CBOE ~~FUTURES EXCHANGE~~ EXECUTE SUCCESS℠

January 29, 2014

<u>Via Electronic Mail</u>

Ms. Melissa Jurgens
Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, D.C. 20581

Re: <u>CBOE Futures Exchange, LLC Product Certification and Rule Certification</u>
<u>for CBOE Short-Term Volatility Index Futures Contract</u>
<u>Submission Number CFE-2014-01</u>

Dear Ms. Jurgens:

Pursuant to Section 5c(c)(1) of the Commodity Exchange Act, as amended ("Act"), and §40.2 and §40.6 of the regulations promulgated by the Commodity Futures Trading Commission under the Act, CBOE Futures Exchange, LLC ("CFE" or "Exchange") hereby submits rules ("Rules") and terms and conditions for a new product to be traded on CFE, which are attached hereto along with a chart that summarizes the product specifications. The new product is the CBOE Short-Term Volatility Index ("VXST") futures contract ("Product"). The Product will be listed for trading on CFE, and the Rules and terms and conditions for the Product (including DPM market performance benchmarks and product specific DPM benefits) will become effective, on or after February 13, 2014 on a date to be announced by the Exchange through the issuance of a circular.

The underlying index for the Product is the CBOE Short-Term Volatility Index ("VXST"). The VXST is based on real-time prices of options on the S&P 500 Index that expire every week, listed on the Chicago Board Options Exchange, Incorporated ("CBOE"), and is designed to reflect investors' consensus view of nine day expected stock market volatility. Because some of the constituent options used to calculate the VXST index are A.M.-settled and some are P.M.-settled, the amount of time covered by a specific contract will vary slightly depending on the type of series used for that VXST contract. For a VXST futures contract calculated using A.M.-settled standard S&P 500 index options, the period of implied volatility covered by the contract will be exactly nine days. For a VXST futures contract calculated using P.M.-settled End of Week ("EOW) or Quarterly Index Expiration ("QIX") options on the S&P 500 index, the period of implied volatility covered by the contract will be nine days, plus 390 minutes.

The VXST calculation generally uses nearby and second nearby option expirations with at least one day left to expiration and then weights them to yield a constant, nine day measure of the expected volatility of the S&P 500 Index. The quantity of S&P 500 Index option series used to calculate the VXST at any given time will range from an average of 60 series at settlement to 120 or more series at other times. Information regarding the VXST, including the current

methodology for computing the VXST, may be found on CBOE's website at the following internet address: http://www.cboe.com/micro/VXST/default.aspx

The VXST qualifies as a broad-based security index pursuant to the 2004 Joint Order issued by the Securities and Exchange Commission and the Commodity Futures Trading Commission ("Commissions") dated March 25, 2004 (Securities Exchange Act Release No. 49469) as amended by the 2009 Joint Order issued by the Commissions dated November 17, 2009 (Securities Exchange Act Release No. 61020) ("Joint Order")[1] in that:

(1) The VXST measures the magnitude of changes in the level of the S&P 500 Index over a defined period of time, which magnitude is calculated using prices of options on the S&P 500 Index and represents an annualized standard deviation of percent changes in the level of the S&P 500 Index;

(2) The S&P 500 Index is a broad-based security index and is not a narrow-based security index as that term is defined in Section 1(a)(25) of the Act and Section 3(a)(55) of the Securities Exchange Act of 1934 ("Exchange Act");

(3) The VXST has more than 9 component securities, all of which are options on the S&P 500 Index;

(4) No component security of the VXST comprises more than 30% of the VXST's weighing;

(5) The five highest weighted component securities of the VXST in the aggregate do not comprise more than 60% of the VXST's weighting;

(6) CFE certifies that the S&P 500 Index complies with the criteria set forth in condition (5) of the Joint Order;

(7) Options on the S&P 500 Index are listed and traded on CBOE, a national securities exchange registered under Section 6 of the Exchange Act; and

(8) The aggregate average daily trading volume in CBOE-listed options on the S&P 500 Index that are used to calculate the VXST is approximately 203,570 contracts calculated as of the preceding 6 full months.

CFE certifies that the Product complies with the Act and the rules thereunder.

The rule chapter setting forth contract specifications for VXST futures will be Chapter 13.

CFE is amending CFE Policy and Procedure X (DPM Market Performance Benchmarks Program) to provide for market performance benchmarks and a revenue sharing provision for the Designated Primary Market Maker ("DPM") for VXST futures. The revenue sharing provision is intended to be temporary, and the Exchange plans to submit a rule certification in the near future to replace the revenue sharing provision with a DPM trade participation right priority under CFE Rule 406(b)(iii).

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[1] 69 FR 16900 (March 31, 2004) and 74 FR 61116 (November 23, 2009).

CFE believes that the Product and Rules are consistent with Designated Contract Market Core Principle 3 (Contracts Not Readily Susceptible to Manipulation). The Exchange represents that, consistent with the guidance set forth under Appendix C to Part 38 of the Commission's Regulations (Demonstration of Compliance that a Contract is Not Readily Susceptible to Manipulation), CFE, among other things: (1) conducted market research so that the design of the VXST futures contract meets the risk management needs of prospective users and promotes price discovery and (2) consulted with market users and obtained their views and opinions during the contract design process to ensure that the VXST futures contract terms and conditions reflect the underlying cash market and that the futures contract will perform the intended risk management and/or price discovery functions.

CFE also believes that the Product and Rules are consistent with Core Principles 5 (Position Limitations or Accountability) 7 (Availability of General Information), 8 (Daily Publication of Trading Information) and 9 (Execution of Transactions) under Section 5 of the Act. The Exchange notes in this regard that: (i) the Rules establish a position limit level of 5,000 contracts in conformity with Commission Regulation §150.5(b)(3) (Exchange-set Speculative Position Limits); (ii) the chart that summarizes the product specifications will be posted and maintained on CFE's website; and (iii) volume, open interest, settlement prices and other price information will be made available publicly on a daily basis on CFE's website consistent with Commission Regulation §16.01. The Exchange also believes that the DPM program provision included in the Rules will have a positive impact on the price discovery process by increasing the liquidity in VXST futures traded on CFE's centralized market and will incentivize the DPM to devote its efforts to improving market quality in VXST futures.

CFE believes that the impact of the Product and Rules will be beneficial to the public and market participants. CFE is not aware of any substantive opposing views to the Product and Rules. CFE hereby certifies that the Product and Rules comply with the Act and the regulations thereunder. CFE further certifies that CFE 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.

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-2014-01 in any related correspondence.

CBOE Futures Exchange, LLC

By: Michael Mollet
        Managing Director

cc: Philip Colling (CFTC)
        Thomas Leahy (CFTC)
        National Futures Association
        The Options Clearing Corporation

**Summary Product Specifications Chart for
CBOE Short-Term Volatility Index Futures**

CONTRACT NAME:	CBOE Short-Term Volatility Index (VXST) futures
LISTING DATE:	February 13, 2014
DESCRIPTION:	The VXST is based on real-time prices of options on the S&P 500 Index that expire every week, listed on the Chicago Board Options Exchange, Incorporated (CBOE), and is designed to reflect investors' consensus view of nine day expected stock market volatility.
CONTRACT SIZE:	The contract multiplier for the VXST futures contract is $1,000.
TRADING HOURS:	8:30 a.m. - 3:15 p.m. Chicago time. All Orders, quotes, cancellations and Order modifications for VXST futures during trading hours must be received by the Exchange by no later than 3:14:59 p.m. Chicago time and will be automatically rejected if received by the Exchange during trading hours after 3:14:59 p.m. Chicago time.
TRADING PLATFORM:	CBOE Command.
CONTRACT EXPIRATIONS:	The Exchange may list for trading up to 12 near-term VXST futures expiration weeks.
TICKER SYMBOLS:	Futures Symbols – VSW1, VSW2, VSW3, VSW4 and VSW5 (embedded numbers denoting weeks of contract month) Cash Index – VXST
PRICING CONVENTIONS:	Both futures prices and cash index levels are stated in decimal format.
MINIMUM PRICE INTERVALS:	0.05 points, equal to $50.00 per contract The individual legs and net prices of spread trades in the VXST futures contract may be in increments of 0.01 index points, which has a value of $10.00.
DOLLAR VALUE PER TICK:	$50.00 per contract.
CROSSING TWO OR MORE ORIGINAL ORDERS:	The eligible size for an original Order that may be entered for a cross trade with one or more other original Orders pursuant to Rule 407 is one Contract. The Trading Privilege Holder or Authorized Trader, as applicable, must expose to the market for at least five seconds under Rule 407(a) at least one of the original Orders that it intends to cross.
PRE-EXECUTION DISCUSSIONS:	The Order Exposure Period under Policy and Procedure IV before an Order may be entered to take the other side of another Order with respect to which there has been pre-execution discussions is five seconds after the first Order was entered into the CBOE System.

EXCHANGE OF CONTRACT FOR RELATED POSITION TRANSACTIONS:	Exchange of Contract for Related Position (ECRP) transactions may be entered into with respect to VXST futures contracts. Any ECRP transaction must satisfy the requirements of CFE Rule 414. The minimum price increment for an ECRP transaction involving the VXST futures contract is 0.01 index points.
BLOCK TRADES:	Pursuant to Rule 415(a)(i), the minimum Block Trade quantity for the VXST futures contract is 100 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 VXST 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 expirations and all legs of the Block Trade are exclusively for the purchase or exclusively for the sale of VXST futures contracts (a "strip"), the minimum Block Trade quantity for the strip is 150 contracts and each leg of the strip is required to have a minimum size of 50 contracts. The minimum price increment for a Block Trade in the VXST futures contract is 0.01 index points.
NO BUST RANGE:	Pursuant to Rule 416, the CFE error trade policy may only be invoked for a trade price that is greater than 10% on either side of the market price of the applicable VXST futures contract. In accordance with Policy and Procedure III, the Help Desk will determine what the true market price for the relevant Contract was immediately before the potential error trade occurred. In making that determination, the Help Desk may consider all relevant factors, including the last trade price for such Contract, a better bid or offer price, a more recent price in a different expiration and the prices of related contracts trading on the Exchange and other markets.
TERMINATION OF TRADING:	The close of trading on the day before the Final Settlement Date. When the last trading day is moved because of a CFE holiday, the last trading day for expiring VXST futures contracts will be the day immediately preceding the last regularly scheduled trading day.
FINAL SETTLEMENT DATE:	The final settlement date for a VXST futures contract is on the Wednesday of the week of the month denoted in the ticker symbol of the contract ("Final Settlement Date"). If the Wednesday is a CBOE holiday or if the Friday in the business week following the Wednesday (i.e., nine days away) is a CBOE holiday, then the Final Settlement Date shall be the business day immediately preceding the Wednesday.
FINAL SETTLEMENT VALUE:	The final settlement value for VXST futures (Ticker: SVRO) shall be a Special Opening Quotation ("SOQ") of VXST calculated from the sequence of opening prices on CBOE of the options used to calculate the index on the Final Settlement Date.

	The opening price for any series in which there is no trade shall be the average of that option's bid price and ask price on CBOE as determined at the opening of trading. The "time to expiration" used to calculate the SOQ shall account for the actual number of days and minutes until expiration for the constituent option series. For example, if CBOE announces that the opening of trading in the constituent option series is delayed on CBOE, the amount of time until expiration for the constituent option series used to calculate the final settlement value of a VXST futures contract would be reduced to reflect the actual opening time of the constituent option series. Another example would be when CBOE is closed on a Wednesday due to a CBOE holiday, the amount of time until expiration for the constituent option series used to calculate the final settlement value of a VXST futures contract would be increased to reflect the extra day of trading in the constituent option series. The final settlement value will be rounded to the nearest $0.01. If the final settlement value is not available or the normal settlement procedure cannot be utilized due to a trading disruption or other unusual circumstance, the final settlement value will be determined in accordance with the rules and bylaws of The Options Clearing Corporation.
DELIVERY:	Settlement of VXST futures contracts will result in the delivery of a cash settlement amount on the business day immediately following the Final Settlement Date. The cash settlement amount on the Final Settlement Date shall be the final mark to market amount against the final settlement price of the VXST futures contract multiplied by $1,000.00.
POSITION LIMITS:	A person may not own or control more than 5,000 contracts net long or net short in all VXST futures contract expirations combined. The foregoing position limit shall not apply to positions that are subject to a position limit exemption meeting the requirements of Commission Regulations and CFE Rules.
MINIMUM REPORTABLE LEVEL:	200 or more contracts.

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Rule Chapter Setting Forth Contract Specifications for CBOE Short-Term Volatility Index Futures

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CHAPTER 13
CBOE SHORT-TERM VOLATILITY INDEX FUTURES
CONTRACT SPECIFICATIONS

1301. Scope of Chapter

This chapter applies to trading in futures on the CBOE Short-Term Volatility Index ("VXST"). The procedures for trading, clearing, settlement, and any other matters not specifically covered herein shall be governed by the generally applicable rules of the Exchange. The VXST futures contract was first listed for trading on the Exchange on [insert launch date].

1302. Contract Specifications

(a)   *Multiplier*. The contract multiplier for each VXST futures contract is $1,000. For example, a contract size of one VXST futures contract would be $16,000, if the VXST index level were 16 (16 x $1,000.00).

(b)   *Schedule*. The Exchange may list for trading up to 12 near-term VXST futures expiration weeks. The final settlement date for a VXST futures contract is on the Wednesday of the week of the month denoted in the ticker symbol of the contract ("Final Settlement Date"). If the Wednesday is CBOE holiday or if the Friday in the business week following the Wednesday (i.e., nine days away) is a CBOE holiday, then the Final Settlement Date shall be the business day immediately preceding the Wednesday.

The trading days for VXST futures are any Business Days the Exchange is open for trading.

The trading hours for VXST futures contracts are from 8:30 a.m. Chicago time to 3:15 p.m. Chicago time.

All Orders, quotes, cancellations and Order modifications for VXST futures during trading hours must be received by the Exchange by no later than 3:14:59 p.m. Chicago time and will be automatically rejected if received by the Exchange during trading hours after 3:14:59 p.m. Chicago time.

(c)   *Minimum Increments*. Except as provided in the following sentence, the minimum fluctuation of the VXST futures contract is 0.05 index points, which has a value of $50.00.

The individual legs and net prices of spread trades in the VXST futures contract may be in increments of 0.01 index points, which has a value of $10.00.

(d)   *Position Limits*. A person may not own or control more than 5,000 contracts net long or net short in all VXST futures contract expirations combined.

For the purposes of this rule, the positions of all accounts directly or indirectly owned or controlled by a person or persons, and the positions of all accounts of a person or persons acting pursuant to an expressed or implied agreement or understanding shall be cumulated.

The foregoing position limit shall not apply to positions that are subject to a position limit exemption meeting the requirements of Commission Regulations and CFE Rules.

(e)   *Termination of Trading.* Trading in VXST futures contracts terminates on the business day immediately preceding the final settlement date of the VXST futures contract. When the last trading day is moved because of a CFE holiday, the last trading day for an expiring VXST futures contract will be the day immediately preceding the last regularly-scheduled trading day.

(f)   *Contract Modifications.* Specifications are fixed as of the first day of trading of a contract. If any U.S. government agency or body issues an order, ruling, directive or law that conflicts with the requirements of these rules, such order, ruling, directive or law shall be construed to take precedence and become part of these rules, and all open and new contracts shall be subject to such government orders.

(g)   *Execution Priorities.* Pursuant to Rule 406(a)(i), the base allocation method of price-time priority shall apply to trading in VXST futures.

(h)   *Crossing Two Original Orders.* The eligible size for an original Order that may be entered for a cross trade with one or more other original Orders pursuant to Rule 407 is one Contract. The Trading Privilege Holder or Authorized Trader, as applicable, must expose to the market for at least five seconds under Rule 407(a) at least one of the original Orders that it intends to cross.

(i)   *Price Limits and Circuit Breaker Halts.* Pursuant to Rule 413, VXST futures contracts are not subject to price limits.

Trading in VXST futures contracts shall be halted pursuant to Rule 417A if there is a Level 1, 2 or 3 Market Decline.

(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 VXST 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 transaction involving the VXST futures contract is 0.01 index points.

(k)   *Block Trades.* Pursuant to Rule 415(a)(i), the minimum Block Trade quantity for the VXST futures contract is 100 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 VXST 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 expirations and all legs of the Block Trade are exclusively for the purchase or exclusively for the sale of VXST futures contracts (a "strip"), the minimum Block Trade quantity for the strip is 150 contracts and each leg of the strip is required to have a minimum size of 50 contracts.

The minimum price increment for a Block Trade in the VXST futures contract is 0.01 index points.

(l)   *No-Bust Range.* Pursuant to Rule 416, the CFE error trade policy may only be invoked for a trade price that is greater than 10% on either side of the market price of the applicable VXST futures contract. In accordance with Policy and Procedure III, the Help Desk will determine what the true market price for the relevant Contract was immediately before the potential error trade occurred. In making that determination, the Help Desk may consider all relevant factors, including the last trade price for such Contract, a better bid or offer price, a more recent price in a different expiration and the prices of related contracts trading in other markets.

(m)   *Pre-execution Discussions.* The Order Exposure Period under Policy and Procedure IV before an Order may be entered to take the other side of another Order with respect to which there has been pre-execution discussions is five seconds after the first Order was entered into the CBOE System.

(n)   *Reportable Position.* Pursuant to Commission Regulation §15.03 and Commission Regulation Part 17, the position level that is required to be reported to the Commission is any open position in VXST futures contracts at the close of trading on any trading day equal to or in excess of 200 contracts on either side of the market.

(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:

VXST Index Level	Threshold Width
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 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. 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.

(q)   *Trade at Settlement Transactions.* Trade at Settlement ("TAS") transactions are not permitted in VXST futures.

(r)   *Default Pre-Trade Order Size Limit.* The default maximum pre-trade order size limit for VXST futures that will apply if a Clearing Member does not set a different limit in accordance with Rule 513A(a) is 1,000 contracts.

(s) *Price Reasonability Checks*. Pursuant to and as further described in Rule 513A(b), the CBOE System shall in a manner determined by the Exchange reject (i) any buy order with a limit price in a VXST futures contract if the limit price upon receipt of the order by the CBOE System is more than a designated amount above the prevailing best offer in that contract and (ii) any sell order with a limit price in a VXST futures contract if the limit price upon receipt of the order by the CBOE System is more than a designated amount below the prevailing best bid in that contract. The designated amounts for the price reasonability checks referenced in the preceding sentence are as follows:

Price Range	Designated Amount
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

1303. Settlement

Settlement of VXST futures contracts will result in the delivery of a cash settlement amount on the business day immediately following the settlement date. The cash settlement amount on the final settlement date shall be the final mark to market amount against the final settlement price of the VXST futures contract multiplied by $1,000.00. The final settlement price of the VXST futures contract will be rounded to the nearest $0.01.

Clearing Members holding open positions in VXST futures contracts at the termination of trading in that Contract shall make payment to or receive payment from the Clearing Corporation in accordance with normal variation and performance bond procedures based on the final settlement amount.

If the settlement value is not available or the normal settlement procedure cannot be utilized due to a trading disruption or other unusual circumstance, the settlement value will be determined in accordance with the Rules and By-Laws of The Options Clearing Corporation.

1304. DPM Provisions

(a) *DPM Appointment*. A Trading Privilege Holder will be appointed to act as a DPM for the VXST futures contract pursuant to Rule 515.

(b) *DPM Participation Right*. There is no DPM participation right under Rule 406(b)(iii) for VXST futures.

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CBOE Futures Exchange, LLC
Policies and Procedures

(additions are <u>underlined</u>; deletions are [bracketed])

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X.   DPM Market Performance Benchmarks Program

Each DPM that is allocated a Contract as a DPM shall comply with the general and product specific DPM market performance benchmarks set forth below and shall receive the DPM participation right set forth in the rules governing the relevant Contract. In addition, if product specific DPM benefits are set forth below with respect to a particular Contract, the DPM that is allocated that Contract shall receive those benefits.

The Exchange may terminate, place conditions upon or otherwise limit a Trading Privilege Holder's approval to act as a DPM or a DPM's allocation of Contracts in accordance with Rule 515 if the DPM fails to satisfy the market performance benchmarks under this Policy and Procedure. However, failure by a DPM to satisfy the market performance benchmarks under this Policy and Procedure shall not be deemed a violation of Exchange rules.

The DPM Market Performance Benchmarks Program under this Policy and Procedure will expire on December 31, 2014. The Exchange may determine to extend the term of the Program, allow the Program to expire, terminate the Program at any time, or replace the Program with a different program at any time.

General DPM Market Performance Benchmarks

- On each trading day between 8:30 a.m. and 3:15 p.m. ("Regular Trading Hours"), each DPM shall hold itself out as being willing to buy and sell each allocated Contract for the DPM's own account on a regular basis.

- Subject to regulatory obligations and requirements and best execution obligations to customers, the firm will work with the Exchange to develop a significant amount of order flow in its allocated Contracts.

- Each DPM shall maintain records sufficient to demonstrate compliance with the Market Performance Benchmarks set forth in this Policy and Procedure that are applicable to that DPM.

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Product Specific DPM Market Performance Benchmarks

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<u>CBOE Short-Term Volatility Index ("VXST") Futures</u>

- <u>Throughout the trading day during Regular Trading Hours, the DPM shall provide a competitive and continuous two-way market in each VXST futures contract.</u>

- The DPM shall provide a competitive two-way market during Regular Trading Hours in response to a request from the Exchange that the DPM post a market for a VXST future or futures.

- The above market performance benchmarks shall be subject to relief in the event of a fast market in VXST futures or options on the S&P 500 Index traded on CBOE or other extenuating circumstances or unusual market conditions to be determined solely by the Exchange. Under conditions as specified in the foregoing sentence, the DPM shall use commercially reasonably efforts during Regular Trading Hours to provide a continuous market and to respond to requests for a market from the Exchange.

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Product Specific DPM Benefits

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VXST Futures

- For each calendar quarter (including any partial calendar quarter) during which a Trading Privilege Holder acts as the DPM for VXST futures, the Exchange will maintain a DPM Revenue Pool for the DPM for that quarter equal to 15% of the difference between the total transaction fees collected by the Exchange for transactions in VXST futures and any license fees paid by the Exchange or an Exchange affiliate with respect to those transactions.

- Payment to the DPM from the DPM Revenue Pool for a calendar quarter will be made following the end of the calendar quarter.