM on C2.¹⁴ The Exchange proposes to move all P.M.-settled S&P 500 Index options series that are part of the SPXPM options class and that have an expiration on any day other than the third Friday of every month (e.g., Quarterly Index Options (“QIX”), End-of-Week (“EOW”) series, etc.) to the SPXPM class. The Exchange proposes to continue to allow such series to be traded under the appointment cost of the overarching class.

There exists precedent for P.M. settlement of broad-based index options. As previously stated, SPXPM is already traded on C2.¹⁵ Further, OEX (an index option contract based on the Standard & Poor’s 100 index) has been P.M.-settled since 1983.¹⁶ Also, FLEX Options have P.M. settlements on any expiration day.¹⁷ Similarly, CBOE recently established a pilot program that permits P.M.-settled options on broad-based

¹³ See CBOE Rule 8.3(c)(iii).

¹⁴ See C2 Rule 8.2(d).

¹⁵ See Supplemental Rule (a) to C2 Chapter 24, and also Securities Exchange Act Release No. 65256 (September 2, 2011), 76 FR 55969 (September 9, 2011) (SR-C2-2011-008).

¹⁶ The Exchange notes that there are no futures or options on futures traded on the S&P 100 at this time.

¹⁷ See Rule 24A.4(a)(2)(iv) and Rule 24B.4(a)(2)(iv) and Interpretation and Policy .01 to Rules 24A.4 and 24B.4.

indexes expiring on any Friday of the month, other than the third Friday of the month, as well as the last trading day of the month.¹⁸ CBOE also trades Quarterly Option Series¹⁹ that overlie exchange traded funds or indexes, and Quarterly Index Expirations²⁰ that are cash-settled options on certain broad-based indexes, both of which expire at the close of business on the last business day of a calendar quarter and are P.M.-settled. CBOE has experience with these special dated options and neither CBOE nor C2 have observed any market disruptions resulting from the P.M.-settlement feature of these options.

There are multiple primary listing and unlisted trading privilege (“UTP”) markets for the stocks underlying the index, and trading is widely dispersed among several stock exchanges and alternative trading systems. Many of these markets use closing cross procedures and employ closing order types to facilitate orderly closings.²¹ Moreover, today stock order flow is predominantly electronic and the ability to smooth out openings and closings is greatly enhanced and market-on-close procedures work just as well as opening procedures. Bearing in mind these considerations as well as current SPXPM trading volume levels on C2, the Exchange does not believe that any market disruptions will be encountered with the introduction of P.M.-settled S&P 500 index options (especially given the fact that C2 has not experienced any such market disruptions due to its introduction of SPXPM). The Exchange will, of course, monitor for any such disruptions or the development of any factors that could cause such disruptions.

¹⁸ See Rule 24.9(e) and Securities Exchange Act Release No. 62911 (September 14, 2010), 75 FR 57539 (September 21, 2010) (SR-CBOE-2009-075).

¹⁹ See Rules 5.5(e) and 24.9(a)(2)(B).

²⁰ See Rule 24.9(c).

²¹ For example, see Nasdaq Rule 4754 (Nasdaq Closing Cross).

The Exchange also notes that P.M.-settled options predominate in the OTC market, and CBOE is not aware of any adverse effects in the stock market attributable to the P.M.-settlement feature. CBOE is merely proposing to offer a P.M.-settled product (similar to that which is already traded on C2) in an exchange environment which offers the benefit of added transparency, price discovery, and stability.

In response to any potential concerns that disruptive trading conduct could occur as a result of the concurrent listing and trading of two index option products based on the same index but for which different settlement methodologies exist (*i.e.*, one is A.M.-settled and one is P.M.-settled), the Exchange notes that for roughly five years (1987 to 1992) CBOE listed and traded an A.M.-settled S&P 500 index option called NSX at the same time it listed and traded a P.M.-settled S&P 500 index option called SPX and CBOE did not observe any market disruptions as a result of offering both products.

As proposed, the proposal would become effective on a pilot program basis for a period of twelve months. If the Exchange were to propose an extension of the program or should the Exchange propose to make the program permanent, then the Exchange would submit a filing proposing such amendments to the program. The Exchange notes that any positions established under the pilot would not be impacted by the expiration of the pilot. For example, a position in a P.M.-settled series that expires beyond the conclusion of the pilot period could be established during the 12-month pilot. If the pilot program were not extended, then the position could continue to exist. However, the Exchange notes that any further trading in the series would be restricted to transactions where at least one side of the trade is a closing transaction.

The adoption of trading of P.M.-settled options on the S&P 500 Index on the same exchange as A.M.-settled options on the S&P 500 Index would provide greater spread opportunities. For example, a market participant could trade in open outcry SPX (A.M.-settled) versus SPXPM as a spread.²² This manner of trading in different products allows a market participant to take advantage of the different expiration times. This provides expanded trading opportunities. In the options market currently, market participants regularly trade similar or related products in conjunction with each other, which contributes to overall market liquidity.

The Exchange represents that it has sufficient capacity to handle additional traffic associated with this new listing, and that it has in place adequate surveillance procedures to monitor trading in these options thereby helping to ensure the maintenance of a fair and orderly market.

(b) Statutory Basis

The Exchange believes the proposed rule change is consistent with the Securities Exchange Act of 1934 (the “Act”) and the rules and regulations thereunder applicable to the Exchange and, in particular, the requirements of Section 6(b) of the Act.²³ Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)²⁴ 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 that the introduction of P.M. settlement for the subject index option in the

²² See CBOE Rule 24.19.

²³ 15 U.S.C. 78f(b).

²⁴ 15 U.S.C. 78f(b)(5).

manner proposed does not raise any meaningful regulatory concerns. Further, the Exchange believes that the proposal will not adversely impact fair and orderly markets on expiration Fridays for the underlying stocks comprising the S&P 500 index. The Exchange believes that C2 has experienced no meaningful regulatory concerns, nor an adverse impact on fair and orderly markets, in connection with the C2 Pilot Program. Additionally, the proposed rule change would provide TPHs and investors with an opportunity to trade S&P 500 options with a P.M. settlement feature on CBOE subject to transparent exchange-based rules. Investors would also benefit from the opportunity to trade in association with this product on Expiration Fridays thereby removing impediments to a free and open market consistent with the Act.

The proposal to end trading at 3:00 p.m. on the last trading day for transactions in expiring SPXPM options will prevent continued trading on a product after the exercise settlement value has been fixed. This eliminates potential confusion and thereby protects investors and the public interest.

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.

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

CBOE does not consent to an extension of the time period for Securities and Exchange Commission action on the proposed rule change specified in Section 19(b)(2) of the Act.²⁵

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 or By-Laws of Another Self-Regulatory Organization or of the Commission

The proposed rule change is not based on the rules of another self-regulatory organization.

Item 9. Exhibits

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

²⁵ 15 U.S.C. 78s(b)(2).

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34- ; File No. SR-CBOE-2012-120]

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing of a Proposed Rule Change Regarding Adding an Index Option Product

[Insert date]

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 [insert date], Chicago Board Options Exchange, Incorporated (the “Exchange” or “CBOE”) filed with the Securities and Exchange Commission (the “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to permit the listing and trading of P.M.-settled S&P 500 Index options on a pilot basis. 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 Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

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

1. Purpose

The purpose of this rule filing is to permit the listing and trading, on a pilot basis, of Standard & Poor's 500 Index ("S&P 500") options with third-Friday-of-the-month ("Expiration Friday") expiration dates for which the exercise settlement value will be based on the index value derived from the closing prices of component securities ("P.M.-settled") for an initial period of twelve months (the "Pilot Program"). The S&P 500 is a capitalization-weighted index of 500 stocks from a broad range of industries. The component stocks are weighted according to the total market value of their outstanding shares. The impact of a component's price change is proportional to the issue's total market share value, which is the share price times the number of shares outstanding. These are summed for all 500 stocks and divided by a predetermined base value. The base value for the S&P 500 is adjusted to reflect changes in capitalization resulting from, among other things, mergers, acquisitions, stock rights, and substitutions..

The proposed contract ("SPXPM") would use a \$100 multiplier, and the minimum trading increment would be \$0.05 for options trading below \$3.00 and \$0.10 for all other series. Strike price intervals would be set no less than 5 points apart. Consistent with existing rules for index options, the Exchange would allow up to twelve near-term expiration months,³ as well as LEAPS.⁴ Expiration processing would occur on

³ The Exchange wishes to give the same expiration month options for SPXPM as

Saturday following the Expiration Friday. The product would have European-style exercise, and because it is based on the S&P 500, there would be no position limits.⁵ The Exchange has the flexibility to open for trading additional series in response to customer demand. SPXPM would be traded on the Exchange's Hybrid Trading System ("Hybrid").

SPXPM is currently being traded, on the same terms as proposed for the Pilot Program, on a pilot basis on C2 Options Exchange, Incorporated ("C2") (the "C2 Pilot Program").⁶ C2 (which is wholly owned by the same corporation, CBOE Holdings, Inc., as CBOE) intends to cease trading SPXPM upon the introduction of SPXPM trading on CBOE. C2 and CBOE do not intend to engage in trading of SPXPM at the same time. CBOE intends to begin trading SPXPM on or around January 22, 2013.

CBOE proposes to abide by the same reporting requirements for its Pilot Program as C2 has abided by for the C2 Pilot Program. As such, the Exchange proposes to submit a pilot program report to the Securities and Exchange Commission (the "Commission") at least two months prior to the expiration date of the Pilot Program (the "annual report"). The annual report would contain an analysis of volume, open interest, and trading patterns. The analysis would examine trading in the proposed option product as well as trading in the securities that comprise the S&P 500 index. In addition, for series that

⁴ are given for SPX, since both options classes are derived from the S&P 500. Pursuant to CBOE Rule 24.9(b)(1)(A), index LEAPS may expire from 12-180 months from the date of issuance.

⁵ There would be reporting requirements pursuant to Rule 4.13, Reports Related to Position Limits, and Interpretation and Policy .03 to Rule 24.4, Position Limits for Broad-Based Index Options, which sets forth the reporting requirements for certain broad-based indexes that do not have position limits.

⁶ See Supplemental Rule (a) to C2 Chapter 24, and also Securities Exchange Act Release No. 65256 (September 2, 2011), 76 FR 55969 (September 9, 2011) (SR-C2-2011-008) and also Securities Exchange Act. Release No. 67939 (September 27, 2012), 77 FR 60504 (October 3, 2012) (SR-C2-2012-033).

exceed certain minimum open interest parameters, the annual report would provide analysis of index price volatility and share trading activity. In addition to the annual report, the Exchange would provide the Commission with periodic interim reports while the pilot is in effect that would contain some, but not all, of the information contained in the annual report. The annual report would be provided to the Commission on a confidential basis.

The annual report would contain the following volume and open interest data:

- (1) monthly volume aggregated for all trades;
- (2) monthly volume aggregated by expiration date;
- (3) monthly volume for each individual series;
- (4) month-end open interest aggregated for all series;
- (5) month-end open interest for all series aggregated by expiration date; and
- (6) month-end open interest for each individual series.

In addition to the annual report, the Exchange would provide the Commission with interim reports of the information listed in Items (1) through (6) above periodically as required by the Commission while the pilot is in effect. These interim reports would also be provided on a confidential basis. The annual report would also contain the information noted in Items (1) through (6) above for Expiration Friday, A.M.-settled S&P 500 index options traded on CBOE.

In addition, the annual report would contain the following analysis of trading patterns in Expiration Friday, P.M.-settled S&P 500 Index option series in the pilot:

- (1) a time series analysis of open interest; and
- (2) an analysis of the distribution of trade sizes.

Also, for series that exceed certain minimum parameters, the annual report would contain the following analysis related to index price changes and underlying share trading volume at the close on Expiration Fridays:

- (1) a comparison of index price changes at the close of trading on a given Expiration Friday with comparable price changes from a control sample. The data would include a calculation of percentage price changes for various time intervals and compare that information to the respective control sample. Raw percentage price change data as well as percentage price change data normalized for prevailing market volatility, as measured by the CBOE Volatility Index (VIX), would be provided; and
- (2) a calculation of share volume for a sample set of the component securities representing an upper limit on share trading that could be attributable to expiring in-the-money series. The data would include a comparison of the calculated share volume for securities in the sample set to the average daily trading volumes of those securities over a sample period.

The minimum open interest parameters, control sample, time intervals, method for randomly selecting the component securities, and sample periods would be determined by the Exchange and the Commission.

The conditions for listing SPXPM on CBOE will be similar to those for SPX, which is already listed and trading on CBOE (with the one notable exception being that SPXPM will be P.M.-settled). As with SPX, bids and offers on complex orders in SPXPM options, except for box/roll spreads, shall be expressed in decimal increments no smaller than \$0.05 or in any increment, as determined by the Exchange on a class-by-

class basis and announced to the Trading Permit Holders (“TPHs”) via Regulatory Circular.⁷

As with SPX, in determining compliance with Rule 4.11 (Position Limits), there shall be no position limits for broad-based index option contracts (including reduced-value option contracts) in the SPXPM class.⁸ As with SPX, each TPH (other than CBOE Market-Makers) or TPH organization that maintains a broad-based index option position on the same side of the market in excess of 100,000 contracts for SPXPM, for its own account or for the account of a customer, shall report information as to whether the positions are hedged and provide documentation as to how such contracts are hedged, in the manner and form required by the Division of Market Regulation.⁹ As with SPX, whenever the Exchange determines, based on a report by the Department of Market Regulation or otherwise, that additional margin is warranted in light of the risks associated with an under-hedged SPXPM option position, the Exchange may consider imposing additional margin upon the account maintaining such under-hedged position pursuant to its authority under Exchange Rule 12.10.¹⁰ As with SPX, there shall be no exercise limits for broad-based index options (including reduced-value option contracts) on SPXPM.¹¹

As with SPX, the trading hours for SPXPM will be from 8:30 a.m. (Chicago time; all times in this proposed rule change are Chicago time) to 3:15 pm., with the exception

⁷ See CBOE Rule 6.42(4), in both the current and proposed forms.

⁸ See CBOE Rule 24.4, in both the current and proposed forms.

⁹ See CBOE Rule 24.4, Interpretation and Policy .03, in both the current and proposed forms.

¹⁰ See CBOE Rule 24.4, Interpretation and Policy .04, in both the current and proposed forms.

¹¹ See CBOE Rule 24.5, in both the current and proposed forms.

being that trading in expiring SPXPM options will close at 3:00 p.m. on their last trading day (except for FLEX Options (as defined below) on SPXPM). SPXPM options will be priced in the market based on corresponding futures values. The primary listing markets for the component securities that comprise the S&P 500 close trading in those securities at 3:00 p.m. The primary listing exchanges for the component securities disseminate closing prices of the component securities, which are used to calculate the exercise settlement value of the S&P 500. CBOE believes that, under normal trading circumstances, the primary listing markets have sufficient bandwidth to prevent any data queuing that would cause any trades that are executed prior to the closing time from being reported after 3 p.m. Despite the fact that the exercise settlement value will be fixed at or soon after 3 p.m., if the Exchange did not close trading in expiring SPXPM options (except SPXPM FLEX Options) at 3:00 p.m. on their last trading day, trading in expiring PM-settled S&P 500 options would continue for an additional fifteen minutes until 3:15 p.m. and would not be priced on corresponding futures values, but rather the known cash value. At the same time, the prices of non-expiring PM-settled S&P 500 options series would continue to move and be priced in response to changes in corresponding futures prices.

A potential pricing divergence could occur between 3:00 and 3:15 pm on the final trading day in expiring PM-settled S&P 500 options (*e.g.*, switch from pricing off of futures to cash). Further, the switch from pricing off of futures to cash can be a difficult and risky switchover for liquidity providers. As a result, without closing expiring contracts at 3:00 p.m., it is foreseeable that Market-Makers would react by widening spreads in order to compensate for the additional risk. Therefore, the Exchange believes

that, in order to mitigate potential investor confusion and the potential for increased costs to investors, it is appropriate to cease trading in expiring PM-settled S&P 500 options contracts at 3:00 p.m. The Exchange does not believe that the proposed change will impact volatility on the underlying cash market at the close on Expiration Friday. Further, the proposal to close trading on the last trading day for transactions in expiring SPXPM options at 3:00 p.m. is identical to a proposal already in effect on C2.¹²

Regarding SPXPM Flexible Exchange (“FLEX”) Options generally as well as SPXPM FLEX Options traded on the Exchange’s FLEX Hybrid Trading System, there shall be no position limits (as with SPX FLEX Options). As with SPX FLEX Options, each Trading Permit Holder or TPH organization (other than CBOE Market-Makers) that maintains a FLEX broad-based index option position on the same side of the market in excess of 100,000 contracts for SPXPM, for its own account or for the account of a customer, shall report information as to whether the positions are hedged and provide documentation as to how such contracts are hedged, in the manner and form prescribed by the Exchange. In addition, whenever the Exchange determines that a higher margin is warranted in light of the risks associated with an under-hedged FLEX SPXPM option position, the Exchange may consider imposing additional margin upon the account maintaining such under-hedged position, pursuant to its authority under Exchange Rule 12.10 (as with SPX).¹³ There shall be no exercise limits for broad-based FLEX Index Options (including reduced-value option contracts) on SPXPM (as with SPX).¹⁴ These FLEX Options-related stipulations apply to SPXPM FLEX Options effected pursuant to

¹² See Securities Exchange Act Release No. 65640 (October 26, 2011), 76 FR 67510 (November 1, 2011) (SR-C2-2012-030).

¹³ See CBOE Rules 24A.7 and 24B.7, in both the current and proposed forms.

¹⁴ See CBOE Rules 24A.8 and 24B.8, in both the current and proposed forms.

the rules in Chapter XXIVA or on the FLEX Hybrid Trading System pursuant to the rules in Chapter XXIVB of the Exchange rules.

To explain the basic adoption of SPXPM, the Exchange proposes to add Interpretation and Policy .14 to Rule 24.9. This proposed new Interpretation and Policy would state that in addition to A.M.-settled Standard & Poor's 500 Stock Index options approved for trading on the Exchange pursuant to Rule 24.9, the Exchange may also list options on the S&P 500 Index whose exercise settlement value is derived from closing prices on the last trading day prior to expiration (SPXPM). SPXPM options will be listed for trading for an initial pilot period ending twelve months from the date of Commission approval of this rule change proposal.

The Exchange also proposes to amend Rule 8.3 to specifically reference SPXPM options as having a Market-Maker tier appointment cost of 1.0. The Exchange notes that the new tier appointment cost for SPXPM options will be the initial tier appointment cost because this options class is not currently trading. Thus, to trade SPXPM, a Market-Maker will be required to obtain a dedicated Market-Maker permit. Among other reasons, the Exchange believes that the tier appointment cost for SPXPM is reasonable in light of the fact that it is a new product and the cost is comparable to the 1.0 tier appointment cost for SPX,¹⁵ as well as the 1.0 appointment cost for SPXPM on C2.¹⁶ The Exchange proposes to move all P.M.-settled S&P 500 Index options series that are part of the SPXPM options class and that have an expiration on any day other than the third Friday of every month (e.g., Quarterly Index Options ("QIX"), End-of-Week ("EOW") series,

¹⁵ See CBOE Rule 8.3(c)(iii).

¹⁶ See C2 Rule 8.2(d).

etc.) to the SPXPM class. The Exchange proposes to continue to allow such series to be traded under the appointment cost of the overarching class.

There exists precedent for P.M. settlement of broad-based index options. As previously stated, SPXPM is already traded on C2.¹⁷ Further, OEX (an index option contract based on the Standard & Poor's 100 index) has been P.M.-settled since 1983.¹⁸ Also, FLEX Options have P.M. settlements on any expiration day.¹⁹ Similarly, CBOE recently established a pilot program that permits P.M.-settled options on broad-based indexes expiring on any Friday of the month, other than the third Friday of the month, as well as the last trading day of the month.²⁰ CBOE also trades Quarterly Option Series²¹ that overlie exchange traded funds or indexes, and Quarterly Index Expirations²² that are cash-settled options on certain broad-based indexes, both of which expire at the close of business on the last business day of a calendar quarter and are P.M.-settled. CBOE has experience with these special dated options and neither CBOE nor C2 have observed any market disruptions resulting from the P.M.-settlement feature of these options.

There are multiple primary listing and unlisted trading privilege ("UTP") markets for the stocks underlying the index, and trading is widely dispersed among several stock exchanges and alternative trading systems. Many of these markets use closing cross

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¹⁹ See Rule 24A.4(a)(2)(iv) and Rule 24B.4(a)(2)(iv) and Interpretation and Policy .01 to Rules 24A.4 and 24B.4.

²⁰ See Rule 24.9(e) and Securities Exchange Act Release No. 62911 (September 14, 2010), 75 FR 57539 (September 21, 2010) (SR-CBOE-2009-075).

²¹ See Rules 5.5(e) and 24.9(a)(2)(B).

²² See Rule 24.9(c).

procedures and employ closing order types to facilitate orderly closings.²³ Moreover, today stock order flow is predominantly electronic and the ability to smooth out openings and closings is greatly enhanced and market-on-close procedures work just as well as opening procedures. Bearing in mind these considerations as well as current SPXPM trading volume levels on C2, the Exchange does not believe that any market disruptions will be encountered with the introduction of P.M.-settled S&P 500 index options (especially given the fact that C2 has not experienced any such market disruptions due to its introduction of SPXPM). The Exchange will, of course, monitor for any such disruptions or the development of any factors that could cause such disruptions.

The Exchange also notes that P.M.-settled options predominate in the OTC market, and CBOE is not aware of any adverse effects in the stock market attributable to the P.M.-settlement feature. CBOE is merely proposing to offer a P.M.-settled product (similar to that which is already traded on C2) in an exchange environment which offers the benefit of added transparency, price discovery, and stability.

In response to any potential concerns that disruptive trading conduct could occur as a result of the concurrent listing and trading of two index option products based on the same index but for which different settlement methodologies exist (*i.e.*, one is A.M.-settled and one is P.M.-settled), the Exchange notes that for roughly five years (1987 to 1992) CBOE listed and traded an A.M.-settled S&P 500 index option called NSX at the same time it listed and traded a P.M.-settled S&P 500 index option called SPX and CBOE did not observe any market disruptions as a result of offering both products.

²³ For example, see Nasdaq Rule 4754 (Nasdaq Closing Cross).

As proposed, the proposal would become effective on a pilot program basis for a period of twelve months. If the Exchange were to propose an extension of the program or should the Exchange propose to make the program permanent, then the Exchange would submit a filing proposing such amendments to the program. The Exchange notes that any positions established under the pilot would not be impacted by the expiration of the pilot. For example, a position in a P.M.-settled series that expires beyond the conclusion of the pilot period could be established during the 12-month pilot. If the pilot program were not extended, then the position could continue to exist. However, the Exchange notes that any further trading in the series would be restricted to transactions where at least one side of the trade is a closing transaction.

The adoption of trading of P.M.-settled options on the S&P 500 Index on the same exchange as A.M.-settled options on the S&P 500 Index would provide greater spread opportunities. For example, a market participant could trade in open outcry SPX (A.M.-settled) versus SPXPM as a spread.²⁴ This manner of trading in different products allows a market participant to take advantage of the different expiration times. This provides expanded trading opportunities. In the options market currently, market participants regularly trade similar or related products in conjunction with each other, which contributes to overall market liquidity.

The Exchange represents that it has sufficient capacity to handle additional traffic associated with this new listing, and that it has in place adequate surveillance procedures to monitor trading in these options thereby helping to ensure the maintenance of a fair and orderly market.

²⁴ See CBOE Rule 24.19.

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the Act and the rules and regulations thereunder applicable to the Exchange and, in particular, the requirements of Section 6(b) of the Act.²⁵ Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)²⁶ 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 that the introduction of P.M. settlement for the subject index option in the manner proposed does not raise any meaningful regulatory concerns. Further, the Exchange believes that the proposal will not adversely impact fair and orderly markets on expiration Fridays for the underlying stocks comprising the S&P 500 index. The Exchange believes that C2 has experienced no meaningful regulatory concerns, nor an adverse impact on fair and orderly markets, in connection with the C2 Pilot Program. Additionally, the proposed rule change would provide TPHs and investors with an opportunity to trade S&P 500 options with a P.M. settlement feature on CBOE subject to transparent exchange-based rules. Investors would also benefit from the opportunity to trade in association with this product on Expiration Fridays thereby removing impediments to a free and open market consistent with the Act.

The proposal to end trading at 3:00 p.m. on the last trading day for transactions in expiring SPXPM options will prevent continued trading on a product after the exercise

²⁵ 15 U.S.C. 78f(b).

²⁶ 15 U.S.C. 78f(b)(5).

settlement value has been fixed. This eliminates potential confusion and thereby protects investors and the public interest.

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.

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

The Exchange neither solicited nor received comments on the proposed rule change.

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

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization 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-2012-120 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-2012-120. 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 Web site viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, D.C. 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-CBOE-2012-120 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.²⁷

Secretary

²⁷ 17 CFR 200.30-3(a)(12).