

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 26	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - 2014 - * 073 Amendment No. (req. for Amendments *)
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Filing by Chicago Board Options Exchange
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

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

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

Exhibit 2 Sent As Paper Document <input type="checkbox"/>	Exhibit 3 Sent As Paper Document <input type="checkbox"/>
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Description
Provide a brief description of the action (limit 250 characters, required when Initial is checked *).

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

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

Signature
Pursuant to the requirements of the Securities Exchange Act of 1934,
has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.
(Title *)

Date
 By
 (Name *)

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

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information *

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

Exhibit 1 - Notice of Proposed Rule Change *

Add Remove View

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

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

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

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

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

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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 amend its rules regarding the margin treatment of over-the-counter (“OTC”) options cleared by The Options Clearing Corporation (“OCC”). The text of the proposed rule change is provided below and in Exhibit 1.

(additions are underlined; deletions are [bracketed])

* * * * *

**Chicago Board Options Exchange, Incorporated
Rules**

* * * * *

Rule 1.1. When used in these Rules, unless the context otherwise requires:

(a) – (l) No change.

Option Contract

(m) Except as otherwise provided, [T]the term “option contract” means a put or call issued, or subject to issuance, by the Clearing Corporation pursuant to the Rules of the Clearing Corporation.

(n) – (ooo) No change.

OCC Cleared OTC Option Contract

(ppp) The term “OCC cleared OTC option contract” means an over-the-counter option contract that is issued and guaranteed by the Clearing Corporation. Except as otherwise provided, an OCC cleared OTC option contract is not an “options contract” as defined in the Rules.

... Interpretations and Policies:

.01 – .05 No change.

* * * * *

Rule 12.3. Margin Requirements

(a) Definitions. For purposes of this Rule, the following terms shall have the meanings specified below.

(1) – (8) No change.

(9) The term "listed" for purposes of this Chapter 12 means a security traded on a registered national securities exchange or automated facility of a registered national securities association or issued and guaranteed by the Clearing Corporation and shall include OCC cleared OTC options contracts.

(10) – (13) No change.

(14) The term "OTC option" as used with reference to a call or a put option contract in this Chapter 12 means an over-the-counter option contract that is issued and guaranteed by the carrying broker-dealer and not traded on a national securities exchange or issued and guaranteed by the Clearing Corporation [and is issued and guaranteed by the carrying broker-dealer].

(b) – (n) No change.

* * * * *

Rule 12.4 – Portfolio Margin

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

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

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

(a) Definitions.

(1) The term "listed option" for purposes of this Rule shall mean any equity (or equity index-based) option traded on a registered national securities exchange or automated facility of a registered national securities association or issued and

guaranteed by the Clearing Corporation and shall include OCC cleared OTC options contracts.

(2) – (3) No change.

(4) The term “unlisted derivative” for purposes of this Rule means any equity-based (or equity index-based) unlisted option, forward contract or swap that can be valued by a theoretical pricing model approved by the Securities and Exchange Commission and does not include OCC cleared OTC options contracts.

(5) – (11) No change.

(b) – (j) No change.

* * * * *

(b) Not applicable.

(c) Not applicable.

Item 2. Procedures of the Self-Regulatory Organization

(a) The Exchange’s Chief Regulatory Officer, pursuant to delegated authority, approved the proposed rule change on September 2, 2014.

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

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

(a) Purpose

The Exchange proposes to amend its margin requirements rules to treat OTC options contracts that are issued and guaranteed by the OCC (“OCC cleared OTC option contracts”)

consistent with FINRA Rule 4210 (Margin Requirements).¹ Specifically, the Exchange proposes a definition of OCC cleared OTC option contract in Rule 1.1(ppp) and, for margin purposes, proposes to amend the definitions of the terms “listed” in Rule 12.3(a)(9) and “listed option” in Rule 12.4(a)(1) to include OCC cleared OTC option contracts. The Exchange also proposes, for margin purposes, to amend the definitions of the terms “OTC” in Rule 12.3(a)(14) and “unlisted derivative” in Rule 12.4(a)(4) to exclude OCC cleared OTC option contracts. The Exchange’s proposal is materially based on, and substantially similar to, changes made by FINRA to its margin requirements rules under FINRA Rule 4210.² The Exchange believes that a consistent margin treatment regime with respect to OCC cleared OTC option contracts will make margin requirements rules easier for market participants to understand and that the proposal is in the best interest of investors.

On April 28, 2014, the OCC launched central clearing services for bilaterally negotiated OTC equity index options contracts on the S&P 500 Index. Under OCC By-laws, the OCC may, under limited circumstances, clear OTC options on the S&P 500 Index. Such contracts must be of a term between four months and five years and have minimum notional values of either 500,000 or 100,000 times the value of the S&P 500 Index. In clearing these options, the OCC becomes both the issuer and guarantor of the OTC contract.

In response to rules adopted by the OCC permitting the OCC to issue and guarantee these particular OTC option contracts and responsive rules adopted by FINRA regarding

¹ See FINRA Rule 4210(f)(2)(A)(xxiv); see also FINRA Rules 2360(a)(9), (19), (32), (33) and 4210(g)(2)(A).

² See Securities and Exchange Act Release No. 34-70619 (October 7, 2013), 78 FR 62722 (October 22, 2013) (Order Granting Approval of Proposed Rule Change Relating to Amendments to FINRA Rules 2360 and 4210 in Connection with OCC Cleared Over-the-Counter Options) (SR-FINRA-2013-027).

OCC cleared OTC option contracts, the Exchange proposes to adopt a definition of OCC cleared OTC option contract and make certain changes to its margin rules. The Exchange proposes to define the term OCC cleared OTC option contract to carve-out OCC cleared OTC option contracts from the definition of “option contract” reflecting the fact that the Rules are intended to control transactions in options contracts traded at the Exchange. Specifically, the Exchange proposes changes to Rule 1.1(m) defining “option contract” and the adoption of Rule 1.1(ppp) to define the term “OCC cleared OTC option contract” in the Rules.

Under Rule 1.1(m), an “option contract” is defined as “a put or a call issued, or subject to issuance, by the [Options] Clearing Corporation pursuant to the rules of the [Options] Clearing Corporation.” OCC cleared OTC option contracts are option contracts that are subject to issuance by the OCC. Accordingly, the Exchange proposes to amend Rule 1.1(m) to exclude OCC cleared OTC option contracts. Proposed Rule 1.1(ppp) would define OCC cleared OTC option contracts as over-the-counter option contracts that are issued and guaranteed by the Clearing Corporation. The proposed definition would also provide that except as otherwise indicated in the Rules, OCC cleared OTC option contracts are not “options contracts” under the Rules. Thus, consistent with the proposed changes to Rule 1.1(m), proposed Rule 1.1(ppp) would make clear that OCC cleared OTC option contracts are not Exchange-traded products and that the Rules, unless otherwise indicated, are not intended to extend to OCC cleared OTC options contracts.

The Exchange also proposes changes to its margin treatment rules with respect to OCC cleared OTC options contracts. In general, the margin requirements for options listed on an exchange (and cleared and guaranteed by the OCC) are lower than the margin

requirement for OTC options (not cleared or guaranteed by the OCC). This is because the clearing and guaranteeing functions performed by the OCC greatly reduce the counterparty risk present on exchange-traded option contracts. Thus, for margin requirements and securities setoff purposes, the Exchange requires less initial and maintenance margin for listed options positions than for OTC options positions.³ The reasons underlying the more favorable margin treatment for listed (and OCC cleared and guaranteed) options, however, apply with equal force to OCC cleared OTC options contracts. The clearing and guaranteeing functions performed by the OCC reduce the counterparty credit risk associated with these contracts to levels more commonly associated with listed options contracts. In light of the clearing and guaranteeing functions performed by the OCC, the Exchange proposes to treat OCC cleared OTC options as it treats other cleared and guaranteed options by defining OCC cleared OTC option contracts as “listed” option contracts for margin purposes only. Notably, the Exchange proposes to treat OCC cleared OTC options as listed options only after such contracts have been accepted for clearing and guaranteed by the OCC.

Exchange Rules 12.3 (Margin Requirements) and 12.4 (Portfolio Margin) describe minimum transaction or position-specific and portfolio margin requirements that TPHs must require and securities offsets that may be applied for margin requirements purposes. For margin purposes only, the Exchange proposes to modify the definition of the term “listed” in Rule 12.3(a)(9) to include OCC cleared OTC options. Similarly, the Exchange proposes changes to Rule 12.4(a)(1) to define the term “listed option” to include OCC cleared OTC option contracts for portfolio margin purposes only. These rule changes would allow the

³ See generally CBOE Rule 12.3 (Margin Requirements).

Exchange to treat OCC cleared OTC options in the same manner as Exchange-listed options for margin purposes, but make clear that the Rules are not intended to extend to or control transactions involving unlisted option contracts or OTC options contracts. The Exchange also proposes to change the definitions of the terms “OTC” in Rule 12.3(a)(14)⁴ and “unlisted derivative” in Rule 12.4(a)(4) to exclude OCC cleared OTC option contracts for margin purposes. These proposed changes are substantially similar in all material respects to FINRA Rule 4210(f)(2)(A)(xxiv), which the Commission recently approved.⁵

Notably, the Exchange is not proposing changes to Chapter IX of the Rules, particularly Rules 9.7 (Opening of Accounts) or 9.15 (Delivery of Current Options Disclosure Documents) therein. Under Rule 9.7, TPHs are required to furnish the options disclosure documents described in Rule 9.15 to customers at or prior to approving a customer’s account for options trading. Because Rules 9.7 and 9.15 relate to disclosures that must be made before a customer’s account may be approved for trading in options at the Exchange, no rule changes are needed to accommodate OCC cleared OTC option contracts, which are not Exchange-traded products. In addition, the Exchange echoes FINRA’s comments that such delivery requirements are unnecessary because the counterparties to OCC cleared OTC options must be “eligible contract participants” as defined in the

⁴ The Exchange is also proposing to add the word “option” to its definition of “OTC” in Rule 12.3(a)(14) to make clear that OTC as used in Chapter 12 would refer to an options contract. Since the current definition already states that that “OTC” “as used with reference to a call or a put option contract means an over-the-counter option contract . . .”, the Exchange believes that the addition of the word “option” would simply clarify the language in the Rule without any substantive change to the Rule.

⁵ See Order, supra note 2.

Exchange Act of 1934 (the “Act”),⁶ and thus, are more sophisticated investors who are likely to be aware of the risks associated with trading OTC options.

(b) 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.⁷ Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)⁸ requirements that the rules of an exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest. Additionally, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)⁹ requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

In particular, the Exchange believes that the proposed will add consistency to margin treatment rules making and make its margin rules easier for investors to understand. For purposes of margin treatment, the Exchange believes that the clearing

⁶ See 15 U.S.C. 78c(a)(65) which states that an “eligible contract participant has the same meaning as in section 1a of the Commodity Exchange Act.” The Commodity Exchange Act details the requirements for eligibility as an “eligible contract participant” which generally require a sufficient regulated status or a specified minimum amount of assets; see also 7 U.S.C. 1(a)(18).

⁷ 15 U.S.C. 78f(b).

⁸ 15 U.S.C. 78f(b)(5).

⁹ Id.

and guaranteeing functions performed by the OCC support a determination to treat OCC cleared OTC option contracts in the same manner as other option contracts that are cleared and guaranteed by the OCC. The Exchange believes that treating OCC cleared OTC option contracts as “listed” options for margin purposes is consistent with FINRA rules and the treatment of option contracts cleared and guaranteed by the OCC generally. The Exchange believes that treating OCC cleared OTC option contracts in this manner would protect investors’ interests and support a rational regulatory framework, which is in the best interest of investors.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange believes that the proposed margin requirements rule changes are consistent with substantially similar rule changes made by FINRA. The Exchange believes that consistency across markets with respect to margin requirements will make it easier for investors to trade options and is in the interests of all investors. Moreover, the Exchange believes that the proposed rule changes are necessary in order to not disadvantage its TPHs who would otherwise be required to maintain additional margin in their accounts, placing TPHs at the Exchange at a competitive disadvantage in the market. Furthermore, because the proposed margin rules would be applied equally to all TPHs, no TPH would be placed at a competitive disadvantage at the Exchange.

Item 5. Self-Regulatory Organization’s Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

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

Item 6. Extension of Time Period for Commission Action

Not applicable.

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

(a) The proposed rule change is filed for immediate effectiveness pursuant to Section 19(b)(3)(A) of Act¹⁰ and Rule 19b-4(f)(6)¹¹ thereunder.

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

The proposed rule change is substantially similar in all material respects to FINRA Rule 4210(f)(2)(A)(xxiv), which the Commission recently approved.¹² The Exchange believes that the proposed rule change is warranted, given the lower counterparty risk associated with options that are cleared and guaranteed by the OCC. Because of the clearing and guaranteeing functions performed by the OCC, OCC cleared OTC options carry a level of risk comparable to other listed options. These justifications

¹⁰ 15 U.S.C. 78s(b)(3)(A).

¹¹ 17 CFR 240.19b-4(f)(6).

¹² See Order, supra note 2.

for the rule have been noted by FINRA and believe the FINRA's changes to FINRA Rule 4210, which the Commission has approved.

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

(c) Not applicable.

(d) Not applicable.

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

The proposed rule change is based on FINRA Rule 4210(f)(2)(A)(xxiv), which defines a "listed" option to include an option that is "traded on a national securities exchange or issued and guaranteed by a registered clearing agency and shall include an OCC Cleared OTC Option. The proposed rule is substantially similar to FINRA Rule 4210(f)(2)(A)(xxiv), tailored to the function of the Exchange and intended to make the Exchange's margin requirements rules consistent with FINRA's rule. The Exchange believes that adoption of the proposed rule would accomplish these goals.

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

Not applicable.

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

Not applicable.

Item 11. Exhibits

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

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION

Release No. 34- ; File No. SR-CBOE-2014-073

October 1, 2014

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to Margin Treatment of Over-the-Counter Options Contracts Cleared by The Options Clearing Corporation.

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 October 1, 2014, Chicago Board Options Exchange, Incorporated (the “Exchange” or “CBOE”) filed with the Securities and Exchange Commission (the “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Exchange proposes to amend its rules regarding the margin treatment of over-the-counter (“OTC”) options cleared by The Options Clearing Corporation (“OCC”). The text of the proposed rule change is provided below.

(additions are underlined; deletions are [bracketed])

* * * * *

**Chicago Board Options Exchange, Incorporated
Rules**

* * * * *

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

Rule 1.1. When used in these Rules, unless the context otherwise requires:

(a) – (l) No change.

Option Contract

(m) Except as otherwise provided, [T]the term “option contract” means a put or call issued, or subject to issuance, by the Clearing Corporation pursuant to the Rules of the Clearing Corporation.

(n) – (ooo) No change.

OCC Cleared OTC Option Contract

(ppp) The term “OCC cleared OTC option contract” means an over-the-counter option contract that is issued and guaranteed by the Clearing Corporation. Except as otherwise provided, an OCC cleared OTC option contract is not an “options contract” as defined in the Rules.

... Interpretations and Policies:

.01 – .05 No change.

* * * * *

Rule 12.3. Margin Requirements

(a) Definitions. For purposes of this Rule, the following terms shall have the meanings specified below.

(1) – (8) No change.

(9) The term "listed" for purposes of this Chapter 12 means a security traded on a registered national securities exchange or automated facility of a registered national securities association or issued and guaranteed by the Clearing Corporation and shall include OCC cleared OTC options contracts.

(10) – (13) No change.

(14) The term “OTC option” as used with reference to a call or a put option contract in this Chapter 12 means an over-the-counter option contract that is issued and guaranteed by the carrying broker-dealer and not traded on a national securities exchange or issued and guaranteed by the Clearing Corporation [and is issued and guaranteed by the carrying broker-dealer].

(b) – (n) No change.

* * * * *

Rule 12.4 – Portfolio Margin

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

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

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

(a) Definitions.

(1) The term "listed option" for purposes of this Rule shall mean any equity (or equity index-based) option traded on a registered national securities exchange or automated facility of a registered national securities association or issued and guaranteed by the Clearing Corporation and shall include OCC cleared OTC options contracts.

(2) – (3) No change.

(4) The term "unlisted derivative" for purposes of this Rule means any equity-based (or equity index-based) unlisted option, forward contract or swap that can be valued by a theoretical pricing model approved by the Securities and Exchange Commission and does not include OCC cleared OTC options contracts.

(5) – (11) No change.

(b) – (j) No change.

* * * * *

The text of the proposed rule change is also available on the Exchange's website (<http://www.cboe.com/AboutCBOE/CBOELegalRegulatoryHome.aspx>), at the Exchange's Office of the Secretary, and at the Commission's Public Reference Room.

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

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

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

1. Purpose

The Exchange proposes to amend its margin requirements rules to treat OTC options contracts that are issued and guaranteed by the OCC (“OCC cleared OTC option contracts”) consistent with FINRA Rule 4210 (Margin Requirements).³ Specifically, the Exchange proposes a definition of OCC cleared OTC option contract in Rule 1.1(ppp) and, for margin purposes, proposes to amend the definitions of the terms “listed” in Rule 12.3(a)(9) and “listed option” in Rule 12.4(a)(1) to include OCC cleared OTC option contracts. The Exchange also proposes, for margin purposes, to amend the definitions of the terms “OTC” in Rule 12.3(a)(14) and “unlisted derivative” in Rule 12.4(a)(4) to exclude OCC cleared OTC option contracts. The Exchange’s proposal is materially based on, and substantially similar to, changes made by FINRA to its margin requirements rules under FINRA Rule 4210.⁴ The Exchange believes that a consistent margin treatment regime with respect to

³ See FINRA Rule 4210(f)(2)(A)(xxiv); see also FINRA Rules 2360(a)(9), (19), (32), (33) and 4210(g)(2)(A).

⁴ See Securities and Exchange Act Release No. 34-70619 (October 7, 2013), 78 FR 62722 (October 22, 2013) (Order Granting Approval of Proposed Rule Change Relating to Amendments to FINRA Rules 2360 and 4210 in Connection with OCC Cleared Over-the-Counter Options) (SR-FINRA-2013-027).

OCC cleared OTC option contracts will make margin requirements rules easier for market participants to understand and that the proposal is in the best interest of investors.

On April 28, 2014, the OCC launched central clearing services for bilaterally negotiated OTC equity index options contracts on the S&P 500 Index. Under OCC By-laws, the OCC may, under limited circumstances, clear OTC options on the S&P 500 Index. Such contracts must be of a term between four months and five years and have minimum notional values of either 500,000 or 100,000 times the value of the S&P 500 Index. In clearing these options, the OCC becomes both the issuer and guarantor of the OTC contract.

In response to rules adopted by the OCC permitting the OCC to issue and guarantee these particular OTC option contracts and responsive rules adopted by FINRA regarding OCC cleared OTC option contracts, the Exchange proposes to adopt a definition of OCC cleared OTC option contract and make certain changes to its margin rules. The Exchange proposes to define the term OCC cleared OTC option contract to carve-out OCC cleared OTC option contracts from the definition of “option contract” reflecting the fact that the Rules are intended to control transactions in options contracts traded at the Exchange. Specifically, the Exchange proposes changes to Rule 1.1(m) defining “option contract” and the adoption of Rule 1.1(ppp) to define the term “OCC cleared OTC option contract” in the Rules.

Under Rule 1.1(m), an “option contract” is defined as “a put or a call issued, or subject to issuance, by the [Options] Clearing Corporation pursuant to the rules of the [Options] Clearing Corporation.” OCC cleared OTC option contracts are option contracts that are subject to issuance by the OCC. Accordingly, the Exchange proposes to amend

Rule 1.1(m) to exclude OCC cleared OTC option contracts. Proposed Rule 1.1(ppp) would define OCC cleared OTC option contracts as over-the-counter option contracts that are issued and guaranteed by the Clearing Corporation. The proposed definition would also provide that except as otherwise indicated in the Rules, OCC cleared OTC option contracts are not “options contracts” under the Rules. Thus, consistent with the proposed changes to Rule 1.1(m), proposed Rule 1.1(ppp) would make clear that OCC cleared OTC option contracts are not Exchange-traded products and that the Rules, unless otherwise indicated, are not intended to extend to OCC cleared OTC options contracts.

The Exchange also proposes changes to its margin treatment rules with respect to OCC cleared OTC options contracts. In general, the margin requirements for options listed on an exchange (and cleared and guaranteed by the OCC) are lower than the margin requirement for OTC options (not cleared or guaranteed by the OCC). This is because the clearing and guaranteeing functions performed by the OCC greatly reduce the counterparty risk present on exchange-traded option contracts. Thus, for margin requirements and securities setoff purposes, the Exchange requires less initial and maintenance margin for listed options positions than for OTC options positions.⁵ The reasons underlying the more favorable margin treatment for listed (and OCC cleared and guaranteed) options, however, apply with equal force to OCC cleared OTC options contracts. The clearing and guaranteeing functions performed by the OCC reduce the counterparty credit risk associated with these contracts to levels more commonly associated with listed options contracts. In light of the clearing and guaranteeing functions performed by the OCC, the Exchange proposes to treat OCC cleared OTC options as it treats other cleared and guaranteed options

⁵ See generally CBOE Rule 12.3 (Margin Requirements).

by defining OCC cleared OTC option contracts as “listed” option contracts for margin purposes only. Notably, the Exchange proposes to treat OCC cleared OTC options as listed options only after such contracts have been accepted for clearing and guaranteed by the OCC.

Exchange Rules 12.3 (Margin Requirements) and 12.4 (Portfolio Margin) describe minimum transaction or position-specific and portfolio margin requirements that TPHs must require and securities offsets that may be applied for margin requirements purposes. For margin purposes only, the Exchange proposes to modify the definition of the term “listed” in Rule 12.3(a)(9) to include OCC cleared OTC options. Similarly, the Exchange proposes changes to Rule 12.4(a)(1) to define the term “listed option” to include OCC cleared OTC option contracts for portfolio margin purposes only. These rule changes would allow the Exchange to treat OCC cleared OTC options in the same manner as Exchange-listed options for margin purposes, but make clear that the Rules are not intended to extend to or control transactions involving unlisted option contracts or OTC options contracts. The Exchange also proposes to change the definitions of the terms “OTC” in Rule 12.3(a)(14)⁶ and “unlisted derivative” in Rule 12.4(a)(4) to exclude OCC cleared OTC option contracts for margin purposes. These proposed changes are substantially similar in all material respects to FINRA Rule 4210(f)(2)(A)(xxiv), which the Commission recently approved.⁷

⁶ The Exchange is also proposing to add the word “option” to its definition of “OTC” in Rule 12.3(a)(14) to make clear that OTC as used in Chapter 12 would refer to an options contract. Since the current definition already states that that “OTC” “as used with reference to a call or a put option contract means an over-the-counter option contract . . .”, the Exchange believes that the addition of the word “option” would simply clarify the language in the Rule without any substantive change to the Rule.

⁷ See Order, supra note 2.

Notably, the Exchange is not proposing changes to Chapter IX of the Rules, particularly Rules 9.7 (Opening of Accounts) or 9.15 (Delivery of Current Options Disclosure Documents) therein. Under Rule 9.7, TPHs are required to furnish the options disclosure documents described in Rule 9.15 to customers at or prior to approving a customer's account for options trading. Because Rules 9.7 and 9.15 relate to disclosures that must be made before a customer's account may be approved for trading in options at the Exchange, no rule changes are needed to accommodate OCC cleared OTC option contracts, which are not Exchange-traded products. In addition, the Exchange echoes FINRA's comments that such delivery requirements are unnecessary because the counterparties to OCC cleared OTC options must be "eligible contract participants" as defined in the Act,⁸ and thus, are more sophisticated investors who are likely to be aware of the risks associated with trading OTC options.

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.⁹ Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)¹⁰ requirements that the rules of an exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with

⁸ See 15 U.S.C. 78c(a)(65) which states that an "eligible contract participant has the same meaning as in section 1a of the Commodity Exchange Act." The Commodity Exchange Act details the requirements for eligibility as an "eligible contract participant" which generally require a sufficient regulated status or a specified minimum amount of assets; see also 7 U.S.C. 1(a)(18).

⁹ 15 U.S.C. 78f(b).

¹⁰ 15 U.S.C. 78f(b)(5).

persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest. Additionally, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)¹¹ requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

In particular, the Exchange believes that the proposed will add consistency to margin treatment rules making and make its margin rules easier for investors to understand. For purposes of margin treatment, the Exchange believes that the clearing and guaranteeing functions performed by the OCC support a determination to treat OCC cleared OTC option contracts in the same manner as other option contracts that are cleared and guaranteed by the OCC. The Exchange believes that treating OCC cleared OTC option contracts as “listed” options for margin purposes is consistent with FINRA rules and the treatment of option contracts cleared and guaranteed by the OCC generally. The Exchange believes that treating OCC cleared OTC option contracts in this manner would protect investors’ interests and support a rational regulatory framework, which is in the best interest of investors.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange believes that the proposed margin requirements rule changes are consistent with substantially similar rule changes made by FINRA. The Exchange

¹¹ Id.

believes that consistency across markets with respect to margin requirements will make it easier for investors to trade options and is in the interests of all investors. Moreover, the Exchange believes that the proposed rule changes are necessary in order to not disadvantage its TPHs who would otherwise be required to maintain additional margin in their accounts, placing TPHs at the Exchange at a competitive disadvantage in the market. Furthermore, because the proposed margin rules would be applied equally to all TPHs, no TPH would be placed at a competitive disadvantage at the Exchange.

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

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

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

Because the foregoing proposed rule change does not:

- A. significantly affect the protection of investors or the public interest;
- B. impose any significant burden on competition; and
- C. become operative for 30 days from the date on which it was filed, or such

shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act¹² and Rule 19b-4(f)(6)¹³ thereunder. At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action,

¹² 15 U.S.C. 78s(b)(3)(A).

¹³ 17 CFR 240.19b-4(f)(6).

the Commission will institute proceedings to determine whether the proposed rule change should be approved or disapproved.

IV. Solicitation of Comments

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

Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-CBOE-2014-073 on the subject line.

Paper comments:

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

All submissions should refer to File Number SR-CBOE-2014-073. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for

website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, D.C. 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-CBOE-2014-073 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.¹⁴

Secretary

¹⁴ 17 CFR 200.30-3(a)(12).