SECURITIES AND EXCHANGE COMMISSION


Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Order Granting Approval of Proposed Rule Change To Amend Certain Rules Pertaining to Credit Options

November 19, 2010.

I. Introduction

On September 20, 2010, the Chicago Board Options Exchange, Incorporated (“CBOE” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)1 and Rule 19b–4 thereunder, a proposed rule change to amend its rules relating to Credit Options. The proposed rule change was published for comment in the Federal Register on October 7, 2010.2 The Commission received no comments on the proposal. This order approves the proposed rule change.

II. Description of the Proposal

The Exchange proposes to amend its rules governing Credit Options3 to make three substantive changes. First, CBOE proposes to permit the Exchange to fix the exercise settlement value for Credit Default Options, on a class-by-class basis, at $1 or $100, or at a value between those two points. Currently, the exercise settlement value is fixed at $100. Since the cash settlement amount for Credit Default Options is the product of the exercise settlement value multiplied by a contract multiplier that may be fixed by the Exchange on a class-by-class basis within a range of 1 to 1,000, this change will enable the Exchange to list a Credit Default Option contract with a cash settlement amount that could be arrived at in different ways.4 Second, the proposal would permit the Exchange to establish the minimum price variation (“MPV”) for all Credit Options, which is currently $0.05, on a class-by-class basis, at an increment no less than $0.01, which would permit more pricing points, such as when lower exercise settlement values are designated. Third, the proposal would give the Exchange authority to list Credit Options that contemplate only a single credit event. Currently, CBOE rules for Credit Options enumerate several potential credit events, the occurrence of any one of which could allow the Credit Option to be exercised. For example, a failure-to-pay default will always be a designated credit event for each class, and the Exchange may, on a class-by-class basis, specify other events of default or a restructuring.6 The Exchange proposes to amend its rules to permit it to list Credit Options designating a single credit event, such as a failure-to-pay default, another event of default, or a restructuring. The Exchange also proposes to make a technical, non-substantive change to one of its rules governing Credit Options, Rule 29.3.

III. Discussion and Commission’s Findings

After careful consideration, the Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange.7 In particular, the Commission finds that the proposed rule change is consistent with the requirements of Section 6(b)(5) of the Act,8 which requires, among other things, that the Exchange’s rules 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.

The Commission believes that the proposal to authorize the Exchange to list Credit Options that contemplate only a single credit event is consistent with the Act. In addition, the Commission believes that the proposal to allow the Exchange flexibility to fix the exercise settlement value for Credit Default Options within a range of $1 to $100 is consistent with the Act. With this change, the Exchange could list a contract with a cash settlement value of $10,000 with a multiplier of 1,000 and an exercise settlement amount of $10, or with a multiplier of 100 and an exercise settlement amount of $100. There could be concerns if the Exchange were to seek to list Credit Default Options having the same cash settlement value but with different combinations of multiplier and cash settlement amount.9

4 Credit Options include Credit Default Options and Credit Default Basket Options. Credit Default Options are cash-settled binary options that are automatically exercised upon the occurrence of specified credit events or expire worthless. See CBOE Rule 29.1(b); Securities Exchange Act Release No. 55871 (June 6, 2007), 72 FR 32372 (June 12, 2007) (SR–CBOE–2006–84) (order approving CBOE’s proposed rules to list and trade Credit Default Options). Credit Default Basket Options are cash-settled binary options based on a basket of at least two reference entities. See CBOE Rule 29.1(b); Securities Exchange Act Release No. 56275 (August 17, 2007), 72 FR 47097 (August 22, 2007) (SR–CBOE–2007–26) (order approving CBOE’s proposed rules to list and trade Credit Default Basket Options).
5 The Exchange has represented that it will not list more than one Credit Default Option contract with a cash settlement amount arrived at in different ways. See Notice at note 8 and accompanying text.
6 See CBOE Rules 29.2 and 29.2A.
This could fragment the market and dilute the liquidity of economically identical products. The Exchange has represented, however, that it will not list more than one Credit Default Option contract with a cash settlement value that has been arrived at in multiple ways. The Commission’s approval of this aspect of the proposal incorporates that representation.

Finally, the Commission believes that the proposal to use an MPV of as little as $0.01 for all Credit Options is consistent with the Act. With exercise settlement values as low as $1, the ability to set the MPV at $0.01 would make available 100 price points for quoting bids and offers in the range of $0 to $1, as opposed to only 20 price points under the current MPV of $0.05. The CBOE has represented that it has analyzed its capacity and believes that it and the Options Price Reporting Authority have the necessary systems capacity to handle the additional traffic associated with the ability to designate $0.01 as the MPV for Credit Options; and that the Exchange believes that the change will not lead to a proliferation of quotes and thus do not have multiple series with different strike prices, because Credit Options do not have strike prices.

IV. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (SR–CBOE–2010–046), be, and it hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.

Elizabeth M. Murphy, Secretary.

SMALL BUSINESS ADMINISTRATION

Data Collection Available for Public Comments and Recommendations

ACTION: Notice and request for comments.

- See supra note 5.
- The Commission also notes that the CBOE currently has the flexibility to set the exercise settlement value for binary options listed on the Exchange on a class-by-class basis. See CBOE Rule 22.1(e). See also Notice at note 9 and accompanying text.
- See Notice. The Commission also notes that the Exchange has the discretion to establish the MPV on a class-by-class basis for binary options at an increment no less than $0.01. See CBOE Rule 22.13(b).

SUMMARY: In accordance with the Paperwork Reduction Act of 1995, this notice announces the Small Business Administration’s intentions to request approval on a new and/or currently approved information collection.

DATES: Submit comments on or before January 28, 2011.

ADDRESSES: Send all comments regarding whether this information collection is necessary for the proper performance of the function of the agency, whether the burden estimates are accurate, and if there are ways to minimize the estimated burden and enhance the quality of the collection, to Dean Koppel, Assistant Administrator, Office of Policy and Research, Small Business Administration, 409 3rd Street, 6th Floor, Washington, DC 20416.

DEPARTMENT OF STATE

[Public Notice 7249]

Bureau of Western Hemisphere Affairs; Executive Order 11423, as Amended; Notice of Receipt of Application for a Presidential Permit To Renovate and Expand the San Ysidro Land Port of Entry on the U.S.-Mexico Border at San Diego, CA and Tijuana, Baja CA, Mexico

AGENCY: Department of State.

ACTION: Notice.

SUMMARY: The Department of State hereby gives notice that, on November 10, 2010, it received an application for a Presidential Permit to authorize the renovation and expansion of the San Ysidro border crossing facility on the U.S.-Mexico border at San Diego, California and Tijuana, Baja California, Mexico. The General Services Administration (GSA) filed this application and is acting as the project’s sponsor. The Department of State’s jurisdiction over this application is based upon Executive Order 11423 of August 16, 1968, as amended. As provided in E.O. 11423, the Department is circulating this application to relevant federal and state agencies for review and