



September 12, 2012

Via Electronic Mail

Mr. David Stawick
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-2012-19

Dear Mr. Stawick:

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 adopt new CFE Policy and Procedure XI to set forth an S&P 500 Variance Futures Lead Market Maker Program (“Program”). The Amendment will become effective on September 27, 2012. The Program will be in effect on a pilot basis and expires on December 31, 2013, unless the Program is extended by the Exchange through a subsequent rule amendment submission to the Commission.

Currently, a product similar to the S&P 500 Variance futures contract trades in the over-the-counter (“OTC”) market.¹ The Program is intended to allow CFE to better compete with the OTC market by guaranteeing a lead market maker (“LMM”) in the Program (which may also be a dealer in the OTC market) at least 30% participation right when an LMM is quoting at the best bid/offer. Additionally, the Program provides for market performance benchmarks that are applicable to LMMs under the Program and for revenue sharing payments to Program LMMs. All of these components are intended to enhance the liquidity, market width and size, and volume 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 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.

¹ See CFE Submission Number 2012-18 (Product Certification and Rule Certification for the S&P 500 Variance futures contract). Chapter 23 sets forth the contract specifications for the S&P 500 Variance futures contract.

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

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XI. 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.

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

- 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 contract 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.

<u>Average Daily "Variance Notional" Contract Volume During Calendar Quarter</u>	<u>Percentage of Transaction Fees Included in LMM Revenue Pool</u>
<u>0 – 125,000</u>	<u>50%</u>
<u>125,001 – 250,000</u>	<u>30%</u>
<u>250,001 – 500,000</u>	<u>20%</u>

<u>Average Daily “Variance Notional” Contract Volume During Calendar Quarter</u>	<u>Percentage of Transaction Fees Included in LMM Revenue Pool</u>
<u>500,001 – 1,250,000</u>	<u>13.3%</u>
<u>1,250,001 or greater</u>	<u>5%</u>

- 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.

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Mr. David Stawick

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Questions regarding this submission may be directed to Arthur Reinstein at (312) 786-7570 or Jenny Klebes-Golding at (312) 786-7466. Please reference our submission number CFE-2012-19 in any related correspondence.

CBOE Futures Exchange, LLC

A handwritten signature in black ink, appearing to read "James F. Lubin". The signature is stylized with a large, looping initial "J" and a cursive "Lubin".

By: James F. Lubin
Managing Director

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