

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-55644; File No. SR-CBOE-2007-27)

April 19, 2007

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing of a Proposed Rule Change and Amendment No. 1 Thereto Relating to Class Quoting Limits

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 March 5, 2007, the Chicago Board Options Exchange, Incorporated (“CBOE” or the “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been substantially prepared by the Exchange. The Exchange submitted Amendment No. 1 to the proposed rule change on April 18, 2007. The Commission is publishing this notice to solicit comments on the proposed rule change, as amended, from interested persons.

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

The Exchange submits this rule filing to amend CBOE Rule 8.3A pertaining to Class Quoting Limits. The proposed rule change is available on the Exchange’s Web site (<http://www.cboe.com>), at the Office of the Secretary, CBOE, 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, the Exchange included statements concerning the purpose of, and basis for, the proposed rule change and discussed any comments it received on

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

the proposed rule change. The text of those 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 parts of such statements.

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

1. Purpose

CBOE Rule 8.3A establishes the upper limit, *i.e.*, Class Quoting Limit (“CQL”), on the number of members that may quote electronically in a particular product traded on CBOE’s Hybrid Trading System and Hybrid 2.0 Platform (collectively “Hybrid”).³

The purpose of this rule change is to amend CBOE Rule 8.3A to adopt an interpretation which is applicable only in those option classes traded on Hybrid in which the CQL for the option class is full and there is a waiting list of member(s) requesting the ability to quote electronically in the option class. Specifically, in the event a Market-Maker or Remote Market-Maker (“RMM”) who holds an appointment in an option class traded on Hybrid has not submitted any electronic quotations in that option class during the preceding 30 days (calculated on a rolling basis), then the Market-Maker or RMM’s appointment in that option class will be terminated effective immediately. CBOE will notify the Market-Maker or RMM prior to terminating its appointment, and the rule provides that CBOE can make exceptions to this Interpretation and Policy in unusual circumstances.

The Market-Maker or RMM can subsequently request an appointment in the option class. If there is a wait-list of members requesting the ability to quote electronically, then the Market-Maker or RMM will be placed on the wait-list for the option class.

³ See Securities Exchange Act Release No. 51429 (March 24, 2005), 70 FR 16536 (March 31, 2005) (approving SR-CBOE-2005-58).

Although CBOE anticipates that this situation may arise in only a handful of option classes from time to time, absent this interpretation, the CQL in these option classes could be met even though some number of appointed Market-Makers or RMMs are not submitting electronic quotations. As a consequence, other members who might be willing to provide competitive quotations and liquidity in that option class would be prevented from doing so unless CBOE determined to increase the CQL under the provisions of Rule 8.3A.

CBOE believes that this interpretation is consistent with the purpose of Rule 8.3A, which as noted above is to limit the number of members that are quoting electronically in a particular product to ensure that the Exchange has the ability to effectively handle all quotes generated by members. Although CBOE believes that it has the authority to terminate appointments of Market-Makers and RMMs under its existing Rule 8.3 and Rule 8.4,⁴ CBOE determined to adopt this interpretation to specifically address the situation in which the CQL for the option class is full and there is a waiting list of member(s) requesting the ability to quote electronically in the option class, and the Market-Makers or RMMs who hold an appointment in an option class have chosen not to submit any electronic quotations during the preceding 30 days. CBOE intends to implement the proposal upon approval by the Commission.

2. Statutory Basis

CBOE 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, in particular, the

⁴ Rule 8.3(a) provides that “[t]he Exchange may suspend or terminate any Appointment of a Market-Maker under this rule and may make additional appointments whenever, in the Exchange’s judgment, the interests of a fair and orderly market are best served by such action.” Rule 8.4(e) contains similar language.

requirements of Section 6(b) of the Act.⁵ Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)⁶ requirements that the rules of an exchange be designed to remove impediments to and perfect the mechanism for a free and open market and a national market system, 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

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 35 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 Exchange consents, the Commission will:

(A) By order approve 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, as amended, is consistent with the Act. Comments may be submitted by any of the following methods:

⁵ 15 U.S.C. 78(f)(b).

⁶ 15 U.S.C. 78f(b)(5).

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-2007-27 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-2007-27. 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 Section, 100 F Street, NE, Washington, DC 20549. 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-2007-27 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.⁷

Florence E. Harmon
Deputy Secretary

⁷ 17 CFR 200.30-3(a)(12).