CBOE FUTURES EXCHANGE EXECUTE SUCCESS℠

May 1, 2013

Via Electronic Mail

Ms. Melissa Jurgens
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-2013-19

Dear Ms. Jurgens:

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 (i) provide for the appointment of a designated primary market maker ("DPM") in CFE's S&P 500 Variance futures contract, (ii) to replace CFE's current lead market maker ("LMM") program ("LMM Program") in that contract with DPM market performance benchmark and benefit provisions for that contract under CFE's DPM Market Performance Benchmarks Program ("DPM Benchmarks Program"), and (iii) to extend the current expiration date of the DPM Benchmarks program to December 31, 2014. The Amendment will become effective on May 16, 2013.

Currently, a product similar to the S&P 500 Variance futures contract trades in the over-the-counter ("OTC") market. The appointment of a DPM in the S&P 500 Variance futures contract and the amendments to the DPM Benchmarks Program in relation to that contract are intended to allow CFE to better compete with the OTC market by guaranteeing the DPM (which may also be a dealer in the OTC market) a participation right of at least 30% when the DPM is quoting at the best bid/offer. Additionally, the DPM Benchmarks Program provides for market performance benchmarks that are applicable to the DPM and for revenue sharing payments to the DPM. All of these components are intended to enhance the liquidity, market width and size, and volume in S&P 500 Variance futures.

As a result of the Amendment, there will be one DPM in the S&P 500 Variance futures contract. This is similar to the current status under the LMM Program for this product in which there is currently one LMM for the contract. The Amendment provides for a similar revenue pool structure for the DPM as under the LMM Program except that: (i) the revenue share percentages have been lowered since there will no longer be the potential for the appointment of additional LMMs for the product, and (ii) the contract volume thresholds are expressed in terms of vega notional instead of variance notional (since vega notional is the billing unit used for S&P 500

Variance futures). The market performance benchmarks will be the same for the DPM as currently apply under the LMM Program. CFE believes that the Amendment will further incentivize the DPM to devote its efforts to improving market quality in S&P 500 Variance futures.

Accordingly, CFE believes that the impact of the Amendment will be beneficial to the public and market participants.

CFE believes that the Amendment is consistent with Designated Contract Market ("DCM") Core Principle 9 (Execution of Transactions) under Section 5 of the Act because it is intended to have a positive impact on the price discovery process by increasing the liquidity in S&P 500 Variance futures traded on CFE's centralized market and thus to draw volume from a similar product traded in the OTC market.

CFE is not 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 <u>underlined</u> text and deletions in [bracketed] text, consists of the following:

CBOE Futures Exchange, LLC Rules

* * * * *

Chapter 23
S&P 500 Variance Futures
Contract Specifications

* * * * *

Rule 2302. Contract Specifications

(a) - (f) No changes.

(g) *Execution Priorities.* Pursuant to Rule 406(a)(i), the base allocation method of price-time priority shall apply to trading in S&P 500 Variance futures contracts. [A Lead Market Maker trade participation right priority shall overly the price-time priority base allocation method as provided in Policy and Procedure XI.] <u>Pursuant to Rule 406(b)(iii), a DPM trade participation right priority shall overlay the price-time priority base allocation method.</u>

(h) - (s) No changes.

* * * * *

<u>**Rule 2304. DPM Provisions**</u>

<u>(a) *DPM Appointment*. A Trading Privilege Holder will be appointed to act as a DPM for S&P 500 Variance futures contracts pursuant to Rule 515.</u>

(b) *DPM Participation Right.* The DPM participation right percentage under Rule 406(b)(iii) for S&P 500 Variance futures contracts is 30% and shall only be applicable with respect to DPM quotes and not with respect to proprietary Orders of the DPM.

* * * * *

CBOE Futures Exchange, LLC
Policies and Procedures

* * * * *

X. DPM Market Performance Benchmarks Program

Each DPM that is allocated a Contract as a DPM shall comply with the [following] 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, [2013] 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.

Product Specific DPM Market Performance Benchmarks

Mini CBOE Volatility Index ("Mini VIX") Futures

- Throughout the trading day during Regular Trading Hours, the DPM shall provide at the VIX levels below (i) a continuous two-way quote with a minimum quote size and maximum quote width as set forth in the first table below and (ii) a second continuous two-way quote with a minimum quote size and maximum quote width as set forth in the second table below.

First Continuous Two-Way Quote		
VIX Level	Minimum Quote Size	Maximum Quote Width
Under 20	20 x 20	4 ticks
20 - 40	5 x 5	6 ticks
Above 40	2 x 2	8 ticks
Second Continuous Two-Way Quote		
VIX Level	Minimum Quote Size	Maximum Quote Width
Under 20	100 x 100	6 ticks
20 - 40	75 x 75	10 ticks
Above 40	50 x 50	16 ticks

- The DPM shall respond within 5 seconds to each Request for Quote (RFQ) during Regular Trading Hours.

- The above market performance benchmarks shall be subject to relief in the event of a fast market in the Mini VIX Future, VIX Future, [Weekly Options on Mini VIX Futures,] VIX option, or SPX option 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 reasonable efforts during Regular Trading Hours to provide a continuous quote and to respond to requests for a quote from the Exchange.

Radar Logic 28-Day Real Estate Index ("RPX") Futures

- Throughout the trading day during Regular Trading Hours, the DPM shall provide continuous two-way quotes.

- The DPM shall strive to maintain a competitive, liquid market at all times during Regular Trading Hours. Due to the uniqueness of RPX where there is not a listed underlying contract from which to derive pricing, market quality may be impacted, adversely affecting the actual bid/ask differentials and their corresponding size, thereby making a standard convention difficult.

- The DPM shall respond within a reasonable period of time to each RFQ during Regular Trading Hours.

- The above market performance benchmarks shall be subject to relief in the event of a fast market in RPX Futures which may be caused by other related futures or securities contracts, 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 reasonable efforts during Regular Trading Hours to provide a continuous quote and to respond to requests for a quote from the Exchange.

S&P 500 Variance Futures

- Throughout the trading day during Regular Trading Hours, the DPM shall use commercially reasonable efforts to provide continuous two-way quotes in S&P 500 Variance futures contract months as set forth in the table below.

Continuous Two-Way Quote	
Months to Maturity	Maximum Quote Width
0 - 1	300 basis points
2-3	150 basis points
4-9	100 basis points
10-18	125 basis points
Over 18	150 basis points

- The above maximum quote width market performance benchmarks shall not apply during the expiration week of an S&P 500 Variance futures contract.

- The above market performance benchmarks shall be subject to relief in the event of a fast market in S&P 500 Variance futures or SPX options 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 reasonable efforts to provide a continuous quote and to respond to requests for a quote.

Product Specific DPM Benefits

S&P 500 Variance Futures

- For each calendar quarter (including any partial calendar quarter) during which a Trading Privilege Holder acts as the DPM for S&P 500 Variance futures, the Exchange will maintain a DPM Revenue Pool for the DPM for that quarter.

- The percentage of transaction fees collected by the Exchange for transactions in S&P 500 Variance futures that will be included in the DPM Revenue Pool for a calendar quarter will be based upon the average daily contract volume in S&P 500 Variance futures, measured in "vega notional" amounts, traded on the Exchange during that quarter, as set forth in the table below. Each percentage in the table shall be applicable with respect to that portion of the average daily contract volume that is within the applicable volume range.

Average Daily "Vega Notional" Contract Volume During Calendar Quarter	Percentage of Transaction Fees Included in DPM Revenue Pool
0 – 5,000,000	30%
5,000,001 – 10,000,000	20%
10,000,001 – 20,000,000	15%
20,000,001 – 50,000,000	11.7%
50,000,001 or greater	8%

- For example, if the average daily contract volume during a calendar quarter is 15,000,000 vega notional, 30% of the transaction fees attributable to the volume between 0 vega notional and 5,000,000 vega notional would be included in the DPM Revenue Pool, 20% of the transaction fees attributable to the volume between 5,000,001 vega notional and 10,000,000 vega notional would be included in the DPM Revenue Pool, and 15% of the transaction fees attributable to the volume between 10,000,001 vega notional and 15,000,000 vega notional would be included in the DPM Revenue Pool.

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

XI. Reserved [S&P 500 Variance Futures Lead Market Maker Program

Trading Privilege Holders ("TPHs") may apply to the Exchange for appointment as a lead market maker ("LMM") in the S&P 500 Variance Futures Lead Market Maker Program ("Program").

The Exchange may approve one or more TPHs as LMMs in the Program. Any TPH that desires to apply for LMM status in the Program should submit an application in the form of a letter outlining the TPH's qualifications and commitments. TPHs shall be selected by the Exchange based on the Exchange's judgment as to which applicants are most qualified to perform the functions of an LMM under the Program. Factors to be considered in making this selection may include, but are not limited to, satisfaction of the qualifications listed below as well as any one or more of the factors listed in CFE Rule 515(b), as applied to LMM applicants instead of with respect to DPM applicants.

The following describes the qualifications, market performance benchmarks, benefits, and appointment term under the Program unless otherwise specified.

Qualifications

- Experience in trading variance and volatility futures, options, and/or swaps.

- Ability to automatically and systemically provide quotations.

Market Performance Benchmarks

- Throughout the trading day between 8:30 a.m. and 3:15 p.m., each LMM in the Program shall provide continuous two-way quotes in S&P 500 Variance futures contract months as set forth in the table below.

Continuous Two-Way Quote	
Months to Maturity	Maximum Quote Width
0 - 1	300 basis points
2-3	150 basis points
4-9	100 basis points
10-18	125 basis points
Over 18	150 basis points

- The above maximum quote width market performance benchmarks shall not apply during the expiration week of an S&P 500 Variance futures contract.

- The above market performance benchmarks shall be subject to relief in the event of a fast market in S&P 500 Variance futures or SPX options 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, each LMM in the Program shall use commercially reasonable efforts to provide a continuous quote and to respond to requests for a quote.

- The Exchange may terminate, place conditions upon, or otherwise limit a TPH's appointment as an LMM under the Program if the TPH fails to satisfy the market performance benchmarks under the Program. However, failure of a TPH to satisfy the market performance benchmarks under the Program shall not be deemed a violation of Exchange rules.

Benefits

LMM Trade Participation Right

- An LMM under the Program shall be afforded the following trade participation priority over orders and quotes placed by others in each S&P 500 Variance futures contact when the LMM is quoting at the best bid/offer in that contract:

  - The LMM trade participation right shall be 30%, except that:

    - The LMM may not be allocated a total quantity greater than the quantity that the LMM is quoting at the best bid/offer.

    - If there is more than one LMM quoting at the best bid/offer, the 30% trade participation right shall be divided equally between those LMMs.

- For purposes of the Program, references in the Program to quoting and quotes by an LMM shall only be deemed to include a quote from the LMM and shall not be deemed to include a proprietary order from the LMM.

Revenue Pool

- For each calendar quarter (including any partial calendar quarter) during which the Program is in place, the Exchange will maintain an LMM Revenue Pool for that quarter if there are any LMMs in the Program during that quarter.

- The percentage of transaction fees collected by the Exchange for transactions in S&P 500 Variance futures that will be included in the LMM Revenue Pool for a calendar quarter will be based upon the average daily contract volume in S&P 500 Variance futures, measured in "variance notional" amounts, traded on the Exchange during that quarter, as set forth in the table below. Each percentage in the table shall be applicable with respect to that portion of the average daily contract volume that is within the applicable volume range.

Average Daily "Variance Notional" Contract Volume During Calendar Quarter	Percentage of Transaction Fees Included in LMM Revenue Pool
0 – 125,000	50%
125,001 – 250,000	30%
250,001 – 500,000	20%
500,001 – 1,250,000	13.3%
1,250,001or greater	5%

- For example, if average daily contract volume during a calendar quarter is 450,000, 50% of the transaction fees attributable to the volume between 0 contracts and 125,000 contracts would be included in the LMM Revenue Pool, 30% of the transaction fees attributable to the volume between 125,001 contracts and 250,000 contracts would be included in the LMM Revenue Pool, and 20% of the transaction fees attributable to the volume between 250,001 contracts and 450,000 would be included in the LMM Revenue Pool.

- If there is no LMM Revenue Pool for a calendar quarter, there will be no allocation of transaction fees to an LMM Revenue Pool.

- If there is an LMM Revenue Pool for a calendar quarter, the LMM Revenue Pool will be allocated to the LMMs in the Program during that quarter on a pro rata basis based on the contract volume in S&P 500 Variance futures of those LMMs during that quarter attributable to transactions in S&P 500 Variance futures resulting from quotes provided by those LMMs.

- Payments to LMMs from the LMM Revenue Pool for a calendar quarter will be made following the end of the calendar quarter.

Term

- The Program has been established on a pilot basis. The Program and each LMM appointment under the Program will expire on December 31, 2013. The Exchange may determine to extend the term of the Program and LMM appointments under the Program, allow the Program and LMM appointments under the Program to expire, terminate the Program and all LMM appointments under the Program at any time, or replace the Program with a different market maker or LMM program at any time.]

*** * * * ***

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-2013-19 in any related correspondence.

CBOE Futures Exchange, LLC

By: James F. Lubin
Senior Managing Director

cc: Nancy Markowitz (CFTC)
Laurie Gussow (CFTC)
National Futures Association
The Options Clearing Corporation