

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-54443; File No. SR-CBOE-2006-77)

September 14, 2006

**Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated;
Notice of Filing and Immediate Effectiveness of Proposed Rule Change Extending
Pilot Programs for Remote Market-Makers and e-DPMs**

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² notice is hereby given that on September 11, 2006, the Chicago Board Options Exchange, Incorporated (“CBOE” or “Exchange”) 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 the CBOE. The Exchange filed the proposal as a “non-controversial” proposed rule change pursuant to Section 19(b)(3)(A)(iii) of the Act³ and Rule 19b-4(f)(6) thereunder.⁴ 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 extend the pilots allowing Remote Market-Makers (“RMMs”) and e-DPMs to have up to one affiliated Market-Maker trade in classes assigned to the RMM and e-DPM, respectively. The text of the proposed rule change is available on the Exchange’s Web site (<http://www.cboe.com>), at the Exchange’s Office of the Secretary and at the Commission’s Public Reference Room.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A)(iii).

⁴ 17 CFR 240.19b-4(f)(6).

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

In its filing with the Commission, the Exchange 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 below. The Exchange 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 Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange proposes to amend CBOE Rules 8.4(c)(i) and 8.93(vii) to extend the pilot programs allowing an RMM and e-DPM the option to have up to one separate affiliated Market-Maker physically present in the trading crowds where it operates as an RMM or e-DPM, respectively (such Market-Makers would be required to trade on a separate membership). The pilots would be extended from September 14, 2006 until March 14, 2007.

In July of 2003, the SEC approved the e-DPM program, including the pilot program.⁵ The pilot allows e-DPM firms to maintain a physical presence in the trading crowd through an affiliated Market-Maker who would also be able to stream a quote. The pilot, however, limits the number of separate affiliates per trading crowd to one.

⁵ See Securities Exchange Act Release No. 50003 (July 12, 2004), 69 FR 43028 (July 19, 2004)(SR-CBOE-2004-24).

In March of 2005, the SEC approved the RMM program, including the pilot program.⁶ The pilot allows RMM firms to maintain a physical presence in the trading crowd through an affiliated Market-Maker who would also be able to stream a quote. This pilot also limits the number of separate affiliates per trading crowd to one.

CBOE will be sending the Commission, under separate cover, data relating to: (1) the size of the orders that RMMs and affiliated Market-Makers both trade with remotely; (2) the price and size of the RMM's and the affiliated Market-Maker's respective quotes; (3) the price and size of quotes of other participants in the classes where an RMM and an affiliate are quoting; and (4) a breakdown of how orders are allocated to the RMM, the affiliated Market-Maker, and any other participants.

In addition, CBOE will be sending the Commission, under separate cover, data relating to: (1) the size of the orders that e-DPMs and affiliated Market-Makers both trade with electronically; (2) the price and size of the e-DPM's and the affiliated Market-Maker's respective quotes; (3) the price and size of quotes of other participants in the classes where an e-DPM and an affiliate are quoting; and (4) a breakdown of how orders are allocated to the e-DPM, the affiliated Market-Maker, and any other participants.

The date chosen to extend the pilot programs for RMMs and e-DPMs is the same, which will allow the Commission to evaluate both pilot programs simultaneously.

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the Act and the rules and regulations under the Act applicable to a national securities exchange and,

⁶ See Securities Exchange Act Release No. 51366 (March 14, 2005), 70 FR 13217 (March, 18, 2005)(SR-CBOE-2004-75).

in particular, the requirements of Section 6(b) of the Act.⁷ Specifically, the Exchange believes the proposed rule change is consistent with the requirements of Section 6(b)(5)⁸ that the rules of an exchange be designed to promote just and equitable principles of trade, to prevent fraudulent and manipulative acts and, in general, to protect investors and the public interest.

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

The Exchange neither received nor solicited written comments on the proposal.

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

Because the foregoing rule does not (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest, provided that the Exchange has given the Commission written notice of its intent to file the proposed rule change prior to the date of filing of the proposed rule change or such shorter time as designated by the Commission, the proposed rule change

⁷ 15 U.S.C. 78f(b).

⁸ 15 U.S.C. 78f(b)(5).

has become effective pursuant to Section 19(b)(3)(A) of the Act⁹ and Rule 19b-4(f)(6) thereunder.¹⁰

At any time within 60 days of the filing of such proposed rule change, the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

Under Rule 19b-4(f)(6)(iii) of the Act,¹¹ the proposal does not become operative for 30 days after the date of its filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest. The Exchange has requested that the Commission accelerate the 30-day operative date. The Commission, consistent with the protection of investors and the public interest, has determined to accelerate the 30-day operative date to allow the pilots to continue without interruption.¹²

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:

⁹ 15 U.S.C. 78s(b)(3)(A).

¹⁰ 17 CFR 240.19b-4(f)(6).

¹¹ 17 CFR 240.19b-4(f)(6)(iii).

¹² For purposes only of accelerating the 30-day operative period for this proposal, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

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. Please include File Number SR-CBOE-2006-77 on the subject line.

Paper comments:

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

All submissions should refer to File Number SR-CBOE-2006-77. 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 Web site (<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 inspection and copying in the Commission's Public Reference Room. Copies of such filing also will be available for inspection and copying at the principal office of the CBOE. 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 Number SR-CBOE-2006-77 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹³

Nancy M. Morris
Secretary

¹³ 17 CFR 200.30-3(a)(12).