

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-64395; File No. SR-CBOE-2011-044)

May 4, 2011

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing of a Proposed Rule Change to Reduce the Minimum Size of the Nominating and Governance Committee

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act” or “Exchange Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on April 27, 2011, Chicago Board Options Exchange, Incorporated (“CBOE”) filed with the Securities and Exchange Commission (“Commission” or “SEC”) the proposed rule change as described in Items I, and II below, which Items have been prepared by CBOE. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

CBOE proposes to amend its Bylaws to change the minimum size of the CBOE Nominating and Governance Committee.

The text of the proposed amendments to CBOE’s Bylaws and the proposed amendments to CBOE’s rules is available on CBOE’s website (<http://www.cboe.org/Legal>), at CBOE’s Office of the Secretary, and at the Commission’s Public Reference Room.

II. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, CBOE included statements concerning the purpose of, and basis for, the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

below. CBOE has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and the Statutory Basis for, the Proposed Rule Change

1. Purpose

The purpose of this proposed rule change is to reduce the minimum size of CBOE's Nominating and Governance Committee from seven to five directors. Section 4.4 of the Second Amended and Restated Bylaws of CBOE ("Bylaws") currently provides, in pertinent part, that the Nominating and Governance Committee shall consist of at least seven directors, including both Industry and Non-Industry Directors; that a majority of the directors on the Committee shall be Non-Industry Directors; and that the exact number of members on the Committee shall be determined from time to time by CBOE's Board of Directors. This rule change would be effectuated by amending Section 4.4 of the Bylaws to provide that the Nominating and Governance Committee shall consist of at least five directors. The other provisions of Section 4.4 of the Bylaws would remain unchanged. Additionally, the title of the Bylaws would be changed to the Third Amended and Restated Bylaws of CBOE.

Section 3.1 of the Bylaws provides that the CBOE Board of Directors shall consist of not less than eleven and not more than twenty-three directors, with the exact size determined by the Board. CBOE's Board size has declined recently from twenty-three directors prior to CBOE's demutualization in 2010 to the current size of nineteen directors. In addition, the Board size will be declining further to sixteen directors at the time of the 2011 annual election of CBOE directors (which is anticipated to occur in May 2011). As the Board size declines, it becomes more challenging to populate large Board committees since there are fewer directors to serve on

the various CBOE Board committees. The Exchange believes that reducing the minimum size of the Nominating and Governance Committee to five directors will help to alleviate this issue.

Changing the minimum size of the Nominating and Governance Committee to five directors would also make the minimum size consistent with the minimum size of the Nominating and Governance Committee of CBOE Holdings, Inc. ("CBOE Holdings"), CBOE's parent company. CBOE believes that having the same composition requirements for the Nominating and Governance Committees of both CBOE and CBOE Holdings will promote consistency and efficiency. CBOE and CBOE Holdings currently have the same individuals serving on the CBOE and CBOE Holdings Boards of Directors and on the CBOE and CBOE Holdings Nominating and Governance Committees. This approach simplifies the process of scheduling and conducting meetings and allows the Boards and Nominating and Governance Committees of both entities to operate most efficiently. To the extent that CBOE and CBOE Holdings desire to continue this approach in the future, this proposed rule change better enables CBOE and CBOE Holdings to do so.

The Exchange believes that its Nominating and Governance Committee will continue to be able to appropriately perform its functions if it were to be composed of five directors. The Exchange also believes that having a Nominating and Governance Committee with a minimum size of five directors is consistent with prior precedent, in that the Chicago Stock Exchange ("CHX") has a Nominating and Governance Committee with a size of four directors.<sup>3</sup> Additionally, it should be noted that although the proposed rule change would permit the Exchange appoint a five-person Nominating and Governance Committee and that the Exchange may do so in the future, it is the current intention of the Exchange to appoint a six-person

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<sup>3</sup> See Article II, Section 3 of the Bylaws of the Chicago Stock Exchange, Inc.

Nominating and Governance Committee at the time of the 2011 annual election of CBOE directors.

The Exchange will continue to provide for the fair representation of CBOE Trading Permit Holders in the selection of directors and the administration of the Exchange consistent with Section 6(b)(3) of the Act<sup>4</sup> following this rule change. In particular, the CBOE Bylaws will continue to require that at least thirty percent of the directors on the CBOE Board of Directors must be Industry Directors and that at least twenty percent of CBOE's directors must be Representative Directors. Also, the CBOE Nominating and Governance Committee will continue to include both Industry and Non-Industry Directors and to have an Industry-Director Subcommittee that is composed of all of the Industry Directors serving on the Committee. Representative Directors will continue to be nominated (or otherwise selected through a petition process) by the Industry-Director Subcommittee. Additionally, CBOE Trading Permit Holders will continue to be able to nominate alternative Representative Director candidates to those nominated by the Industry Director Subcommittee, in which case a Run-off Election will be held in which CBOE's Trading Permit Holders vote to determine which candidates will be elected to the CBOE Board of Directors to serve as Representative Directors.

## 2. Statutory Basis

For the reasons set forth above, CBOE believes that this filing is consistent with Section 6(b) of the Act,<sup>5</sup> in general, and furthers the objectives of Section 6(b)(1) of the Act<sup>6</sup> and Section 6(b)(5) of the Act<sup>7</sup> in particular, in that (i) it enables CBOE to be so organized as to have the

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<sup>4</sup> 15 U.S.C. 78f(b)(3).

<sup>5</sup> 15 U.S.C. 78f(b).

<sup>6</sup> 15 U.S.C. 78f(b)(1).

<sup>7</sup> 15 U.S.C. 78f(b)(5).

capacity to be able to carry out the purposes of the Act and to comply, and to enforce compliance by its Trading Permit Holders and persons associated with its Trading Permit Holders, with the provisions of the Act, the rules and regulations thereunder, and the rules of CBOE and (ii) to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to remove impediments to, and perfect the mechanism of, a free and open market and, in general, to protect investors and the public interest.

Specifically, the proposed changes will streamline, make more efficient, and improve CBOE's governance structure by conforming the minimum size requirements of the CBOE Nominating and Governance Committee and the CBOE Holdings Nominating and Governance Committee, which the Exchange believes will promote consistency and efficiency and better enable CBOE and CBOE Holdings to have the same Nominating and Governance Committee compositions if desired. To the extent that the proposed changes enable CBOE and CBOE Holdings to have the same Nominating and Governance Committee compositions if desired, the process of scheduling and conducting Nominating and Governance Committee meetings is simplified, as there can be meetings held at the same time instead of multiple separate meetings at different times. This furthers CBOE's ability to be organized in a manner to have the capacity to be able to carry out the purposes of the Act consistent with Section 6(b)(1) of the Act<sup>8</sup> and to carry out the purposes of Section 6(b)(5) of the Act.<sup>9</sup>

The proposed rule change will not impact the current provisions of the CBOE Bylaws that are designed to assure the fair representation of CBOE Trading Permit Holders in the selection of directors and the administration of CBOE, and thus is consistent with Section 6(b)(3)

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<sup>8</sup> 15 U.S.C. 78f(b)(1).

<sup>9</sup> 15 U.S.C. 78f(b)(5).

of the Act.<sup>10</sup> In particular, the Bylaws will continue to require that at least thirty percent of CBOE's directors be Industry Directors; that at least twenty percent of CBOE's directors be Representative Directors; that the CBOE Nominating and Governance Committee include both Industry and Non-Industry Directors and have an Industry-Director Subcommittee composed of all of the Industry Directors on the Committee; that Representative Directors be nominated (or otherwise selected through a petition process) by the Industry-Director Subcommittee; and that CBOE Trading Permit Holders are able to nominate alternative Representative Director candidates to those nominated by the Industry Director Subcommittee, in which case a Run-off Election is held in which CBOE's Trading Permit Holders vote to determine which candidates are elected as Representative Directors.

The proposed rule change was prompted by the reduction in the size of the CBOE Board of Directors since, as the Board size declines, it becomes more challenging to populate large Board committees. The Exchange believes that reducing the minimum size of the CBOE Nominating and Governance Committee will help to alleviate this issue and that, notwithstanding this change, the Committee will continue to be able to appropriately perform its functions, operate effectively, and thus enable the Exchange to comply with Section 6(b)(1) of the Act.<sup>11</sup>

B. Self-Regulatory Organization's Statement on Burden on Competition

CBOE does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

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<sup>10</sup> 15 U.S.C. 78f(b)(3).

<sup>11</sup> 15 U.S.C. 78f(b)(1).

No written comments were solicited or received with respect to the proposed rule change.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

- (A) by order approve or disapprove such proposed rule change, or
- (B) institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-CBOE-2011-044 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington DC 20549-1090.

All submissions should refer to File Number SR-CBOE-2011-044. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all

comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should

submit only information that you wish to make available publicly. All submissions should refer to File No. SR-CBOE-2011-044 and should be submitted on or before [insert date 21 days from date of publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>12</sup>

Elizabeth M. Murphy  
Secretary

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<sup>12</sup> 17 CFR 200.30-3(a)(12).