



December 1, 2014

Christopher J. Kirkpatrick  
Secretary  
Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21st Street, N.W.  
Washington, D.C. 20581

Re: CBOE Futures Exchange, LLC Rule Certification  
Submission Number CFE-2014-030

Dear Mr. Kirkpatrick:

Pursuant to Section 5c(c)(1) of the Commodity Exchange Act, as amended (“Act”), and §40.6(a) of the regulations promulgated by the Commodity Futures Trading Commission (“Commission”) under the Act, CBOE Futures Exchange, LLC (“CFE” or “Exchange”) hereby submits a CFE rule amendment (“Amendment”) to amend several CFE Rules in order to: (1) change the manner by which the daily settlement price is determined for all contracts traded on CFE; (2) reduce the minimum price increment for Block Trades and Exchange of Contract for Related Position (“ECRP”) transactions in the CBOE Volatility Index (“VIX”) futures contract; and (3) make clarifying changes to CFE’s daily settlement price and Threshold Width provisions. The Amendment will become effective on or after December 22, 2014, on a date to be announced by the Exchange through the issuance of a circular.

Currently, the contract specification rule chapter for each contract traded on CFE provides for the following in relation to the daily settlement price: The daily settlement price for each contract is the average of the final bid and final offer for the contract at the close of trading. If the average of the final bid and final offer is not at a minimum increment for the contract, the daily settlement price is the average of the final bid and final offer rounded up to the nearest minimum increment. If there is no bid or offer at the close of trading, the Exchange may in its sole discretion establish a daily settlement price that it deems to be a fair and reasonable reflection of the market.

The Exchange is amending each contract specification chapter to eliminate the current rounding up of the daily settlement price to the nearest minimum increment if the average of the final bid and offer is not at the minimum increment for the contract. Instead, each contract specification chapter will provide that the daily settlement price may go out to four decimal places and may be a price that is not at a minimum increment for the contract. The Exchange believes that this change to how the daily settlement price is determined will more accurately reflect pricing for each contract traded on CFE.

The Exchange is reducing the minimum price increment from \$0.01 to \$0.005 for all types of Block Trades and ECRP transactions in VIX futures, including Trade at Settlement (“TAS”) Block Trades (including as spread transactions but not as a strip) and ECRP transactions.

The Exchange is amending each contract specifications chapter to clarify that the Exchange may in its sole discretion establish a daily settlement price that it deems to be a fair and reasonable reflection of the market not only if there is no bid or offer at the close of trading but also if there is a trading halt or other unusual circumstance at the scheduled close of trading.

The Exchange is also making technical, non-substantive changes to the terminology used in the Threshold Width paragraphs contained in several contract rule specification chapters, as needed. Whether a Threshold Width exists in a contract is relevant for purposes of certain CFE trading system functionality. The Exchange is clarifying that the range used to determine which Threshold Width applies is the price range of the contract instead of the index level and that the price range is determined using the bid price.

CFE believes that the Amendment is consistent with Designated Contract Market Core Principles 7 (Availability of General Information) and 8 (Daily Publication of Trading Information) under Section 5 of the Act because the rules being amended clearly will set forth the manner by which the daily settlement prices for CFE's products will be determined, the permissible minimum increment for Block Trades and ECRP transactions in VIX futures and the manner in which Threshold Widths are determined. Additionally, CFE will make public its daily settlement prices in accordance with Commission Regulation 16.01.

CFE generally received positive feedback concerning the Amendment. CFE originally planned to implement the changes being made in the Amendment in September 2014. CFE issued Information Circular [IC14-044](#) on August 15, 2014 detailing the Amendment and the anticipated implementation date, which was to be a day after expiration in September 2014. In response to that Information Circular, CFE received requests to provide additional time for structured product issuers to notify their customers about the change. As a result, CFE delayed implementation by three months. CFE understands that at least one independent software vendor recently tested with CFE<sup>1</sup> and is able to receive daily settlement prices out to four decimal places, but may have additional systems development to complete post implementation. CFE believes that it has provided adequate notice of the Amendment and has already delayed implementation by three months. Also, CFE's S&P 500 Variance futures contract was first listed for trading in September 2012 and is settled daily in sub-penny increments. As a result, a daily settlement price expressed in sub-pennies is not a novel concept on CFE.

CFE believes that the impact of the Amendment will be beneficial to the public and market participants. CFE is not otherwise aware of any substantive opposing views to the Amendment. CFE hereby certifies that the Amendment complies with the Act and the regulations thereunder. CFE further certifies that it has posted a notice of pending certification with the Commission and a copy of this submission on CFE's Web site (<http://cfe.cboe.com/aboutcfe/rules.aspx>) concurrent with the filing of this submission with the Commission.

The Amendment, marked to show additions in underlined text and deletions in [bracketed] text, consists of the following:

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<sup>1</sup> CFE conducted a test with market participants on November 22, 2014 to simulate the dissemination of the daily settlement price for all CFE products at a price that will support up to four decimal prices. See CFE Regulatory Circular [RG14-043](#).

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**Chapter 12**  
**CBOE Volatility Index Futures Contract Specifications**

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**Rule 1202. Contract Specifications**

(a) – (i) No change.

(j) *Exchange of Contract for Related Position.* Exchange of Contract for Related Position transactions, as set forth in Rule 414, may be entered into with respect to VIX futures contracts. Any Exchange of Contract for Related Position transaction must satisfy the requirements of Rule 414.

The minimum price increment for an Exchange of Contract for Related Position involving the VIX futures contract is [0.01] 0.005 index points.

(k) *Block Trades.* Pursuant to Rule 415(a)(i), the minimum Block Trade quantity for the VIX futures contract is 200 contracts if there is only one leg involved in the trade. If the Block Trade is executed as a spread order, one leg must meet the minimum Block Trade quantity for the VIX futures contract and the other leg(s) must have a contract size that is reasonably related to the leg meeting the minimum Block Trade quantity. If the Block Trade is executed as a transaction with legs in multiple contract months and all legs of the Block Trade are exclusively for the purchase or exclusively for the sale of VIX futures contracts (a “strip”), the minimum Block Trade quantity for the strip is 300 contracts and each leg of the strip is required to have a minimum size of 100 contracts.

The minimum price increment for a Block Trade in the VIX futures contract is [0.01] 0.005 index points.

(l) – (n) No change.

(o) *Threshold Widths.* For purposes of Policy and Procedure I and Policy and Procedure II, the Threshold Widths for the VIX futures contract are as follows:

| <b>[VIX Index Level]</b><br><b><u>Price Range</u></b> | <b>Threshold Width</b> |
|---|------------------------|
| 0 - 15.00   | 1.50                   |
| 15.01 - 25.00   | 2.50                   |
| 25.01 - 35.00   | 3.50                   |
| 35.01 - 50.00   | 5.00                   |
| 50.01+  | 7.50                   |

The price range referenced above is determined using the bid price. The minimum size of bids and offers that establish a Threshold Width is one contract.

(p) *Daily Settlement Price.* The daily settlement price for each VIX futures contract will be the average of the final bid and final offer for the VIX futures contract at the close of trading,

subject to the following]. [If the average of the final bid and final offer is not at a minimum increment for the VIX futures contract, the daily settlement price shall be the average of the final bid and final offer rounded up to the nearest minimum increment.] The daily settlement price may go out to four decimal places and may be a price that is not at a minimum increment for the VIX futures contract. If there is no bid or offer at the close of trading or there is a trading halt or other unusual circumstance at the scheduled close of trading, the Exchange may in its sole discretion establish a daily settlement price that it deems to be a fair and reasonable reflection of the market.

(q) *Trade at Settlement Transactions.* Trade at Settlement (“TAS”) transactions pursuant to Rule 404A are permitted in VIX futures and may be transacted on the CBOE System, as spread transactions, as Block Trades (including as spread transactions but not as a strip) and as Exchange of Contract for Related Position transactions. The trading hours for all types of TAS transactions in VIX futures are during extended trading hours and during regular trading hours until three minutes prior to the close of regular trading hours at the end of a Business Day. All Orders, quotes, cancellations and Order modifications for TAS transactions during trading hours must be received by the Exchange by no later than three minutes and one second prior to the close of trading hours at the end of a Business Day and will be automatically rejected if received by the Exchange during trading hours after this cutoff time. Any TAS Block Trade or TAS Exchange of Contract for Related Position transaction reported to the Exchange later than three minutes prior to the close of regular trading hours at the end of a Business Day may only be for the next Business Day.

The permissible price range for all types of TAS transactions in VIX futures is from \$100 (0.10 index points x \$1,000) below the daily settlement price to \$100 above the daily settlement price. The permissible minimum increment for TAS non-spread transactions in VIX futures that are transacted on the CBOE System is 0.01 index points[,], and the permissible minimum increment for TAS spread transactions[, Block Trades and Exchange of Contract for Related Position transactions] in VIX futures is 0.01 index points. The permissible minimum increment for TAS Block Trades (including as spread transactions but not as a strip) and TAS Exchange of Contract for Related Position transactions in VIX futures is 0.005 index points.

(r) – (s) No change.

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### **Chapter 13**

#### **CBOE Short-Term Volatility Index Futures Contract Specifications**

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#### **Rule 1302. Contract Specifications**

(a) – (n) No change.

(o) *Threshold Widths.* For purposes of Policy and Procedure I and Policy and Procedure II, the Threshold Widths for the VXST futures contract are as follows:

| <b>[VXST Index Level]<br/>Price Range</b> | <b>Threshold Width</b> |
|---|------------------------|
| 0 - 15.00                                 | 1.50                   |
| 15.01 - 25.00                             | 2.50                   |
| 25.01 - 35.00                             | 3.50                   |
| 35.01 - 50.00                             | 5.00                   |
| 50.01+                                    | 7.50                   |

The price range referenced above is determined using the bid price. The minimum size of bids and offers that establish a Threshold Width is one contract.

(p) *Daily Settlement Price.* The daily settlement price for each VXST futures contract will be the average of the final bid and final offer for the VXST futures contract at the close of trading[, subject to the following]. [If the average of the final bid and final offer is not at a minimum increment for the VXST futures contract, the daily settlement price shall be the average of the final bid and final offer rounded up to the nearest minimum increment.] The daily settlement price may go out to four decimal places and may be a price that is not at a minimum increment for the VXST futures contract. If there is no bid or offer at the close of trading or there is a trading halt or other unusual circumstance at the scheduled close of trading, the Exchange may in its sole discretion establish a daily settlement price that it deems to be a fair and reasonable reflection of the market.

(q) – (s) No change.

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#### **Chapter 14**

#### **CBOE/CBOT 10-Year U.S. Treasury Note Volatility Index Futures Contract Specifications**

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#### **Rule 1402. Contract Specifications**

(a) – (o) No change.

(p) *Daily Settlement Price.* The daily settlement price for each VXTYN futures contract will be the average of the final bid and final offer for the VXTYN futures contract at the close of trading[, subject to the following]. [If the average of the final bid and final offer is not at a minimum increment for the VXTYN futures contract, the daily settlement price shall be the average of the final bid and final offer rounded up to the nearest minimum increment.] The daily settlement price may go out to four decimal places and may be a price that is not at a minimum increment for the VXTYN futures contract. If there is no bid or offer at the close of trading or there is a trading halt or other unusual circumstance at the scheduled close of trading, the Exchange may in its sole discretion establish a daily settlement price that it deems to be a fair and reasonable reflection of the market.

(q) – (s) No change.

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**Chapter 16**  
**Individual Stock Based and Exchange-Traded Fund Based**  
**Volatility Index Security Futures Contract Specifications**

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**Rule 1602. Contract Specifications**

(a) – (n) No change.

(o) *Threshold Widths.* For purposes of Policy and Procedure I and Policy and Procedure II, the Threshold Widths for a Volatility Index futures contract are as follows:

| <b>[Volatility Index Level]</b><br><b><u>Price Range</u></b> | <b>Threshold Width</b> |
|--|------------------------|
| 0 - 15.00  | 1.50                   |
| 15.01 - 25.00  | 2.50                   |
| 25.01 - 35.00  | 3.50                   |
| 35.01 - 50.00  | 5.00                   |
| 50.01+   | 7.50                   |

The price range referenced above is determined using the bid price. The minimum size of bids and offers that establish a Threshold Width is one contract.

(p) *Daily Settlement Price.* The daily settlement price for each Volatility Index Futures contract will be the average of the final bid and final offer for the Volatility Index Futures contract at the close of trading[, subject to the following]. [If the average of the final bid and final offer is not at a minimum increment for the Volatility Index Futures contract, the daily settlement price shall be the average of the final bid and final offer rounded up to the nearest minimum increment.] The daily settlement price may go out to four decimal places and may be a price that is not at a minimum increment for the Volatility Index futures contract. If there is no bid or offer at the close of trading or there is a trading halt or other unusual circumstance at the scheduled close of trading, the Exchange may in its sole discretion establish a daily settlement price that it deems to be a fair and reasonable reflection of the market.

(q) – (s) No change.

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**Chapter 17**  
**CBOE Nasdaq-100 Volatility Index Futures Contract Specifications**

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**Rule 1702. Contract Specifications**

(a) – (n) No change.

(o) *Threshold Widths.* For purposes of Policy and Procedure I and Policy and Procedure II, the Threshold Widths for the VXN futures contract are as follows:

| <b>[VXN Index Level]<br/>Price Range</b> | <b>Threshold Width</b> |
|--|------------------------|
| 0 - 15.00                                | 1.50                   |
| 15.01 - 25.00                            | 2.50                   |
| 25.01 - 35.00                            | 3.50                   |
| 35.01 - 50.00                            | 5.00                   |
| 50.01+                                   | 7.50                   |

The price range referenced above is determined using the bid price. The minimum size of bids and offers that establish a Threshold Width is one contract.

(p) *Daily Settlement Price.* The daily settlement price for each VXN futures contract will be the average of the final bid and final offer for the VXN futures contract at the close of trading[, subject to the following]. [If the average of the final bid and final offer is not at a minimum increment for the VXN futures contract, the daily settlement price shall be the average of the final bid and final offer rounded up to the nearest minimum increment.] The daily settlement price may go out to four decimal places and may be a price that is not at a minimum increment for the VXN futures contract. If there is no bid or offer at the close of trading or there is a trading halt or other unusual circumstance at the scheduled close of trading, the Exchange may in its sole discretion establish a daily settlement price that it deems to be a fair and reasonable reflection of the market.

(q) – (s) No change.

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## **Chapter 18 Single Stock Futures**

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### **Rule 1802. Contract Specifications**

(a) – (i) No change.

(j) *Daily Settlement Price.* (i) The daily settlement price for each Single Stock Future Contract will be the average of the final Bid and final Offer of the Single Stock Future Contract at the close of trading. The daily settlement price may go out to four decimal places and may be a price that is not at a minimum increment for the Single Stock Future Contract.

(ii) If there [were] is no bid or offer at the close of trading, then the Exchange shall set a reasonable settlement price by adjusting the average of the last bid and offer disseminated to the market and captured by an independent price reporting system during the trading day by the difference between the consolidated price of the Underlying Security at the time that the last bid or offer was quoted on the Exchange and the consolidated price of the Underlying Security at the close of regular trading hours.

(iii) Notwithstanding the above, the Exchange may in its sole discretion establish a settlement price that it deems to be a fair and reasonable reflection of the market. The Exchange will consider all relevant factors, including those discussed in this provision, when establishing such a settlement price.

(k) – (q) No change.

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**Chapter 21**  
**CBOE Russell 2000 Futures Contract Specifications**

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**Rule 2102. Contract Specifications**

(a) – (n) No change.

(o) *Threshold Widths.* For purposes of Policy and Procedure I and Policy and Procedure II, the Threshold Widths for the RVX futures contract are as follows:

| <b>[RVX Index Level]</b><br><b><u>Price Range</u></b> | <b>Threshold Width</b> |
|---|------------------------|
| 0 - 15.00   | 1.50                   |
| 15.01 - 25.00   | 2.50                   |
| 25.01 - 35.00   | 3.50                   |
| 35.01 - 50.00   | 5.00                   |
| 50.01+  | 7.50                   |

The price range referenced above is determined using the bid price. The minimum size of bids and offers that establish a Threshold Width is one contract.

(p) *Daily Settlement Price.* The daily settlement price for each RVX futures contract will be the average of the final bid and final offer for the RVX futures contract at the close of trading[, subject to the following]. [If the average of the final bid and final offer is not at a minimum increment for the RVX futures contract, the daily settlement price shall be the average of the final bid and final offer rounded up to the nearest minimum increment.] The daily settlement price may go out to four decimal places and may be a price that is not at a minimum increment for the RVX futures contract. If there is no bid or offer at the close of trading or there is a trading halt or other unusual circumstance at the scheduled close of trading, the Exchange may in its sole discretion establish a daily settlement price that it deems to be a fair and reasonable reflection of the market.

(q) – (s) No change.

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**Chapter 23**  
**S&P 500 Variance Futures Contract Specifications**

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**Rule 2302. Contract Specifications**

(a) – (n) No change.



(o) *Threshold Widths.* For purposes of Policy and Procedure I and Policy and Procedure II, the Threshold Widths for the S&P 500 Variance futures contract are as follows:

| Price Range in Volatility Points | Threshold Width |
|----------------------------------|-----------------|
| [1]0 – 15.00                     | 5.00            |
| 15.01 – 25.00                    | 7.50            |
| 25.01 – 40.00                    | 10.00           |
| 40.01 – 100.00                   | 20.00           |
| 100.01 +                         | 50.00           |

The price range referenced above is determined using the bid price. The minimum size of bids and offers that establish a Threshold Width is a contract amount equal to 1,000 vega notional.

(p) *Daily Settlement Price.* The daily settlement price for each S&P 500 Variance futures contract will be the average of the final bid and final offer for the S&P 500 Variance futures contract at the close of trading converted from volatility points to an adjusted futures price[, subject to the following]. [If the average of the final bid and final offer is not at a minimum increment for the S&P 500 Variance futures contract, the daily settlement price shall be the average of the final bid and final offer rounded up to the nearest minimum increment and then converted from volatility points to an adjusted futures price.] The daily settlement price may go out to four decimal places and may be a price that is not at a minimum increment for the S&P 500 Variance futures contract. If there is no bid or offer at the close of trading or there is a trading halt or other unusual circumstance at the scheduled close of trading, the Exchange may in its sole discretion establish a daily settlement price that it deems to be a fair and reasonable reflection of the market.

(q) – (s) No change.

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Questions regarding this submission may be directed to Arthur Reinstein at (312) 786-7570 or Jenny Golding at (312) 786-7466. Please reference our submission number CFE-2014-030 in any related correspondence.

CBOE Futures Exchange, LLC



By: Michael Mollet  
Managing Director